



Simple is better

Third quarter report 2004

Aliant 

Transforming our business for growth

A great deal has happened since my last report to you during the summer. The strike has ended and we are regaining our momentum as we move forward with our plans to grow and transform our business.

The strike, and what we learned

Late in the third quarter, following five months off the job, our 4,300 unionized employees returned to work after signing a new collective agreement, which will be in effect until December 31, 2007. We estimate that the strike reduced revenues by \$17 million and increased expenses by \$17 million in the third quarter. Year to date, revenues were reduced by \$26 million and expenses increased by \$29 million.

When a company undergoes a lengthy labour disruption, competitive endurance and operational strengths are tested. Ours proved to be rock solid. We also learned a lot about our customers and about ourselves.

- First, and perhaps most importantly, we retained the confidence and loyalty of our customers. In fact, our public opinion polling in the last week of the strike indicated that 83 per cent of our customers were satisfied with our efforts to maintain service;
- Second, we secured a new collective agreement that offers us greater flexibility to manage and grow our business. This will stand us in good stead as our industry continues to evolve and as regulation and competition pose additional challenges;
- And third, our non-unionized workforce gained valuable insight into our business by working on the front lines. This is already helping us to make better decisions and to improve productivity.

Evolving to an ICT company

For the past two years, our strategy has been to return to our core businesses and improve profitability at xwave. With this done, it is now time to move our business to the next level. As the line blurs between communications and information technology, we see potential for growth by combining the competencies of our telecommunications and IT businesses to enable customers to move seamlessly across communications devices and networks. Our goal is to transform Aliant into the foremost information and communications technology (ICT) company in Atlantic Canada.

As an ICT company, we can more fully address the needs of small- to medium-sized businesses (SMB market). About 99 per cent of businesses in Atlantic Canada fall into this category and generate 46 per cent of our total business revenues. With the right solutions, we believe we can grow our revenues from this market segment by as much as 5 per cent.

To help us make further gains in the SMB market, we are opening an SMB Innovation Centre, a collaborative venture with Bell Canada. Based in Atlantic Canada, the centre will provide in-house lab facilities for prototyping new services, such as security features, IP-based business applications and contact centre solutions. We expect the centre to be operational by the first quarter of 2005.



LETTER TO SHAREHOLDERS

Our ICT transformation also addresses the needs of our larger business customers where we see many starting to demand solutions-based services, which go beyond the traditional services that originally formed the foundation of our longstanding relationships. For example, the Nova Scotia Liquor Commission has signed an agreement for a wide range of services, from private WAN and network management, to IT hardware maintenance and hosted firewall services.

And finally, let me turn to the consumer marketplace. Customer loyalty is key to success in this segment. We know that loyal customers purchase more services and churn less. Recognizing this, we have begun rewarding customers with special offers, like free long distance calling on Thanksgiving Day.

Our growth agenda will require investment. Recently, we acquired the 51 retail outlets of DownEast Communications to strengthen our focus on the SMB and consumer markets. This investment will extend our brand presence and provide more direct access to our customers. We are also investing in our networks. By the end of the year, our wireless digital and 1xRTT network will cover 88 per cent of the region and we will pass approximately 72 per cent of Atlantic Canada homes with high-speed Internet.

Transformation is good, and necessary for growth

In parallel with our pursuit of growth, we will be seeking efficiencies and greater productivity throughout our operation . . . true transformational change. Transformational change unleashes new energy and creativity, and provides the fertile environment we need for the growth agenda we plan to pursue. We have taken steps to reduce operating costs and improve margins by offering employees a voluntary early retirement incentive plan. Based on an estimated 400 employees taking advantage of the offer in 2004, we expect annual operating expense savings of approximately \$23 million beginning early in 2005.

Reducing our number of employees and increasingly automating our processes will move in lockstep. For example, we automated new installations during the busy back-to-school period, allowing students to process new service installations automatically online, and have dial tone in just six minutes. To offer our customers greater simplicity, convenience and choice, we are currently looking at creating similar efficiencies in other areas of our operations.

Dividend declared for December

On October 28, our board of directors declared a common share dividend of \$0.275 per common share and a preferred share dividend of \$0.340625 per preferred share, payable on December 30, 2004, to shareholders of record on December 15, 2004.

With our full complement of employees back to work, we are refocusing our energies on generating revenue and bottom-line growth. I look forward to reporting our continued progress in the New Year with our 2004 annual report to shareholders. Until then, I wish you a happy holiday season and a prosperous 2005.



Jay Forbes
President and chief executive officer
 October 28, 2004

Third quarter financial highlights *(including strike impact)*

For the period ended September 30

(million of dollars, except per share amounts)

	Three months			Nine months		
	2004	2003	% change	2004	2003	% change
Consolidated operating revenues	497.2	513.9	(3.2)	1,527.2	1,532.1	(0.3)
Net income from continuing operations	37.0	50.7	(27.1)	127.8	149.4	(14.5)
Earnings per common share						
from continuing operations	0.26	0.35	(25.7)	0.91	1.03	(11.7)
Weighted average number of						
common shares outstanding <i>(millions)</i>	132.1	137.9	(4.2)	132.8	138.6	(4.2)

MD&A

This document has been prepared for the purpose of providing management's discussion and analysis (MD&A) of our financial condition and results of operations for the three and nine month periods ended September 30, 2004, compared to the corresponding periods in 2003. The MD&A should be read in conjunction with our unaudited interim consolidated financial statements and accompanying notes for the period ended September 30, 2004, our MD&As contained in our previously issued 2004 quarterly reports and our 2003 annual report. This MD&A is based on financial statements prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All amounts in this MD&A are in millions of Canadian dollars, except where otherwise noted.

Quarterly reports, annual reports and supplementary information can be found under "financial reports" on our corporate website at www.aliant.ca. Additional information, including our annual information form and other continuous disclosure documents, have been filed electronically through the System for Electronic Document Analysis and Retrieval (SEDAR) and are available online at www.sedar.com.

Throughout this MD&A, "we", "us", "our" and "Aliant" refer to Aliant Inc. or our Telecommunications and Information Technology segments.

This document contains certain statements and information about potential future circumstances and developments. Such forward-looking statements and information are qualified by any of the inherent risks and uncertainties surrounding future expectations generally and may differ materially from our actual future experience. Reference is made to the "Risk and risk management" and "Forward-looking statements" sections for further discussion about the inherent risks and uncertainties surrounding future expectations. We disclaim any intention or obligation to update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise. Forward-looking statements in this MD&A describe our expectations on October 28, 2004, unless otherwise noted.

This MD&A is dated October 28, 2004, which is the date of filing in conjunction with our press release announcing our results for the third quarter of 2004. Disclosure contained in this document is current to that date, unless otherwise stated.

Reclassification of prior year results

Where indicated, prior year results have been reclassified to conform to the presentation adopted in the current year.

ABOUT OUR BUSINESS

WHO WE ARE

Aliant, Atlantic Canada's leading information and communications technology (ICT) company operates through two segments.

The Telecommunications segment provides a full range of voice and data communications services including local, long distance, cellular, Internet and other wireline and wireless services. Aliant Telecom Inc. ("Aliant Telecommunications"), our wholly owned subsidiary, carries out the primary business of this segment, with complementary strengths in knowledge-service applications offered by our wholly owned subsidiary, Innovatia Inc. ("Innovatia"), and in telephone directory advertising through an 87.1 per cent interest in Aliant ActiMedia (a joint venture).

MANAGEMENT'S DISCUSSION AND ANALYSIS

The business of the Information Technology segment is carried out through our wholly owned subsidiary, Xwave Solutions Inc. (“xwave”). xwave delivers systems integration, infrastructure services and product fulfillment to clients in several industry and geographic markets.

Our two segments are increasingly working as one, leveraging the strengths in both segments to provide ICT solutions to marketplaces primarily in Atlantic Canada.

ADVANCING OUR STRATEGY IN 2004

During the third quarter of 2004, our efforts were mainly devoted towards delivering the highest possible quality of service to our customers and resolving our labour disruption. A new collective agreement was negotiated with the Council of Atlantic Telecommunication Unions (“CATU”), replacing the nine previous collective agreements of our predecessor companies. The employees represented by the CATU ratified the new collective agreement, which extends to December 31, 2007, and returned to work on September 20, 2004. This new collective agreement balances the needs of our employees, our Company and our customers in today’s highly competitive environment and enables us to lay a solid foundation from which future growth will evolve.

With the labour disruption behind us, we can now direct our energies to the following key priorities: returning to normal operations, restoring the momentum we were enjoying prior to the strike, reviving initiatives which were put on hold during the labour disruption, ramping up our capital investment and technology program, integrating functions and operations where possible to improve efficiency, reducing costs through workforce reductions and focusing on growth.

Maximizing shareholder value

Capital investment was temporarily scaled back this quarter due to the labour disruption, but we continued to focus on profitable growth, making advancements in high growth areas by investing in our network as follows:

- We expanded our digital wireless network such that at September 30, 2004, approximately 86 per cent of Atlantic Canada’s population had access to our network up from 77 per cent at September 30, 2003.
- We launched 23 new high-speed Internet sites through our participation in the Broadband for Rural and Northern Development (BRAND) program and our own digital subscriber line expansion. At September 30, 2004, our high-speed Internet services passed 67 per cent of homes in Atlantic Canada, up from 63 per cent at September 30, 2003.

We also continued to focus on enhancing the profitability of our core operations. In particular, we further strengthened our Information Technology segment through the divestiture of non-strategic operations and by capturing the benefits derived from prior year restructuring activities. On a year-to-date basis, operating revenues have declined \$5.1 million, or 1.9 per cent, as a result of the divestiture of non-core operations undertaken in 2004, offset by year-to-date growth. During the same period, operating expenses have decreased by \$24.6 million, or 14.5 per cent, representing improvements in productivity from our re-aligned strategy and simplified business model. Specific strategic achievements in this segment in the third quarter of 2004 were:

- We successfully pursued business opportunities in the adjacent U.S. Northeastern seaboard to expand upon our strengths in Eastern Canada. We were awarded a contract from White Rock Distilleries in Maine to design and develop a scalable, reliable, secure software solution that will further automate the company’s current centralized operations and meet anticipated increases in market growth and operating demand.
- On July 31, 2004, we sold our Information Technology (IT) services business in Western Canada to Telvent, an IT subsidiary of Spain-based Abengoa. This transaction supports our strategic focus on xwave’s core strengths in Central and Eastern Canada.

We are focused on the progressive alignment of our IT marketing, sales and delivery strategies with the Telecommunications segment, the essence of our evolution to an ICT organization. This will translate into increased external sales through a broader and deeper solutions offering, lower costs, enhanced customer satisfaction and, ultimately, a powerful defensive strategy in our marketplace through higher customer retention rates.

As we seek to compete more effectively and provide for future growth, we will invest in new opportunities complementary to our core business. On September 27, 2004, we announced the purchase of DownEast Mobility Limited ("DownEast Communications") effective October 1, 2004. DownEast Communications is a current Aliant dealer and a leading retailer with 51 outlets in Atlantic Canada. This extensive dealer network offers us new growth opportunities, strengthens our connection to customers and positions us well to expand on our brand presence in Atlantic Canada.

In the third quarter of 2004, we continued to generate solid cash from operations which allowed us to return cash to our shareholders as follows:

- The payment of a quarterly dividend of \$0.275 per common share to shareholders of record on September 15, 2004; and
- The purchase and cancellation of the remaining 268,846 shares allowed under our Normal Course Issuer Bid (NCIB) program between July 1, 2004 and the end of the program on August 5, 2004.

Everything begins with the customer

Throughout the labour disruption, we worked diligently to maintain the highest possible levels of customer service. These efforts, along with the strength of our pre-existing customer relationships, our reliable networks and our competitive suite of products and services, enables us to maintain high levels of customer satisfaction. This was reflected in regular customer surveys, which were conducted throughout the quarter, and our strong customer statistics. For the third quarter of 2004, our wireless and Internet customer bases grew 9.4 per cent and 6.4 per cent, respectively, over the same period in 2003. Our network access customers have declined by 1.1 per cent over the same period in 2003, consistent with the trend seen in the last 24 months.

During the third quarter, we continued to adapt our suite of product and service offerings to reflect the needs of our customers. Specifically, we:

- Enhanced two of our existing long distance plans, Simply Canada 1200 and Simply Canada 3000, to automatically include 200 minutes of daytime calling within Canada as part of the monthly fee, providing customers with additional value at no additional costs; and
- Promoted student-specific offerings during this year's Back-to-School campaign, such as a long distance package exclusive to the student market, an eight month high-speed Internet contract option to align with the school year and free cellular activation with four months of free call display and voice mail with a three year cellular contract.

We are committed to improving our performance in customer service and satisfaction in all aspects of our business, enhancing our overall value proposition to our customers and enabling these improvements through the transformation of our processes.

Simplifying internal processes

Throughout the labour disruption we captured and prioritized process improvement ideas. During the third quarter we implemented a number of these ideas, several of which focused on how to streamline operations during a period of increased customer demand, such as the back-to-school period. In this particular example, we simplified processes for our customers by providing them enhanced on-line, dealer and telephone interactions, which also resulted in increased speed of service. In our effort to reduce internal process time and enhance customer interactions we:

- Created an on-line form on aliant.net to automate the sign up process for new communications services from local telephone service to high-speed installations;

- Provided dealers with a web application to speed up one-on-one interactions with customers; and
- Automated the form-based process for shipping modems to self install high-speed customers, decreasing the process time and improving the accuracy and tracking information.

Approximately one third of our new installations during the back-to-school period were processed automatically through our new enhanced on-line order system. With these improvements, the vast majority of students received service faster than they would have during the same period last year. We were very pleased with the positive impact of these improvements during the labour disruption and have incorporated them into our normal operations.

Going forward, we will maintain the momentum of business change which began during the third quarter and will ensure that existing and new process improvement opportunities are implemented.

Fostering employee learning and growth

Recognizing the challenges and stress that the labour disruption placed on all our employees and the need to restore normal relations between colleagues throughout the organization as quickly as possible, we developed and implemented a comprehensive Return to Work transitioning program. Even in the relatively short period of time since the end of the labour disruption, this program has helped employees reflect on their experiences and feelings, process them and refocus on our business. We have emphasized individual self-care and the rebuilding of interpersonal relationships. We provided opportunities for group debriefing sessions, individual counseling and interactive workshops to facilitate a positive and effective return to work for everyone. This program is an extension of our existing Aliant Health and Wellness programs and includes our ongoing Employee Assistance Program.

LABOUR DISRUPTION

The labour disruption that commenced on April 23, 2004, concluded with the acceptance of the new collective agreement on September 16, 2004, and the subsequent return to work of all our employees on September 20, 2004. We have estimated the negative impact of this labour disruption in an effort to separate the short-term negative financial impacts from our underlying performance. Clearly, these impacts can only be estimates and rely on management's judgment. These impacts have been determined through the identification of specific direct costs and a comparison of our actual monthly results against current year performance expectations. These performance expectations were based on our prior year experiences and current year performance prior to the labour disruption.

Based on these estimates the labour disruption is believed to have negatively impacted our operating results in 2004 as follows:

Estimated financial impact of labour disruption

<i>(millions of dollars, except per share amounts)</i>	Second quarter	Third quarter	Total
Operating revenues	(9)	(17)	(26)
Cost of operating revenues	4	6	10
Operating expenses	(16)	(23)	(39)
Operating income	(21)	(34)	(55)
Income taxes	8	12	20
Net income	(13)	(22)	(35)
Earnings per share	(0.10)	(0.16)	(0.26)

The quarterly impact on operating revenues from the labour disruption represents lower service charge revenue due to fewer new installations, fewer wireless and Internet activations, slower product sales and less data growth. The impact increased from the second quarter to the third quarter as a result of an increase in the number of days of the labour disruption (69 days in the second quarter compared to 81 days in the third quarter), loss of momentum in sales and the compounding effect of the loss of recurring revenues from fewer new customers or product sales activity. The impact of lower product sales was mitigated by decreased cost of operating revenues.

Operating expenses incurred in the second quarter consisted primarily of security to enable our operations to continue with relatively few interruptions and to ensure the safety of our employees, property repairs and up-front costs to train and equip our employees for their new roles. In that period, the absence of unionized employee salaries and benefits was offset by overtime and other employment related costs. By contrast, in the third quarter of 2004, our overtime and other employment related costs exceeded our unionized salary savings as we stepped up to the challenge of increased customer demand during a traditionally busy period and allowed some vacations to be taken. The magnitude of security costs in the third quarter was similar to those incurred in the second quarter.

The implementation of the new collective agreement also has future financial impacts. The agreement provides for annual wage increases in line with the Atlantic Canada labour market for the years 2002 to 2007 and establishes consistent terms and conditions of employment for all 4,300 employees in the bargaining unit. The contract provides for future labour rate increases of 3.0 per cent in 2005, and 2.8 per cent in 2006 and 2007. These increases, together with other impacts from the alignment of employment terms will result in increases to average wage and benefits costs. This agreement will also enable us to better control certain future costs, such as overtime, health care and pension benefits. Overall, the agreement balances employee needs for a consistent employment experience across Aliant with the requirements of our business strategy to achieve workforce flexibility and productivity gains. The incremental financial impact of the settlement on our operating income in 2004 is minimal as we had accrued for virtually all of the costs that applied retroactively.

2004 OUTLOOK

Despite the negative impacts of the labour disruption, wireless and Internet revenues grew 15.5 per cent and 12.9 per cent, respectively, in the third quarter compared to the prior year. We also generated a robust \$214.4 million in cash from operations. These are positive indicators for our expected fourth quarter performance.

However, in response to the ongoing need to lower our cost structure a voluntary early retirement incentive plan (ERIP) will be rolled out to all employees. This plan is a key part of our process transformation agenda and will improve overall productivity and profitability in 2005 and beyond by lowering our costs through workforce reduction. The plan includes providing cash incentives as well as the acceleration of certain eligibility criteria for retirement from the pension plans. We anticipate incurring a pre-tax restructuring charge of approximately \$40 million in the fourth quarter of 2004, based on acceptance of the offer by an estimated 400 eligible employees with virtually all of these individuals retiring by the end of 2004. We expect annual cost savings of approximately \$28 million to positively impact operating expenses by \$23 million with the balance being a reduction in capitalized labour.

