Responsibility

Management's report

The financial statements and all the information in this Annual Report are the responsibility of management and have been approved by the Board of Directors.

The financial statements are prepared by the management of Maritime Tel & Tel Limited, which is responsible for the integrity and objectivity of this information. The statements have been prepared using generally accepted accounting principles and methods appropriate to the Company including, where applicable, amounts based on management's best estimates. Financial information presented elsewhere in this Annual Report is consistent with that in the financial statements.

The Company maintains a system of internal controls designed to provide reasonable assurance that transactions are recorded and executed in accordance with its authorizations practice, that assets are properly safeguarded and that reliable financial records are maintained. This system includes written policies and procedures, an organizational structure that segregates duties and a comprehensive program of periodic audits by the internal auditors.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee, comprised of Directors who are not officers or employees of the Company, meets periodically with management, the Company's internal auditors and the external auditors to discuss audit and financial matters. In addition, this committee reviews the quarterly and annual financial statements of the Company and submits its report to the Board of Directors. The financial statements are submitted to the Board for approval.

Ernst & Young LLP, Chartered Accountants, the external auditors recommended by the Board of Directors and appointed by the shareholder, are engaged to provide an independent audit of the financial statements in accordance with generally accepted auditing standards. Ernst & Young LLP has full and free access to the Audit Committee.

Gerhard H. Erl
Vice President Finance

Auditors' report

To the Shareholder of Maritime Tel & Tel Limited:

We have audited the balance sheets of Maritime Tel & Tel Limited as at December 31, 1999 and 1998 and the statements of income, retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and the changes in its cash flows for the years then ended in accordance with generally accepted accounting principles.

Ernst & Young LLP
Halifax, Nova Scotia, February 1, 2000

The numbers

Balance sheets

(Thousands of dollars) *As at December 31*	**1999**	1998
ASSETS		
Current assets		
Cash & equivalents	**$ 3,424**	$ 3,725
Accounts receivable	**51,365**	44,414
Note receivable *(Note 12)*	**19,920**	—
Income taxes receivable	**8,683**	—
Short-term loans due from affiliated companies *(Note 12)*	**45,000**	5,000
Due from affiliated companies *(Note 12)*	**9,944**	5,157
Prepayments	**20,638**	3,100
Total current assets	**158,974**	61,396
Capital assets *(Note 6)*	**657,335**	681,297
Other assets		
Investments	**47**	75
Deferred charges	**4,223**	2,681
Prepaid pension cost *(Note 9)*	**82,429**	69,560
Total other assets	**86,699**	72,316
Total assets	**$ 903,008**	$ 815,009

See accompanying notes to the financial statements

(Thousands of dollars) *As at December 31*	**1999**	1998
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	**$ 59,828**	$ 33,077
Due to affiliated companies *(Note 12)*	**1,591**	2,747
Income taxes payable	**—**	8,294
Interest accrued	**9,433**	7,145
Dividends payable	**19,920**	9,800
Other current liabilities	**941**	6,974
Debt due within one year *(Note 7)*	**66,982**	64,796
Total current liabilities	**158,695**	132,833
Long-term debt *(Note 8)*	**460,500**	300,000
Deferred income taxes	**16,318**	12,730
Deferred credits	**355**	923
Total liabilities	**635,868**	446,486
Shareholders' equity		
Common stock *(Note 10)*	**310,210**	310,210
Contributed surplus *(Note 2)*	**13,415**	—
Retained earnings	**(56,485)**	58,313
Total shareholders' equity	**267,140**	368,523
Total liabilities and shareholders' equity	**$ 903,008**	$ 815,009

See accompanying notes to the financial statements

Signed on behalf of the board of directors:

Colin Latham
Director

Wendy Paquette
Director

Statements of income

(Thousands of dollars) *For the years ended December 31*	**1999**	1998
Revenues		
Local service	**$ 375,045**	$ 346,909
Long-distance service	**171,501**	184,088
Other revenues *(Note 3)*	**18,122**	20,033
Total revenues	**$ 564,668**	$ 551,030
Expenses		
Cost of revenues	**75,078**	74,974
Depreciation and amortization	**107,531**	110,400
Other operating expenses *(Note 2)*	**245,120**	214,273
Total operating expenses	**$ 427,729**	$ 399,647
Operating income	**136,939**	151,383
Other income *(Note 4)*	**5,451**	4,292
Income before debt expenses and income taxes	**142,390**	155,675
Interest and other debt expenses *(Note 5)*	**42,404**	38,786
Income before income taxes	**$ 99,986**	$ 116,889
Income taxes *(Note 11)*	**46,414**	54,948
Net income	**$ 53,572**	$ 61,941

