



Management's Discussion and Analysis

First Quarter 2005

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This document provides management's discussion and analysis (MD&A) of our financial condition and results of operations for the three months ended March 31, 2005, compared to the corresponding period in 2004. The MD&A should be read in conjunction with our unaudited interim consolidated financial statements and accompanying notes for the three months ended March 31, 2005, and our MD&A, audited consolidated financial statements and accompanying notes contained in our 2004 annual report. The consolidated financial statements have been 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.

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

Quarterly reports, annual reports and supplementary investor information can be found under "financial reports" on our corporate website at www.aliant.ca. Quarterly and annual reports, annual information forms and other continuous disclosure documents are available at www.sedar.com.

This MD&A is dated April 28, 2005, which is the date of filing in conjunction with our press release announcing our results for the first quarter of 2005. This document contains forward-looking statements, which are qualified by reference to, and should be read together with, the "Forward-

looking statements" section. Disclosure contained in this MD&A is current to, and describes our expectations on, April 28, 2005, unless otherwise stated.

Restatement of prior year results

Effective January 1, 2005, we changed our accounting policies for subscriber acquisition costs and for the recognition of revenues and expenses in our directory business. These changes have been applied retroactively with restatement of prior periods.

About our business

We are an Atlantic Canadian-based company focused on being the premier information and communications technology (ICT) provider for our customers. In 2005, we are continuing to leverage the combined strengths of our Telecommunications and Information Technology segments to achieve this goal.

Our Telecommunications segment operates primarily through Aliant Telecom Inc. ("Aliant Telecommunications"). We provide a wide range of innovative and traditional voice and data communications services including local, long distance, wireless, Internet and other services. We also provide complementary services in knowledge-service applications, retail sales at Aliant-owned dealer stores, telephone directory advertising and wholesale distribution of wireless handsets, accessories and other telecommunications products.

The business of our Information Technology segment is carried out through Xwave Solutions Inc. ("xwave"). We provide clients with a complete range of information technology (IT) solutions through our consulting, infrastructure management and product fulfillment services. We serve clients in several geographic markets and in a range of industries including energy, telecommunications, defence, aerospace, health care, correctional services and education.

Quarter at a glance

Financial results

For the three months ended March 31

(millions of dollars, except per share amounts)

	2005	2004	% change
Operating revenues	\$ 524.4	\$ 514.5	1.9
Expenses	437.8	424.7	3.1
Operating income	86.6	89.8	(3.6)
Other income (expenses)	(0.8)	3.0	-
Interest charges	17.4	19.2	(9.6)
Income taxes	24.4	27.4	(11.1)
Non-controlling interest	0.4	0.5	(13.5)
Net income	\$ 43.6	\$ 45.7	(4.5)
Earnings per common share	\$ 0.31	\$ 0.32	(3.1)

Operating revenues for the first quarter increased by 1.9 per cent over the prior year, as we achieved growth in all areas except local and long distance. Wireless revenue growth continued to be strong at 15.0 per cent. We added 54.6 per cent more high-speed Internet customers in

the quarter than in the same period last year, contributing to a 23.7 per cent year-over-year increase in our high-speed Internet customer base. Specific introductory promotions that ran from late 2004 to February 2005 helped generate this customer growth but primarily limited Internet revenue growth to 5.7 per cent. IT fulfillment revenue grew 21.1 per cent due to increased sales to the public sector. IT service revenue experienced underlying growth of 9.9 per cent, which was offset by a \$7.7 million reduction in revenue from our 2004 divestiture activity. Revenues from our local and long distance services continued to decline and were further challenged by a new regulatory ruling. In February 2005, the Canadian Radio-television and Telecommunications Commission ("CRTC" or the "Commission") released its decision on competitor digital network (CDN) service, which including a retroactive component negatively impacted our local revenue by \$2.5 million in the first quarter.

First quarter operating income was down 3.6 per cent, or \$3.2 million, from the prior year due primarily to the CDN decision and an increase in pension and other post-employment benefits (OPEBs) cost. Operating expense increases required to drive revenue growth were offset by the net impact of our divestiture and acquisition activity in 2004 and by sound expense management, including the productivity savings from our 2004 voluntary early retirement incentive program (ERIP). Net income for the first quarter of 2005 was \$43.6 million, representing a \$2.1 million decline from 2004 first quarter results. This resulted in earnings per common share in the quarter of \$0.31 compared to \$0.32 in 2004 and demonstrates a strong recovery from last year's labour disruption.

We generated cash from operating activities of \$32.5 million, down \$76.6 million from the prior year due to a \$38.3 million increase in required and voluntary contributions to our defined benefit (DB) pension funds and OPEBs plans and \$32.8 million in payments to our employees departing under the 2004 ERIP. Financing activities consumed \$75.6 million in cash, which included payments of \$37.7 million in common dividends, representing \$0.295 per share to shareholders of record on March 15, 2005, and the purchase and cancellation of 1,151,188 common shares for \$33.2 million under our normal course issuer bid (NCIB) that commenced on February 4, 2005. During the first quarter, we made capital investments of \$82.2 million to support our strategy of growth and transformation.

Progress on our strategic initiatives

The successful execution of our growth and transformation agenda depends upon achievement of seven strategic initiatives, toward which we have made significant progress so far this year.

First, in the residential market, we are capturing new growth and defending existing revenues by "owning" the broadband home. We have continued to position ourselves to be our customers' first choice for complete information, communications and entertainment services through a number of activities:

- We made significant changes to our value packages, which are a key component of our retention program. During the quarter, we added Bell ExpressVu service and a more appealing wireless component. In April 2005, we implemented additional changes that simplified our pricing and added improved long distance options, such as unlimited calling throughout Canada and the United States, and unlimited calling within Atlantic Canada.

- We expanded our high-speed Internet footprint by launching 73 new broadband expansion sites in the first quarter of 2005. Our high-speed Internet service now passes 74 per cent of Atlantic Canadian homes, up from 72 per cent at December 31, 2004.
- We enhanced our Internet services by adding anti-spyware software to our suite of on-line security solutions, expanding our dial-up accelerator service and launching live on-line piano lessons.