With the resumption of normal operations, we have also reassessed our capital investment plans for the year. In the fourth quarter, we will accelerate work on our core network, expand our high-speed Internet and wireless digital coverage and refocus the work on our next generation network. More specifically, this will include the first phase of the build of our Voice over IP (VoIP) network for large business customers and the launch of our fibre-to-the-premise pilot project. Our fibre-to-the-premise pilot project initiative is a trial, which will continue into early 2006, delivering high-speed Internet and VoIP to the home.

We have revised our original 2004 outlook to take into account the impact of the labour disruption, divestitures in the Information Technology segment, our acquisition of DownEast Communications and the ERIP.

	Revised 2004 outlook	Original 2004 outlook
Operating revenues	\$2,030 to \$2,040 million	Low single digit percentage growth
Earnings per share	\$1.03 to \$1.07	Low double digit percentage growth
Cash from operations	Over \$550 million	Over \$550 million
Capital investments	\$285 to \$300 million	Consistent with 2003 levels at \$336 million

Our revised outlook for 2004 of \$1.03 to \$1.07 includes an estimated \$0.19 negative impact resulting from the ERIP. This number is dependent on the estimate of 400 employees accepting the offer and is therefore subject to change.

OPERATING RESULTS

The following is a summarized discussion of our consolidated operating results for the three and nine months ended September 30, 2004, in comparison to the same periods in the prior year.

OPERATING REVENUES

For the period ended September 30

(millions of dollars)	Three months			Nine months		
	2004	2003	% change	2004	2003	% change
Telecommunications						
Local	183.8	194.4	(5.5)	560.6	577.0	(2.8)
Long distance	85.9	98.2	(12.5)	266.1	296.8	(10.3)
Wireless	103.0	89.2	15.5	283.5	242.8	16.8
Internet	30.4	26.9	12.9	89.6	78.8	13.7
Other revenues	47.6	51.8	(8.1)	149.6	159.0	(5.9)
	450.7	460.5	(2.1)	1,349.4	1,354.4	(0.4)
Information Technology						
IT services	49.8	50.5	(1.4)	155.9	163.9	(4.9)
Fulfillment	29.6	30.1	(1.7)	107.2	104.3	2.8
	79.4	80.6	(1.5)	263.1	268.2	(1.9)
Other and eliminations	(32.9)	(27.2)	(21.0)	(85.3)	(90.5)	5.7
Consolidated operating revenues	497.2	513.9	(3.2)	1,527.2	1,532.1	(0.3)

Telecommunications' strong wireless and Internet growth continued into the third quarter of 2004. This growth was offset by the estimated \$17 million negative impact arising from the labour disruption and by additional revenue erosion from the on-going impact of regulatory restrictions, competition and technology substitution. For the nine months ended September 30, 2004, the labour disruption negatively impacted Telecommunications operating revenue by an estimated \$26 million.

Information Technology's operating revenues are slightly lower in 2004. External revenues declined by 14.7 per cent for the third quarter of 2004, as compared to the prior year, due to the divestiture activity in the second and third quarters of 2004. Year-to-date external revenue has declined only 2.2 per cent given the relatively strong fulfillment sales in the private and public sectors in the first half of 2004. Project based activities with the Telecommunications segment were higher than normal in the third quarter, due to the labour disruption, providing a 27.8 per cent increase over the same period last year. On a year-to-date basis, internal revenues are 1.2 per cent lower because intercompany activity in the first half of the year was lower than the previous year resulting from productivity improvement initiatives and role re-alignment.

Local revenue

Local revenue is earned through the provision of network access service (NAS), enhanced services, data access, contribution payments, competitor payments, telephone set rentals, payphone usage and service charges.

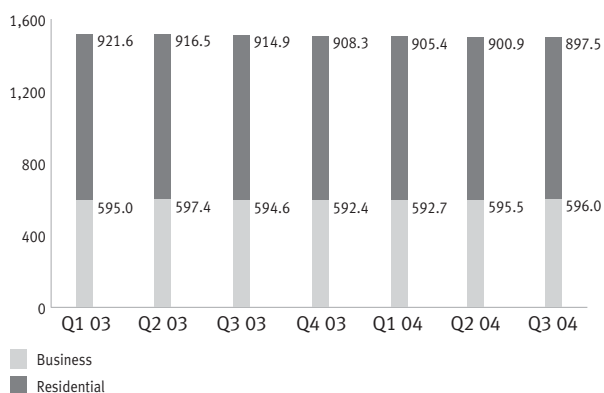
Local revenues have declined throughout 2004 due to continued regulatory restrictions, competition, technology substitution and the labour disruption. Our marketplace in Atlantic Canada is characterized by increasing competition and changing communications needs. Our customer retention program, with its emphasis on local service Value Packages, business bundles and enhanced services, helps mitigate these effects on local revenue.

The majority of our local revenues are earned through our network access service (NAS). In the third quarter and first nine months of 2004, NAS revenue declined 2.2 per cent and 2.0 per cent, respectively. Some of the specific regulatory restrictions that are impeding our ability to compete include limitations on win-back promotions and the ongoing restriction on bundling and packaging of local service with other non-regulated services. We have filed an application to have these constraints removed in certain competitive areas, but anticipate that we will not have a response from the Canadian Radio-television and Telecommunications Commission ("CRTC" or the "Commission") until at least 2005.

As at September 30, 2004, our combined residential and business NAS declined 1.1 per cent over the same point in time last year, with residential NAS declining 1.9 per cent but business NAS increasing 0.2 per cent. Alternate means of communications such as e-mail, instant messaging, short text messaging and cellular are growing in popularity with Atlantic Canadians and are replacing some of their demand for traditional residential telecommunications services. Business NAS has experienced growth in our small- to medium-sized customer base offsetting the impact of a major competitive loss late last year due to a regulatory decision. In addition to the above mentioned factors, both residential and business NAS were impacted by the labour disruption.

Local revenue from sources other than NAS declined 12.0 per cent in the third quarter, contributing to a 4.7 per cent reduction in the first nine months. The labour disruption was a primary factor in lower service charge revenue, given fewer new installations and delays in service. Our marketing and sales efforts were also scaled back due to the labour disruption, slowing the growth we had been experiencing earlier in the year in data access and enhanced services revenue. Data access revenues grew 4.0 per cent for the third quarter, compared to the prior year, due to newer services such as data broadband. Customers are still choosing to add features to their basic local service individually or as part of their local service Value Packages, growing enhanced services revenue by 1.7 per cent over the third quarter of 2003. We also continued to see the negative impact of the previous year CRTC price cap decision on contribution and competitor payments and lower revenue from monthly telephone set rentals as more customers choose to purchase telephone sets. As we return to normal operations in the fourth quarter of 2004, we anticipate regaining momentum in the areas of new installation service charges, data access revenues and enhanced services.

Wireline NAS customers
(in thousands)



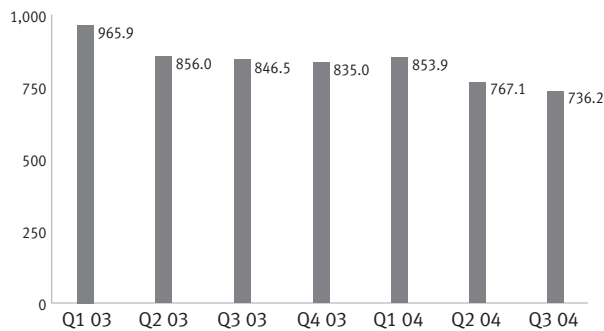
At September 30, 2004, our residential NAS customer base was 1.9 per cent lower than at September 30, 2003, contributing to a 1.1 per cent year-over-year decline in total NAS customers.

Long distance revenue

Long distance revenue consists of toll, data network and long distance terminating services.

Intense long distance competition continues to result in a decline in our long distance revenues. This decline increased during the labour disruption due to the promotional per minute rates offered in the second quarter as part of a customer retention program and our inability to maintain our normal customer win-back efforts. CRTC-mandated rate reductions resulted in lower terminating revenue, which was offset by savings in terminating expenses for our customers' calls to other regions. Large business customers have also reduced or rationalized their need for data circuits, reducing our data revenue.

Long distance minutes (in millions)



In the third quarter of 2004, our long distance minute volumes decreased by 13.0 per cent over the third quarter of 2003, due in part to our decision to cap the minutes of usage on certain residential unlimited calling plans in 2003 and our competitive environment.

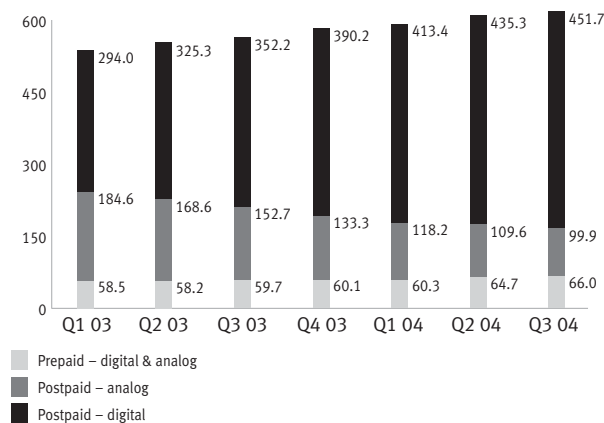
Residential long distance minutes declined due to a lower customer base and the restructuring of our customer plans during 2003. Components of this restructuring plan, such as capping of the minutes available under certain unlimited calling plans, have optimized the usage of our network, limited additional capital investment and improved the profitability of this segment. Business long distance minutes have also declined in response to contact centre competitive losses in late 2003 and early 2004 as well as technology substitution.

We continue to aggressively respond to the competitive marketplace through offers designed to meet customer needs. For example, during the third quarter we introduced an additional 200 minutes of daytime calling within Canada to two of our existing residential long distance plans, as part of our customer retention program.

Wireless revenue

Wireless revenue is earned through the provision of cellular, paging and mobile radio services.

Cellular customers (in thousands)



Our cellular customers at September 30, 2004, grew 9.4 per cent over September 30, 2003. This result includes 30.1 per cent growth in digital customers and 9.2 per cent growth in postpaid customers.

Strong customer growth, higher average revenue per customer and an increase in average minutes of use led to increased wireless revenue. Results were relatively unaffected by the labour disruption with the exception of some delay in wireless activations and a temporary increase in disconnections for non-payment during the quarter. Our continued strong growth results from our expanding and reliable wireless voice and data network throughout Atlantic Canada supported by our extensive dealer network.

As at September 30, 2004, approximately 86 per cent of Atlantic Canada's population had access to our digital wireless network, up from 77 per cent at the same time last year. This continued expansion in combination with increased market penetration has enabled us to achieve a 30.1 per cent increase in the number of digital customers over last year. In the fourth quarter of 2004, we plan to step up our efforts to expand into new service areas and reach approximately 88 per cent of Atlantic Canada's population by year end.

Our customer base grew 9.4 per cent over last year due to our extensive coverage, dealer network, product selection and competitive offers, including specific back-to-school promotions. Our customer turnover rate, or churn, during the third quarter was negatively impacted due primarily to increased disconnections for non-payment as a result of the labour disruption. We expect this to reverse in the fourth quarter as we return to normal operations. Year-to-date churn has improved over the prior year by 6.0 per cent due to customer service retention programs, hardware upgrades and a higher base of customers.

Wireless – statistics

For the period ended September 30	Three months			Nine months		
	2004	2003	% change	2004	2003	% change
Monthly – average revenue per customer (dollars)						
Postpaid	58.51	55.21	6.0	54.58	51.15	6.7
Prepaid	12.27	11.08	10.7	10.96	9.43	16.2
Total	53.57	50.57	5.9	50.02	46.69	7.1
Monthly – average minutes of use per customer	289	265	9.1	267	243	9.9
Churn	1.68%	1.59%	5.7	1.40%	1.49%	(6.0)

The increases in the average minutes of use, data usage, customer adoption of feature combination offers and the percentage of customers choosing digital service contributed to the growth in total average revenue per customer (ARPC). Our fall campaign reinforced this growth strategy with several feature offers focusing on text- and picture-messaging. Our digital customer base grew by 30.1 per cent over the past year and now represents 76.2 per cent of our cellular customer base compared to 64.1 per cent for the same point in time in 2003. Digital customers generate higher monthly ARPC than analog, likewise postpaid customers generate higher monthly ARPC than prepaid. Our favourable postpaid customer mix of 89.3 per cent continues to lead the industry.

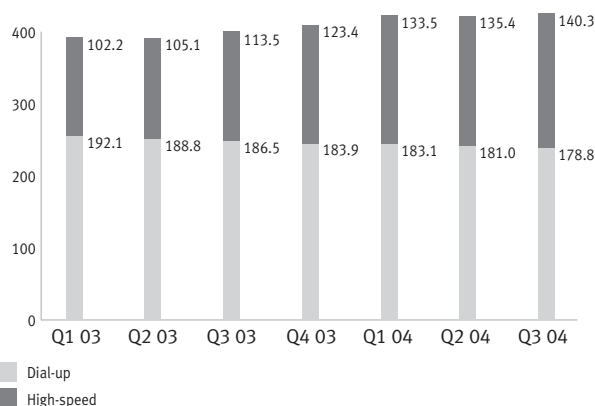
Internet revenue

Internet revenue consists of high-speed and dial-up service to residential and business markets, which include enhanced services such as Music on my PC™ and Personal Firewall.

Customer growth, improved ARPC and lower churn continue to drive Internet revenue growth. High-speed customer growth of 23.6 per cent contributed to total Internet customer growth of 6.4 per cent over September 30, 2003. Although activations were lower than usual during the labour disruption, we continue to drive customer acquisition and aggressively manage churn through competitive marketing and retention initiatives.

We gained new customers through enhanced services availability, attractive introductory offers, Value Packages, expansion of our high-speed network coverage and a focus on dealer and on-line sales channels. In particular, our Back-to-School campaign included an aggressive introductory offer coupled with a student-specific offering of an eight month high-speed contract to align with the school year. Product bundling was emphasized by continuing to reward customers who choose a Value Package. Dealer and on-line sales were significantly enhanced during the quarter, with a special promotional offer for customers who chose to activate via those channels during the promotion period. We anticipate an increased number of customers will choose to use these channels in the future.

Internet customers
(in thousands)



Our Internet customer base at September 30, 2004, grew 6.4 per cent over September 30, 2003, including 23.6 per cent growth in our number of high-speed customers. This continued growth is due to our competitive pricing and value-added services.

Our continued focus on customer retention and loyalty management programs minimized the impact of competition on churn through an emphasis on long-term customer contracts, as well as the integration of Internet offers with our other product lines. These concepts were incorporated in our Back-to-School and fall campaigns.

At September 30, 2004, our high-speed Internet service passed 67 per cent of homes in Atlantic Canada, up from 63 per cent at September 30, 2003, with significant expansion planned for the fourth quarter of 2004 to reach approximately 72 per cent of homes by year end.

Internet – statistics

For the period ended September 30	Three months			Nine months		
	2004	2003	% change	2004	2003	% change
Monthly – average revenue per customer (dollars)						
Consumer dial-up*	20.24	20.00	1.2	20.03	19.71	1.6
Consumer high-speed*	33.44	33.53	(0.3)	33.56	34.07	(1.5)
Business dial-up	45.77	44.58	2.7	45.16	44.15	2.3
Business high-speed	100.04	97.80	2.3	100.49	94.27	6.6
Churn	2.0%	2.2%	(9.1)	1.9%	2.1%	(9.5)

* These statistics have been restated to include revenues from enhanced services. This restatement was necessary to conform to the new industry standard of including all revenue derived from consumer Internet service in the calculation of average revenue per customer.

Strong customer and revenue growth were supported by the aforementioned initiatives to aggressively manage churn and improve ARPC. Year-over-year consumer Internet services ARPC has remained relatively stable while business Internet services ARPC has experienced significant improvement. The business ARPC increases are attributable to price restructuring within product categories, increased usage and the popularity of security services. In the consumer Internet market our introductory promotional programs have had a downward impact on ARPC, mitigated by higher revenue from Ultra High-Speed customers and revenues from enhanced services. Success in attracting new customers will bring long-term benefits through an increased customer base.

Other revenues

For the period ended September 30 (millions of dollars)	Three months			Nine months		
	2004	2003	% change	2004	2003	% change
Product	24.8	29.3	(15.4)	76.5	80.6	(5.1)
Directory	10.5	10.3	1.9	40.5	38.2	6.0
Innovatia	7.7	6.3	22.2	20.1	18.5	8.6
Miscellaneous	4.6	5.9	(22.0)	12.5	21.7	(42.4)
Other revenues	47.6	51.8	(8.1)	149.6	159.0	(5.9)

In 2004, other revenues decreased compared to 2003 mainly as a result of a decrease in product sales and lower miscellaneous revenues. Product sales can be sporadic, and with the labour disruption now over, we plan to revive any and all product sale opportunities. Year over year, a reduction in overall sales activity during the labour disruption had a negative impact on product sales that was partially offset by higher year-to-date sales of cellular hardware and accessories. Innovatia revenues are higher primarily due to a one-time customer contract termination charge of \$1.1 million in the third quarter. Miscellaneous revenues have decreased in 2004 as a result of lower late payment rates, driven by interest rate declines and lower private line broadcast revenue as 2003 included some large broadcast events.

IT services revenue

IT services revenue consists of systems integration, software engineering, infrastructure services and other IT consulting.

External IT services revenues have declined from 2003 levels as a result of the divestiture of the Internet help desk contact centre in June and the Western business unit in July of this year. Excluding the impact of the divestitures, external revenues grew \$1.3 million in the third quarter of 2004 and \$1.5 million year to date compared to the same periods in 2003. Growth in internal revenue of \$4.9 million during the third quarter is a result of additional project-based activity for the Telecommunications segment, including work on process improvements implemented for the back-to-school period. Year-to-date internal revenues are up \$0.3 million reflecting productivity improvement initiatives undertaken in collaboration with the Telecommunications segment and an initial slowdown of project-related work in the second quarter when the labour disruption commenced.

xwave continues to win contracts that build on our expertise in specific practice areas and will generate future revenue. We are implementing PeopleSoft applications and upgrades under contracts with Halifax's Capital District Health Authority, the City of Greater Sudbury and the Town of Oakville. A contract with White Rock Distilleries will build on our experience with delivering complete software solutions to automate and enhance business operations.