See accompanying notes to the financial statements

Statements of retained earnings

(Thousands of dollars) *For the years ended December 31*	**1999**	1998
Balance, beginning of year	**$ 58,313**	$ 32,123
Net income	**53,572**	61,941
Dividends	**(168,370)**	(35,750)
Other items	**—**	(1)
Balance, end of year	**$ (56,485)**	$ 58,313

See accompanying notes to the financial statements

Statements of cash flows

(Thousands of dollars) *For the years ended December 31*	**1999**	1998
Cash from (used in) operations		
Net income	**$ 53,572**	$ 61,941
Add (deduct) non-cash items		
Depreciation & amortization	**107,531**	110,400
Prepaid pension costs	**(12,869)**	(12,423)
Deferred income taxes	**3,588**	(4,023)
Gain on disposal of assets	**(4,002)**	(4,444)
	147,820	151,451
Change in non-cash working capital *(Note 15)*	**(24,403)**	(9,938)
	123,417	141,513
Cash from (used in) financing		
Increase in note receivable	**(19,920)**	—
Issuance (repayment) of short-term debt	**62,186**	(32,277)
(Issuance) of short-term debt due from affiliate	**(40,000)**	(5,000)
Repayment of long-term debt	**(60,000)**	(263)
Issuance of long-term debt	**160,500**	—
Dividends payable	**10,120**	(2,200)
Dividends paid	**(168,370)**	(35,750)
	(55,484)	(75,490)
Cash from (used in) investing		
Interest during construction	**(776)**	(614)
Net capital expenditures	**(89,289)**	(78,420)
Proceeds on sale of capital assets	**10,498**	—
Sale of investments	**13,415**	10,908
Other capital related items	**—**	1,998
Other investing activities	**(2,082)**	2,042
	(68,234)	(64,086)
(Decrease) increase in cash & equivalents	**(301)**	1,937
Cash & equivalents, beginning of year	**3,725**	1,788
Cash & equivalents, end of year	**$ 3,424**	$ 3,725
Supplemental cash flow disclosure		
Interest paid	**$ 40,892**	$ 39,255
Income taxes paid	**$ 61,807**	$ 48,185

See accompanying notes to the financial statements

Financial statement notes

1. Significant accounting policies

Maritime Tel & Tel Limited (the "Company") was incorporated under the Canada Business Corporations Act, and continued under the Companies Act (Nova Scotia).

The Company, an indirect wholly-owned subsidiary of Aliant Telecom Inc. which is a wholly-owned subsidiary of Aliant Inc., operates in a single industry segment which is the telecommunications industry and is subject to regulation by the Canadian Radio – television and Telecommunications Commission ("CRTC").

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and in conformity with prevailing practices in the Canadian telecommunications industry. Certain comparative figures in the financial statements have been reclassified to conform with the current-year presentation.

Capital assets are recorded at cost. Depreciation is computed on a straight-line basis over the useful lives of the assets. Depreciation and amortization expense in 1999 was $107.5 million (1998 – $110.4 million). The average depreciation rate was 7.2% for 1999 (1998, 7.5%).

Pension costs and obligations – The Company provides retirement benefits for its employees under defined benefit or defined contribution pension plans. Costs of the defined contribution plan are charged to operations as contributions come due. Costs of the defined benefit plan are actuarially determined on the basis of best estimate assumptions using the projected benefit method prorated on years of service. Adjustments to pension cost and experience gains and losses are amortized to income on a straight-line basis over the expected average remaining service life of pension plan members. Market-related values of pension fund assets are calculated using a three-year moving average of year-end market values. The cumulative difference between the amount contributed to the pension plan and the amount charged to income, including the effects of curtailments and settlements, is recorded on the balance sheet as prepaid pension cost.

Post-retirement benefits other than pensions – The Company provides health care and other benefits to its retirees. The costs of these post-retirement benefits are charged to income when the costs are incurred.

Deferred charges include debt issue costs and are amortized on a straight-line basis over the term of the related debt.

Income taxes are accounted for under the tax allocation method. Under this method, income taxes have been calculated on reported income rather than on earnings currently taxable.

Cash and cash equivalents consist of cash on hand and balances with banks, and investments in money market instruments of less than 90 days. The Company uses the indirect method to prepare its cash flow statement.

Interest during construction is capitalized using the Company's average cost of debt.

2. Business combination

Effective May 31, 1999 Island Telecom Inc., Bruncor Inc., Maritime Telegraph & Telephone Company, Limited, and NewTel Enterprises Limited combined their businesses to form Aliant Inc. through an exchange of shares.

