

ALIAN T INC.

(Incorporated under the laws of Canada)

CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)

March 31, 2005



ALIAN T INC.
Consolidated balance sheets
(Unaudited)

(thousands of dollars)

	Notes	As at March 31, 2005	As at December 31, 2004
			(as restated, note 1)
Assets			
Current assets			
Cash and cash equivalents		\$ 35,982	\$ 138,265
Note receivable from related party	1	162,000	185,000
Accounts receivable		244,002	251,164
Inventory		22,462	22,654
Prepayments		28,783	21,876
Income tax receivable		36,344	28,299
Future income tax asset	2	12,303	-
		541,876	647,258
Capital investments		1,895,363	1,911,713
Other assets			
Deferred charges		54,698	56,101
Future income tax asset	2	13,902	31,792
Accrued benefit asset	3	233,166	172,680
Goodwill		60,837	60,783
Finite-life intangibles		10,697	11,521
		373,300	332,877
Total assets		\$ 2,810,539	\$ 2,891,848
Liabilities and shareholders' equity			
Current liabilities			
Notes payable and bank advances		\$ 3,193	\$ 9,101
Payables and accruals	4	213,432	259,855
Income tax payable		7,256	1,865
Future income tax liability	2	-	4,840
Long-term debt due within one year		153,051	153,043
		376,932	428,704
Long-term debt		742,848	743,342
Accrued benefit liability		173,175	170,344
Deferred credits		9,527	11,660
		1,302,482	1,354,050
Non-controlling interest		4,500	5,242
Shareholders' equity			
Capital stock	5	1,209,639	1,216,993
Contributed surplus		268	-
Retained earnings		293,650	315,563
		1,503,557	1,532,556
Total liabilities and shareholders' equity		\$ 2,810,539	\$ 2,891,848

See accompanying notes to the consolidated financial statements

Signed on behalf of the board of directors

Chairman:

Director:

ALiant INC.
Consolidated statements of income
(Unaudited)
For the three months ended March 31

(thousands of dollars, except per share amounts)

	Note	2005	2004
			<i>(as restated, note 1)</i>
Operating revenues		\$ 524,414	\$ 514,508
Expenses			
Cost of operating revenues		88,961	74,495
Operating expenses		250,301	246,211
Depreciation		98,590	100,959
Restructuring charge	4	-	3,083
		437,852	424,748
Operating income		86,562	89,760
Other income (expenses)		(817)	3,010
Interest charges			
Interest on long-term debt		17,186	18,855
Other interest		199	367
		17,385	19,222
Income before underlisted items		68,360	73,548
Income taxes		24,373	27,425
Income before non-controlling interest		43,987	46,123
Non-controlling interest		403	466
Net income		\$ 43,584	\$ 45,657
Earnings per common share			
Basic and diluted		\$ 0.31	\$ 0.32

See accompanying notes to the consolidated financial statements

ALiant INC.
Consolidated statements of retained earnings
(Unaudited)
For the three months ended March 31

(thousands of dollars)

	Notes	2005	2004
			(as restated, note 1)
Retained earnings, beginning of period, as previously reported		\$ 360,351	\$ 415,866
Changes in accounting policies	1	(44,789)	(38,296)
Retained earnings, beginning of period, as restated		\$ 315,562	\$ 377,570
Net income		43,584	45,657
Preferred share dividends		(2,384)	(2,384)
Common share dividends - paid in cash		(37,676)	(35,290)
Common share dividends - reinvested through dividend reinvestment plan		(1,348)	(1,389)
Excess of repurchase of common shares over stated value	5	(24,088)	(14,863)
Retained earnings, end of period		\$ 293,650	\$ 369,301

See accompanying notes to the consolidated financial statements

ALIAN T INC.
Consolidated statements of cash flows
(Unaudited)
For the three months ended March 31

(thousands of dollars)