Fulfillment revenue

Fulfillment revenue includes the sale of computer hardware, accessories and packaged software.

Fulfillment revenue declined by \$0.5 million in the third quarter of 2004, compared to the same period in the prior year, despite a \$2.0 million increase in internal revenue due to timing of additional procurement activity from our Telecommunications segment. On a year-to-date basis, there is a \$4.2 million increase in external revenues due to strong sales in Central Canada during the first half of the year across both the private and public sectors offset by a \$1.3 million decrease in internal revenues from reduced procurement activity by our Telecommunications segment.

COST OF OPERATING REVENUES

For the period ended September 30

(millions of dollars)	Three months			Nine months		
	2004	2003	% change	2004	2003	% change
Cost of operating revenues	65.6	71.0	(7.6)	209.3	219.0	(4.4)

Lower Telecommunications product sales resulting from the labour disruption reduced the associated cost of operating revenues in the third quarter of 2004 by approximately \$6 million and on a year-to-date basis by approximately \$10 million, compared to the prior year. As well, lower long distance minute usage and continued lower toll terminating rates reduced costs in our long distance portfolio. We also experienced marginally lower payments to the contribution pool than those experienced in 2003.

Cost of operating revenues associated with IT fulfillment revenue in the third quarter of 2004 was comparable to the prior year but increased on a year-to-date basis. Sales margins on fulfillment sales have declined by one percentage point on both a quarterly and year-to-date basis due to a very competitive marketplace that has led to more aggressive pricing. Our focus on improved project scope evaluation, cost estimations and contract execution management should serve to strengthen margins in the future.

OPERATING EXPENSES

For the period ended September 30

(millions of dollars)	Three months			Nine months		
	2004	2003	% change	2004	2003	% change
Telecommunications	241.1	200.0	20.6	685.3	601.5	13.9
Information Technology	44.4	49.3	(9.9)	145.3	169.9	(14.5)
Other and eliminations	(26.4)	(22.3)	18.4	(66.2)	(77.1)	(14.1)
Consolidated operating expenses	259.1	227.0	14.1	764.4	694.3	10.1

The growth in operating expenses in the third quarter and first nine months of 2004, over the same period in 2003, is due mainly to the impact of the labour disruption, growth in our wireless business and increased pension and other post employment benefits cost. This is offset by savings from restructuring activities in the Information Technology segment.

The labour disruption accounts for approximately \$23 million of the third quarter increase and \$39 million on a year-to-date basis. This increase is net of approximately \$3 million in pension and other post employment benefits cost savings associated with unionized employees during the labour disruption. As discussed in the "Labour disruption" section, the third quarter expenses included the provision of appropriate security for our employees and assets, property repairs and increased salary costs in the months of August and September to support a period in which we incur greater customer demand.

Our wireless business continues to exhibit strong customer growth over 2003, translating into a 15.5 per cent increase in wireless revenues for the third quarter and 16.8 per cent for the first nine months of 2004. To support this growth, we incurred associated operating expense increases related to commissions, subsidies, cellular phone and accessories costs, and other actions in support of increased customer levels. In the third quarter of 2004, wireless operating expenses increased \$6.1 million, or 14.0 per cent, and \$15.0 million in the first nine months of 2004, or 12.0 per cent.

Overall, salaries and benefits for the third quarter and the first nine months of 2004 were not significantly higher than in the prior year. Normal annual wage and salary adjustments were mostly offset by improved productivity within the IT consulting services resource pool, a product of the restructuring activities since 2003 in our Information Technology segment, and our divesture of the Internet help desk and Western business unit.

The restructuring activities and divestures within our Information Technology segment have also resulted in reduced service delivery costs and selling, general and administrative expenses.

Pension and other post employment costs have increased \$11.4 million for the first nine months of 2004 over the prior year. Third quarter results are flat compared to the prior year as annual increases are offset by the absence of costs attributable to the unionized work force during the labour disruption.

Pension and other post employment benefits cost

For the period ended September 30

(millions of dollars)	Three months			Nine months		
	2004	2003	% change	2004	2003	% change
Defined benefit	10.4	10.2	2.0	36.1	26.5	36.2
Defined contribution	2.6	2.8	(7.1)	9.5	8.5	11.8
Other post employment benefits	3.9	3.8	2.6	11.6	10.8	7.4
Pension and other post employment benefits cost	16.9	16.8	0.6	57.2	45.8	24.9

Defined Benefit (DB) pension cost has increased in 2004 primarily due to the increase in the amortization of a larger balance of net actuarial losses. The balance of accumulated actuarial losses has increased because past returns on plan assets were lower than expected and because the plan liabilities are higher than anticipated. The liability growth has largely come from lower interest rates being used to discount the future expected payments to pensioners. In the first nine months of 2004, we amortized \$14.1 million of the accumulated losses through pension cost while \$6.3 million was amortized during the same period

in 2003. In the third quarter of 2004, amortization of \$4.7 million was recorded compared to \$3.5 million in the third quarter of 2003. Offsetting the higher amortization of losses was a \$2.5 million decline in the current service cost attributable to unionized employees not accruing pensionable service during the labour disruption.

Defined contribution (DC) costs represent our contributions to the employees' retirement savings accounts. The increase in the first nine months of 2004 is due to higher annual short-term incentive payments paid out in the first quarter, which attract retirement savings contributions. During the second and third quarters, DC costs were lower than normal as contributions were not being made for unionized employees during the labour disruption.

Our other post employment benefits (OPEBs) cost has increased due to the interest on the unfunded obligation as the OPEBs liability has grown.

DEPRECIATION

For the period ended September 30

(millions of dollars)	Three months			Nine months		
	2004	2003	% change	2004	2003	% change
Depreciation	98.6	98.3	0.3	298.1	294.9	1.1

The increase in year-over-year depreciation expense has been caused by the higher proportion of capital investment in recent years being in assets with shorter depreciable lives, partially offset by the slowdown in capital investment during the labour disruption.

RESTRUCTURING CHARGE

For the period ended September 30

(millions of dollars)	Three months			Nine months		
	2004	2003	% change	2004	2003	% change
Restructuring charge	0.6	15.5	(96.1)	5.2	15.5	(66.5)

In the first half of 2004, Telecommunications executed a restructuring plan tied to workforce reductions. Associated severance and related benefits costs of \$0.1 million and \$2.3 million were incurred in the third quarter and first nine months, respectively.

Information Technology initiated a restructuring program in 2003 to realign xwave's strategy, simplify its business model and improve productivity and profitability, incurring \$15.5 million in the third quarter of last year. These charges consisted primarily of associated severance and related benefits, but also include premises rationalization costs. In 2004, this program continued with an additional \$2.9 million of charges in the first nine months, \$0.5 million of which was expended in the third quarter.

OTHER INCOME (EXPENSES)

For the period ended September 30

(millions of dollars)	Three months			Nine months		
	2004	2003	% change	2004	2003	% change
Interest income	1.3	3.0	(56.7)	10.6	8.3	27.7
Accounts receivable securitization	(0.7)	(1.1)	(36.4)	(2.5)	(3.4)	(26.5)
Provincial large corporation tax	(1.4)	(1.0)	40.0	(3.7)	(3.2)	15.6
Miscellaneous income (charges)	(2.1)	1.2	—	(2.2)	(0.1)	—
Other income (expenses)	(2.9)	2.1	—	2.2	1.6	37.5

Other expenses increased for the third quarter of 2004, compared to the same period last year, due to an increase in miscellaneous charges and a decrease in interest earned on previous years' tax reassessments. On a year-to-date basis, other income has increased compared to the first nine months of 2003 as the increase in miscellaneous charges was mitigated by income recognized in the second quarter from short-term portfolio investment transactions and interest earned on cash balances and on previous years' tax reassessments.

INTEREST CHARGES

For the period ended September 30

(millions of dollars)	Three months			Nine months		
	2004	2003	% change	2004	2003	% change
Interest charges	19.8	20.4	(2.9)	57.6	62.3	(7.5)

Interest charges have decreased in 2004 compared to the prior year due primarily to a decrease in the amount of outstanding debt, as \$72.5 million in debentures and bonds were repaid in June and July of 2003. An interest rate swap entered into in December 2003 is also contributing to lower interest charges in 2004, as we are benefiting from low floating interest rates. The repayment of a \$100.0 million bond issue in October 2004 will serve to further lower interest costs in the future.

INCOME TAXES

Calculation of effective income tax rate

For the period ended September 30

(millions of dollars)	Three months			Nine months		
	2004	2003	% change	2004	2003	% change
Net income from continuing operations	37.0	50.7	(27.1)	127.8	149.4	(14.5)
Addback:						
Income taxes	13.2	32.6	(59.5)	65.9	97.9	(32.7)
Non-controlling interest	0.4	0.3	33.3	1.2	0.2	—
Net income from continuing operations before income taxes and non-controlling interest	50.6	83.6	(39.5)	194.9	247.5	(21.3)
Effective income tax rate	26.09%	39.00%	(33.1)	33.83%	39.55%	(14.5)

The income tax provision decreased due to the decrease in net income from continuing operations and the decline in the effective income tax rate. The decline in the effective income tax rate is attributable to lower statutory rates in 2004, compared to 2003, and the reversal of a previously recorded tax liability, which was no longer considered necessary as a result of a favourable resolution of outstanding tax audits for previous higher-rate taxation years.

NON-CONTROLLING INTEREST

For the period ended September 30

(millions of dollars)	Three months			Nine months		
	2004	2003	% change	2004	2003	% change
Non-controlling interest	0.4	0.3	33.3	1.2	0.2	—

Non-controlling interest represents the proportionate results of Atlantic Mobility Products Ltd.

NET INCOME AND EARNINGS PER SHARE

For the period ended September 30

(millions of dollars, except per share amounts)	Three months			Nine months		
	2004	2003	% change	2004	2003	% change
Net income:						
Continuing operations	37.0	50.7	(27.1)	127.8	149.4	(14.5)
Discontinued operations	—	0.2	—	—	11.0	—
Total net income	37.0	50.9	(27.3)	127.8	160.4	(20.3)
Earnings per common share:						
Continuing operations	0.26	0.35	(25.7)	0.91	1.03	(11.7)
Discontinued operations	—	—	—	—	0.08	—
Total earnings per common share	0.26	0.35	(25.7)	0.91	1.11	(18.0)

Our exit from non-core businesses in 2003 resulted in the reclassification of prior period results of these businesses as discontinued operations. In the first nine months of 2003, the results from discontinued operations reflect the operating activities of the businesses prior to their disposition and an \$8.9 million gain, net of taxes, on the sale of some of these businesses.

The decrease in year-to-date net income from continuing operations for 2004 over 2003 is due primarily to the impact of the labour disruption and an increase in pension and OPEBs costs. This decrease was mitigated in part by lower interest charges and income taxes.

FINANCIAL AND CAPITAL MANAGEMENT

SUMMARY OF CONSOLIDATED CASH FLOWS

Cash and cash equivalents at September 30, 2004, were \$406.6 million. During the third quarter, we generated \$214.4 million of our year-to-date cash from operations of \$470.3 million. We anticipate that we will continue to generate strong cash from operations into the fourth quarter of 2004.

We continue to explore options to deploy cash in a manner consistent with our objective of maximizing shareholder value. During the first nine months of 2004, this included the payment of dividends to our shareholders and the buyback of common shares from our shareholders under our NCIB program.

By the end of 2004, we expect our cash position will have decreased to approximately \$200 million. This reduction will be a result of a number of factors including the repayment of a \$100.0 million bond issue in October 2004, a ramp up in our quarterly capital investment to approximately \$100 million, early retirement incentive payments of approximately \$40 million, the acquisition of DownEast Communications and the associated upfront cash payout of \$15 million, cash contributions to fund our DB pension plan of approximately \$7 million, our quarterly dividend payments and other contractual obligations.

OPERATING ACTIVITIES

Summary of cash flows from operating activities

For the period ended September 30

(millions of dollars)	Three months			Nine months		
	2004	2003	% change	2004	2003	% change
Net income from continuing operations	37.0	50.7	(27.1)	127.8	149.4	(14.5)
Deferred commissions and subsidies	(12.5)	(9.2)	35.9	(34.9)	(24.4)	43.0
Non-cash items	119.2	104.9	13.6	375.4	310.9	20.7
	143.7	146.4	(1.8)	468.3	435.9	7.4
Change in non-cash working capital	70.7	43.0	64.4	2.0	132.0	(98.5)
Cash from continuing operations	214.4	189.4	13.2	470.3	567.9	(17.2)

Cash from continuing operations increased from the third quarter of 2003 as improvements in working capital and other non-cash items offset lower comparable net income due to the labour disruption. On a year-to-date basis, tax benefits that added \$55.0 million to cash flow in the first quarter of 2003 did not recur in 2004, accounting for the majority of the year-over-year decline.

Change in non-cash working capital

For the period ended September 30

(millions of dollars)	Three months			Nine months		
	2004	2003	% change	2004	2003	% change
Accounts receivable	20.6	(30.3)	—	44.4	(12.3)	—
Income and other taxes payable	30.8	28.7	7.3	(14.3)	120.1	—
Prepayments	9.1	3.9	—	(7.2)	(21.3)	(66.2)
Inventory	2.7	0.7	—	3.5	1.4	—
Accounts payable and other liabilities	7.5	40.0	(81.3)	(24.4)	44.1	—
Change in non-cash working capital	70.7	43.0	64.4	2.0	132.0	(98.5)

With the exception of temporary impacts from the labour disruption and the income tax refunds, we have largely been able to maintain our working capital at levels similar to those seen in 2003. The decrease in accounts receivable is due to decreased sales offset by collection delays with the labour disruption in the Telecommunications segment. In addition, our Information Technology segment has reduced its days sales outstanding in 2004 compared to 2003. The working capital management activities initiated in 2003 have resulted in improvements in accounts payable and other liabilities, which have been maintained in 2004. In 2003, we received large income tax and harmonized sales tax refunds, which contributed to the unusually high cash flow for that year. Some of the change in non-cash working capital may reverse in the fourth quarter with the return to normal operations after the labour disruption.

FINANCING ACTIVITIES

For the period ended September 30

(millions of dollars)

	Three months			Nine months		
	2004	2003	% change	2004	2003	% change
Net proceeds (repayments) of notes payable and bank advances	(4.4)	22.6	—	(17.8)	(21.9)	(18.7)
Repayments of long-term debt	—	(9.2)	—	(0.1)	(75.5)	(99.9)
Increase (decrease) in capital lease obligations	(0.4)	(0.1)	—	0.2	1.6	(87.5)
Repurchase of common shares	(6.6)	(77.6)	(91.5)	(48.3)	(110.3)	(56.2)
Preferred and common share dividends	(37.3)	(38.9)	(4.1)	(112.5)	(113.9)	(1.2)
Other financing activities	—	0.2	—	(0.7)	—	—
Cash used in financing activities	(48.7)	(103.0)	(52.7)	(179.2)	(320.0)	(44.0)

Cash used in financing activities in the third quarter of 2004 has been largely limited to the payment of dividends on preferred and common shares, as well as the completion of the common share repurchases made under our NCIB program that ended on August 5, 2004. More cash was consumed by financing activities in the third quarter and first nine months of 2003 due to share buyback activity throughout the third quarter of last year, the repayment of a \$65.0 million debenture in June 2003 and the repayment of \$7.5 million of first mortgage bonds in July 2003.

Liquidity and financing resources

As at September 30, 2004, we maintain lines of credit totalling \$557.0 million in aggregate with our bankers. These lines of credit are unchanged from December 31, 2003, and further details are provided in note 7 to our unaudited interim consolidated financial statements for the period ended September 30, 2004.

There were no balances outstanding under our commercial paper program or uncommitted operating lines as at September 30, 2004.

Bank operating lines of credit within our business segments include:

- \$42.0 million in Telecommunications – which had no amounts outstanding as at September 30, 2004, compared to \$4.5 million at December 31, 2003.
- \$15.0 million in Information Technology – there were no amounts drawn at September 30, 2004, on this line of credit compared to a balance of \$6.0 million at December 31, 2003. Letters of credit committed against this line of credit total \$6.1 million at September 30, 2004, compared to \$6.9 million at December 31, 2003.

Consolidated capital structure

<i>(millions of dollars)</i>	September 30, 2004		December 31, 2003	
Common equity	1,418.6	54.4%	1,451.6	54.7%
Preferred equity	172.3	6.6%	172.3	6.5%
Non-controlling interest	4.7	0.2%	4.1	0.1%
Long-term debt, including current portion	990.2	37.9%	990.1	37.3%
Short-term debt, including bank indebtedness and interest payable	24.3	0.9%	36.1	1.4%
	2,610.1	100.0%	2,654.2	100.0%

The percentage of debt to total capital was 38.8 per cent at September 30, 2004, which is relatively unchanged from December 31, 2003, as we have balanced debt repayment with the return of cash to shareholders.

Corporate equity instruments

We issued common shares in the amount of \$1.7 million and \$5.8 million, respectively, for the three and nine month periods ended September 30, 2004, by way of our common shareholder dividend reinvestment plan, our stock purchase plan and the exercise of options under our employee stock option plan. Shares were purchased on the open market to fulfill the requirements of our employees' stock savings plan.

Under the NCIB program, which commenced on August 6, 2003, and ended August 5, 2004, we acquired, from time to time, our common shares for cash through the facilities of the Toronto Stock Exchange. Further details on this NCIB are provided in note 11 to our unaudited interim consolidated financial statements for the period ended September 30, 2004. As at September 30, 2004, we had purchased and cancelled all of the allowable 6,925,000 common shares under this NCIB at an aggregate price of \$214.4 million, of which 1,732,130 common shares were purchased during the first nine months of 2004 at an aggregate price of \$50.6 million.