As a result of the combination, the Company has charged $17.7 million to 1999 earnings for the costs associated with restructuring activities. This charge is included in other operating expenses and represents the Company's agreed share of the estimated costs for 1999 and 2000 to complete the restructuring activities. A significant portion of these expenses are for voluntary early retirement programs for employees. In addition, the business restructuring includes employee transfer costs and other expenses related to merger integration activities.

As part of the combination, an investment acquired by the Company in 1999 was transferred to an affiliate. The transfer of this investment has been accounted for on the continuity of interests basis with the results of operations of this investment being removed from the results of the Company for 1999. The $13.4 million excess of the consideration received for the transfer over the carrying value of the investment has been recorded as contributed surplus.

3. Other revenues

(Thousands of dollars)	**1999**	1998
Equipment sales	**13,133**	15,650
Miscellaneous	**4,989**	4,383
	$ 18,122	$ 20,033

4. Other income

(Thousands of dollars)	**1999**	1998
Gain on sale of assets	**4,002**	4,444
Miscellaneous other income	**1,449**	(152)
	$ 5,451	$ 4,292

5. Interest and other debt expenses

(Thousands of dollars)	**1999**	1998
Interest on long-term debt	**39,115**	35,560
Interest on short-term debt	**3,665**	3,424
Interest on assets under construction	**(776)**	(614)
Other	**400**	416
	$ 42,404	$ 38,786

6. Capital assets

As at December 31

(Thousands of dollars)	**1999**			1998		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Central office equipment	**$ 538,778**	**$ 322,489**	**$ 216,289**	$ 559,586	$ 328,884	$ 230,702
Outside plant	**653,714**	**352,430**	**301,284**	640,974	338,350	302,624
Station equipment	**90,167**	**60,528**	**29,639**	94,857	65,080	29,777
Application software	**34,550**	**19,518**	**15,032**	33,713	16,141	17,572
Buildings	**85,511**	**37,662**	**47,849**	97,020	45,544	51,476
Other equipment	**56,160**	**31,129**	**25,031**	64,836	36,471	28,365
Plant under construction	**6,820**	**—**	**6,820**	5,784	—	5,784
Land	**4,260**	**—**	**4,260**	5,813	—	5,813
Construction materials	**11,131**	**—**	**11,131**	9,184	—	9,184
	$ 1,481,091	**$ 823,756**	**$ 657,335**	$ 1,511,767	$ 830,470	$ 681,297

7. Debt due within one year

(Thousands of dollars)	**1999**	1998
Bank advances	**$ 4,982**	$ 4,796
Short-term debt due to affiliate	**$ 62,000**	$ —
Long-term debt due within one year *(Note 8)*	**—**	60,000
	$ 66,982	$ 64,796

Bank advances represent instruments with an average term to maturity of less than 90 days. The average interest rate was 5.8% in 1999 (1998, 5.1%).

The amount due to affiliate bears interest at 6.0% and is repayable on demand.

8. Long-term debt

(Thousands of dollars)

	Fixed rate	Maturity	**1999**	1998
Debenture Issue				
Series 2	8.30%	January 15, 2019	**$ 50,000**	$ 50,000
Series 4	9.70%	October 31, 2019	**50,000**	50,000
Series 5	9.05%	June 16, 2025	**60,000**	60,000
Series 6 *(a)*	7.02%	October 15, 2004	**45,000**	—
Series 7 *(a)*	7.33%	October 15, 2009	**60,000**	—
			265,000	160,000
Bonds				
AE *(b)*	10.65%	December 15, 1999	—	60,000
AB	10.95%	December 15, 2005	**40,000**	40,000
AC	10.25%	August 1, 2006	**50,000**	50,000
AD	10.45%	March 1, 2013	**50,000**	50,000
			140,000	200,000
Other				
Note	6.25%	March 22, 2004	**55,500**	—
			460,500	360,000
Less amount due within one year *(Note 7)*			**—**	60,000
			$ 460,500	$ 300,000

(a) These debentures are payable to Aliant Telecom Inc.
(b) The Series AE bonds matured in 1999 for total consideration of $60,000,000 plus accrued interest.

8. Long-term debt continued

Annual repayment of long-term debt is as follows:

2000	$ —
2001	—
2002	—
2003	—
2004	100,500
Thereafter	360,000
	$ 460,500

All Bonds and Debentures are redeemable at the option of the Company prior to maturity at the prices, times and conditions specified in each series.

The Bonds are secured by trust indentures and mortgages, and by deeds supplemental thereto, containing a first mortgage and charge upon all real property and equipment and a floating charge on all other property, both present and future. The Debentures are issued under a trust indenture and are unsecured.