	Notes	2005	2004
			(as restated, note 1)
Cash and cash equivalents from (used in) operating activities			
Net income		\$ 43,584	\$ 45,657
Adjustments to reconcile net income to cash and cash equivalents from operating activities			
Depreciation		98,590	100,959
Future income taxes		383	(1,319)
Net benefit plans' cost	3	22,433	16,735
Funding of defined benefit pension and other post-employment benefits plans	3	(80,089)	(41,839)
Non-controlling interest		403	466
Other non-cash items		(2,275)	3,542
Change in non-cash working capital		(50,529)	(15,136)
		32,500	109,065
Cash and cash equivalents from (used in) financing activities			
Repurchase of accounts receivable		-	(5,000)
Collection of long-term receivable		4,823	4,874
Repayment of notes payable and bank advances		(5,909)	(8,788)
Repayment of long-term debt		(98)	-
Repayment of capital lease obligations		(387)	(193)
Decrease in non-controlling interest		(1,145)	(469)
Issuance of common shares		402	923
Repurchase of common shares		(33,192)	(19,646)
Preferred share dividends		(2,384)	(2,384)
Common share dividends		(37,676)	(35,290)
		(75,566)	(65,973)
Cash and cash equivalents from (used in) investing activities			
Purchase of capital investments		(82,163)	(84,796)
Business acquisitions, net of cash		(54)	-
		(82,217)	(84,796)
Net decrease in cash and cash equivalents		(125,283)	(41,704)
Cash and cash equivalents, beginning of period		323,265	365,330
Cash and cash equivalents, end of period		\$ 197,982	\$ 323,626
Cash and cash equivalents consists of:			
Cash and cash equivalents		35,982	323,626
Notes receivable from related party		162,000	-
		\$ 197,982	\$ 323,626
Supplementary disclosure			
Interest paid		\$ 13,088	\$ 13,389
Net income taxes paid		\$ 24,906	\$ 49,682

See accompanying notes to the consolidated financial statements

ALIAN T INC.
(Unaudited)
Notes to the consolidated financial statements
March 31, 2005

1. SIGNIFICANT ACCOUNTING POLICIES

We have prepared the unaudited interim consolidated financial statements in accordance with Canadian generally accepted accounting principles (Canadian GAAP) using the same basis of presentation and accounting policies as outlined in note 1 to the annual audited consolidated financial statements for the year ended December 31, 2004, except as noted below. These unaudited interim consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2004.

Note receivable from related party

The note receivable is from Bell Canada and represents a revolving loan that matures on the first day of each month and can be recalled at any time, bearing interest of 2.59 per cent per annum. The presentation of note receivable from related party was reclassified from cash and cash equivalents in 2005.

Changes in accounting policies

Effective January 1, 2005, we changed certain accounting policies, as noted below. These changes have been retroactively applied with comparative financial information restated to conform to the presentation adopted for 2005.

Subscriber acquisition costs

We changed our accounting policy for subscriber acquisition costs from deferring and amortizing over the life of the customer contract to expensing when services are activated. Subscriber acquisition costs include wireless and Internet commissions and cellular hardware subsidies. The following table outlines the impact of these changes.

<i>(thousands of dollars, except per share amounts)</i>	Three months ended		Year ended	
	March 31, 2004		December 31, 2004	
Consolidated statements of income				
Increase (decrease) to:				
Operating expenses	\$	(22)	\$	9,184
Income taxes		8		(3,347)
Net income	\$	14	\$	(5,837)
Consolidated balance sheets				
Increase (decrease) to:				
Deferred charges	\$	(41,391)	\$	(50,598)
Future income tax liability		(15,483)		(18,838)
Retained earnings	\$	(25,908)	\$	(31,760)
Earnings per common share				
Basic and diluted	\$	-	\$	(0.04)

ALIAN T INC.
(Unaudited)
Notes to the consolidated financial statements
March 31, 2005

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Changes in accounting policies (continued)