Due to the lower number of common shares outstanding, the total dividends that we paid to our common shareholders for the three and nine months ended September 30, 2004, decreased \$1.5 million and \$1.2 million, respectively, over 2003 levels. The year-to-date decrease was offset by the fact that the current dividend rate per share was increased effective with the second quarter of 2003. Dividends paid that were subsequently reinvested in the dividend reinvestment plan and employees' stock savings plans were \$2.4 million for each of the first three quarters of 2004, consistent with the prior year.

We paid preferred shareholder dividends of \$2.4 million and \$7.2 million for the third quarter and first nine months of 2004, respectively, consistent with the amounts paid in 2003.

Outstanding shares and stock options

as of October 22, 2004

Authorized

Unlimited number of preference shares, issuable in series.

Unlimited number of common shares, without par value.

Issued

<i>(millions of dollars, except as otherwise noted)</i>	October 22, 2004	
	Number of shares	Value
Preference shares, series 2	7,000,000	172.3
Common shares	132,690,169	1,043.2
		1,215.5

Outstanding shares and stock options *continued**Issued*

<i>(dollars)</i>	October 22, 2004	
	Number of options	Weighted average exercise price
Options outstanding	2,694,856	30.60
Options exercisable	1,900,678	30.70

Between October 1, 2004, and October 22, 2004, we issued 582,081 shares pursuant to the acquisition of DownEast Communications.

INVESTING ACTIVITIES**Summary of cash flows from investing activities***For the period ended September 30*

<i>(millions of dollars)</i>	Three months			Nine months		
	2004	2003	% change	2004	2003	% change
Purchase of capital investments	(51.4)	(91.3)	(43.7)	(180.9)	(234.8)	(23.0)
Funding of pension plans	(17.4)	(9.6)	81.3	(77.2)	(30.5)	153.1
Other investing activities	3.0	11.0	(72.7)	8.3	8.1	2.5
Cash used in investing activities	(65.8)	(89.9)	(26.8)	(249.8)	(257.2)	(2.9)

Cash used in investing activities in 2004 has decreased from 2003 due to a slower pace of capital investments resulting from the labour disruption, offset in part by an increase in funding of pension plans. Cash used in the funding of pension plans has increased over the comparable periods in 2003 due to a special deficit-funding pension contribution of \$25.0 million in the first quarter of 2004 and an increase in regular funding of the DB pension plans during 2004 resulting from the funding requirements identified in the December 31, 2002, actuarial valuations. Most of the 2003 pension funding occurred in the fourth quarter of 2003 as the 2002 actuarial valuation was not completed until September 2003.

CAPITAL INVESTMENTS*For the period ended September 30*

<i>(millions of dollars)</i>	Three months			Nine months		
	2004	2003	% change	2004	2003	% change
Telecommunications	49.9	90.9	(45.1)	176.7	232.1	(23.9)
Information Technology	1.5	0.2	—	4.1	1.3	215.4
Other	—	0.2	—	0.1	1.4	(92.9)
Total purchase of capital investments	51.4	91.3	(43.7)	180.9	234.8	(23.0)

Telecommunications

Telecommunications' capital investment has declined against comparative periods due to the labour disruption. During the labour disruption work on capital projects was focused on required core investment to support our existing network, achieve some growth in our high-speed Internet and wireless digital coverage, continue with planned vehicle fleet replacement, and contact centre infrastructure redesign to support the back-to-school period.

Information Technology

Information Technology's capital investment during the third quarter was higher compared to the same period of the prior year, as 2004 reflects renewed investment in tools and infrastructure to support the business.

OTHER FINANCIAL ARRANGEMENTS**Off-balance sheet arrangements**

Off-balance sheet arrangements involve transferring accounts receivable to a securitization trust. Further details on this arrangement are provided in notes 1 and 2 to our unaudited interim consolidated financial statements for the period ended September 30, 2004.

We also have various operating leases and purchase commitments for equipment and other network infrastructure. The amounts of estimated future payments are disclosed in note 18 to our unaudited interim consolidated financial statements for the period ended September 30, 2004, and have not materially changed from those disclosed in the MD&A for the year ended December 31, 2003.

Derivative financial instruments

Our derivative financial instruments consist of interest rate swap and interest rate swaption agreements. Further details of these agreements are provided in notes 1 and 17 to our unaudited interim consolidated financial statements for the period ended September 30, 2004. There has been no change in the purpose or terms of these derivative financial instruments during the third quarter of 2004.

Pension and other post employment benefits obligations and related cash funding requirements

We provide certain pension plans and non-pension post employment benefits to qualified employees. These include DC pension plans, DB pension plans, retirement savings plans and other post employment benefit (OPEB) plans such as life insurance and health care plans. Details of our post employment benefits are provided in notes 1 and 5 to our unaudited interim consolidated financial statements for the period ended September 30, 2004.

While all new employees participate in a DC pension plan or retirement savings plan, we still have many active employees in one of our four DB pension plans. The DB pension plans require periodic funding payments to be made to a trust fund, and these payments are determined by performing required actuarial valuations of the plans. During 2003, we completed the actuarial valuations of our DB plans as of December 31, 2002, and the funding requirement determined during these valuations was approximately \$64 million annually. Updated actuarial valuations as at December 31, 2003, are being filed as required for some of our plans, the result of which will be a reduction in the minimum required funding contributions for 2004 to approximately \$56 million.

The collective agreement reached during the third quarter of 2004 includes enhancements to certain features of our pension plans and an increase in past service benefits accrued for some employees. These changes result in an increased pension obligation of \$31.3 million for the DB pension plans. The cost of these plan amendments will be amortized and recognized as increased DB pension costs over future years and will result in increased future funding requirements. We estimate the impact on annual pension costs in future years to be \$6.5 million while the increase in annual funding requirements is estimated to be approximately \$9.0 million beginning in 2005. The collective agreement also stipulates that any new bargaining unit employees will participate in a DC pension plan, which is in line with our desired model for delivery of employee retirement benefits, and will result in all of our DB pension plans being closed to new members.

On October 28, 2004, our board of directors approved the ERIP as well as certain enhancements to the pension plans for non-unionized employees that are similar to those awarded in the collective agreement to unionized employees. Our initial estimates are that the ERIP and the further plan enhancements will add \$60 to \$65 million to the DB pension obligation.

Related party transactions

In the normal course of business we engage in numerous transactions with our majority shareholder, Bell Canada, such as the purchase of telecommunications and other services, the provision of telecommunications services and the purchase of capital investments. We also repurchased our shares for cancellation from Bell Canada on a pro-rata basis through our NCIB. Refer to note 19 to our unaudited interim consolidated financial statements for the period ended September 30, 2004, for greater detail on our related party transactions.

SIGNIFICANT ACCOUNTING POLICIES

Our unaudited interim consolidated financial statements have been prepared in accordance with Canadian GAAP. Greater detail on our significant accounting policies is provided in note 1 to our unaudited interim consolidated financial statements for the period ended September 30, 2004. Our current accounting policies and methods, key assumptions and estimates, and choice of alternative acceptable accounting policies are consistent with the accounting policies noted in the most recent annual audited financial statements and as further disclosed in our MD&A for the year ended December 31, 2003, and the asset retirement obligation accounting policy adopted on January 1, 2004.

RISK AND RISK MANAGEMENT

While management is confident about our long-term prospects, we are exposed to a number of risks in the normal course of business that could have a negative effect on our financial condition or results of operations. A comprehensive discussion of these risks can be found in our MD&A for the year ended December 31, 2003, as presented on pages 37 to 40 of our 2003 annual report. Our discussion below is limited to identifying significant changes in the risks that we discussed at year end and in additional risks that we noted since that time.

PENSION AND OTHER POST EMPLOYMENT BENEFIT CONTRIBUTIONS

Our DB pension plans assets were negatively impacted by the decline in the equity capital markets in 2001 and 2002. This, combined with historically low interest rates, contributed to deficits in our plans as of our December 31, 2002, actuarial valuations. As a result of these actuarial valuations, a minimum funding requirement of \$63.7 million was identified for 2003. Total funding contributions, including minimum required contributions, voluntary funding contributions of \$55.0 million and other plan contributions totalled \$124.7 million in 2003.

In 2004, we are currently making periodic funding contributions at the rate required in 2003, or approximately \$16.0 million per quarter. Updated actuarial valuations as at December 31, 2003, are being filed for some of our DB pension plans, the result of which will be a reduction in the minimum required contributions for 2004 of approximately \$8.0 million. Some or all of this reduction should be reflected in contributions to be made in the fourth quarter of 2004.

We remain exposed to general future valuation risk. Actuarial valuations will be required as of December 31, 2004, for some of our DB pension plans, and required funding levels for 2005 and beyond are likely to change as a result of these updated actuarial valuations. For example, if the return on plan assets, interest on the obligation, or actual experience of the plans are better or worse than initially anticipated, the valuations could result in either lower or higher minimum required contributions. As well, the impact of recent plan amendments will result in increased annual contribution requirements. Past service benefits and plan enhancements stipulated in the collective agreement, pension enhancements offered to non-unionized employees and the increased pension obligation arising from the ERIP will all have an effect on future funding requirements.

We will also be reviewing our projections for growth in our OPEBs liability given the upcoming change in the demographics of the workforce and the complement of retirees resulting from acceptance of the voluntary early retirement incentive plan in the fourth quarter.

REGULATORY DEVELOPMENTS

A number of CRTC proceedings are currently underway that deal with issues of significance to incumbent local exchange carriers (ILECs), such as Aliant Telecommunications. These proceedings include a review of the regulation of VoIP services, new floor price rules for ILECs' price-regulated services, costs of certain services provided to competitors, local forbearance and the deferral account mechanism. A number of these proceedings continued throughout the third quarter.

The final steps of the regulation of VoIP service proceeding included a three-day oral public consultation process with participation by us and many other interested parties. The public record of this proceeding was completed in mid-October with the filing of reply comments by participating parties. Together with other ILECs, we urged the CRTC to refrain from regulating prices for VoIP services and allow all VoIP service providers to compete for customers according to the same rules. There is a risk that the CRTC may rule contrary to our position and create an environment in which we are subject to price-regulation while competitors are not. This would negatively impact our future revenue potential from VoIP services.

A number of proceedings related to the prices we charge competitors for certain services are currently underway. During the quarter, some competitors requested that the CRTC expand the list of services on which competitors receive preferential pricing to include certain inter-exchange services in our operating territory. We responded to these requests by demonstrating to the CRTC why such treatment is inappropriate and inconsistent with the goal of establishing facilities-based competition. There is a risk that the CRTC may approve the competitors' request, in whole or in part, and this could have a negative effect on us, including reduced revenues from competitors.

In addition to our April 2004 forbearance application for local residential phone service within certain areas of Nova Scotia and Prince Edward Island, we also requested expedited relief from certain previous CRTC decisions. We requested the following for customers in certain competitive areas:

- Suspension of the prohibition on promotional offers to local customers and on waiving service charges for customers who chose to return to us for local service;
- Removal of the twelve month period in which we are not allowed to contact customers who have left our local service to invite them to return to us; and
- Restatement of our ability to file proposed promotions in confidence with the CRTC, such that our competitors would not have advance notice of our special promotional offers.

In an August 2004 determination, the CRTC denied our request for a separate expedited proceeding and indicated that our request for relief from the above identified restrictions will be considered as part of a proceeding in which our request for forbearance for local service will also be considered. As indicated in the CRTC's Three-Year Work Plan for the years 2004 to 2007, the CRTC expects to deal with the local forbearance application during the April 2005 to March 2006 time frame. If the CRTC denies this application, we expect to experience continued market share degradation as our ability to compete and customer choice will continue to be hindered.

Earlier this year, the CRTC issued its decision on some of the items that affect the amount in our deferral account. The Commission approved our proposals regarding some calculations and denied some of our other proposals. We have filed a review application regarding one of the items that the CRTC denied. There is a risk that the Commission will not vary its previous decision. For additional information on the deferral account mechanism and the potential impact of a negative ruling refer to note 21 to our unaudited interim consolidated financial statements for the period ended September 30, 2004.

The outcome of future CRTC rulings could significantly impact our ability to compete and affect our financial performance. We are actively participating in these proceedings by providing evidence, information and arguments to the CRTC that defend our positions and present alternatives that promote economically sound competition that will provide benefits and choice for customers.

COMPETITIVE DEVELOPMENTS

The telecommunication marketplace continues to evolve at an increasingly rapid rate. This evolution is driven by the development of new consolidated providers, either through mergers or joint partnerships with wholesale and retail partners, and the development and deployment of new IP centric solutions. Providers are all vying for customer business through the pursuit of multiple service offerings across all segments in an attempt to retain existing revenue while growing future revenue.

Local competition continues to increase across Atlantic Canada in consumer and business markets. In particular, an increasing number of alternate providers utilizing VoIP solutions will become active through the remainder of 2004 and beyond. Wireless competition continues to grow, with increasing focus on enhanced application of wireless technology such as pictures, gaming, data and messaging. Throughout the third quarter aggressive focus was placed on introductory airtime offerings, new handsets and handset pricing. Internet competition continues to intensify with providers focusing on speed of access and value-add offerings as part of their product evolution. In their efforts to generate more revenues, we can expect increased pressure on our revenues. We will continue to enhance our market position with new product and service offerings, extended coverage, the benefits of Value Packages and promotional offerings to create a compelling value proposition for current and potential customers.

We have built long-term strategies focused on our continued evolution and growth, taking into account known and anticipated changes. The on-going changes in our competitive marketplace put our strategies, revenue and net income at risk. To ensure competitive factors have minimal impact, we continue to monitor industry and competitive developments and make changes to our strategies as required.

OTHER LEGAL AND REGULATORY MATTERS

During the third quarter, a lawsuit was filed in Saskatchewan against several Canadian wireless and cellular service providers, including Aliant Telecom Inc. The suit is brought by several alleged or former customers of the defendants, who seek court permission to proceed by way of class action under the Saskatchewan Class Actions Act. It is not currently known whether the proceeding will be certified as a class action. While we feel we have strong defenses to this claim, the outcome of this matter is not determinable at this time. A discussion of all our significant contingencies outstanding is included in note 21 to our unaudited interim consolidated financial statements for the period ended September 30, 2004.

In addition, please refer to the discussion of regulatory developments under the "Risk and risk management" section for a description of certain regulatory initiatives and proceedings that could affect our Telecommunications segment.

SUPPLEMENTARY FINANCIAL INFORMATION

CONSOLIDATED QUARTERLY FINANCIAL INFORMATION *(unaudited)*

<i>For the eight quarters ended September 30, 2004</i>	2002				2003		2004	
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<i>(millions of dollars, except per share amounts)</i>								
Total operating revenues	511.4	500.9	517.3	513.9	527.0	504.4	525.6	497.2
Net income from continuing operations	2.2	37.5	61.3	50.7	45.4	40.7	50.1	37.0
Net income (loss) from discontinued operations	(6.7)	1.4	9.3	0.2	100.4	—	—	—
Net income (loss)	(4.5)	38.9	70.6	50.9	145.8	40.7	50.1	37.0
Preferred share dividends	2.4	2.4	2.4	2.3	2.4	2.4	2.4	2.4
Net income (loss) applicable to common shares	(6.9)	36.5	68.2	48.6	143.4	38.3	47.7	34.6
Basic earnings per common share:								
Continuing operations	—	0.25	0.42	0.35	0.32	0.29	0.36	0.26
Discontinued operations	(0.05)	0.01	0.07	—	0.75	—	—	—
Basic earnings per common share	(0.05)	0.26	0.49	0.35	1.07	0.29	0.36	0.26
Diluted earnings per common share:								
Continuing operations	—	0.25	0.42	0.35	0.32	0.29	0.36	0.26
Discontinued operations	(0.05)	0.01	0.07	—	0.74	—	—	—
Diluted earnings per common share	(0.05)	0.26	0.49	0.35	1.06	0.29	0.36	0.26

Factors impacting comparability of quarterly results

Labour disruption

A labour disruption occurred between April 23, 2004, and September 20, 2004, while negotiating a new collective agreement with our approximately 4,300 employees represented by CATU. During the course of the labour disruption our revenues and operating expenses were negatively impacted as indicated under the "Labour disruption" section.

Divestiture activity

The Information Technology segment divested of its Internet help desk contact centre and Western business unit on June 1, 2004, and July 31, 2004, respectively, effectively ceasing associated external service revenues and related costs generated by these components.

Trends

Telecommunications operating revenues have generally increased, quarter over quarter, due to significant growth in wireless and Internet services, which has been partially offset by lower revenue from local and long distance services due to increased competition, CRTC regulations and technology advancements.

Prior to 2004, Information Technology operating revenues decreased as clients scaled back their information technology expenditures in response to subdued market conditions and a slowdown in government spending. A restructuring program was implemented in the first six months of 2003, which simplified the business model and is resulting in improved productivity and profitability of the Information Technology segment in 2004.

Seasonality of results

Telecommunications operating revenues and expenses experience seasonality in the recognition of the majority of our directory revenues and related costs, as several of our larger directories are issued in the second quarter. Also, the timing of product sales, which are typically large and sporadic in nature, can affect the comparability of quarterly results.

In Information Technology's fulfillment business, the first quarter of the year is historically the strongest as a result of government fiscal year-end spending, although this effect has been somewhat lessened in recent years. Service revenues are contract based and fluctuate in accordance with the size and number of outstanding contracts. Third quarters are typically adversely impacted by client vacations.

Pension and other post employment benefits cost

The impact of pension and other post employment benefits cost can fluctuate from quarter to quarter based on changes in assumptions, the outcomes of pension valuations, amendments to the pension plans and other factors.

CONSOLIDATED QUARTERLY RESULTS ANALYSIS *(unaudited)*

Impact of pension and other post employment benefits cost

For the eight quarters ended September 30, 2004 <i>(millions of dollars, except per share amounts)</i>	2002		2003				2004	
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Decrease in:								
Net income from continuing operations	(3.4)	(9.1)	(8.9)	(10.4)	(9.9)	(13.4)	(12.1)	(10.7)
Earnings per share from continuing operations	(0.02)	(0.07)	(0.06)	(0.08)	(0.07)	(0.10)	(0.09)	(0.08)

Other factors

Net income and earnings per share may fluctuate from quarter to quarter due to items outside of the normal course of operations such as goodwill writedowns and gains and losses on the sale of investments.

