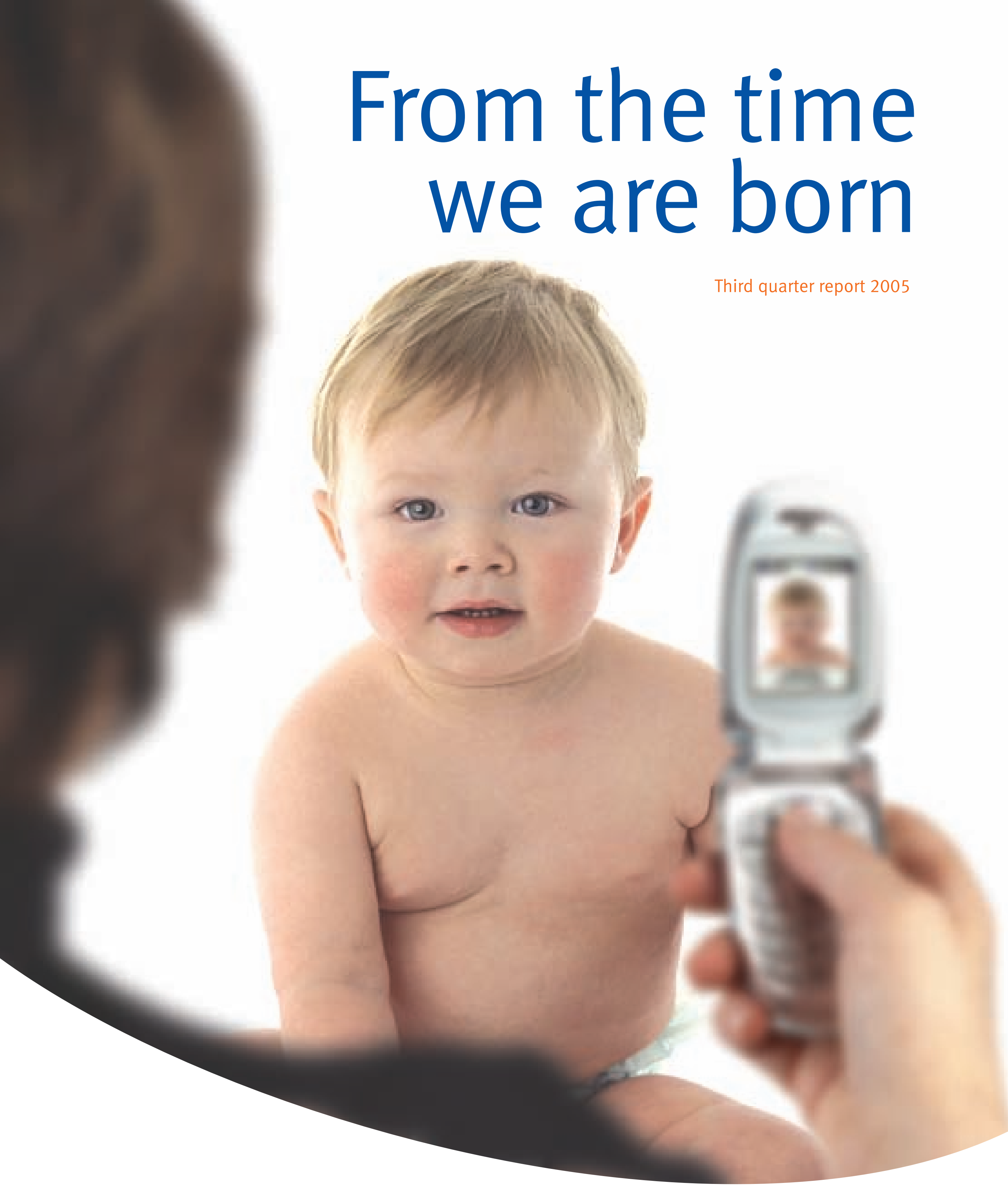
From the time we are born

Third quarter report 2005



here.
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Aliant

Wireless and Internet strong; earnings per share $0.37

I am very pleased with our performance this quarter. Consolidated revenues were up 4.2 per cent year over year and net income increased 37.2 per cent to $50.8 million. The return to normal operations after the labour disruption of 2004 was a major contributor to the growth in earnings. Strong revenue growth in our wireless and Internet businesses and diligent expense management also helped increase earnings per share to $0.37, up 42.3 per cent year over year.

Our telecommunications business continues to perform well in an increasingly competitive marketplace. Revenues grew by 3.4 per cent compared to the same quarter last year. We are pleased with the overall trend in our operations. We are experiencing excellent wireless and Internet performance, greater stability in long-distance revenues, good growth in telecom product sales and more modest local service losses.