Directory revenue and expense recognition

We changed our method for recognizing revenues and expenses in our joint venture directory business, Aliant ActiMedia, from the publication-date method to the defer and amortize method. The publication-date method recognizes revenues and direct expenses when directories are published. Under the defer and amortize method, directory advertising revenues are generally billed in accordance with the contractual terms with advertisers, and recognized on a monthly basis over the estimated life of the print directory or electronic directory advertising, not exceeding 12 months, commencing with the delivery or display date, respectively. Amounts billed up front for the directories are deferred and recognized over the billing period for which the corresponding directories are in circulation, not exceeding 12 months. Direct expenses, primarily printing and distribution costs, are recognized over the same period as the related revenue. The following table outlines the impact of these changes:

<i>(thousands of dollars, except per share amounts)</i>	Three months ended		Year ended	
	March 31, 2004		December 31, 2004	
Consolidated statements of income				
Increase (decrease) to:				
Operating revenues	\$	10,066	\$	(1,714)
Operating expenses		2,226		(678)
Income taxes		2,877		(380)
Net income	\$	4,963	\$	(656)
Consolidated balance sheets				
Increase (decrease) to:				
Accounts receivable	\$	(10,858)	\$	(22,767)
Prepays		(848)		1,725
Payables and accruals		-		(459)
Future income tax liability		(4,296)		(7,554)
Retained earnings	\$	(7,410)	\$	(13,029)
Earnings per common share				
Basic and diluted	\$	0.04	\$	(0.01)

2. INCOME TAXES

During the first quarter of 2005, we revised our estimate for the payout of the voluntary early retirement incentive program (ERIP), which resulted in a reclassification of \$10.0 million from current tax liability to the current portion of future tax asset.

ALIANTE INC.
(Unaudited)
Notes to the consolidated financial statements
March 31, 2005

3. ACCRUED BENEFIT ASSET (LIABILITY)

Components of net benefit plans' cost

The table below shows the components of the net benefit plans' cost.

For the three months ended March 31 (thousands of dollars)	DB pension plans		OPEB plans	
	2005	2004	2005	2004
Current service cost	\$ 7,592	\$ 7,028	\$ 1,190	\$ 1,144
Interest on the accrued benefit obligation	27,525	24,777	2,889	2,725
Actual return on plan assets	(28,733)	(56,138)	-	-
Elements of employee future benefit plans cost, before recognizing its long-term nature	\$ 6,384	\$ (24,333)	\$ 4,079	\$ 3,869
Excess of actual return over expected return	\$ 3,142	\$ 32,487	\$ -	\$ -
Amortization of deferred amounts:				
Past service costs	1,375	-	-	-
Net actuarial losses	7,382	4,712	71	-
Adjustments to recognize long-term nature of employee future benefit plans cost	\$ 11,899	\$ 37,199	\$ 71	\$ -
Net benefit plans' cost	\$ 18,283	\$ 12,866	\$ 4,150	\$ 3,869

Pension plan contributions

The table below shows the funding of DB pension and OPEB's plans.

For the three months ended March 31 (thousands of dollars)	2005	2004
DB pension plans		
Required contributions	\$ 18,770	\$ 15,957
2003 contributions received by the plans	-	25,000
Additional voluntary contributions	60,000	-
OPEBs plans contributions	1,319	882
Funding of DB pension and OPEBs plans	\$ 80,089	\$ 41,839

4. RESTRUCTURING CHARGE

In 2004, we restructured our operations by reducing the workforce in certain areas, which resulted in a pre-tax charge against earnings for the three months ended March 31, 2004, of \$3.1 million (December 31, 2004 - \$5.7 million). As well, in October 2004, we offered a voluntary ERIP to all eligible employees with the retirement date for most employees being January 1, 2005. The ERIP was accepted by 693 employees and resulted in a pre-tax charge against earnings of \$66.6 million in 2004.