Second, we are focused on being the most trusted ICT advisor to the small- to medium-sized business (SMB) market. This market includes approximately 75,000 businesses, making up almost 99 per cent of businesses in Atlantic Canada and represents one of our biggest opportunities for growth and, consequently, has been a major focus of our efforts:

- We expanded our SMB distribution channels. We increased the number of existing Aliant dealers selling business products and services and anticipate continued expansion throughout the year. In addition, we are currently in the process of developing relationships with several new value-added resellers.
- We enhanced our offerings to better suit the needs of our customers. We launched a new home business high-speed Internet solution and added an option to selected cellular plans that allows for unlimited cell-to-cell calling within Atlantic Canada.
- We increased our emphasis on integrated solutions. We are launching specific solution sets for key SMB verticals and are focusing marketing efforts on the sale of total solutions through emphasis on business bundles. This emphasis resulted in strong growth in the number of customers subscribing to business bundles in the first quarter of 2005 in comparison to the previous three quarters.

Third, we are serving the enterprise market by innovating with our customers. We are focusing on key industry verticals, delivering needs-based ICT consulting and business solutions. To date, our efforts have produced several important accomplishments:

- We further integrated functions of our Telecommunications and IT segments, improving our ability to develop and deliver ICT solutions, generate efficiencies and achieve growth.
- We signed a 20-year contract valued at approximately \$200 million with L-3 Communications MAS (Canada) Inc. for design, provision and long-term support of the Integrated Information Environment for Canada's Maritime Helicopter Project.
- We continued to pursue our "make once, sell many" business model. We signed a contract with the New Hampshire Department of Corrections, representing our third United States-based sale of our correctional facility information system.

Fourth, we are innovating with our customers to drive growth through new technologies and enhanced customer experiences. As our industry evolves, offering new value to customers will be key to sustaining and building new revenues and will require us to develop solutions that use new technologies, such as the evolving Internet Protocol (IP) technology. We have moved forward with a number of significant projects:

- We began trialing our new IP television solution. We initiated employee home trials of Aliant TV in preparation for our commercial launch in Halifax during the second quarter of this year.

- We began trialing a Voice over Internet Protocol (VoIP) solution for our consumer market and a network based VoIP solution for our business markets, with a goal of launching later this year.
- We formally launched our delivery of professional services and outright sales solutions of IP private branch exchange (PBX). Previously, we planned, designed and fulfilled IP PBX VoIP solutions in collaboration with over a dozen customers, leveraging our market-leading IP communications professional service expertise.
- We launched the second phase of our wireless point-of-sale service for major Canadian banks. The new device has voice and messaging capabilities in addition to wireless point-of-sale functionality, allowing customers to use just one device.

Fifth, we are redefining the way we work to better serve our customers, reduce costs and safeguard our future. This transformation involves ongoing initiatives, such as the organizational integration of our Telecommunications and Information Technology segments and numerous other initiatives:

- We created several additional centres of excellence during the first quarter, centralizing certain functions of our Telecommunications segment's customer service organization and allowing us to align our processes and develop an improved level of service and expertise.
- We continued our billing transformation. E-billing now services 80 enterprise customers with a year end target of 160 customers. In addition, we continued to encourage our customers on value packages to convert to e-billing.
- We improved the quality and efficiency of our customer interactions. We added new tools to our on-line interactive help guide to aid in trouble resolution; we redesigned our customer facing homepage, *aliant.net*, to make it more functional and easier to use; and we launched on-line ordering for our security services. As a result of these and other changes over the past year, we are providing customers with greater self-service options.

Sixth, we are transforming our business model by accelerating adoption of IP technology. We are investing in IP technology through the development of Aliant TV, VoIP solutions for our consumer and business markets and Internet-enabled wireless applications. In support of this transformation, we continue to expand and enhance the capabilities of our broadband network and our digital wireless data networks.

And seventh, we will invest in new skills required to grow and transform our business. We are supporting our employees as their roles evolve in response to the transformation of our business. A key contributing factor of this transformation is the departure of employees under the ERIP announced in 2004. Participation in the ERIP resulted in the departure of 539 employees by the end of the first quarter of 2005, with another 154 employees scheduled to leave over the remainder of the year.

Environmental update

Regulatory

The CRTC issues decisions that affect Aliant Telecommunications. The MD&A contained in our 2004 annual report reflects significant decisions made in January and February 2005. The most significant of these was the CDN decision, which established how incumbent local exchange

carriers (ILECs), such as Aliant Telecommunications, are to provide digital network services to their competitors and results in our competitors paying much less for some of our services. Significant decisions reached during March and up to and including April 28, 2005, are discussed below:

- The CRTC denied an application by a competitor that our inter-exchange digital transport service between the mainland and the island of Newfoundland be provided to competitors at preferential rates. We had opposed the competitor's application and the CRTC's decision endorsed our position.
- The CRTC determined that ILECs must provide competing local carriers access to their operational support systems to further foster competition in the local market. The Commission believes this will improve the effectiveness of competitors across Canada.
- The CRTC also issued its decision regarding the Quality of Service penalties applicable to retail services if ILECs do not meet minimum service standards. We did not meet certain of these service standards during 2004 due to the labour disruption. On April 25, 2005, we filed an application with the CRTC to request the exclusion of certain results from the Quality of Service penalty calculations due to events beyond our control. The public and other interested parties may make submissions on our proposal. Due to the uncertainty of these calculations no amount has been accrued as at March 31, 2005.
- The CRTC issued its determinations on matters outlined in the review of winback promotions. In this decision, the Commission has lifted the suspension on ILEC promotions in the local wireline market, subject to a number of competitive safeguards.
- The CRTC issued its public notice "Forbearance from regulation of local exchange services" which will address policy aspects of local forbearance, as well as our specific local services forbearance application.

The CRTC has indicated that the following decisions and a public notice will be issued imminently: the decision on price floors, the decision on the regulatory framework of VoIP, and the public notice for the review of the regime for the third price cap period. The timing of any CRTC decision on other issues, including the disposition of the deferral account, is unknown.