Our IT business generated revenues of $82.7 million during the third quarter, up 4.2 per cent over the same period last year. Operating income was lower because xwave's IT consulting business experienced its typical summer slowdown this year. With continued revenue growth and management of operating expenses, xwave has become a regular positive contributor to our overall operating income.

Achieving our growth and transformation objectives

In addition to our financial success, which is well on track, we also made considerable progress from a strategic perspective during the quarter. In this report, I want to update you on our progress in three areas that are helping us achieve our growth and transformation objectives.

Owning the broadband home

We took a number of steps forward with regard to broadband and Internet Protocol (IP) technologies. During the quarter, we recorded our highest number of net high-speed Internet activations ever – more than 18,000. Year over year, our high-speed customer base has grown 40 per cent. The growth was driven by our back-to-school program, proactive management of dial migration, success in marketing our new small business Internet service, and the launch of our PC purchase program, where over half of all PC purchases were accompanied by new Internet activations.

We continue to see good customer acceptance of our newly launched TV service in Halifax. While we are still in an early stage of deployment, our research indicates customers are very satisfied with the service and rate it much better than that offered by competitors. We also continued trials of our Voice over Internet Protocol (VoIP) service and formally appealed the CRTC's decision to regulate VoIP services for incumbent carriers.

And finally, we signed a marketing agreement with Killam Properties Inc., one of Atlantic Canada's foremost property management companies. Together, we will market our services to Killam's 8,800 residential and manufactured home community units across Atlantic Canada.

Becoming the most trusted information and communications technology (ICT) advisor for business customers
As I mentioned in past reports, we are improving our approach to the small and medium business (SMB) market. Our launch of Atlantic Canada's only SMB retail store in June is strong evidence of our focus on this segment. This is a difficult market to address and we are still learning how to best pursue the growth opportunities we believe it offers. Fostering strong customer relationships is key to understanding its unique needs and evolving ICT requirements.

Turning to the Enterprise market, we completed two trials of IP telephony integrated into contact centre operations. Leading the evolution of contact centre effectiveness and efficiency continues to be a strong area of focus for us as we look to this market for continued growth.

Earlier this month, xwave and GE Healthcare announced a 15-year contract to provide a clinical management solution for Ontario physicians. The solution will transform the primary health care sector by providing physicians secure and efficient access to electronic patient records and practice management software.

Staying competitive in one of North America's most dynamic telecommunications marketplaces
Finally, I would like to tell you about our competitive position. As I mentioned last quarter, value packages are proving to be an excellent competitive advantage for us, adding to our customer growth in both wireless and Internet, bringing stability to traditional revenue sources, reducing churn and generating higher overall average revenue per customer.

Another area of competitive strength is our youth market. Young Atlantic Canadians have proven to be early adopters of our latest technologies – so much so that we recently opened a store in St. John's, Newfoundland, tailored specifically to this market. The store adds to our distribution channel that reaches this market, which we believe is so important to our future growth.

To ensure we remain competitive, we continue to work through the regulatory hurdles that prevent us from offering our customers the most competitive prices and packages. During the last week of September, we participated with 18 other parties in the CRTC's hearing on local forbearance. We are looking for relief for residential local service in 32 exchanges in Nova Scotia and PEI. We await the CRTC's decision.

Dividend declared for December
Our board of directors declared a common share dividend of $0.295 per common share, payable on December 30, 2005, to shareholders of record on December 15, 2005. They also declared a preferred share dividend of $0.340625, payable on December 31, 2005, to shareholders of record on December 15, 2005.

Jay Forbes
President and chief executive officer
October 28, 2005

Third quarter financial highlights

For the period ended September 30	Three months			Nine months		
(million of dollars, except per share amounts)	**2005**	2004	% change	**2005**	2004	% change
Operating revenue	**520.1**	499.3	4.2	**1,561.8**	1,523.6	2.5
Operating income	**104.2**	73.2	42.4	**289.7**	243.7	18.9
Net income	**50.8**	37.0	37.2	**144.2**	123.2	17.0
Earnings per common share	**0.37**	0.26	42.3	**1.05**	0.87	20.7
Weighted average common shares outstanding (millions)	**129.2**	132.1	(2.2)	**130.8**	132.7	(1.4)

On the cover: Sean, grandson of Sharon Reicker, Aliant engineering results administrator (retired), New Brunswick

MD&A

This document provides 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, 2005, compared to the corresponding periods in 2004. The MD&A should be read in conjunction with our unaudited interim consolidated financial statements and accompanying notes for the period ended September 30, 2005, our audited consolidated financial statements, accompanying notes, and MD&A contained in our 2004 annual report. Reference can also be made to MD&As contained in our previously issued 2005 quarterly reports. 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 October 27, 2005, which is the date of filing in conjunction with our press release announcing our results for the third 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, October 27, 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 Canada-based company focused on being the premier information and communications technology (ICT) solutions 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.