CONSOLIDATED QUARTERLY RESULTS ANALYSIS *(unaudited)*

Impact of items outside of the normal course of operations

For the eight quarters ended September 30, 2004 <i>(millions of dollars, except per share amounts)</i>	2002	2003				2004		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Impact on net income								
Increase (decrease) in net income								
from continuing operations:								
Restructuring charge, net of tax	—	—	—	(9.3)	0.6	(1.9)	(0.9)	(0.4)
Writedown of investments, net of tax	—	—	—	—	(12.3)	—	—	—
Writedown of goodwill								
related to xwave	(50.0)	—	—	—	—	—	—	—
	(50.0)	—	—	(9.3)	(11.7)	(1.9)	(0.9)	(0.4)
Increase (decrease) in net income								
from discontinued operations:								
Gain (loss) on sale of subsidiary,								
net of tax	—	—	10.9	(2.0)	95.7	—	—	—
	—	—	10.9	(2.0)	95.7	—	—	—
Increase (decrease) in net income	(50.0)	—	10.9	(11.3)	84.0	(1.9)	(0.9)	(0.4)
Impact on earnings per share								
Increase (decrease) in:								
Earnings per share								
from continuing operations	(0.36)	—	—	(0.06)	(0.09)	(0.01)	(0.01)	—
Earnings per share								
from discontinued operations	—	—	0.08	(0.01)	0.71	—	—	—
Earnings per share	(0.36)	—	0.08	(0.07)	0.62	(0.01)	(0.01)	—

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements related to our future financial condition and results of operations. These statements are based on current expectations and estimates about the markets in which we operate and management's beliefs and assumptions regarding these markets. In some cases, forward-looking statements may be identified by words such as "anticipate", "believe", "could", "expect", "plan", "seek", "may", "intend", "will" and similar expressions. These statements are subject to important risks and uncertainties, which are difficult to predict and assumptions which may prove to be inaccurate. Some of the factors which could cause results or events to differ materially from current expectations include but are not limited to: general economic conditions; market or business conditions; increased competition; changing regulatory conditions or requirements; changing technology; extent of acceptance of the ERIP; and success in implementing productivity initiatives. Some of these factors are largely beyond our control. Should any factor impact us in an unexpected manner, or should assumptions underlying the forward-looking statements prove incorrect, the results or events predicted in management's discussion and analysis might differ materially from actual results or events. Consequently, all of the forward-looking statements made in this document and the documents referred to within are qualified by these cautionary statements, and there can be no assurance that the results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences for us. Readers should not place undue reliance on any forward-looking statements. Further, we disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or any other occurrence.

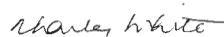
Statements (unaudited)

CONSOLIDATED BALANCE SHEETS

<small>(thousands of dollars)</small>	Notes	As at September 30, 2004	As at December 31, 2003
Assets			
Current assets			
Cash and cash equivalents	19	406,594	365,330
Accounts receivable	2, 19	275,098	320,740
Inventory		17,713	21,177
Prepayments		28,355	21,034
Income tax receivable		44,705	23,423
		772,465	751,704
Capital investments	3	1,894,618	2,013,522
Other assets			
Deferred charges		95,648	92,932
Future income tax asset	4	4,821	12,891
Accrued benefit asset	5	176,277	163,440
Goodwill	6	31,804	31,804
		308,550	301,067
Total assets		2,975,633	3,066,293
Liabilities and shareholders' equity			
Current liabilities			
Notes payable and bank advances	7	—	17,827
Payables and accruals	8, 19	192,292	238,332
Income tax payable		15,687	18,806
Future income tax liability	4	2,716	3,797
Long-term debt due within one year	9	101,578	101,535
		312,273	380,297
Long-term debt	9	888,643	888,524
Accrued benefit liability	5	167,481	159,156
Deferred credits	19	11,694	10,337
		1,380,091	1,438,314
Non-controlling interest	10	4,679	4,051
Shareholders' equity			
Capital stock	11	1,200,472	1,208,062
Contributed surplus	11	90	—
Retained earnings		390,301	415,866
		1,590,863	1,623,928
Total liabilities and shareholders' equity		2,975,633	3,066,293

See accompanying notes to the consolidated financial statements

Signed on behalf of the board of directors



Charles White
Chairman



Edward Reevey
Director

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF INCOME

For the period ended September 30

(thousands of dollars, except per share amounts)	Notes	Three months		Nine months	
		2004	2003	2004	2003
Operating revenues	12	497,189	513,888	1,527,215	1,532,054
Expenses					
Cost of operating revenues		65,638	71,049	209,315	219,053
Operating expenses		259,125	227,015	764,394	694,340
Depreciation		98,570	98,313	298,078	294,885
Restructuring charge	8	642	15,500	5,198	15,500
		423,975	411,877	1,276,985	1,223,778
Operating income		73,214	102,011	250,230	308,276
Other income (expenses)	13	(2,861)	2,074	2,255	1,582
Interest charges					
Interest on long-term debt		19,619	20,189	57,243	61,556
Other interest		146	252	329	769
		19,765	20,441	57,572	62,325
Income before underlisted items		50,588	83,644	194,913	247,533
Income taxes	4	13,196	32,621	65,947	97,907
Income before non-controlling interest		37,392	51,023	128,966	149,626
Non-controlling interest		405	309	1,211	188
Net income from continuing operations		36,987	50,714	127,755	149,438
Net income from discontinued operations	14	—	218	—	10,948
Net income		36,987	50,932	127,755	160,386
Earnings per common share	15				
Basic from continuing operations		0.26	0.35	0.91	1.03
Basic from discontinued operations		—	—	—	0.08
Basic		0.26	0.35	0.91	1.11
Diluted from continuing operations		0.26	0.35	0.91	1.03
Diluted from discontinued operations		—	—	—	0.08
Diluted		0.26	0.35	0.91	1.11

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the nine months ended September 30

(thousands of dollars)	Note	2004	2003
Retained earnings, beginning of period		415,866	354,080
Net income		127,755	160,386
Preferred share dividends		(7,153)	(7,153)
Common share dividends – paid in cash		(105,316)	(106,721)
Common share dividends – reinvested through			
Dividend Reinvestment Plan		(4,146)	(3,913)
Excess of repurchase of common shares over stated value	11	(36,705)	(22,186)
Retained earnings, end of period		390,301	374,493

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the period ended September 30

(thousands of dollars)	Notes	Three months		Nine months	
		2004	2003	2004	2003
Cash and cash equivalents from (used in) operations					
Net income from continuing operations		36,987	50,714	127,755	149,438
Deferred commissions and subsidies		(12,496)	(9,160)	(34,875)	(24,449)
Add (deduct) non-cash items:					
Depreciation		98,570	98,313	298,078	294,885
Amortization of deferred commissions and subsidies		10,957	8,187	31,181	23,783
Future income taxes		(3,712)	(15,477)	(1,193)	(45,159)
Post employment benefits cost		14,250	14,011	47,727	37,331
Non-controlling interest		405	309	1,211	188
Other non-cash items		(1,229)	(433)	(1,604)	(135)
		143,732	146,464	468,280	435,882
Change in non-cash working capital		70,671	42,953	1,977	132,028
		214,403	189,417	470,257	567,910
Cash and cash equivalents from (used in) financing					
Repurchase of accounts receivable	2	—	—	(5,000)	(5,000)
Collection of deferred receivable		—	—	4,874	4,726
Net proceeds (repayments) of notes payable and bank advances		(4,383)	22,584	(17,827)	(21,940)
Issuance (repayments) of long-term debt		35	(9,244)	(65)	(75,570)
Increase (decrease) in capital lease obligations		(424)	(73)	227	1,589
Increase (decrease) in non-controlling interest		—	212	(583)	351
Repurchase of common shares		(6,656)	(77,585)	(48,380)	(110,311)
Preferred share dividends		(2,384)	(2,384)	(7,153)	(7,153)
Common share dividends		(34,930)	(36,521)	(105,316)	(106,721)
		(48,742)	(103,011)	(179,223)	(320,029)
Cash and cash equivalents from (used in) investing					
Purchase of capital investments		(51,438)	(91,352)	(180,934)	(234,821)
Proceeds on sale of capital investments		2,529	857	3,298	3,338
Increase in investments		—	14	—	—
Funding of pension plans		(17,406)	(9,607)	(77,239)	(30,495)
Decrease in deferred charges and credits		555	10,201	5,105	4,824
		(65,760)	(89,887)	(249,770)	(257,154)
Cash and cash equivalents from (used in) continuing operations					
		99,901	(3,481)	41,264	(9,273)
Cash and cash equivalents from (used in) discontinued operations					
	14	—	(7,861)	—	10,578
Cash and cash equivalents, beginning of period		306,693	190,859	365,330	178,212
Cash and cash equivalents, end of period		406,594	179,517	406,594	179,517
Supplementary disclosure					
Interest paid		13,015	14,325	52,110	57,771
Income taxes paid (received)		(10,700)	77,546	80,112	83,774

See accompanying notes to the consolidated financial statements

Statement notes *(unaudited)*

1 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and methods used for interim reporting purposes are consistent with those in effect for the most recent annual audited financial statements for the year ended December 31, 2003, except as noted under Asset retirement obligations. These unaudited interim financial statements should be read in conjunction with our audited financial statements for the year ended December 31, 2003. The board of directors of Aliant Inc. authorized for issue these unaudited interim financial statements on October 28, 2004.

The significant accounting policies used in preparing our unaudited interim financial statements are summarized below:

Consolidated financial statements

We have prepared the consolidated financial statements according to Canadian generally accepted accounting principles (Canadian GAAP).

We consolidate the financial statements of all the companies we control. We proportionately consolidate our share of the financial statements of our joint venture interest. At September 30, 2004, our principal subsidiaries include Aliant Telecom Inc., Innovatia Inc., Aliant Information Technology Inc. and Xwave Solutions Inc. Our joint venture interest is in Aliant ActiMedia.

Use of accounting estimates

Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from estimates used in these financial statements.

Revenue recognition

We recognize operating revenues when they are earned, specifically, when services are provided, products are delivered to customers, persuasive evidence of an arrangement exists, amounts are fixed or determinable, and collectability is reasonably assured.

For transactions involving more than one product or service, we allocate revenue to each based on relative fair values. Revenue is recognized for each product or service as it is delivered provided the product or service has stand-alone value and there is reliable evidence of the fair value of undelivered items.

For arrangements where subcontractors perform services for our customers, we recognize revenue based on the amounts billed to the customers when we act as the principal in the arrangement. When we act as the subcontractor, we recognize the net amount as revenue when we perform the service.

We defer payments received in advance until we provide the service or deliver the product to customers.

For fixed-price service contracts, we recognize revenue based on the extent of work accomplished using the percentage-of-completion method. Management estimates the percentage-of-completion by reference to actual performance in relation to contract milestones. If it is determined during the performance of the contract that a loss will result, a provision for the estimated loss is immediately recognized.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, investments in money market instruments with a maturity of less than 90 days, and notes receivable from Bell Canada with a maturity of 30 days (as described in note 19), all of which are readily convertible to cash and subject to an insignificant risk of change in fair value.

Transfer of receivables

Under a purchase and sale agreement, we sell certain accounts receivable to a securitization trust. We record the sale when we transfer the accounts receivable and receive proceeds from the trust. The gains or losses that result from these transactions and program administration fees are recognized as other income (expenses). The gain or loss calculated is partly dependent on the carrying amount of the accounts receivable transferred, which is allocated between the accounts receivable sold and the retained interest, based on their relative fair value at the date of the transfer. We determine fair value of the accounts receivable transferred based on the present value of future expected cash flows using management's best estimates of key assumptions such as discount rates, weighted average life of accounts receivable and credit loss ratios.

Inventory

We value inventory at the lower of cost and net realizable value.

Income taxes

We use the asset and liability method to account for income taxes. Under this method, income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities for financial reporting purposes compared with tax purposes. Accordingly, a future income tax asset or liability is determined for each temporary difference based on the tax rates enacted by tax law, or substantively enacted, that are expected to be in effect when the underlying items of income and expense are expected to be realized. The effect of a change in tax rates on future income tax assets and liabilities is included in earnings in the period that the change is substantively enacted. A valuation allowance is recorded to reduce future income tax assets to the amount more likely than not to be realized.

Capital investments

Capital investments are recorded at cost. We calculate depreciation on a straight-line basis over the useful lives of the investments as noted below:

Investment	Rate
Buildings and towers	10 – 40 years
Telecommunications facilities and equipment	4 – 40 years
Application software and other equipment	3 – 15 years

We capitalize contracted costs, labour and overhead related to our self-constructed assets, classified as plant under construction. We do not record depreciation on plant under construction, but will commence recording depreciation once it is operational.

Gains and losses on the disposal of identifiable capital investments are included in other income (expenses) in the period they occur.

Deferred charges

Deferred charges mainly include:

- Debt issue costs, which are amortized on a straight-line basis over the term of the related debt;
- Cellular dealer commissions and hardware subsidies, which are amortized over the length of customer contracts;
- Internet commissions, which are amortized over a defined customer relationship period; and
- Our retained interest in accounts receivable transferred to a securitization trust, as described in note 2.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill represents the excess, at the dates of acquisition, of the costs over the fair values of the net amounts assigned to individual assets acquired and liabilities assumed. We annually review goodwill of all of our reporting units to ensure that its fair value remains greater than, or equal to, carrying value. Any impairment in the value of goodwill is charged to income in the period that the review is performed.

Derivative financial instruments

We use derivative financial instruments, periodically, in the management of our foreign currency and interest rate exposures. We do not use derivative financial instruments for trading or speculative purposes.

We formally document all relationships between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. We also formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred under other current, or non-current, assets or liabilities on the balance sheet and recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

The following describes our policy for specific kinds of derivatives:

We use interest rate swap and swaption agreements as part of a plan to manage the fixed and floating interest rate mix of our total debt portfolio and related overall cost of borrowing.

- The interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based, and are recorded as an adjustment of interest expense on the hedged debt instrument. The related amount payable to or receivable from counterparties is included as an adjustment to accrued interest.
- If the interest rate swaption agreement is exercised it will result in us entering into an interest rate swap, which will be accounted for as described above. Prior to the exercise of the swaption the premiums we receive are amortized as an adjustment to interest expense over the period from receipt of the premium to maturity of the underlying debt obligation.

Post employment benefits

We provide certain pension plans and non-pension post employment benefits to qualified employees. These include contributory defined contribution (DC) pension plans, defined benefit (DB) pension plans, retirement savings plans and other post employment benefit (OPEB) plans such as life insurance and health care plans.

We accrue our obligations under employee benefit plans and related costs, which in the case of DB pension plans, are net of the fair value of plan assets. We have adopted the following policies for our DB pension plans and OPEB plans:

- The cost of pensions and other post employment benefits earned by employees is actuarially determined using:
 - The projected benefit method, pro-rated on years of service;
 - Management's best estimate of expected plan investment performance, salary increases, retirement ages of employees and expected health care costs; and

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

- Discount rates for the employee benefit plans that are selected in reference to current interest rates on long-term debt of high-quality corporate issuers. The expected long-term rate of return on plan assets is based on the mid-point range of long-term forecasts of capital market returns, given our policy asset mix.
- For the purpose of calculating the expected return on plan assets, those assets are valued at market-related value where investment returns (gains and losses) in excess of expected returns are recognized in the asset value over a period of three years.
- We amortize past service costs from plan amendments on a straight-line basis over the average remaining service period of employees who were active at the date of amendment. This represents the period over which we expect to realize the benefit from the amendment.
- We use the corridor approach to recognize actuarial gains and losses into earnings. This involves deducting the greater of 10 per cent of the benefit obligation or the market-related value of the plan assets from the unamortized net actuarial gains or losses. The excess amount calculated is then amortized over the average remaining service period of active employees, being 14 years at September 30, 2004 (December 31, 2003 – 13 years).
- When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, we account for the curtailment prior to the settlement.

A valuation is performed at least every three years to determine the actuarial present value of the accrued pension and other non-pension post employment benefits. The latest valuation is dated September 23, 2003, and was performed as of December 31, 2002. The next required actuarial valuations will be as of December 31, 2004, and will be completed in 2005.

We are responsible for adequately funding our DB pension plans that are registered under the Income Tax Act and regulated by the Office of the Superintendent of Financial Institutions. The required contributions to the registered plans are made to a trust fund that is used to pay benefits under the plans. These contributions are determined by actuarial valuations and reflect actuarial assumptions about future investment returns, salary projections and future service benefits.

We also have some DB pension arrangements for executives that are not registered pension plans. We fund the non-registered plans directly when the benefits under those plans are paid to retirees.

Earnings per common share

Earnings per common share is based on the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed in accordance with the treasury stock method and based on the weighted average number of common shares and dilutive common share equivalents.

Stock-based compensation plan

We have a stock-based compensation plan for executives and certain senior managers, which is described in note 16. For stock-based compensation awards granted after January 1, 2003, we record compensation expense upon issuance of stock options to employees calculated using the fair value method. Compensation expense recognition commences when stock options are issued, with full recognition equally over the vesting period, being three years. The expense to be amortized over the vesting period is determined using the Black-Scholes model.

As permitted under the CICA accounting standard for stock-based compensation and other stock-based payments, we do not record compensation expense upon issuance of stock options to employees under our own stock option plan for awards granted prior to January 1, 2003. However, as required by the standard, we are disclosing the pro-forma net income and pro-forma earnings per share using the fair value method of accounting for stock-based compensation awards. The pro-forma information is presented in note 15.

Compensation expense is also recognized for our contributions to the employees' stock savings plan.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Asset retirement obligations

Effective January 1, 2004, we retroactively adopted the CICA handbook section 3110, Asset retirement obligations. This standard provides guidance on recognition, measurement and disclosure of liabilities related to legal obligations associated with the retirement of long-lived assets. These obligations are initially measured at fair value and recorded in the year in which they are incurred and when a reasonable estimate of fair value can be made. The fair value is the amount at which the liability could be settled in a current transaction. The initial fair value estimate is subject to subsequent adjustments to reflect the passage of time and any changes to the timing or the amount of the original estimate of undiscounted cash flows. The asset retirement cost is capitalized with the related asset and amortized into earnings over the asset's useful life. The adoption of this standard had no material impact on our financial position, results of operations or cash flows.