Competitive

Atlantic Canada continues to be home to the most competitive markets for local residential service in Canada. Our application for forbearance in certain competitive areas has yet to be addressed by the CRTC while our major competitors continue to expand their geographic presence in an effort to gain market share for all services. In the meantime, we are stemming losses by focusing on building our relationship with customers, offering attractive packages and solutions, providing new services, and expanding our wireless and broadband networks to more customers throughout Atlantic Canada.

In recent months, the Canadian IT industry has experienced improved demand for project management, business analysis and management consulting work. Within our Information Technology segment this has translated into increased utilization of resources and improved margin performance.

Operating results

The following is our discussion and analysis of the significant components of our consolidated operating results for the three months ended March 31, 2005, in comparison to the same period in the prior year.

Operating revenues

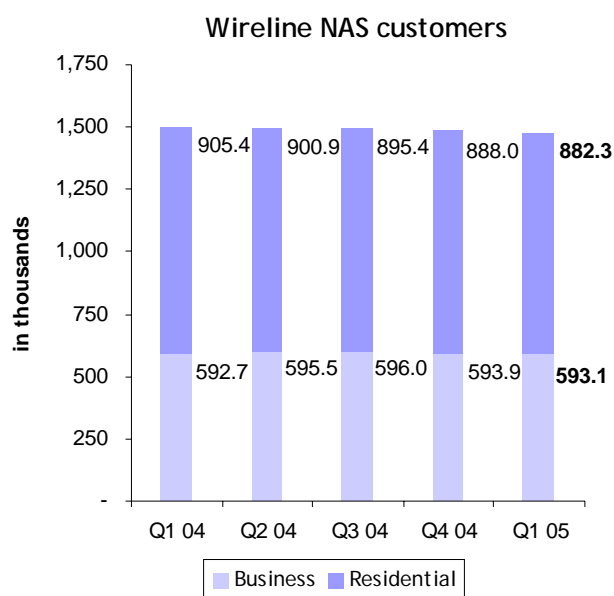
For the three months ended March 31

(millions of dollars)

	2005	2004	% change
Telecommunications			
Local	\$ 182.5	\$ 188.7	(3.3)
Long distance	79.7	92.1	(13.4)
Wireless	99.6	86.5	15.0
Internet	30.6	29.0	5.7
Other revenues	53.4	46.4	15.1
	\$ 445.8	\$ 442.7	0.7
Information Technology			
IT services	\$ 50.9	\$ 54.0	(5.7)
Fulfillment	53.9	44.5	21.1
	\$ 104.8	\$ 98.5	6.4
Other and intercompany eliminations	\$ (26.2)	\$ (26.7)	1.9
Operating revenues	\$ 524.4	\$ 514.5	1.9

Local revenue

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



Local revenues declined 3.3 per cent compared to the first quarter of 2004 mainly due to competition, technology substitution and regulatory constraints.

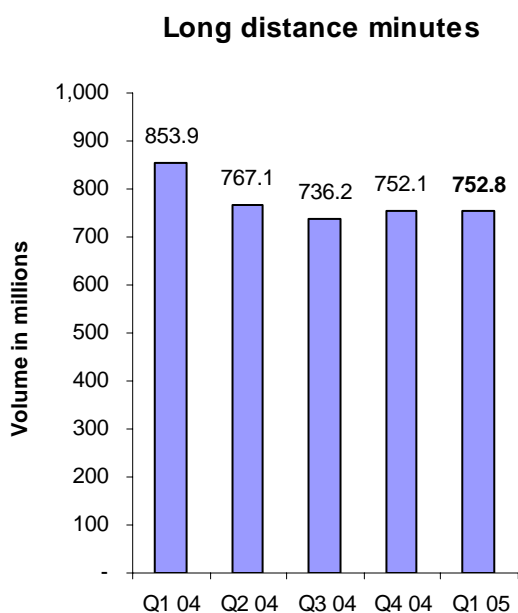
The majority of our local revenues are earned through the provision of NAS. NAS revenues declined 1.1 per cent over the first quarter of 2004 mainly due to a 1.5 per cent decline in our NAS customer base in the last year. Our business NAS remained virtually unchanged despite an intensely competitive marketplace due to our strong marketing programs in both the SMB and Enterprise market. Our consumer, or residential, NAS is down 2.5 per cent, in line with the trend that we have

been experiencing over the past couple of years. This downward trend reflects competitive losses, the reduction in the number of second lines as customers migrate to high-speed Internet service, and the reduction in primary lines as customers adopt wireless technology.

Revenue from sources other than NAS has declined by 5.6 per cent over the first quarter in 2004. Growth in data services was offset by the \$2.5 million impact of the CRTC's CDN decision. Enhanced service features revenue declined 7.4 per cent due to consumer NAS declines and lower pricing allocations as a result of the successful conversion of more customers to local value packages as part of our retention strategy.

Long distance revenue

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



Long distance revenue declined 13.4 per cent over the first quarter of 2004 due to competition and technology substitution. The decline in our minutes of 11.8 per cent was lower than our revenue decline due to the impact of "block of minutes" long distance plans, the inclusion of additional "free" minutes as part of various promotions during the quarter, and price restructuring.

Business long distance revenues are declining due to minute usage reduction resulting from the use of contact centre management tools and the loss of some of our contact centre business in early 2004. Competition in our business market requires us to continue to reduce average prices.

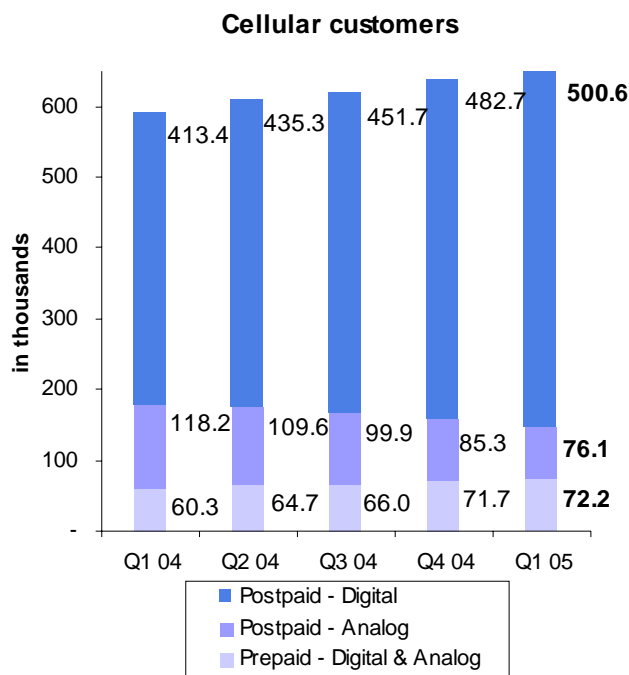
In the consumer market, revenues have declined due to the impact of intense competition, particularly from dial-around competitors, resulting

in minute erosion. The substitution of wireline long distance calling with wireless and Internet communications also continues to contribute to minute erosion. The impact of minute erosion is mitigated in part by the number of customers on long distance plans. Our success in marketing our value packages has resulted in an increase in net long distance customer additions for the first quarter of 2005. Converting customers to our bundled solutions contributes to lower pricing allocations to our long distance revenues but improves total household retention, securing future revenues.