During the third quarter, the infrastructure services function of our Information Technology segment was integrated into our Telecommunications segment.

QUARTER AT A GLANCE
Financial results

For the period ended September 30	Three months			Nine months		
(millions of dollars, except per share amounts)	**2005**	2004	% change	**2005**	2004	% change
Operating revenues	**520.1**	499.3	4.2	**1,561.8**	1,523.6	2.5
Expenses	**415.9**	426.1	(2.4)	**1,272.1**	1,279.9	(0.6)
Operating income	**104.2**	73.2	42.4	**289.7**	243.7	18.9
Other income (expenses)	**0.3**	(2.8)	—	**(2.0)**	1.6	—
Interest charges	**19.8**	19.8	—	**55.5**	57.6	(3.6)
Income taxes	**33.2**	13.2	151.4	**86.2**	63.3	36.2
Non-controling interest	**0.7**	0.4	86.2	**1.8**	1.2	50.8
Net income	**50.8**	37.0	37.2	**144.2**	123.2	17.0
Earnings per common share	**0.37**	0.26	42.3	**1.05**	0.87	20.7

Operating revenues for the third quarter of 2005 increased by 4.2 per cent over the same period last year, reflecting a strong recovery from the 2004 labour disruption and growth in all areas except traditional local and long distance.

- Wireless revenue grew 13.5 per cent over the third quarter of 2004, driven by a 10.9 per cent increase in our customer base and a 3.4 per cent increase in average revenue per customer (ARPC).
- Internet revenue grew 10.9 per cent in the third quarter, driven by year-over-year high-speed Internet customer growth of 39.6 per cent and high-speed Internet revenue growth of 22.7 per cent.
- Telecommunications product revenues increased 30.2 per cent over the third quarter of 2004, further reflecting our recovery from the sales slowdown that arose during the 2004 work stoppage.
- IT service revenue in the third quarter experienced growth of 2.6 per cent over the same period in 2004, excluding the impact of 2004 divestiture activity. The impact of an acquisition in late 2004 and organic growth through new contracts contributed to the increase.
- IT fulfillment revenue grew 10.1 per cent due to increased sales to a number of customers.
- Revenues from our local and long distance services continued to decline, but the decline has slowed in recent quarters. Declining revenue trends are due to competition, technology substitution and regulatory constraints. The February 2005 Canadian Radio-television and Telecommunications Commission ("CRTC" or the "Commission") ruling on competitor digital network (CDN) service negatively impacted our local revenues by $4.1 million in the third quarter and $8.9 million year to date.

Third quarter operating income increased by 42.4 per cent, or $31.0 million, over the same period in the prior year. The improved results were driven mainly by the strong recovery from the 2004 labour disruption, somewhat offset by the impact of the CRTC's CDN decision and an increase in pension and other post-employment benefits (OPEBs) costs. We remain satisfied that operating expense increases required to drive revenue growth are being contained through sound general expense management and productivity savings resulting from the early retirement incentive program (ERIP) implemented in late 2004. As at September 30, 2005, 661 of the 693 employees that accepted the voluntary offer have left Aliant, with the remainder expected to leave by the end of this year. We estimate that this reduction in employees has removed approximately $28 million in operating expenses year to date.

We generated cash from operating activities of $238.0 million, an increase of $44.1 million over the same period last year. The receipt of a 2004 income tax refund contributed to an $18.6 million improvement in working capital. In addition, net income for the quarter was $13.8 million higher than the net income for the same period last year. Financing activities used $86.4 million in cash, mainly comprised of $36.7 million in common dividends and $46.1 million for repurchase of common shares under our normal course issuer bid (NCIB). During the third quarter, we used cash of $99.7 million for capital investments to support our strategy of growth and transformation.