2 TRANSFER OF RECEIVABLES

On December 13, 2001, we entered into a five-year revolving purchase and sale agreement to sell up to \$150.0 million of interest in a pool of our subsidiary, Aliant Telecom Inc.'s, trade accounts receivable to a securitization trust. In March 2004, the program was amended and the available facility was decreased to \$125.0 million. As at September 30, 2004, we had received net cash proceeds of \$125.0 million (December 31, 2003 – \$130.0 million) on the sale of accounts receivable to the securitization trust.

As part of the agreement, we are required to provide security, currently in the form of additional accounts receivable over and above the cash proceeds received, which is held and owned by the trust. This security is transferred back to us upon the expiry of the agreement and as such we have recorded these accounts receivable in deferred charges as a retained interest in the securitization trust. At September 30, 2004, this retained interest amounted to \$35.1 million (December 31, 2003 – \$28.7 million).

We continue to service these accounts receivable and collect the amounts owing, but the trust's interest in the collection of these accounts receivable, including receivables that make up the retained interest, ranks ahead of our interest. The trust and its investors have no recourse to our other assets for failure of the customer to pay the amounts when due.

Under the agreement the trust reinvests the amounts collected by buying additional interest in our accounts receivable until the agreement expires. During the term of the agreement, we remain subject to certain risks of default which, should they occur, could cause the agreement to end early.

During the three and nine months ended September 30, 2004, we recognized a pre-tax loss and administration fees of approximately \$0.7 million and \$2.5 million, respectively (September 30, 2003 – \$1.1 million and \$3.4 million, respectively) on the transfer of receivables.

2 TRANSFER OF RECEIVABLES *(continued)*

The table below shows the securitization as at September 30, 2004, and December 31, 2003, respectively, and the assumptions that were used in determining the fair value on the date of transfer. The sensitivity of these assumptions to an immediate 10 to 20 per cent change is not material.

<i>(thousands of dollars, except as otherwise noted)</i>	Range	As at	As at
	2004	September 30, 2004	December 31, 2003
Securitized interest in accounts receivable		160,079	158,726
Cash proceeds		125,000	130,000
Retained interest		35,079	28,726
Servicing liability		425	424
Average trade accounts receivable managed		220,589	209,796
Assumptions:			
Cost of funds	2.02 – 2.94%	2.36%	3.42%
Average delinquency ratio	13.30 – 22.80%	22.80%	11.90%
Average net credit loss ratio	0.97 – 1.18%	1.08%	1.08%
Weighted average life in days	41 – 49	47	42

The table below is a summary of certain cash flows received from and paid to the trusts during the period.

<i>For the period ended September 30</i> <i>(thousands of dollars)</i>	Three months		Nine months	
	2004	2003	2004	2003
Collections reinvested in revolving sales	446,148	441,842	1,361,762	1,362,862
Decrease in sales proceeds	—	—	5,000	5,000

3 CAPITAL INVESTMENTS

As at September 30, 2004

<i>(thousands of dollars)</i>	Cost	Accumulated depreciation	Net book value
Land	13,008	—	13,008
Buildings and towers	361,008	176,937	184,071
Telecommunications facilities and equipment	4,456,583	2,991,154	1,465,429
Application software and other equipment	544,105	363,304	180,801
Plant under construction	45,809	—	45,809
Materials and supplies	5,500	—	5,500
	5,426,013	3,531,395	1,894,618

As at December 31, 2003

<i>(thousands of dollars)</i>	Cost	Accumulated depreciation	Net book value
Land	13,565	—	13,565
Buildings and towers	336,884	163,675	173,209
Telecommunications facilities and equipment	4,378,012	2,808,618	1,569,394
Application software and other equipment	592,589	363,564	229,025
Plant under construction	22,829	—	22,829
Materials and supplies	5,500	—	5,500
	5,349,379	3,335,857	2,013,522

4 INCOME TAXES

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities are presented in the following table:

<i>(thousands of dollars)</i>	As at September 30, 2004	As at December 31, 2003
Capital investments	15,031	3,884
Pension and post employment benefits	(4,493)	7,651
Deferred charges	(16,354)	(17,376)
Loss carryforwards	3,872	2,083
Other	4,049	12,852
Net future tax asset	2,105	9,094
Less: current portion of future tax liability	(2,716)	(3,797)
Future tax asset	4,821	12,891

Significant components of the provision for income taxes are as follows:

<i>For the period ended September 30 (thousands of dollars)</i>	Three months		Nine months	
	2004	2003	2004	2003
Current tax expense	16,908	48,098	67,140	143,066
Future tax expense:				
Change in temporary differences	1,735	(16,488)	5,185	(45,458)
Tax rate differential – settlement of prior years tax issues	(5,500)	–	(6,789)	–
Change in statutory rate	53	1,011	411	299
Income tax expense	13,196	32,621	65,947	97,907

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

<i>For the period ended September 30</i>	Three months		Nine months	
	2004	2003	2004	2003
Statutory income tax rate (including surtax)	36.22%	37.92%	35.89%	38.62%
Federal large corporation tax	1.35	(0.07)	1.13	0.05
Tax rate differential – settlement of prior years tax issues	(10.87)	–	(3.48)	–
Tax rate change – future asset	0.09	0.47	0.23	0.61
Non-taxable gain (loss)	(0.70)	(0.30)	(0.20)	0.03
Non-deductible goodwill	0.07	0.02	0.06	0.05
Other permanent differences	(0.07)	0.96	0.20	0.19
Effective income tax rate	26.09%	39.00%	33.83%	39.55%

Tax losses

At September 30, 2004, we have accumulated \$45.3 million in non-capital tax losses that are available to reduce taxable income in future years. These losses will expire after 2010 if not used. The tax benefit of \$12.3 million of the non-capital losses (December 31, 2003 – \$17.2 million) has been recognized as part of the future tax asset.

We also have capital losses of approximately \$35.9 million at September 30, 2004, (December 31, 2003 – \$34.6 million) available to be carried forward indefinitely to reduce capital gains in future years. No future tax asset associated with \$33.3 million of these losses has been recognized for financial reporting purposes.

5 ACCRUED BENEFIT ASSET (LIABILITY)

We provide pension and non-pension post employment benefits to most of our employees. These include DC pension plans, DB pension plans, retirement savings plans and OPEB plans. The significant accounting policies adopted for these plans are discussed in note 1 under Post employment benefits.

DC pension plans and other retirement savings plans

For most member-employees, our DC pension plans and other retirement savings plans require company contributions and employee contributions of between nil and 6 per cent of pensionable earnings, depending on the plan. The total cost for these plans is equal to our required contributions and was \$2.6 million and \$9.5 million, respectively, for the three and nine months ended September 30, 2004 (September 30, 2003 – \$2.8 million and \$8.5 million, respectively).

DC pension plan costs are recognized and funded as employees render services during the year.

DB pension plans

Our DB pension plans provide a pension to employees that reach 65 years of age at retirement with at least two years of service. For employees that retire before age 65 but meet other age-plus-service requirements, either a reduced or unreduced pension may be payable. The formulas for determining the benefits provided under these plans vary by plan and with the employee's length of service. As an example, under a plan that provides a pension equal to 1.5 per cent of the employee's best five year average earnings for each year of service, an employee with 30 years of service at 1.5 per cent per year could receive a pension equal to 45 per cent of the employee's best five-year average earnings. Pensions paid are subject to annual indexing, ranging from the Consumer Price Index up to certain maximum yearly escalation factors.

Effective September 20, 2004, certain terms of our DB pension plans were amended to award past service benefits and introduce a contributory feature for certain employees, as shown in the Components of accrued benefit asset (liability) table. Employees to whom the contributory feature was extended will contribute 2.5 per cent of basic wages and will receive an enhanced benefit for future service.

Actuarial valuations as at December 31, 2003, will be filed for some of our registered DB pension plans, the result of which will require minimum required contributions for 2004 of approximately \$56.0 million, a reduction from the 2003 minimum required contributions of \$63.7 million. In addition, we may make special deficit funding contributions, which represent a voluntary acceleration of required funding to these plans. For the three and nine months ended September 30, 2004, we made special deficit funding contributions of \$nil million and \$25.0 million, respectively, (September 30, 2003 – \$nil million and \$nil million, respectively).

OPEB plans

The OPEB plans we provide to eligible retiring employees include health care coverage, life insurance and certain other benefits. We do not maintain a trust fund to pay for OPEBs, rather we pay the benefits directly to the plan carrier or to the retired employee as required.

Assumptions

The measurement of the accrued benefit obligation and annual net benefit plans' cost for the DB pension plans and OPEB plans requires an actuary to perform the calculations. We make several assumptions which are used as inputs to the actuarial calculations. The key assumptions are:

	2004	2003
Rate used to discount the obligations	6.75%	6.75%
Expected return on plan assets	7.50%	7.50%
Rate of compensation increase	3.50%	3.50%
Growth rate of per capita health care costs, first 5 years	8.00%	8.00%
Growth rate of per capita health care costs, thereafter	4.50%	4.50%

5 ACCRUED BENEFIT ASSET (LIABILITY) *(continued)*

Investment of DB pension plans assets

We have established a Master Trust to hold and invest the assets of the DB pension plans. The Master Trust follows an investment policy that includes the following asset mix. We have assumed a 7.5 per cent expected return on plan assets, which is based on the expected long-term returns for each asset class and their relative target weighting in the asset mix.

Asset category	Target weight	Percentage of plan assets		Weighted average expected long-term rate of return
		September 30, 2004	December 31, 2003	
Bonds / fixed income securities	35 – 45%	41%	40%	6.0%
Equity securities	55 – 65%	59%	60%	8.5%
Total				7.5%

Over the past 10 years, our weighted average rate of return for our DB pension plans was 9.3 per cent per annum.

The Master Trust is not permitted to directly own common shares or debt obligations of our Company or our subsidiaries. The Master Trust does own units of index funds that may hold shares of Aliant Inc. or debt instruments of our subsidiaries by virtue of the fact that these securities are included in the relevant indices. The Master Trust does hold common shares of BCE Inc. worth approximately \$4.7 million (less than 0.4 per cent of total plan assets) at September 30, 2004. Fixed income securities include BCE Inc. and Bell Canada debentures of approximately \$5.7 million (less than 0.4 per cent of total plan assets) at September 30, 2004. The total value of all our securities and those of related issuers held directly or indirectly in the Master Trust at September 30, 2004, was approximately \$11.2 million (0.9 per cent of plan assets) and at December 31, 2003, was approximately \$15.0 million (1.2 per cent of plan assets).

Components of accrued benefit asset (liability)

The following table shows the change in DB pension plans and OPEB plans obligations and the change in the fair value of DB pension plans' assets during the nine months ended September 30, 2004, and the status of the plans as at December 31, 2003.

	DB pension plans		OPEB plans	
	September 30, 2004	December 31, 2003	September 30, 2004	December 31, 2003
<i>(thousands of dollars)</i>				
Plan obligations:				
Accrued benefit obligation, beginning of period	1,496,455	1,379,459	161,376	159,681
Cost of benefits earned in the period	18,674	24,753	3,432	4,431
Interest on the obligation	74,310	93,893	8,175	10,189
Plan amendments	31,297	—	—	—
Actuarial (gains) losses	—	83,413	—	(8,914)
Benefits paid out of the plan	(59,062)	(85,063)	(3,282)	(4,011)
Accrued benefit obligation, end of period	1,561,674	1,496,455	169,701	161,376
Plan assets:				
Fair value of plan assets, beginning of period	1,262,442	1,081,830	—	—
Actual return on plan assets	47,533	140,986	—	—
Benefits paid out of the plan	(59,062)	(85,063)	(3,282)	(4,011)
Employer contributions to the plan	48,958	124,689	3,282	4,011
Fair value of plan assets, end of period	1,299,871	1,262,442	—	—
Plan deficit, end of period	(261,803)	(234,013)	(169,701)	(161,376)
Unamortized losses	438,080	397,453	2,220	2,220
Accrued benefit asset (liability), end of period	176,277	163,440	(167,481)	(159,156)

5 ACCRUED BENEFIT ASSET (LIABILITY) *(continued)*

Each of the individual DB pension plans that make up the totals included in the previous table have deficits where the accrued benefit obligation exceeds the fair value of plan assets. While the DB pension plans are not considered fully funded for financial reporting purposes, we are funding the registered DB pension plans through contributions that meet or exceed the applicable statutory funding rules and regulations governing the particular plans.

Components of DB pension plans and OPEB plans cost

The table below shows the components of the DB pension plans and OPEB plans cost.

<i>For the period ended September 30</i> <i>(thousands of dollars)</i>	DB pension plans			
	Three months		Nine months	
	2004	2003	2004	2003
Cost of benefits earned in the period	4,618	6,188	18,674	18,564
Interest on the obligation	24,756	23,473	74,310	70,419
Expected return on plan assets	(23,705)	(22,935)	(71,000)	(68,715)
Amortization of net actuarial losses	4,712	3,461	14,136	6,269
Net benefit plans' cost	10,381	10,187	36,120	26,537

<i>For the period ended September 30</i> <i>(thousands of dollars)</i>	OPEB plans			
	Three months		Nine months	
	2004	2003	2004	2003
Cost of benefits earned in the period	1,144	1,107	3,432	3,323
Interest on the obligation	2,725	2,717	8,175	7,471
Net benefit plans' cost	3,869	3,824	11,607	10,794

The net benefit plans' cost included in the previous table and recorded in operating expenses for the period reflects the amortization of actual gains and losses on plan assets and actuarial gains and losses on plan obligations. If the net benefit plans' cost was adjusted to include all gains and losses incurred in the plans during the period and exclude the amortization or other recognition of existing unamortized amounts, the cost would be as follows:

<i>For the period ended September 30</i> <i>(thousands of dollars)</i>	DB pension plans			
	Three months		Nine months	
	2004	2003	2004	2003
Net benefit plans cost as calculated	10,381	10,187	36,120	26,537
Remove amortization of net actuarial losses	(4,712)	(3,461)	(14,136)	(6,269)
Remove expected return on plan assets	23,705	22,935	71,000	68,715
Actual gain on plan assets	(5,331)	(44,879)	(47,533)	(66,982)
Adjusted net benefit plans' (income) cost	24,043	(15,218)	45,451	22,001

<i>For the period ended September 30</i> <i>(thousands of dollars)</i>	OPEB plans			
	Three months		Nine months	
	2004	2003	2004	2003
Net benefit plans cost as calculated	3,869	3,824	11,607	10,794
Actuarial gain incurred	—	—	—	(8,914)
Adjusted net benefit plans' cost	3,869	3,824	11,607	1,880

5 ACCRUED BENEFIT ASSET (LIABILITY) *(continued)*

Sensitivity to changes in assumptions

The value of the accrued benefit obligation and the amount of net benefit plans' cost for the DB pension plans and the OPEB plans that we record are sensitive to the assumptions we make and utilize in our calculations. The following table outlines the estimated impact on the value of the accrued benefit obligation and the annual amount of net benefit plans' cost for a 0.25 percentage point change in the discount rate, the expected return on plan assets and rate of compensation increase. The table also shows the sensitivity of a 1.0 percentage point change in the assumed growth in per capita health care costs. The impact on the quarterly cost would be approximately one-quarter of the indicated annual cost.

<i>(thousands of dollars, rounded to millions)</i>	Assumption	Rate change	DB pension plans		OPEB plans	
			Obligation	Annual cost	Obligation	Annual cost
Rate used to discount the obligations	6.75%	+/- 0.25%	56,000	1,000	6,000	—
Expected return on plan assets	7.50%	+/- 0.25%	—	3,000	—	—
Rate of compensation increase	3.50%	+/- 0.25%	8,000	1,000	—	—
Growth rate of per capita health care costs	4.50 – 8.00%	+ 1.00%	—	—	27,000	3,000
		- 1.00%	—	—	(23,000)	(2,000)

The indicated impact of a 0.25 change in the discount rate on annual net benefit plans' cost includes the impact on the interest and current service cost components of pension cost. In addition to these impacts, the amount of amortization of net actuarial losses would also change, but this change would depend on whether the 0.25 change was an increase in the discount rate or a decrease in the discount rate and would not extrapolate to other assumed changes in the discount rate. For reference, the amount of amortization of net actuarial losses would increase by approximately \$4.5 million annually if the discount rate were to be reduced by 0.25 per cent to 6.50 per cent.

6 GOODWILL

<i>(thousands of dollars)</i>	As at September 30, 2004	As at December 31, 2003
Goodwill, at cost	87,616	87,616
Cumulative impairment provision	(50,000)	(50,000)
Accumulated amortization	(5,812)	(5,812)
	31,804	31,804

All goodwill relates to our Information Technology segment. The annual impairment test conducted during the second quarter indicated that no impairment provision was required.

7 NOTES PAYABLE AND BANK ADVANCES

At September 30, 2004, we have \$nil million (December 31, 2003 – \$nil million) outstanding under our commercial paper program. We maintain lines of credit totalling \$557.0 million (December 31, 2003 – \$557.0 million) of which \$350.0 million (December 31, 2003 – \$350.0 million) are committed lines supporting our commercial paper program, \$150.0 million (December 31, 2003 – \$150.0 million) are uncommitted operating lines and \$57.0 million (December 31, 2003 – \$57.0 million) are operating lines of credit within our subsidiaries. There were no amounts drawn from our subsidiaries bank operating lines of credit at September 30, 2004 (December 31, 2003 – \$4.5 million). At September 30, 2004, there were letters of credits committed against subsidiaries operating lines of credit of \$6.1 million (December 31, 2003 – \$6.9. million).