Wireless revenue

Wireless revenue consists of cellular, paging and mobile radio services over our analog and digital wireless networks.

Wireless revenues grew 15.0 per cent over the first quarter of 2004, reflecting continued strong growth in our customer base and average revenue per customer (ARPC).



Our strong market position, supported by our extensive coverage, comprehensive dealer network, broad handset selection, innovative wireless data solutions and competitive offers has enabled us to attain year-over-year customer growth of 9.6 per cent. As at March 31, 2005, approximately 89 per cent of Atlantic Canada’s population had access to our digital wireless network, up from approximately 84 per cent at the same time last year. Customer net additions in the quarter showed a 10.8 per cent improvement over the same period in the prior year. Our customer turnover rate, or churn, remained strong at 1.36 per cent due to our value packages and business bundles, hardware upgrades, integrated solutions and a high number of customers on multi-year contracts.

First quarter ARPC grew by 5.9 per cent over the prior year. This growth reflects increases in

average minutes of use, long distance use, data usage and an increased percentage of customers choosing digital service. Digital customers generate higher ARPC than analog. By the end of the first quarter, digital customers represented 81.7 per cent of our cellular customer base compared to 72.4 per cent at March 31, 2004, representing 23.7 per cent growth. We have maintained our industry leading position with 88.9 per cent of our customer base, at March 31, 2005, being on postpaid plans. Postpaid customers generate higher monthly ARPC than prepaid customers.

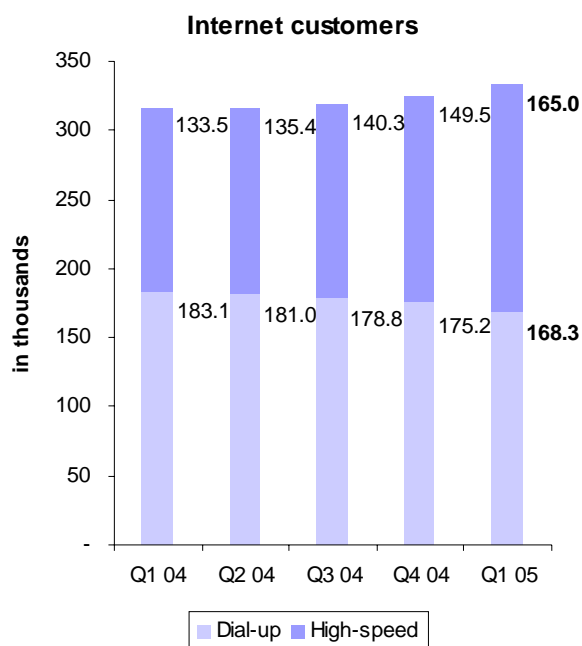
Wireless - statistics

For the three months ended March 31

	2005	2004	% change
Monthly - Average revenue per customer (dollars)			
Postpaid	\$ 54.24	\$ 50.84	6.7
Prepaid	\$ 10.78	\$ 9.64	11.8
Total	\$ 49.36	\$ 46.62	5.9
Monthly - Average minutes of use per customer	264	237	11.4
Net additions	9,197	8,303	10.8
Churn	1.36%	1.29%	5.4

Internet revenue

Internet revenue consists of high-speed and dial-up service, enhanced services and applications such as TV on my PC™, security services, music download service and dial-up accelerator.



Our total Internet customer base grew 5.3 per cent over the first quarter in 2004, reflecting 23.7 per cent growth in our high-speed Internet customer base. High-speed customer additions in the quarter grew by 54.6 per cent over the same period last year due to strong customer demand and competitive offers. High-speed ARPC declined due to the impact of the aggressive introductory offers that we commenced in late 2004, limiting revenue growth to 5.7 per cent over the first quarter of 2004 but securing long-term customers. The introductory offers ceased in February and were replaced with a new offer that provides for a higher promotional price throughout the first year, which will reduce our future ARPC fluctuations.

While consumer ARPC decreased as a result of a higher mix of customers on short-term introductory offers, this decrease was partially offset by the growing adoption of enhanced services, supported by the introduction of new services such as anti-

spyware. Business dial-up ARPC experienced a modest increase due to greater customer adoption of our unlimited usage plans and dial-up accelerator technology. Business high-speed ARPC has decreased due to the adoption of packages priced to appeal to the small business market offset in part by increased usage and the popularity of new security services.

Combined churn for the first quarter of 1.7 per cent shows improvement over the 2.1 per cent for the first quarter of 2004. This improvement indicates that our customer retention and loyalty management strategies, namely the continued introduction of value packages and business bundles, are succeeding against the competition.

Our total Internet customer growth of 5.3 per cent over the first quarter of 2004 shows that our customers are responding to our enhanced services, value packages and expanding high-speed footprint. At March 31, 2005, our high-speed Internet service passed 74 per cent of homes and 80 per cent of businesses in Atlantic Canada, up from 66 per cent of homes and 76 per cent of businesses at March 31, 2004. Our dial-up customer base is declining as customers opt for high-speed service. We managed our total customer count through the migration of an increasing portion of these dial-up customers to our high-speed service.