Progress on our strategic initiatives
Seven key initiatives form the basis of our growth and transformation strategy:

First, in the residential market, we are capturing new growth and defending existing revenues by "owning" the broadband home. During the third quarter, we progressed on a number of initiatives that position us to be Atlantic Canadians' first choice for complete information, communications and entertainment services:

- We continued our TV rollout, doubling the number of homes passed. Early feedback from Aliant TV customers suggests the product is being very well received.
- We continued to aggressively grow our broadband footprint, installing or augmenting an additional 181 broadband sites, bringing our total number of broadband sites to 815.
- We continued to make our value packages more compelling by developing an unlimited cellular long distance option for an incremental $20 per month, an industry first. This new offering was launched across the four Atlantic provinces on October 1, 2005. Value packages are key to retaining our high value customers and growing average revenue per household by up-selling our customers to new services and service enhancements.
- We launched our PC Purchase Program, which combines our Internet services with the purchase of a new personal computer. The program provides an affordable choice for customers who want on-line access, while stimulating demand for new Internet activations.
- We announced an agreement with Killam Properties Inc. to market our consumer information, communications and entertainment products to their tenants in residential and manufactured home communities throughout Atlantic Canada.

Second, we are focused on being the most trusted ICT advisor to the small- to medium-sized business (SMB) market. The SMB 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:

- We launched a wireless local-area network (WLAN) solution for businesses, providing customers secure and mobile high-speed access to corporate e-mail and Intranets. Business customers can combine our WLAN product with our wireless Internet protocol (IP) voice solution to provide even greater flexibility in meeting their communication needs.
- We launched the integration of BlackBerry® devices with our Hosted Exchange service for business customers, allowing customers better access to their company information and e-mail while away from the office.
- We launched an interactive on-line Business Solutions Advisor that allows business customers the ability to design an efficient, flexible communications solution to meet their specific needs.
- We provided further ICT education to customers through a national awareness campaign and continued to advance integrated solutions by trialing specific solution sets to two new SMB verticals, in addition to the real estate solution we already have in the market.

Third, we are serving the enterprise market by innovating with our customers. Our strategy focuses on key industry verticals, delivering needs-based ICT consulting and business solutions. Several developments occurred in the third quarter:

- We continue to be perceived as a trusted advisor, providing professional services to our enterprise customers to help them achieve an adaptive and affordable ICT infrastructure-based advantage. During the quarter, we were awarded a core technology assessment project for the Nova Scotia Strait Regional School Board and a mobile enablement consulting project for the City of Saint John.
- We are demonstrating leadership and innovation in the mobile data revolution, as a successful trial with the Department of National Defence resulted in us being chosen to provide a wireless messaging ICT solution in Nova Scotia.
- We signed a 15-year contract with Smart Systems for Health Agencies and OMA e-Services Inc., a wholly owned subsidiary of the Ontario Medical Association, to deliver an affordable clinical management system to Ontario physicians. The system is an application service provider (ASP) solution that supports the transformation of the primary healthcare sector by enabling and promoting the adoption of high-quality, integrated information technology.

- We completed our organizational integration of the infrastructure services function of our Information Technology segment into our Telecommunications segment, which involved the transfer of approximately 425 employees. This alignment will further improve our ability to develop and deliver ICT solutions by adopting common processes, systems and tools. Demonstrating customer confidence in this alignment, the Government of New Brunswick recently extended their contract for facilities management services.

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 building and sustaining new revenues and will require us to develop solutions that use new technologies. Advancements made during the third quarter included:

- We continued technology trials for our Voice-over Internet Protocol (VoIP) platforms, recently expanding our residential VoIP trial. Our residential VoIP trial will continue into early 2006 as we continue to evaluate the right solution set and service functionality for our customers.
- We completed two trials of IP telephony capabilities integrated into major contact centre operations. The evolution of IP telephony capabilities will create opportunities for efficiencies for our contact centre customers and help solidify these customer relationships.

Fifth, we are redefining the way we work to better serve our customers, reduce costs and safeguard our future. This transformation involves ongoing initiatives that will serve to enhance our customer service experience and improve operational effectiveness:

- We expanded self-serve options for SMB customers, including the addition of a smart form for moves, additions and changes.
- We made system improvements to our customer service operations. To continue process simplification and alignment, we introduced additional customer self-service functionality and we focused our efforts on creating customer contact centres of excellence.
- We continued productivity and cost management initiatives across all segments of our business. Further progress was made in the consolidation and replacement of high-operating cost technologies and systems, and we worked with partners and suppliers to improve procurement and certain customer sales and servicing functions.

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 and Internet-enabled wireless applications. We continued to expand and enhance the capabilities of our broadband network and our digital wireless data networks.

And seventh, we are investing in new skills required to grow and transform our business. We continued to support our employees as their roles evolve in response to the transformation of our business.