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4. RESTRUCTURING CHARGE (Continued)

As the employees leave the organization in 2005, mainly throughout the first half of the year, the cash payments associated with the ERIP will be charged against the provision. The provision balance in payables and accruals at March 31, 2005, was \$ 35.8 million. (December 31, 2004 - \$68.6 million)

5. CAPITAL STOCK

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

<i>(thousands of dollars, except as otherwise noted)</i>	As at		As at	
	March 31, 2005		December 31, 2004	
	Number	Stated	Number	Stated
	of shares	capital	of shares	capital
Common shares, beginning of period	132,744,009	\$ 1,044,729	133,616,920	\$ 1,035,798
Common shares issued	-	-	582,081	15,000
Common shares purchased for cancellation	(1,151,188)	(9,126)	(1,732,130)	(13,410)
Dividend reinvestments	55,521	1,599	229,316	6,405
Stock option plan	9,257	173	47,822	936
Common shares, end of period	131,657,599	\$ 1,037,375	132,744,009	\$ 1,044,729

Common shares purchased for cancellation

We commenced a normal course issuer bid (NCIB) on February 4, 2005, which will allow us to purchase, from time to time, up to 6,637,200 of our outstanding common shares at the market price with cash through the facilities of the Toronto Stock Exchange, representing approximately 5.0 per cent of our issued and outstanding common shares as of January 31, 2005, being 132,744,009 common shares. Purchases of common shares may be made up to February 3, 2006, and Bell Canada, our majority shareholder, will sell shares into the normal course issuer bid on a pro rata basis. In 2004, we acquired common shares under a similar NCIB, which ended on August 5, 2004. For the three months ended March 31, 2005, we purchased for cancellation 1,151,188 shares (March 31, 2004 - 616,116 shares) for an aggregate price of \$33.2 million (March 31, 2004 - \$19.6 million), which reduced capital stock by \$9.1 million (March 31, 2004 - \$4.7 million) and retained earnings by \$24.1 million (March 31, 2004 - \$14.9 million).

Included in the common share purchases for the three months ended March 31, 2005, were 607,488 shares purchased at market value from Bell Canada (March 31, 2004 - 297,616 shares) for an aggregate price of \$17.5 million (March 31, 2004 - \$9.5 million).

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Notes to the consolidated financial statements
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5. CAPITAL STOCK (Continued)

Stock option plan

A summary of the status of our stock option plan as at March 31, 2005, and December 31, 2004, and changes during the periods ended on those dates is presented below:

	As at March 31, 2005		As at December 31, 2004	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of period	2,496,777	\$ 30.37	2,338,367	\$ 30.06
Granted	479,570	\$ 29.25	432,621	\$ 32.39
Forfeited	(42,402)	\$ 31.76	(226,389)	\$ 33.31
Exercised	(9,257)	\$ 18.67	(47,822)	\$ 19.58
Options outstanding, end of period	2,924,688	\$ 30.20	2,496,777	\$ 30.37
Options exercisable, end of period	2,103,255	\$ 29.94	1,703,581	\$ 30.38

For the three months ended March 31, 2005, compensation expense related to stock options granted in the amount of \$0.5 million (March 31, 2004 - \$0.3 million) was recorded.

For the three months ended March 31, 2004, the pro-forma adjustment to net income for compensation expense related to the 2002 stock options was \$0.3 million, which did not impact basic or diluted earnings per common share. There is no pro-forma adjustment in 2005 related to compensation expense on the 2002 stock options as it was fully recognized over the vesting period, being three years.

Performance share unit plan

	As at March 31, 2005	As at December 31, 2004
	Number of units	Number of units
Units outstanding, beginning of period	109,322	61,121
Granted	46,606	50,193
Forfeited	(12,581)	-
Exercised	(9,748)	(1,992)
Units outstanding, end of period	133,599	109,322

For the three months ended March 31, 2005, compensation expense related to the performance share units granted in the amount of \$0.3 million (March 31, 2004 - \$0.2 million) was recorded.