Internet - statistics

For the three months ended March 31

	2005	2004	% change
Monthly - Average revenue per customer (dollars)			
Consumer dial-up	\$ 19.02	\$ 19.68	(3.4)
Consumer high-speed	\$ 31.48	\$ 33.48	(6.0)
Business dial-up	\$ 46.77	\$ 45.49	2.8
Business high-speed	\$ 91.98	\$ 98.49	(6.6)
Net additions			
Dial-up	(6,951)	(850)	-
High-speed	15,599	10,087	54.6
Total	8,648	9,237	(6.4)
High-speed churn			
Consumer	1.27%	1.31%	(3.1)
Business	1.62%	2.02%	(19.8)

Other revenues

The most significant factor in the 15.1 per cent growth in other revenues over the first quarter of 2004 is the 17.9 per cent growth in product sales as we addressed demand carried over from last year. We also experienced increased directory advertising revenues as a result of strong marketing and growth in the SMB market and increased sales of knowledge-service applications.

IT services revenue

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

IT services revenue was down 5.7 per cent, or \$3.1 million, from the first quarter of 2004 as the \$7.7 million impact of the 2004 business unit divestitures offset IT services revenue growth. Underlying IT services revenue grew \$4.6 million, or 9.9 per cent, with IT services revenue from external customers increasing by \$5.2 million, or 20.7 per cent. Approximately \$2.9 million of this growth arose from our acquisition of the Atlantic Canada operations of Fujitsu Consulting (Canada) Inc. in December 2004, with the remainder due to organic growth. Revenues earned from our Telecommunications segment were down slightly in the quarter reflecting the net impact of productivity improvements achieved in providing support services.

During the first quarter of 2005, xwave renewed contracts with existing clients and secured new business from a number of customers including L-3 Communications MAS (Canada) Inc., New Hampshire Department of Corrections, General Dynamics, Nova Scotia Workers Compensation Board and Bell Canada.

Fulfillment revenue

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

Fulfillment revenues grew by \$9.4 million, or 21.1 per cent, over the first quarter of 2004, with \$8.8 million of the increase relating to external customer sales. This tremendous improvement was largely due to increased public sector sales, making March 2005 the highest single month for external fulfillment sales in our company's history.

Expenses

For the three months ended March 31

(millions of dollars)

	2005	2004	% change
Expenses			
Cost of operating revenues	\$ 89.0	\$ 74.5	19.4
Operating expenses			
Pension and OPEBs cost	25.3	21.2	19.6
Other operating expenses	224.9	224.9	-
	250.2	246.1	1.7
Depreciation	98.6	101.0	(2.3)
Restructuring charge	-	3.1	-
	\$ 437.8	\$ 424.7	3.1

Cost of operating revenues

The increase in cost of operating revenues over the first quarter in 2004 reflects the higher cost of goods sold associated with the increased volume of telecommunications product and IT fulfillment sales.

Pension and OPEBs cost

For the three months ended March 31

(millions of dollars)

	2005	2004	% change
Defined benefit	\$ 18.3	\$ 12.9	41.9
Defined contribution	2.9	4.4	(34.1)
Other post-employment benefits	4.1	3.9	5.1
Pension and OPEBs cost	\$ 25.3	\$ 21.2	19.6

DB pension cost for the first quarter of 2005 has increased over the first quarter of 2004 primarily due to the amortization of a larger balance of net actuarial losses. Net actuarial losses have increased in the past year due to a rise in the accrued benefit obligation. The increase in the obligation results from a lower rate used to discount the future obligations, 6.25 per cent versus 6.75 per cent, and from additional past service costs relating to plan amendments made in the fourth quarter of 2004. In the first quarter of 2005, we amortized \$8.8 million of the accumulated losses through pension cost compared to only \$4.7 million in the first quarter of 2004.

Defined contribution (DC) pension cost represents the current service expense associated with our contributions to employees' retirement savings accounts. DC costs for the first quarter of 2005 decreased as the cost related to employee contributions arising from short-term incentive compensation payments was much lower than in the first quarter of 2004. In addition, we now have fewer employees that are members of our DC pension plans, as certain eligible employees converted their membership from a DC plan to a DB plan pursuant to the 2004 plan amendments.

Other operating expenses

Overall, other operating expenses are consistent with the prior year. Increased costs required to support growth in our wireless and Internet businesses were offset by the impact of a net reduction in costs associated with business acquisitions and divestitures in 2004 and sound expense management, including productivity improvements and cost savings from our 2004 ERIP.

Other expenses

Other income (expenses)

Other income (expenses) includes such non-operating items as interest income, provincial large corporation tax and expenses related to our accounts receivable securitization program. We had net other income during the first quarter of 2004 mainly as a result of non-recurring interest income of \$4.0 million that was earned on previous years' tax reassessments, leaving a net expense position for the first quarter of 2005.

Interest charges

Interest charges are lower compared to the first quarter of 2004 due to the repayment of \$100.0 million in maturing long-term debt in October 2004.

Income taxes

Lower net income and a lower effective tax rate have resulted in lower income taxes in comparison to the first quarter of 2004. The lower effective tax rate is due predominantly to current year adjustments to a prior year's tax liability.

Financial and capital management

Summary of cash flows

For the three months ended March 31
(millions of dollars)

	2005	2004	% change
Cash and cash equivalents from (used in):			
Operating activities			
Net income	\$ 43.6	\$ 45.7	(4.5)
Adjustments to reconcile net income to cash and cash equivalents from operating activities			
Funding of DB pension and OPEBs plans	(80.1)	(41.8)	91.6
Change in non-cash working capital	(50.5)	(15.1)	234.4
Other non-cash adjustments	119.5	120.3	(0.7)
	32.5	109.1	(70.2)
Repurchase of common shares	(33.2)	(19.7)	68.5
Preferred and common share dividends	(40.1)	(37.7)	6.4
Other financing activities	(2.3)	(8.6)	(73.3)
Capital investments	(82.2)	(84.8)	(3.1)
Net decrease in cash and cash equivalents	\$ (125.3)	\$ (41.7)	200.5

Operating activities

The major contributors to the decline in cash from operating activities related to the voluntary contributions to our DB pension fund and the change in non-cash working capital as a result of ERIP payments.

Funding of DB pension and OPEBs plans

There has been an increase in both required and voluntary contributions to the DB pension funds and OPEB plans.