Environmental update

Regulatory

Significant regulatory developments affected our telecommunications business during the third quarter (up to and including October 27, 2005):

- We joined with Bell Canada, SaskTel, Telebec and Telus to file a petition with the Governor in Council asking for a review of and changes to the Commission's recent VoIP decision. In addition, the Province of Saskatchewan, the Coalition for Competitive Telecommunications, the Vancouver Board of Trade, and the Communications, Energy and Paperworkers Union of Canada have each petitioned the federal Cabinet, opposing economic regulation of incumbent local exchange carriers' (ILECs) VoIP services.
- We were among 18 parties that appeared in the September 2005 public consultations as part of the ongoing CRTC Proceeding on Local Service Forbearance. The proceeding will address our specific application for residential services that was filed in April 2004, and also establish the framework for further forbearance applications.
- We also filed our submission and replied to the submissions of other interested parties that have been offered to the Telecom Policy Review Panel (the Review). We recently participated in the telecommunications policy and regulatory framework forum. The Review organized its issues into

three categories: Broadband, ICT and Regulation. We are proposing that the CRTC lessen the regulatory burden and create greater symmetry in the regulatory regimes between ILECs and cable companies. We are also proposing that the Competition Bureau assume some responsibilities currently handled by the CRTC.

- The Commission initiated a public notice inviting comments on issues related to the introduction of Wireless Number Portability, including the time frame proposed by the Canadian Wireless Communications Association (CWTA). The CWTA has committed to implementing Wireless Number Portability by September 2007.

The timing of any CRTC decision on other issues, including the disposition of the deferral account, is unknown.

Competitive

Atlantic Canada continues to experience the most intense local competition in the country as our competitors expand their coverage area and new competitors launch services. As previously noted, in September 2005, we appeared before the CRTC requesting forbearance on residential local services in specific competitive areas. A decision is expected in 2006.

Local and national competitors continue to develop their infrastructure and expand their service offerings in all market segments. Our strategy is to focus on the needs of our customers by communicating with them directly, offering greater simplicity and value through competitively priced solutions, particularly through value packages, and building world class service through continued investment in our networks and people.

OPERATING RESULTS

The following is our discussion and analysis of the significant components of our consolidated operating results for the three and nine months ended September 30, 2005, in comparison to the same periods in the prior year.

Operating revenues

For the period ended September 30	Three months			Nine months		
(millions of dollars)	**2005**	2004	% change	**2005**	2004	% change
Telecommunications						
Local	**180.9**	183.8	(1.6)	**547.5**	560.3	(2.3)
Long distance	**78.6**	85.9	(8.5)	**239.1**	266.1	(10.2)
Wireless	**116.9**	103.0	13.5	**323.4**	283.6	14.0
Internet	**33.7**	30.4	10.9	**96.4**	89.6	7.7
Other revenues	**58.3**	49.7	17.3	**166.2**	146.2	13.7
	468.4	452.8	3.4	**1,372.6**	1,345.8	2.0
Information Technology						
IT Services	**50.1**	49.8	0.6	**153.4**	155.9	(1.6)
Fulfillment	**32.6**	29.6	10.1	**120.0**	107.2	11.9
	82.7	79.4	4.2	**273.4**	263.1	3.9
Other and intercompany eliminations	**(31.0)**	(32.9)	(5.8)	**(84.2)**	(85.3)	(1.3)
Operating revenues	**520.1**	499.3	4.2	**1,561.8**	1,523.6	2.5

Local revenue

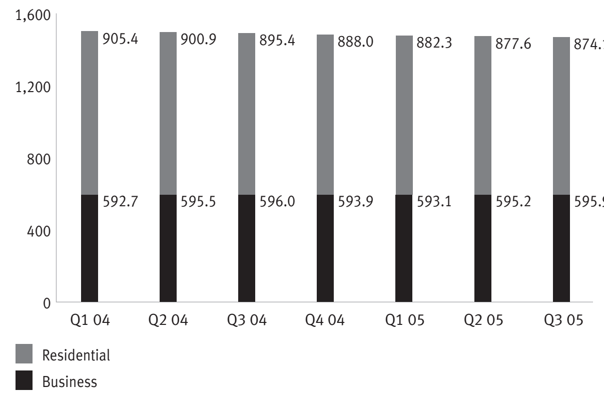
Local revenue is earned through the provision of network access service (NAS), enhanced service features, data access, contribution payments, competitor payments, telephone set rentals, payphone usage and service charges.

Local revenues continued to decline due to competition, technology substitution, and regulatory constraints, however the rate of decline in the third quarter was less than in previous quarters this year.