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5. CAPITAL STOCK (Continued)

Employees' stock savings plan

The total number of common shares bought for employees during the three months ended March 31, 2005, was 380,050 (March 31, 2004 - 310,074). For the three months ended March 31, 2005, compensation expense related to the employees' stock savings plan of \$1.6 million (March 31, 2004 - \$1.5 million) was recorded.

6. SEGMENTED INFORMATION

For the three months ended March 31, 2005 (thousands of dollars)	Telecom- munications	Information Technology	Corporate and others	Eliminations	Consolidated
Revenue from external customers	\$ 443,862	\$ 80,108	\$ 444	\$ -	\$ 524,414
Intersegment revenue	1,968	24,722	-	(26,690)	-
Operating revenues	445,830	104,830	444	(26,690)	524,414
Operating expenses	262,029	95,268	8,014	(26,049)	339,262
Depreciation	96,852	1,945	308	(515)	98,590
Other income (expenses)	(1,265)	(133)	44,412	(43,831)	(817)
Interest charges	17,130	80	1,210	(1,035)	17,385
Income taxes (recovery)	25,366	3,040	(4,048)	15	24,373
Non-controlling interest	403	-	-	-	403
Net income	\$ 42,785	\$ 4,364	\$ 39,372	\$ (42,937)	\$ 43,584
Purchase of capital investments	\$ 79,317	\$ 2,837	\$ 9	\$ -	\$ 82,163
Goodwill acquired	\$ 54	\$ -	\$ -	\$ -	\$ 54
Total assets	\$ 2,556,293	\$ 203,467	\$ 1,684,106	\$ (1,633,327)	\$ 2,810,539

For the three months ended March 31, 2004 (thousands of dollars)	Telecom- munications	Information Technology	Corporate and others	Eliminations	Consolidated
Revenue from external customers	\$ 440,574	\$ 73,754	\$ 180	\$ -	\$ 514,508
Intersegment revenue	2,124	24,711	-	(26,835)	-
Operating revenues	442,698	98,465	180	(26,835)	514,508
Operating expenses	249,282	92,217	5,715	(26,508)	320,706
Depreciation	99,339	2,319	305	(1,004)	100,959
Restructuring charge	1,921	1,162	-	-	3,083
Other income (expenses)	3,638	30	45,408	(46,066)	3,010
Interest charges	18,946	463	1,410	(1,597)	19,222
Income taxes (recovery)	28,297	992	(2,168)	304	27,425
Non-controlling interest	465	1	-	-	466
Net income	\$ 48,086	\$ 1,341	\$ 40,326	\$ (44,096)	\$ 45,657
Purchase of capital investments	\$ 84,403	\$ 357	\$ 36	\$ -	\$ 84,796
Goodwill acquired	\$ -	\$ -	\$ -	\$ -	\$ -
Total assets	\$ 2,693,982	\$ 201,788	\$ 1,882,844	\$ (1,800,934)	\$ 2,977,680

ALIAN T INC.
(Unaudited)
Notes to the consolidated financial statements
March 31, 2005

7. COMMITMENTS

The estimated future minimum lease payments under operating leases and purchase commitments are as follows:

<i>(thousands of dollars)</i>	Remainder of					
	2005	2006	2007	2008	2009	Thereafter
Operating leases	\$ 35,273	\$ 42,090	\$ 37,747	\$ 36,476	\$ 35,257	\$ 148,465
Purchase commitments	38,823	20,794	5,594	4,143	1,854	-
	\$ 74,096	\$ 62,884	\$ 43,341	\$ 40,619	\$ 37,111	\$ 148,465

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

8. CONTINGENCIES

Deferral account

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 \$7 million and \$30 million. A liability, should one arise, will be charged to operating income or capital investments, as appropriate.