In 2005, we anticipate having to make required contributions to our DB pension funds in the range of \$70 million to \$80 million. Our required contributions are higher than 2004 primarily due to the expected impact of the DB plan amendments made in late 2004. We expect 2005 contributions to our OPEBs plans to be in the range of \$5 million to \$7 million. As a result, we contributed \$18.8 million in required DB pension funding and \$1.3 million to OPEBs plans in the first quarter of 2005, an increase over 2004 of \$2.8 million and \$0.4 million, respectively.

We also made a voluntary contribution of \$60.0 million to the DB pension funds in the first quarter of 2005 to help address the deficits that remain in these plans and as an effective use of our excess cash balances. In the first quarter of 2004, we made a voluntary contribution of \$25.0 million to DB pension funds. These voluntary contributions are not recurring and are made completely at our discretion.

Change in non-cash working capital

For the three months ended March 31

(millions of dollars)

	2005	2004	% change
Accounts receivable	\$ 2.9	\$ 24.2	(88.0)
Prepayments	(6.9)	1.8	-
Inventory	0.2	(0.7)	-
Payables and accruals	(44.4)	(15.9)	179.2
Income taxes	(2.3)	(24.5)	(90.6)
Change in non-cash working capital	\$ (50.5)	\$ (15.1)	234.4

During the first quarter of 2005, non-cash working capital balances changed by \$50.5 million, primarily due to the \$32.8 million payment to departing employees pursuant to our 2004 ERIP.

In the first quarter of 2004, the change in our non-cash working capital balances was \$15.1 million. Accounts receivable collections were high due to receipt of payments on large customer balances. Cash used for income taxes reflects the timing of recording tax provisions in relation to making tax instalments.

Repurchase of common shares

Under the NCIB that commenced on August 6, 2003, and ended August 5, 2004, we acquired, from time to time, our common shares for cash at the market price through the facilities of the Toronto Stock Exchange ("TSX"). During the three months ended March 31, 2004, we purchased for cancellation 616,116 shares under this NCIB for \$19.6 million.

We commenced a new NCIB on February 4, 2005, under which we may acquire an additional 6,637,200 common shares for cash at the market price through the facilities of the TSX prior to the expiry of the bid on February 3, 2006. During the first quarter of 2005, we purchased for cancellation 1,151,188 shares for \$33.2 million. Further details about the NCIB are provided in note 5 to our unaudited interim consolidated financial statements for the three months ended March 31, 2005. Shareholders may obtain a copy of the Notice of Intention that was filed with the TSX in relation to the NCIB by contacting us.

Preferred and common share dividends

The increase in dividends paid reflects the \$0.02 increase in the quarterly dividend rate to \$0.295 per common share that became effective with the dividend payment made on March 30, 2005, to shareholders of record on March 15, 2005.

Other financing activities

During the first quarter of 2004, \$5.0 million was repurchased under our accounts receivable securitization program, with no similar repurchase in 2005.

Capital investments

Capital investments made during the first quarter of 2005 are comparable to our investment in the first quarter of 2004. We have continued to invest in our traditional wireline areas as required and have increased our investment in areas to support growth. We expect the pace of

our investment to increase slightly throughout the remainder of 2005, due both to normal seasonality of network investment made in the non-winter months and for the further advancement of 2005 strategic initiatives. In particular, we are supporting future growth by expanding and updating our broadband and wireless networks, developing IPTV and VoIP solutions and investing in software and other tools to support xwave in its execution of new contracts.

Liquidity

Cash requirements

Our cash requirements for the remainder of 2005 will consist of investments in capital, repayments of long-term debt, payments of our restructuring charge provision, dividend payments, purchases of shares under our NCIB, required pension plan contributions, and payments of other commitments. In particular these requirements will result in the use of cash as follows:

- Capital investments will be made as required to support our existing infrastructure and to advance our strategies of growth and transformation.
- Scheduled long-term debt repayments for 2005 consisting primarily of a \$150.0 million note maturing in November.
- Cash payments associated with prior years' restructuring activities, primarily the 2004 ERIP. As at March 31, 2005, the balance of the restructuring charge provisions totalled \$35.8 million. The payment of the provision to ERIP participants may be made in whole at their retirement date or they may opt to defer part of the payment to the January following the year of their retirement.
- Dividend payments at the current rates, totalling approximately \$40 million per quarter for common and preferred shares. To the extent that shares are repurchased under the NCIB, the total cash required for dividend payments will be slightly reduced.
- We expect to repurchase the remaining 5,486,012 shares permitted under our NCIB prior to February 3, 2006.
- Total required contributions to our DB pension fund and OPEBs plans for 2005 is anticipated to be in the range of \$75 million to \$87 million for 2005, of which \$20.1 million has been made during the first quarter of 2005. We are currently updating our DB pension actuarial valuations for the year ended December 31, 2004, and expect these to be completed later in 2005. We will adjust our DB pension funding based on the outcome of these valuations.
- Other commitments, such as operating leases and purchase commitments for equipment and other network infrastructure, and contingencies as disclosed in notes 7 and 8 to the unaudited interim consolidated financial statements for the three months ended March 31, 2005. Our purchase commitments have grown since December 31, 2004, in association with our activity to support new IT service contracts.

Sources of liquidity

We anticipate that we will be able to meet our future cash requirements from cash on hand, the generation of cash from operating activities and through the flexibility in our capital structure.

Capital structure

(millions of dollars, except as otherwise noted)

	March 31, 2005		December 31, 2004	
Common equity	\$ 1,331.2	55.3%	\$ 1,360.3	55.7%
Preferred equity	172.3	7.1%	172.3	7.0%
Non-controlling interest	4.5	0.2%	5.2	0.2%
Long-term debt, including amount due within one year	895.9	37.2%	896.4	36.7%
Notes payable and bank advances	3.2	0.2%	9.1	0.4%
Total capital	\$ 2,407.1	100.0%	\$ 2,443.3	100.0%
Debt as a percentage of total capital	37.4%		37.1%	

Common equity

The rate at which we repurchase common shares under our NCIB is at our discretion. Between April 1 and April 21, 2005, we purchased for cancellation 351,844 shares under the NCIB program for \$9.8 million.