Revenue for the three months ended September 30, 2005, is down 1.6 per cent over the same period in the prior year.

The majority of our local revenues are earned through the provision of NAS. NAS revenues declined 1.3 per cent over the third quarter of 2004 mainly due to a 1.4 per cent decline in our NAS customer base in the last year. Our business NAS has remained virtually unchanged from September 30, 2004, and has grown slightly since the start of the year, as our strong marketing programs in both the SMB and enterprise markets support customer retention and growth. Our consumer, or residential, NAS is down 2.4 per cent, in line with the trend that we have been experiencing over the past couple of years but slightly better than the trends witnessed in the first half of 2005. 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 and VoIP technology.

Wireline NAS customers
(in thousands)



Overall, our NAS customer base has declined 1.4 per cent in the past year. Business NAS has remained virtually unchanged year over year, with modest growth since January. Consumer NAS is down 2.4 per cent, in line with the trend we have been experiencing over the past couple of years.

Revenue from sources other than NAS declined by 2.1 per cent over the third quarter of 2004. Growth in data access services was offset by the $4.1 million impact of the CRTC's CDN decision, which has also removed $8.9 million in revenues year to date. Enhanced service features revenue for the quarter declined 5.3 per cent over the prior year due to consumer NAS declines and lower pay-per-use revenues as customers adopt features inside enhanced local service bundles.

Long distance revenue

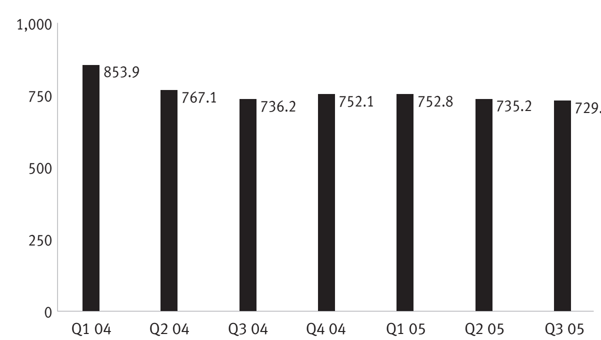
Long distance revenue is earned through toll, data network and long distance terminating services.

Long distance revenue declined $7.3 million or 8.5 per cent over the third quarter of 2004 mainly as a result of lower per-minute pricing and a 0.9 per cent decline in long distance minutes.

Business long distance revenues are declining due to competitive pricing pressures and contact centre minute usage reductions, as the contact centre industry continues to implement new technologies.

In the consumer market, intense competition, particularly from dial-around competitors, as well as the substitution of wireline long distance calling with wireless and Internet communications have contributed to minute erosion. The impact of minute erosion is mitigated in part by the number of customers taking unlimited long distance plans in our value packages. Our success in marketing value packages has resulted in increased customer retention and has enabled us to stabilize our customer base and, to some extent, revenues in 2005.

Long distance minutes
(in millions)



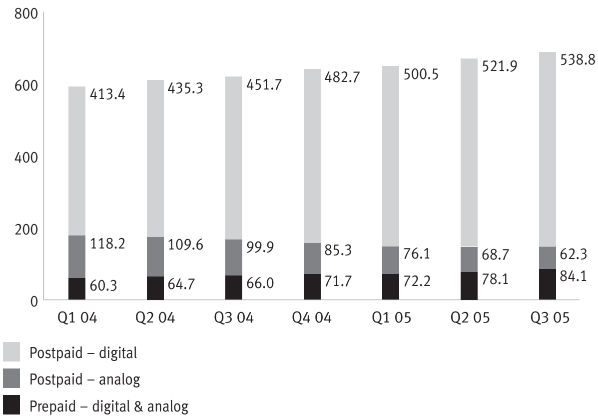
Long distance minutes have declined 0.9 per cent since September 30, 2004. In the consumer market, intense competition and the replacement of wireline long distance calling with wireless and Internet communications have contributed to the decline. In the business market, the decline is the result of competitive pricing pressures and contact centres implementing new technologies.

Converting customers to our bundled solutions contributes to lower pricing allocations to our long distance revenues but secures growing wireless and Internet revenues.

Wireless revenue

Wireless revenue is earned through cellular, paging and mobile radio services over our analog and digital wireless networks.

Cellular customers
(in thousands)



During the third quarter, we had 16,508 net customer additions. Our customer base has grown 10.9 per cent in the past year as we continue to expand our coverage, now at 89 per cent of Atlantic Canada's population, and enhance our dealer network and product selection.