8 RESTRUCTURING CHARGE

During the first nine months of 2004, we continued our 2003 program to restructure our Information Technology segment operations, which resulted in a provision against earnings of \$0.5 million and \$2.9 million for the three and nine months, respectively, (September 30, 2003 – \$15.5 million for the three and nine months). The objective of this is to improve productivity and profitability, realign xwave's strategy and simplify its business model. Costs associated with the restructuring, the majority of which are severance and related benefits, but also include premises rationalization costs, are being charged against this provision. As at September 30, 2004, the balance of this year's and prior years' restructuring provision included in payables and accruals totalled \$3.7 million. The remaining provision is expected to be drawn down during 2004.

In the first nine months of 2004, we also performed some restructuring activities in our Telecommunications segment operations, which resulted in a provision against earnings of \$0.1 million and \$2.3 million for the three and nine months, respectively. The restructuring relates to workforce reductions with the associated costs being severance and related benefits. The objective of this is to improve productivity and profitability. As at September 30, 2004, the balance of this restructuring provision included in payables and accruals totalled \$1.1 million, and is expected to be drawn down during 2004.

9 LONG-TERM DEBT

<i>(thousands of dollars)</i>	Interest rate	Maturity	As at September 30, 2004	As at December 31, 2003
Telecommunications				
Notes				
Aliant Telecom Inc.				
Series 1	6.46%	2004	100,000	100,000
Series 2	6.65%	2009	100,000	100,000
Series 3	6.70%	2005	150,000	150,000
Series 4	6.80%	2011	150,000	150,000
Series 5	5.35%	2007	100,000	100,000
			600,000	600,000
Bonds				
Maritime Tel & Tel				
AD	10.45%	2013	50,000	50,000
Island Telecom				
T	10.60%	2009	3,500	3,500
U	11.15%	2010	6,500	6,500
V	9.77%	2018	5,000	5,000
W	8.76%	2019	5,000	5,000
NewTel Communications				
T	10.75%	2014	75,000	75,000
V	11.40%	2010	40,000	40,000
			185,000	185,000
Debentures				
Maritime Tel & Tel				
Series 2	8.30%	2019	50,000	50,000
Series 4	9.70%	2019	50,000	50,000
Series 5	9.05%	2025	60,000	60,000
NBTel				
AA	11.13%	2013	40,000	40,000
			200,000	200,000
			985,000	985,000
Present value of obligations under capital leases			4,973	4,746
Total – Telecommunications			989,973	989,746
Information Technology				
		2005	248	313
Total long-term debt			990,221	990,059
Less: Portion due within one year			101,578	101,535
			888,643	888,524

9 LONG-TERM DEBT *(continued)*

Telecommunications

All bonds are issued in series and all, except for Series “V” issued by NewTel Communications, are redeemable at our option prior to maturity at the prices, times and conditions specified in each series. The bonds are secured by deeds of trust and mortgage and by supplemental deeds. These instruments contain a first fixed and specific mortgage, a pledge and charge upon all real and tangible property and equipment and all rights and licenses related to that property of Aliant Telecom Inc. located in either Nova Scotia with respect to the Maritime Tel & Tel issued bonds; in Prince Edward Island with respect to the Island Telecom issued bonds and in Newfoundland and Labrador with respect to the NewTel Communications issued bonds. The bonds also provide, based on province of issue, a floating charge on all future real and tangible property of Aliant Telecom Inc. and all revenues and proceeds derived from that property located in those three provinces.

All debentures and notes are issued in series and certain series are redeemable at our option prior to maturity at the prices, times and conditions specified in each series. The debentures and notes are issued under trust indentures and are unsecured.

The aggregate amount of payments required in each of the next five years to meet principal repayments and maturities of our long-term debt and the future minimum lease payments under capital leases presently outstanding are as follows:

<i>(thousands of dollars)</i>	Remainder of 2004	2005	2006	2007	2008	Thereafter
Long-term debt	100,085	150,163	—	100,000	—	635,000
Capital leases	679	1,572	2,427	295	—	—
	100,764	151,735	2,427	100,295	—	635,000

10 NON-CONTROLLING INTEREST

Our non-controlling interest consists of common equity of subsidiary companies held by third parties.

<i>(thousands of dollars)</i>	As at September 30, 2004	As at December 31, 2003
Xwave New England Corp. (formally TechKnowledge Inc.)	—	583
Atlantic Mobility Products Ltd.	4,679	3,468
	4,679	4,051

11 CAPITAL STOCK

Authorized

Unlimited number of preference shares, cumulative, redeemable at the price of \$25.00 per share and with a fixed annual dividend rate of \$1.3625 per share. These shares are non-voting, except under certain conditions, and are redeemable at our option on June 30, 2006, or on June 30 of each fifth year thereafter. Preference shareholders may convert their series 2 preference shares to series 3 shares on June 30, 2006, or on June 30 each fifth year thereafter, provided that we have not delivered a notice of redemption. The fixed dividend on the series 2 shares is paid quarterly and will be re-set every five years starting on June 30, 2006, to a rate that is not less than 80 per cent of the five-year Government of Canada bond yield. The series 3 shares have terms that are substantially the same as the series 2 shares except that, if issued, will pay a floating adjustable dividend rate monthly.

Unlimited number of common shares, without par value.

Issued and outstanding

	As at September 30, 2004		As at December 31, 2003	
	Number of shares	Stated capital	Number of shares	Stated capital
<i>(thousands of dollars, except as otherwise noted)</i>				
Preference shares, series 2	7,000,000	172,264	7,000,000	172,264
Common shares	132,108,088	1,028,208	133,616,920	1,035,798
		1,200,472		1,208,062

The following table provides the details of the change in the issued and outstanding common shares:

	Nine months ended September 30, 2004		Twelve months ended December 31, 2003	
	Number of shares	Stated capital	Number of shares	Stated capital
<i>(thousands of dollars, except as otherwise noted)</i>				
Common shares, beginning of period	133,616,920	1,035,798	139,513,639	1,070,551
Stock option plan (note 16)	47,822	936	434,132	8,629
Common shareholder dividend reinvestment and stock purchase plan	175,476	4,884	197,719	5,927
Shares purchased for cancellation	(1,732,130)	(13,410)	(6,528,570)	(49,309)
Common shares, end of period	132,108,088	1,028,208	133,616,920	1,035,798

Common shares are purchased on the open market for participants in our employees' stock savings plan. Refer to note 16 for details of this plan.

Under the provisions of our common shareholder dividend reinvestment and stock purchase plan and employees' stock savings plan, shareholders purchase additional common shares in lieu of receiving corporate dividends in the form of cash. In relation to these plans, we issued shares in lieu of paying cash dividends during the three and nine months ended September 30, 2004, of \$2.4 million and \$7.1 million, respectively (September 30, 2003 – \$2.2 million and \$6.8 million, respectively).

11 CAPITAL STOCK *(continued)*

Under a normal course issuer bid, which commenced July 22, 2002, and ended July 21, 2003, we acquired, from time to time, our common shares at the market price with cash through the facilities of the Toronto Stock Exchange ("TSX"). We purchased and cancelled all of the allowable 1,600,000 shares as of June 2003, of which 1,335,700 shares were purchased in 2003.

Under a normal course issuer bid, which commenced August 6, 2003, and ended August 5, 2004, we acquired, from time to time, our common shares at the market price with cash through the facilities of the TSX. Bell Canada, our majority shareholder, sold shares into the normal course issuer bid on a pro-rata basis, as granted by the TSX. As of September 30, 2004, we purchased and cancelled all of the allowable 6,925,000 shares (shares purchased from Bell Canada – 3,470,567), of which 5,192,870 shares were purchased in 2003 (shares purchased from Bell Canada in 2003 – 2,643,070).

For the nine months ended, September 30, 2004, we purchased for cancellation 1,732,130 shares (December 31, 2003 – 6,528,570) for an aggregate price of \$50.6 million (December 31, 2003 – \$200.9 million) which reduced capital stock by \$13.4 million (December 31, 2003 – \$49.3 million), contributed surplus by \$0.5 million (December 31, 2003 – \$64.2 million) and retained earnings by \$36.7 million (December 31, 2003 – \$87.4 million).

12 SEGMENTED INFORMATION

We operate through two reportable segments:

Telecommunications – provides a full range of telecommunications services in New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador. Included in this line of business are Aliant Telecom Inc., Innovatia Inc. and Aliant ActiMedia.

Information Technology – provides systems integration, application development, local area network installation, wide area network management, data centre operations, computer hardware, package software and information technology planning services. Included in this line of business are Aliant Information Technology Inc. and Xwave Solutions Inc.

The accounting policies of the segments are the same as those described in note 1. We evaluate performance based on a number of financial and non-financial indicators including net income, return on equity and revenue growth.

We account for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices.

The Remote Communications and Emerging Business segments were divested of during 2003 and are included in prior year discontinued operations as discussed in note 14. For reporting purposes, the prior period segmented information has been restated.

12 SEGMENTED INFORMATION *(continued)*

For the three months ended September 30, 2004

<i>(thousands of dollars)</i>	Telecommunications	Information Technology	All others	Eliminations	Consolidated
Revenue from external customers	449,241	47,451	497	—	497,189
Intersegment revenue	1,424	31,970	—	(33,394)	—
Operating revenues	450,665	79,421	497	(33,394)	497,189
Operating expenses	279,627	71,446	6,709	(33,019)	324,763
Depreciation and amortization	97,154	2,079	370	(1,033)	98,570
Restructuring charge	126	516	—	—	642
Other income (expenses)	(4,897)	1,161	39,705	(38,830)	(2,861)
Interest charges	19,614	282	1,045	(1,176)	19,765
Income taxes (recovery)	14,190	882	(2,173)	297	13,196
Non-controlling interest	405	—	—	—	405
Net income from					
continuing operations	34,652	5,377	34,251	(37,293)	36,987
Net income from					
discontinued operations	—	—	—	—	—
Net income	34,652	5,377	34,251	(37,293)	36,987
Total assets	2,712,706	154,476	1,902,540	(1,794,089)	2,975,633
Purchase of capital investments	49,899	1,472	67	—	51,438

For the three months ended September 30, 2003

<i>(thousands of dollars)</i>	Telecommunications	Information Technology	All others	Eliminations	Consolidated
Revenue from external customers	458,096	55,617	175	—	513,888
Intersegment revenue	2,363	25,022	—	(27,385)	—
Operating revenues	460,459	80,639	175	(27,385)	513,888
Operating expenses	243,689	76,651	5,353	(27,629)	298,064
Depreciation and amortization	95,805	3,000	287	(779)	98,313
Restructuring charge	—	15,500	—	—	15,500
Other income (expenses)	1,522	1,166	56,079	(56,693)	2,074
Interest charges	20,385	473	1,831	(2,248)	20,441
Income taxes (recovery)	41,381	(5,562)	(3,396)	198	32,621
Non-controlling interest	288	21	—	—	309
Net income (loss) from					
continuing operations	60,433	(8,278)	52,179	(53,620)	50,714
Net income (loss) from					
discontinued operations	(2,097)	—	2,315	—	218
Net income (loss)	58,336	(8,278)	54,494	(53,620)	50,932
Total assets	2,715,871	164,750	2,529,568	(1,876,817)	3,533,372
Purchase of capital investments	90,898	187	267	—	91,352

12 SEGMENTED INFORMATION *(continued)*

For the nine months ended September 30, 2004

<i>(thousands of dollars)</i>	Telecommunications	Information Technology	All others	Eliminations	Consolidated
Revenue from external customers	1,343,776	182,078	1,361	—	1,527,215
Intersegment revenue	5,595	81,035	—	(86,630)	—
Operating revenues	1,349,371	263,113	1,361	(86,630)	1,527,215
Operating expenses	796,867	243,007	19,423	(85,588)	973,709
Depreciation and amortization	293,553	6,532	1,044	(3,051)	298,078
Restructuring charge	2,356	2,842	—	—	5,198
Other income (expense)	(774)	1,369	133,328	(131,668)	2,255
Interest charges	57,318	633	3,703	(4,082)	57,572
Income taxes (recovery)	64,643	2,375	(1,977)	906	65,947
Non-controlling interest	1,210	1	—	—	1,211
Net income from					
continuing operations	132,650	9,092	112,496	(126,483)	127,755
Net income from					
discontinued operations	—	—	—	—	—
Net income	132,650	9,092	112,496	(126,483)	127,755
Total assets	2,712,706	154,476	1,902,540	(1,794,089)	2,975,633
Purchase of capital investments	176,717	4,056	161	—	180,934

For the nine months ended September 30, 2003

<i>(thousands of dollars)</i>	Telecommunications	Information Technology	All others	Eliminations	Consolidated
Revenue from external customers	1,344,920	186,226	908	—	1,532,054
Intersegment revenue	9,473	82,052	—	(91,525)	—
Operating revenues	1,354,393	268,278	908	(91,525)	1,532,054
Operating expenses	726,485	263,979	16,590	(93,661)	913,393
Depreciation and amortization	287,890	8,791	831	(2,627)	294,885
Restructuring charge	—	15,500	—	—	15,500
Other income (expenses)	1,704	1,127	177,121	(178,370)	1,582
Interest charges	61,975	1,737	6,337	(7,724)	62,325
Income taxes (recovery)	110,845	(7,991)	(5,606)	659	97,907
Non-controlling interest	207	(19)	—	—	188
Net income (loss) from					
continuing operations	168,695	(12,592)	159,877	(166,542)	149,438
Net income (loss) from					
discontinued operations	(2,434)	—	13,382	—	10,948
Net income (loss)	166,261	(12,592)	173,259	(166,542)	160,386
Total assets	2,715,871	164,750	2,529,568	(1,876,817)	3,533,372
Purchase of capital investments	232,068	1,327	1,426	—	234,821

12 SEGMENTED INFORMATION *(continued)*

Revenue from external customers by product and service:

<i>For the period ended September 30</i> <i>(thousands of dollars)</i>	Three months		Nine months	
	2004	2003	2004	2003
Telecommunications				
Local	183,771	194,352	560,599	577,011
Long distance	84,500	95,796	260,553	287,289
Wireless	103,023	89,226	283,584	242,872
Internet	30,386	26,906	89,548	78,755
Directory	10,508	10,318	40,491	38,194
Product	24,817	29,330	76,481	80,633
Other telecommunications	12,236	12,168	32,520	40,166
	449,241	458,096	1,343,776	1,344,920
Information Technology				
Fulfillment	22,952	25,550	95,100	90,916
IT services	24,499	30,067	86,978	95,310
	47,451	55,617	182,078	186,226
Other	497	175	1,361	908
	497,189	513,888	1,527,215	1,532,054

13 OTHER INCOME (EXPENSES)

<i>For the period ended September 30</i> <i>(thousands of dollars)</i>	Three months		Nine months	
	2004	2003	2004	2003
Interest income	1,338	3,027	10,594	8,365
Accounts receivable securitization (note 2)	(702)	(1,158)	(2,482)	(3,446)
Provincial large corporation tax	(1,350)	(1,047)	(3,647)	(3,233)
Miscellaneous income (charges)	(2,147)	1,252	(2,210)	(104)
	(2,861)	2,074	2,255	1,582

14 DISCONTINUED OPERATIONS

Effective January 1, 2003, Innovatia Inc., which was previously reported under the Emerging Business segment, was transferred to the Telecommunications segment. The remaining assets of the Emerging Business segment and other investments were disposed of throughout the rest of 2003.

In December 2003, the sale of the Remote Communications segment, as represented by our 53.2 per cent ownership in Stratos Global Corporation, was completed.

For reporting purposes, the prior period results of operations of the Emerging Business and Remote Communications segments are presented as discontinued operations, including segmented information as disclosed in note 12.

14 DISCONTINUED OPERATIONS *(continued)*

The summarized statements of income for the discontinued operations are as follows:

<i>For the period ended September 30</i> <i>(thousands of dollars)</i>	Three months		Nine months	
	2004	2003	2004	2003
Operating revenues	—	143,166	—	461,206
Operating expenses	—	124,969	—	406,650
Other income (expenses)	—	(6,623)	—	129
Interest on long-term debt	—	5,061	—	16,885
Income tax	—	2,807	—	13,543
Non-controlling interest	—	3,488	—	13,309
Net income from discontinued operations	—	218	—	10,948

15 EARNINGS PER COMMON SHARE

<i>For the period ended September 30</i> <i>(thousands of dollars, except per share amounts)</i>	Three months		Nine months	
	2004	2003	2004	2003
Net income applicable to common shares:				
Net income from continuing operations	36,987	50,714	127,755	149,438
Preferred share dividends	(2,384)	(2,384)	(7,153)	(7,153)
Net income applicable to common shares				
from continuing operations	34,603	48,330	120,602	142,285
Net income from discontinued operations	—	218	—	10,948
Net income applicable to common shares	34,603	48,548	120,602	153,233
Basic:				
Weighted average number of common shares outstanding	132,135	137,906	132,750	138,595
Basic earnings per common share from continuing operations	0.26	0.35	0.91	1.03
Basic earnings per common share from discontinued operations	—	—	—	0.08
Basic earnings per common share	0.26	0.35	0.91	1.11
Diluted:				
Weighted average number of common shares outstanding	132,135	137,906	132,750	138,595
Impact of outstanding stock options	—	55	—	—
	132,135	137,961	132,750	138,595
Diluted earnings per common share from continuing operations	0.26	0.35	0.91	1.03
Diluted earnings per common share from discontinued operations	—	—	—	0.08
Diluted earnings per common share	0.26	0.35	0.91	1.11

The impact of outstanding stock options represents common shares issuable under the terms of our stock option plan that have an exercise price that is lower than the average market value during the period. There was no impact in 2004 or for the nine months ended September 30, 2003, as the options would not have been exercised because their exercise price was greater than the average market value during the period. Refer to note 16 for details of our stock option plan.

15 EARNINGS PER COMMON SHARE *(continued)*

The following table presents pro-forma net income and basic and diluted earnings per share using the fair market value method of accounting for stock-based compensation. The pro-forma adjustments presented below represent compensation expense on new awards granted since adoption of the new stock-based compensation standards on January 1, 2002, excluding those granted in 2003 and 2004 for which compensation expense was recorded as described in note 1.