At April 21, 2005, we had the following outstanding shares and stock options:

Authorized

Unlimited number of preference shares, issuable in series.

Unlimited number of common shares, without par value.

Issued

(millions of dollars, except as otherwise noted)

	April 21, 2005	
	Number of shares	Value
Preference shares, series 2	7,000,000	\$ 172.3
Common shares	131,312,525	1,034.7
		\$ 1,207.0

	Number of options	Weighted average exercise price
Options outstanding	2,917,918	\$ 30.24
Options exercisable	2,108,151	\$ 30.32

Debt

Our credit ratings are unchanged since the last assessments issued from Standard & Poor's and Dominion Bond Rating Service in the second quarter of 2004, as described in the MD&A contained in our 2004 annual report.

Our financial structure provides several possible sources of liquidity:

- As at March 31, 2005, we maintained lines of credit totalling \$607.5 million, an increase of \$45.5 million from December 31, 2004. We negotiated this increase while restructuring the existing credit facilities of our Information Technology segment. The \$45.5 million is a special purpose letter of credit facility in direct support of the Maritime Helicopter Project and requirements of our associated contract with L-3 Communications MAS (Canada) Inc. Further details on our pre-existing credit arrangements are provided in note 10 to our audited consolidated financial statements for the year ended December 31, 2004.
- The board of directors has authorized us to file a shelf-prospectus in the second quarter of 2005 with respect to an offering of up to \$350 million of medium-term notes. This offering will allow us to issue notes as and when we require funds, from time to time, during the 25-month life of the prospectus.

Other financial arrangements

Our cash requirements may also be affected by the liquidity risks related to our off-balance sheet arrangements and derivative instruments.

Off-balance sheet arrangements

Under a purchase and sale agreement, we sell certain accounts receivable to a securitization trust. There were no changes to this arrangement during the first quarter of 2005. Further details of this arrangement are described in notes 1 and 3 to our audited consolidated financial statements for the year ended December 31, 2004.

Use of derivative financial instruments

The derivative financial instruments that we use are interest rate swap and interest rate swaptions. There has been no change in the purpose or terms of these agreements during the first quarter of 2005.

Given current and forecasted interest rate levels over the next year, we anticipate the exercise of our two interest rate swaption agreements upon their expiry dates in 2006. The exercise of these swaptions by the counterparty will cause us to be placed into a fixed-floating interest rate swap starting in 2006 and lasting until 2013. We will pay fixed interest payments of 10.45 per cent on a notional principal of \$50.0 million and 11.125 per cent on a notional principal of \$40.0 million and, in return, we will receive floating interest payments related to the three-month Banker's Acceptance rates. At March 31, 2005, the fair value of these agreements is \$31.3 million in favour of the counterparty. We have recorded a deferred credit of \$8.2 million related to unamortized premium income we received in 1997 and 2001 in relation to these swaptions. The difference of \$23.1 million is a deferred loss that is not recorded in our financial statements due to the application of hedge accounting treatment to these transactions. If the agreements were to be cancelled as of March 31, 2005, this amount would have to be recorded as a loss on our income statement. The loss that will be recorded on the exercise of the swaptions will depend on interest rate levels in effect on the exercise dates in 2006.

Further details on our derivative financial instruments are provided in notes 1 and 20 to our audited consolidated financial statements for the year ended December 31, 2004.

Related party transactions

Our only significant related party continues to be our majority shareholder, Bell Canada, which is owned 100 per cent by BCE Inc. The nature of our relationship and our related party transactions remain substantially unchanged during the first quarter of 2005. For greater detail on our related party transactions refer to note 22 of our audited consolidated financial statements for the year ended December 31, 2004.

Significant accounting policies and critical accounting estimates

Our unaudited interim consolidated financial statements have been prepared in accordance with Canadian GAAP. Our accounting policies and methods and critical accounting estimates and assumptions are consistent with those as described in note 1 to our audited consolidated financial statements for the year ended December 31, 2004, except for the two changes in our accounting policies as anticipated and disclosed in our MD&A as contained in our 2004 annual report.

We changed our accounting policies for the treatment of our subscriber acquisition costs and the recognition of our directory revenues and expenses to provide more relevant presentation in the financial statements. Greater detail on changes in accounting policies is provided in note 1 to our unaudited interim consolidated financial statements for the three months ended March 31, 2005.

Accounting policy developments

We constantly monitor changes in accounting standards and guidelines to ensure that we remain in adherence with Canadian GAAP.

Changes in accounting standards or guidelines issued to date have not resulted in changes to our accounting in the first quarter, nor are they expected to result in changes during the remainder of 2005.

In January 2004, the Canadian Institute of Chartered Accountants ("CICA") issued revisions to CICA Handbook Section 3860, Financial Instruments - Disclosure and Presentation, which became effective January 1, 2005. The revisions change the accounting for certain financial instruments that have both liability and equity characteristics. This may result in a change in classification on the balance sheet as instruments that meet specific criteria must be classified as liabilities. We do not have any instruments with these characteristics; therefore adopting this section has had no affect on our financial statements.

In June 2003, Accounting Guideline 15, Consolidation of variable interest entities, was issued and became effective January 1, 2005. This guideline requires the consolidation of certain variable interest entities, which the guideline defines as a type of legal structure not controlled by voting equity but rather by contractual or other financial arrangements. We have assessed the nature of the parties that we engage in business with and the nature of those business relationships. Although the rules are complex and interpretation is still evolving, based on our evaluations we have not identified any variable interest entities as at March 31, 2005.

In January 2005, the CICA issued four new Handbook Sections; Section 1530, Comprehensive Income, Section 3251, Equity, Section 3755, Financial Instruments - Recognition and Measurement and Section 3865, Hedges. The new standards will more comprehensively address when to recognize financial instruments on the balance sheet, how to measure them, how to account for gains and losses, and when and how to apply hedge accounting. These changes will increase harmonization with accounting standards in the United States. This guidance will apply for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Earlier adoption will be permitted only as of the beginning of a fiscal year. We are currently assessing the potential impact these new standards will have on our consolidated financial statements on January 1, 2007.

Risk and risk management

Management is confident about our long-term prospects, but we recognize that 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. We identified significant risks that we were aware of for the year ended December 31, 2004, as presented in our MD&A contained in our 2004 annual report.