Wireless revenues grew 13.5 per cent over the third quarter of 2004, driven by customer growth, increased ARPC and average minutes of use. Our customer base grew 10.9 per cent year over year, with net additions during the quarter of 16,508 increasing by a strong 105.2 per cent over the same period last year, as we continue to expand our coverage, enhance our dealer network and offer broad product selection. As at September 30, 2005, approximately 89 per cent of Atlantic Canada's population had access to our digital wireless network, up from approximately 86 per cent at the same time last year.

Our customer turnover rate, or churn, remained industry-leading at 1.4 per cent, as a growing number of our customers are subscribing to value packages and business bundles.

Third quarter ARPC grew by 3.4 per cent over the prior year, reflecting increased average minutes of use, higher usage of data services such as text messaging, and an increased percentage of customers choosing digital service. Our digital customer base grew 24.7 per cent, year over year, and by the end of the third quarter digital customers represented 85.7 per cent of our total cellular customers compared to 76.2 per cent at September 30, 2004. We have maintained our industry leading position with 87.7 per cent of our customer base subscribing to postpaid service at September 30, 2005. Postpaid customers generate higher monthly ARPC than prepaid customers.

Wireless – statistics

	Three months			Nine months		
For the period ended September 30	**2005**	2004	% change	**2005**	2004	% change
Monthly – average revenue per customer *(dollars)*						
Postpaid	**61.07**	58.51	4.4	**57.59**	54.58	5.5
Prepaid	**13.87**	12.27	13.0	**12.01**	10.96	9.6
Total	**55.40**	53.57	3.4	**52.35**	50.02	4.7
Monthly – average minutes of use per customer	**311**	289	7.6	**292**	267	9.4
Net additions	**16,508**	8,043	105.2	**45,552**	34,048	33.8
Churn	**1.40%**	1.68%	(16.7)	**1.38%**	1.40%	(1.4)

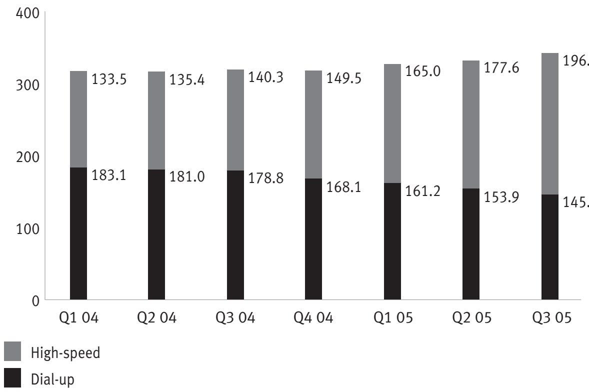
Internet revenue

Internet revenue is earned through high-speed and dial-up service, enhanced services and applications such as TV on my PC™, security services, music download service and Dial Accelerator.

Internet revenue increased 10.9 per cent over the third quarter of 2004, driven by a 22.7 per cent increase in high-speed revenues.

Our high-speed Internet customer base increased 39.6 per cent due to a very successful back to school marketing program, proactive management of dial migration, expansion of our service area, success in marketing our new small business Internet service, and the launch of our popular PC Purchase Program. High-speed customer net additions of 18,434 in the quarter represented 270.0 per cent growth over the same period last year. At September 30, 2005, our high-speed Internet service passed 79.4 per cent of homes and 83.9 percent of businesses in Atlantic Canada, up from 67.0 per cent and 76.2 per cent, respectively, at September 30, 2004. Dial-up customers continue to upgrade their Internet connection to high-speed service. We continue to manage this migration to ensure that the vast majority of migrating dial-up customers choose Aliant high-speed Internet service.

Internet customers[1]
(in thousands)



Since September 30, 2004, our high-speed customer base has grown 39.6 per cent. During the third quarter, we had 18,434 net customers additions due in part to a very successful back-to-school program, expansion of our service area and the successful launch of our popular PC Purchase Program.

1 During the third quarter of 2005, we adjusted our dial-up customer base as it was determined to be overstated in the fourth quarter of 2004 by 7,009 customers.

Blended churn for the third quarter of 2.2 per cent was higher than the 2.0 per cent churn for the third quarter of 2004. Processing delays as a result of the labour disruption contributed to temporarily suppressed Internet churn levels during 2004.

Consumer high-speed ARPC continued to show improvement as we introduce new programs to replace strong promotional pricing offered to generate customer growth. Overall business high-speed ARPC continued to decline, as expected, based on continued penetration of our small business high-speed Internet package introduced earlier in 2005 as part of our strategic initiative in the SMB marketplace.