9. Pensions

The present value of accrued pension benefits and the assets available to provide for these benefits are as follows:

(Thousands of dollars)	**1999**	1998
Accrued pension benefits	**$ 394,673**	$ 377,612
Pension-fund assets, at market-related values	**531,920**	516,367

Due to the long-term nature of management estimates and assumptions, it is possible that changes in future conditions may require a material change in the present value of the accrued pension benefits.

Defined benefit pension costs are accrued and charged to earnings over the employees' average remaining working lives. The weighted average discount rate used in determining the accrued plan benefits was 9% for the years ended December 31, 1998 and 1999. The long-term salary escalation rate was assumed to be 3% for 1998 and 4% for 1999. Pension expense is calculated using a weighted average assumed long-term rate of return on plan assets of 9% for the years ended December 31, 1998 and 1999. Variances between such estimates and actual experience are amortized over the employees' average remaining working lives.

The components of the defined benefit pension expense (recovery) are as follows:

(Thousands of dollars)	**1999**	1998
Current service expense	**$ 7,567**	$ 5,341
Expected interest cost on accrued pension benefits	**33,399**	31,804
Expected return on pension-fund assets	**(47,117)**	(43,772)
Curtailments	**—**	(2,783)
Amortization of gains	**(7,345)**	(6,320)
	$ (13,496)	$ (15,730)

10. Common stock

The authorized share capital of the Company at December 31, 1999 and 1998 consists of 100,000,000 common shares without par value.

Common shares issued and outstanding at December 31, 1999 and 1998 were 28,164,195 ($310,210,000).

11. Income taxes

A reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

	1999	1998
Combined basic federal and provincial income tax rate	**45.1 %**	45.1 %
Interest during construction, net of applicable depreciation adjustment	**0.7**	0.9
Federal large corporations tax	**0.6**	0.2
Other permanent differences	**—**	0.8
	46.4 %	47.0 %

12. Related-party transactions

BCE Inc. beneficially owned and controlled 41.23% of the outstanding common shares of the Company as at December 31, 1999 (34.4% as at December 31, 1998).

In the normal course of business, the company had transactions with related parties as follows:

(Thousands of dollars)		**1999**	1998
Related party *(relationship)*	Nature of transactions		
Controlled investees of BCE Inc.	Purchase of telecommunications and other services	**$ 96,825**	$ 77,342
	Sale of services	**$ 37,547**	$ 41,609

These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The balances due to and due from affiliates are non-interest bearing, are under normal credit terms and have arisen from the sales of product and provision of services referred to above.

Short-term loans due from affiliated companies bear interest at 6.0% and are for periods less than 90 days.

The note receivable is due from an affiliated company, bears interest at 6.2% and is receivable on demand.

13. Commitments

The Company has provided a loan guarantee of $65,669,000 to third party lenders who have provided medium-term financing to Aliant Telecom Inc., the parent company.

Operating leases

The future minimum lease payments under operating leases with initial non-cancellable lease terms in excess of one year at December 31, 1999 are as follows:

(Thousands of dollars)	
2000	$ 17,544
2001	17,776
2002	17,997
2003	18,215
2004	11,641
Thereafter	14,520
	$ 97,693

14. Financial instruments

The carrying values of the Company's financial instruments other than long-term debt approximate fair values because of their short-term maturity and normal credit terms.

The Company's accounts receivable do not represent significant concentration of credit risk because the accounts are owed by a large number of customers on normal credit terms.

Under an agreement dated December 12, 1997 the Company sold, with minimal recourse, accounts receivable for aggregate cash proceeds of $50,000,000. Pursuant to the agreement, the purchaser will use the proceeds of collection to purchase further receivables from the Company until the expiration of the agreement on December 12, 2002.

The fair value of long-term debt has been estimated based on the present value of contractual cash flows at the rates available to the Company at December 31, 1999 and 1998 for debt with similar terms and remaining maturities. Based on this method, the fair value of the Company's long-term debt has been estimated to be $527,975,000 (1998, $474,228,000) with a carrying value of $460,500,000 (1998, $360,000,000). The Company generally holds long-term financial instruments to maturity and therefore does not anticipate that any difference between carrying value and fair value will be recorded in the accounts. Fair-value estimates were made based on relevant market information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

At year-end the Company did not have any exposure relating to derivative instruments.

15. Changes in non-cash working capital

(Thousands of dollars)	**1999**	1998
Cash provided by (used in):		
Accounts receivable	**$ (6,951)**	$ (537)
Due to / from affiliates	**(5,943)**	1,251
Prepayments	**(17,538)**	(1,200)
Accounts payable	**26,751**	(18,205)
Income taxes	**(16,977)**	11,474
Interest and other accrued liabilities	**(3,745)**	(2,721)
	$ (24,403)	$ (9,938)