<i>For the period ended September 30</i>	Three months		Nine months	
<i>(thousands of dollars, except per share amounts)</i>	2004	2003	2004	2003
Pro-forma net income applicable to common shares:				
Net income from continuing operations	36,987	50,714	127,755	149,438
Pro-forma adjustments	(310)	(305)	(929)	(1,228)
Pro-forma net income from continuing operations	36,677	50,409	126,826	148,210
Preferred share dividends	(2,384)	(2,384)	(7,153)	(7,153)
Pro-forma net income applicable to common shares				
from continuing operations	34,293	48,025	119,673	141,057
Net income from discontinued operations	—	218	—	10,948
Pro-forma net income applicable to common shares	34,293	48,243	119,673	152,005
Basic:				
Weighted average number of common shares outstanding	132,135	137,906	132,750	138,595
Pro-forma basic earnings per common share from continuing operations	0.26	0.35	0.90	1.02
Pro-forma basic earnings per common share from discontinued operations	—	—	—	0.08
Pro-forma basic earnings per common share	0.26	0.35	0.90	1.10
Diluted:				
Weighted average number of common shares outstanding	132,135	137,906	132,750	138,595
Impact of outstanding stock options	—	55	—	—
	132,135	137,961	132,750	138,595
Pro-forma diluted earnings per common share from continuing operations	0.26	0.35	0.90	1.02
Pro-forma diluted earnings per common share from discontinued operations	—	—	—	0.08
Pro-forma diluted earnings per common share	0.26	0.35	0.90	1.10

The fair value of the stock options granted are estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used:

<i>September 30</i>	2004	2003
Dividend yield	3.76%	3.76%
Expected volatility	21.90%	23.30%
Risk-free interest rate	4.24%	4.44%
Expected lives	5.2 years	6.2 years

16 STOCK-BASED COMPENSATION PLANS

At September 30, 2004, we had the following stock-based compensation plans.

Stock option plan

Under the stock option plan, we may grant stock options to plan members for up to 6,867,104 shares of common stock, of which 2,694,856 options for the same number of common shares were outstanding as at September 30, 2004 (December 31, 2003 – 2,338,367). With the exception of the stock options that were granted on January 29, 2004, the exercise price of each option equals the market price of our common shares on the date of grant. In January 2004, our share price rose significantly and temporarily on market speculation. As a result of the price increase, we requested, and were granted by the TSX, the right to use a five-day average trading value for purposes of determining the exercise price of the stock option grant only. The right to exercise the options vests evenly over three years from the date they are granted under the plan and can be exercised for a period of up to 10 years from the date of grant.

A summary of the status of our stock option plan as at September 30, 2004, and December 31, 2003, and changes during the periods ended on those dates is presented below:

	As at September 30, 2004		As at December 31, 2003	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Options outstanding at beginning of period	2,338,367	30.06	2,680,450	28.94
Granted	432,621	32.39	289,138	26.84
Forfeited	(28,310)	31.98	(197,089)	32.59
Exercised	(47,822)	19.58	(434,132)	19.88
Options outstanding at end of period	2,694,856	30.60	2,338,367	30.06
Options exercisable at end of period	1,900,678	30.70	1,595,257	30.48

The following table summarizes information about stock options outstanding at September 30, 2004:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining contractual life in years	Weighted average exercise price	Number exercisable	Weighted average exercise price
11.746 to 15.718	68,289	2.1	14.16	68,289	14.16
19.125 to 20.079	83,106	3.3	19.96	83,106	19.96
21.768 to 25.552	148,302	4.3	22.91	148,302	22.91
26.790 to 34.900	1,917,585	7.7	31.04	1,123,407	31.53
35.250 to 38.100	477,574	6.3	35.42	477,574	35.42
	2,694,856		30.60	1,900,678	30.70

For the three and nine months ended September 30, 2004, compensation expense related to stock options granted in the amount of \$0.3 million and \$0.6 million, respectively, was recorded and is also reflected as an increase to contributed surplus.

16 STOCK-BASED COMPENSATION PLANS *(continued)*

Employees' stock savings plan

We have an employees' stock savings plan for our eligible full-time employees, over 80 per cent of which participate in the plan. To satisfy the employees' purchases of shares under this plan, we may issue up to 2,079,527 additional common shares out of treasury or shares may be purchased on the open market. We are currently purchasing the shares for this plan on the open market.

Under the terms of the plan, employees can choose each year to have up to 10 per cent of their annual base earnings withheld to purchase our common stock. We will also contribute to the plan on behalf of participants based upon the employees' contributions using a prescribed formula. The purchase price of the stock is the arithmetic average of the closing price of the shares traded on the TSX on the last five days up to, and including, the dividend payment date. Participants in the plan purchase additional common shares in lieu of receiving corporate dividends in the form of cash.

The total number of common shares bought for employees during the nine months ended September 30, 2004, was 792,900 (for the year ended December 31, 2003, – 1,022,000).

Performance share unit plan

In 2003, we established a performance share unit plan for selected officers and senior management to further align their long-term incentive compensation with total shareholder returns. Participants in the plan are required, over a period of five years, to hold a specific value of shares reflecting their position and responsibilities. Share units granted are subject to both time-based and performance-based vesting. Upon vesting, each share unit is entitled to one common share acquired on the open market or a cash payment equal to the fair market value of those shares, subject to adjustment depending on the achievement of performance criteria. The performance criteria are relative to our total shareholder return (share price appreciation plus dividends) compared to the total shareholder return for comparative groups of companies. Grantees are also entitled to receive additional share units based on dividends paid on our common shares.

Performance share units granted in the first nine months of 2004 were 49,104 (September 30, 2003 – 59,012), performance share units that vested in the first nine months of 2004 were 1,992 (September 30, 2003 – nil) with total share units outstanding at September 30, 2004, of 108,233 (December 31, 2003 – 61,121).

17 FINANCIAL INSTRUMENTS

Risk management

Periodically, we use interest rate swaps and swaptions, forward contracts and forward rate agreements to manage our exposure to interest rate risk and foreign currency risk associated with our long-term debt or firm commitments. The terms of these derivative contracts match the terms associated with the underlying long-term debt or other hedged obligation. These contracts are generally used to reduce risks in financing costs and to diversify our access to capital markets.

Credit risk

We are exposed to credit risk with respect to accounts receivable from customers. We have credit evaluation, approval and monitoring processes intended to mitigate potential credit risks, and maintain provisions for potential credit losses that are assessed on an ongoing basis. Refer to notes 1 and 2 for details on the transfer of receivables.

Currency exposures

We have no principal amounts outstanding under cross-currency forward contracts or forward rate agreements at September 30, 2004, or December 31, 2003.

Interest rate exposures

Our long-term debt consists primarily of fixed interest rate financing. In order to diversify our sources of interest rate risk and manage the overall cost of borrowing we entered into interest rate derivative transactions and are therefore subject to risks associated with fluctuating interest rates. We had the following derivative instruments outstanding at September 30, 2004:

- Interest rate swap – We have entered into, for hedging purposes, an interest rate swap transaction with a notional amount at September 30, 2004, of \$100.0 million (December 31, 2003 – \$100.0 million) expiring on May 11, 2011. The swap transaction involves us exchanging our underlying fixed interest rate of 6.80 per cent per annum for a three-month Bankers' Acceptance floating interest rate plus 2.06 per cent.
- Interest rate swaption – We have also entered into swaption transactions related to two outstanding issues of long-term debt with a total notional amount at September 30, 2004, of \$90.0 million (December 31, 2003 – \$90.0 million). The swaptions grant an option to the counterparty in the transaction to enter into an interest rate swap transaction with us on the call dates of the two underlying debt instruments. If exercised, these swaptions will involve us paying the underlying fixed interest rates on the debt instruments of 10.45 per cent and 11.125 per cent, respectively, in exchange for receiving the three-month Bankers' Acceptance floating rate from the call dates in 2006 until maturity in 2013. In exchange for providing the counterparty with these options, we received premium income payments from the counterparty of \$7.6 million in 2001 and \$5.4 million in 1997. This premium income is being amortized against interest expense over the period to maturity of the underlying debt issues. The remaining unamortized premium income as at September 30, 2004, of \$8.8 million (\$9.4 million – December 31, 2003) is recorded as a deferred credit.

Fair value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties, based on current markets for instruments of the same risk, principal and remaining maturities. We base fair values on estimates using present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates, which reflect varying degrees of risk. Potential income taxes and other expenses that would be incurred on disposition of these financial instruments have not been reflected in the fair values. As a result, due to the use of subjective judgment and uncertainties, the fair values are not necessarily the net amounts that would be realized if these instruments were actually settled.

At September 30, 2004, and December 31, 2003, the carrying value of all financial instruments approximates fair value with the exception of the following:

<i>(thousands of dollars)</i>	As at September 30, 2004		As at December 31, 2003	
	Carrying value	Fair value	Carrying value	Fair value
Long-term debt	990,221	1,183,700	990,059	1,173,600
Derivative financial instruments, net liability position	(8,800)	(26,000)	(9,400)	(24,700)

18 COMMITMENTS

The estimated future minimum lease payments under operating leases and purchase commitments for the next five years are as follows:

<i>(thousands of dollars)</i>	Remainder of 2004	2005	2006	2007	2008	Thereafter
Operating leases	11,039	39,494	35,666	34,085	33,149	177,951
Purchase commitments	9,558	36,322	7,284	2,549	1,817	1,854
	20,597	75,816	42,950	36,634	34,966	179,805

Purchase commitments primarily relate to various information systems and technology agreements as well as a billing system for our wireless services.

19 RELATED PARTY TRANSACTIONS

Bell Canada beneficially owns and controls 53.47 per cent (December 31, 2003 – 53.50 per cent) of our outstanding common shares as at September 30, 2004.

In the normal course of business, we had transactions with controlled investees of Bell Canada as follows:

<i>For the period ended September 30</i>	Three months		Nine months	
<i>(thousands of dollars)</i>	2004	2003	2004	2003
Purchases of telecommunications and other services	29,234	35,013	85,397	98,290
Provisions of telecommunications services	41,180	31,764	117,593	100,912
Purchases of capital investments	1,215	868	2,138	2,580

Shares purchased from controlled investees of Bell Canada under a normal course issuer bid, as described in note 11, were as follows:

<i>(thousands of dollars, except as otherwise noted)</i>	Nine months ended September 30, 2004	Twelve months ended December 31, 2003
Shares purchased	827,497	2,643,070
Value	24,152	83,388

These transactions are measured at market value.

19 RELATED PARTY TRANSACTIONS *(continued)*

Balances with controlled investees of Bell Canada are as follows:

<i>(thousands of dollars)</i>	As at September 30, 2004	As at December 31, 2003
Notes receivable	199,500	—
Accounts receivable	24,055	13,792
Payables and accruals	13,478	8,579
Deferred credits	2,142	—

As at September 30, 2004, we had notes receivable with Bell Canada in the form of a revolving loan that matures on the first day of each month and can be recalled at any time, bearing interest of 2.30 per cent per annum.

The accounts receivable from, payables and accruals to and deferred credits to controlled investees of Bell Canada are non-interest bearing and under normal credit terms and have arisen from the sales of products and provision of services referred to above.

20 JOINT VENTURES

We hold an 87.14 per cent partnership interest in the joint venture Aliant ActiMedia.

The effect of proportionate consolidation of the joint venture on our consolidated financial statements is summarized as follows:

<i>For the period ended September 30</i> <i>(thousands of dollars)</i>	Three months		Nine months	
	2004	2003	2004	2003
Consolidated statements of income				
Operating revenues	10,508	10,318	40,491	38,194
Expenses	4,835	4,084	15,131	13,690
Operating income	5,673	6,234	25,360	24,504
Consolidated balance sheets				
Current assets	38,737	34,103	38,737	34,103
Long-term assets	274	219	274	219
Current liabilities	4,896	5,385	4,896	5,385
Net investment	34,115	28,937	34,115	28,937
Consolidated statements of cash flows				
Operating activities	1,892	(285)	1,971	291
Investing activities	(2)	—	(49)	(2)
Net cash flow	1,890	(285)	1,922	289

Included in cash flow from operating activities are cash distributions received by us from Aliant ActiMedia of \$4.3 million and \$18.0 million for the three and nine months ended September 30, 2004, respectively (September 30, 2003 – \$9.1 million and \$23.0 million, respectively).

21 CONTINGENCIES

- (a) We have had an action commenced against us by 132 former employees who took early retirement under a 1998 early retirement incentive program. The former employees seek damages in the amount of the difference between what they received upon retirement in 1998 and what they would have received had they retired under the 1999 early retirement incentive program. The outcome of this matter is not determinable at this time.
- (b) We have had an action commenced against us by Exigen Ltd. (“Exigen”) in the State of California. The action stems from the sale of Connectivity Contact Centre Solutions Inc. to Exigen, the termination of certain commercial agreements and claims of interference with Exigen’s commercial relations. In its formal Complaint, Exigen seeks US\$30 million in specified damages and other damages to be presented. A preliminary issue concerns whether Canada is the proper place to bring the action instead of California. Accordingly, we have started an action in New Brunswick against Exigen and its Canadian operating subsidiary seeking adjudication of many of these issues. Although it is not currently possible to determine the outcome of this matter, we have accrued what is deemed by management to be adequate reserves.
- (c) On August 9, 2004, a lawsuit was filed in Saskatchewan against several Canadian wireless and cellular service providers, including Aliant Telecom Inc. The suit is brought by several alleged customers or former customers of the defendants, who seek court permission to proceed by way of class action under the Saskatchewan Class Actions Act. The claim relates to certain system access fees that the defendants charge to their customers. In the claim, the plaintiffs allege, among other things, breach of contract, misrepresentation, negligence, collusion and breach of statutory obligations under the Competition Act (Canada) in relation to the system access fees, and seek unspecified damages, including punitive and exemplary damages. It is not currently known whether the proceeding will be certified as a class action. While we feel we have strong defenses to this claim, the outcome of this matter is not determinable at this time.
- (d) On May 30, 2002, the CRTC released its price cap decision that prescribed new rules to determine the rates charged for certain telecommunications services provided by incumbent local exchange carriers (ILECs) for the four years beginning June 1, 2002. The price caps decision requires the use of a new mechanism, the deferral account, to mitigate the potential adverse effects on competition in the local market as a result of mandated rate reductions. The deferral account may be reduced by one or a combination of the following:
- Rate reductions for residential local services that are proposed as the result of competitive pressures;
 - Certain rate reductions for services provided to competitors;
 - The approval of exogenous factors for matters beyond control of the ILECs;
 - Rate increases less than the amount by which inflation exceeds productivity;
 - Subscriber rebates; and
 - Funding initiatives that would benefit residential customers in other ways.

We await clarification from the CRTC regarding application of the deferral account rules and allowable cost mitigation features. Accordingly, we have not recognized the deferral account as a liability in our financial statements. Given the circumstances outlined, we estimate the deferral account balance could be between \$2 million and \$32 million. A liability, should one arise, will be charged to operating income or capital, as appropriate.

22 SUBSEQUENT EVENTS

On September 27, 2004, we announced our intent to purchase 100 per cent of the outstanding shares of DownEast Mobility Limited, a wireless retailer and current Aliant dealer, effective October 1, 2004. The purchase price of \$38.0 million includes payment of \$15.0 million in the form of Aliant Inc. common shares. The purchase price allocation has not been finalized as the agreement allows 30 days to complete the closing balance sheet. It is anticipated that the majority of the purchase price in excess of the assets acquired and liabilities assumed will be classified as goodwill.

On October 28, 2004, the board of directors approved an early retirement incentive program. We anticipate approximately 400 people will accept this offer by the end of 2004. Based on this estimate, we expect to record a pre-tax restructuring charge of \$40 million. The cost of the program will be charged to operations in the fourth quarter of 2004.

23 COMPARATIVE FIGURES

The comparative financial information has been reclassified to conform to the presentation adopted for 2004.

Owning AIT

STOCK EXCHANGE AND TRADING SYMBOLS

<i>Toronto Stock Exchange</i>	<i>Trading symbol</i>
Common shares	AIT
Preferred shares	AIT.PR.A

IMPORTANT DATES

Common share dividends for 2004 *(subject to approval by the board of directors)*

<i>Record dates</i>	<i>Payment dates</i>
March 15	March 30
June 15	June 30
September 15	September 30
December 15	December 30

Earnings release dates for 2004 *(subject to change)*

	<i>Release dates</i>
Quarter 1	April 29
Quarter 2	July 29
Quarter 3	October 28
Quarter 4	January 27, 2005

SHAREHOLDER SERVICES

CIBC Mellon Trust, our transfer agent, provides additional information about the following services on its website: www.cibcmellon.com/investor.

Direct deposit of dividends

Registered common shareholders can have dividends directly deposited, electronically, into their bank account *(in Canada only)*.

Dividend reinvestment and share purchase plan

Registered shareholders can reinvest their dividends, automatically and without fees, in additional shares of the Company. Also, up to \$10,000 in Company shares can be purchased each quarter with optional cash payments without commissions or service charges.

E-services

On-line account inquiry

Registered shareholders can access their account information on the Internet, any time.

Electronic distribution of reports

Registered shareholders can obtain investor information and reports electronically rather than through the mail.

WE'RE HERE TO HELP

Contact our transfer agent, CIBC Mellon Trust Company, for information about:

- Dividend payments
- Change of address
- Exchanging shares
- Replacing lost certificates
- Dividend reinvestment and stock purchase plan
- E-services
- Tax forms
- Estate requirements

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E-mail: inquiries@cibcmellon.com
Website: www.cibcmellon.com

Our corporate website, www.aliant.ca, provides additional information about the company, financial reports and company news.

Contact Investor Relations for further information about:

- Additional financial or statistical information
- Industry and company developments
- Shareholder history for predecessor companies
- Annual Information Form

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BOND TRUSTEE, REGISTRAR AND TRANSFER AGENT

Computershare Investor Services and CIBC Mellon Trust Company

SHAREHOLDER INFORMATION

Simple is better

Taking care of the day-to-day things in life often leaves our customers with little time to think about communications. That's why we work hard to make our services simple.

To us, simple means more than phones that are easy to use. It also means service options that are easy to understand. And customer service centres, real and virtual, that are convenient and simple to access.

Simple also means a single focus. Ours is providing communications services for the people of Atlantic Canada.

Is simple better? We think so.

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here. for you.™