To date, we have not identified significant changes to the nature of the risks that we are exposed to. We have provided updates to our regulatory and competitive environments in the "Environmental update" section.

Legal and other contingencies

We described certain legal proceedings and other contingencies that involved us in note 24 to our audited consolidated financial statements for the year ended December 31, 2004. There have been no significant changes in these matters that would impact our financial position. Given current circumstances, we have revised our estimate of the balance of our deferral account to between \$7 million and \$30 million, as discussed in note 8 of our unaudited interim consolidated financial statements for the three months ended March 31, 2005.

Supplementary financial information

The accompanying table shows selected consolidated financial data for the most recent eight quarters. This quarterly information has been prepared on the same basis as the consolidated financial statements.

Quarterly financial information (unaudited)

For the eight quarters ended March 31, 2005

(millions of dollars, except

per share amounts)

	2003			2004				2005
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Total operating revenues	\$ 501.1	\$ 515.5	\$ 530.4	\$ 514.5	\$ 508.3	\$ 499.4	\$ 509.6	\$ 524.4
Net income from continuing operations	\$ 52.3	\$ 50.9	\$ 42.1	\$ 45.7	\$ 40.0	\$ 37.2	\$ 7.6	\$ 43.6
Net income from discontinued operations	9.3	0.2	100.4	-	-	-	-	-
Net income	\$ 61.6	\$ 51.1	\$ 142.5	\$ 45.7	\$ 40.0	\$ 37.2	\$ 7.6	\$ 43.6
Preferred share dividends	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Net income applicable to common shares	\$ 59.2	\$ 48.7	\$ 140.1	\$ 43.3	\$ 37.6	\$ 34.8	\$ 5.2	\$ 41.2
Basic earnings per common share								
Continuing operations	\$ 0.36	\$ 0.35	\$ 0.29	\$ 0.32	\$ 0.28	\$ 0.26	\$ 0.04	\$ 0.31
Discontinued operations	0.07	-	0.75	-	-	-	-	-
Basic earnings per common share	\$ 0.43	\$ 0.35	\$ 1.04	\$ 0.32	\$ 0.28	\$ 0.26	\$ 0.04	\$ 0.31
Diluted earnings per common share								
Continuing operations	\$ 0.36	\$ 0.35	\$ 0.29	\$ 0.32	\$ 0.28	\$ 0.26	\$ 0.04	\$ 0.31
Discontinued operations	0.07	-	0.74	-	-	-	-	-
Diluted earnings per common share	\$ 0.43	\$ 0.35	\$ 1.03	\$ 0.32	\$ 0.28	\$ 0.26	\$ 0.04	\$ 0.31

Impact of factors in the normal course of business

Trends and seasonality

Our quarterly results are impacted by ongoing trends and seasonality as discussed within our MD&A contained in our 2004 annual report. These factors remain relatively unchanged with the exception of the following:

- Effective January 1, 2005, we changed our accounting policy for recognition of revenues and expenses in our directory business from the publication-date method to the defer and amortize method. This accounting policy change was applied retroactively with restatement of prior periods. This change eliminates the seasonal fluctuations in the quarterly results from our directory business.
- A trend of improved profitability has emerged in our Information Technology segment due to a combination of the lower cost structure as a result of restructuring activities in prior years and increased demand for IT services.

Pension and OPEBs cost

Most pension and OPEBs accounting assumptions and calculations affect the expense that is recorded for an entire year, and therefore large variations may be seen in these costs from one year to the next. Quarterly comparisons may be impacted by factors such as the outcome of pension valuations, amendments to the pension plans and the variability in quarterly pensionable earnings.

Impact of pension and OPEBs cost (unaudited)

For the eight quarters ended March 31, 2005

(millions of dollars, except
per share amounts)

	2003			2004				2005
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Decrease in:								
Net income from								
continuing operations	\$ (8.9)	\$ (10.4)	\$ (9.9)	\$ (13.3)	\$ (12.2)	\$ (10.7)	\$ (11.7)	\$ (16.0)
Earnings per share								
from continuing	\$ (0.06)	\$ (0.08)	\$ (0.07)	\$ (0.10)	\$ (0.09)	\$ (0.08)	\$ (0.09)	\$ (0.12)

Impact of factors outside the normal course of business

During the first quarter of 2005, we were not impacted by any factors outside the normal course of business. However, previous quarters have been impacted by such factors as illustrated in the accompanying table and discussed in our 2004 annual report.

Impact of factors outside the normal course of business (unaudited)

For the eight quarters ended March 31, 2005

(millions of dollars, except
per share amounts)

	2003			2004				2005
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Decrease in net income from continuing operations								
Restructuring charge	\$ -	\$ (9.3)	\$ 0.6	\$ (1.9)	\$ (0.9)	\$ (0.4)	\$ (42.3)	\$ -
Writedown of investments	-	-	(12.3)	-	-	-	-	-
	\$ -	\$ (9.3)	\$ (11.7)	\$ (1.9)	\$ (0.9)	\$ (0.4)	\$ (42.3)	\$ -
Increase (decrease) in net income from discontinued operations								
Gain (loss) on sale of subsidiary	\$ 10.9	\$ (2.0)	\$ 95.7	\$ -	\$ -	\$ -	\$ -	\$ -
Impact on net income	\$ 10.9	\$ (11.3)	\$ 84.0	\$ (1.9)	\$ (0.9)	\$ (0.4)	\$ (42.3)	\$ -
Increase (decrease) in earnings per share								
Earnings per share from continuing operations	\$ -	\$ (0.06)	\$ (0.09)	\$ (0.01)	\$ (0.01)	\$ -	\$ (0.32)	\$ -
Earnings per share from discontinued operations	0.08	(0.01)	0.71	-	-	-	-	-
Earnings per share	\$ 0.08	\$ (0.07)	\$ 0.62	\$ (0.01)	\$ (0.01)	\$ -	\$ (0.32)	\$ -

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 that could cause results or events to differ materially from current expectations include but are not limited to: general economic conditions; market or business conditions; changing competitive environment; changing regulatory conditions or requirements; changing technology; 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 actual results or events may differ materially from the results or events predicted. 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.