Internet – statistics

	Three months			Nine months		
For the period ended September 30	**2005**	2004	% change	**2005**	2004	% change
Operating revenue *(millions of dollars)*						
Dial-up	**10,497**	11,480	(8.6)	**30,762**	34,446	(10.7)
High-speed	**23,192**	18,906	22.7	**65,665**	55,102	19.2
Total	**33,689**	30,386	10.9	**96,427**	89,548	7.7
Monthly – average revenues per customer *(dollars)*						
Consumer dial-up	**19.88**	20.24	(1.8)	**19.85**	20.03	(0.9)
Consumer high-speed	**33.51**	33.44	0.2	**32.56**	33.56	(3.0)
Business dial-up	**47.50**	45.77	3.8	**47.22**	45.16	4.6
Business high-speed	**84.87**	100.04	(15.2)	**87.67**	100.49	(12.8)
Net additions						
Dial-up	**(8,697)**	(2,241)	(288.1)	**(22,893)**	(5,148)	—
High-speed	**18,434**	4,982	270.0	**46,518**	16,962	174.2
Total	**9,737**	2,741	255.2	**23,625**	11,814	100.0
High-speed churn						
Consumer	**1.91%**	1.89%	1.1	**1.71%**	1.52%	12.5
Business	**1.83%**	2.04%	(10.3)	**1.73%**	1.88%	(8.0)

Other revenues

For the period ended September 30	Three months			Nine months		
(millions of dollars)	**2005**	2004	% change	**2005**	2004	% change
Product	**32.3**	24.8	30.2	**91.3**	76.6	19.2
Directory	**13.7**	12.6	8.7	**39.6**	37.2	6.5
Innovatia	**11.0**	7.7	42.9	**29.8**	20.1	48.3
Miscellaneous	**1.3**	4.6	(71.7)	**5.5**	12.3	(55.3)
	58.3	49.7	17.3	**166.2**	146.2	13.7

Product sales and revenues from our knowledge service applications subsidiary, Innovatia Inc. ("Innovatia"), were the largest contributors to the 17.3 per cent growth in other revenues for the third quarter compared to the same period in the prior year. Expansion of an existing project and the addition of new business continued to drive Innovatia's growth during the third quarter. The increase in product sales reflects the impact of last year's work stoppage when limited resources caused product sales efforts to be significantly reduced.

IT services revenue

IT services revenue is earned through systems integration, software engineering, infrastructure services and other IT consulting.

IT services revenue grew $0.3 million in the third quarter, or 0.6 per cent, compared to the same period in the prior year. Underlying revenue growth of 2.6 per cent excludes the $0.9 million impact of 2004 business unit divestiture activity and is mainly attributed to the December 2004 acquisition of the Atlantic-based operations of Fujitsu Consulting (Canada) Inc. Summer seasonality in IT services, as consulting employees take annual vacations, returned to a normal level in 2005 while the labour disruption of 2004 had dampened this effect last year.

During the third quarter of 2005, xwave secured new or extended service business worth an estimated $5.6 million in annual revenues from a number of customers including Government of New Brunswick, Ontario Ministry of Education, Maine Department of Health and Human Services and NAV Canada.

Fulfillment revenue

Fulfillment revenue is earned through the sale of computer hardware, accessories and packaged software.

Fulfillment revenue in the third quarter grew 10.1 per cent over the same period in 2004, driven primarily by sales in Newfoundland and Labrador, and Ontario.

Expenses

For the period ended September 30	Three months			Nine months		
(millions of dollars)	**2005**	2004	% change	**2005**	2004	% change
Expenses						
Operating expenses						
Cost of operating revenues	**61.1**	52.8	15.6	**210.8**	185.8	13.4
Pension and OPEBs cost	**23.3**	16.9	38.4	**73.5**	57.2	28.6
Other operating expenses	**233.3**	257.2	(9.3)	**692.0**	733.6	(5.7)
	317.7	326.9	(2.8)	**976.3**	976.6	—
Depreciation and amortization	**98.2**	98.6	(0.3)	**295.8**	298.1	(0.8)
Restructuring charge	**—**	0.6	—	**—**	5.2	—
	415.9	426.1	(2.4)	**1,272.1**	1,279.9	(0.6)

Cost of operating revenues

The cost of operating revenues increased by 15.6 per cent for the third quarter when compared with the same period in the prior year. The increase was primarily driven by the cost of goods sold associated with the 30.2 per cent increase in telecommunications product sales compared to the third quarter last year. Cost of operating revenues also includes toll terminating and contribution expenses.

Pension and OPEBs cost

For the period ended September 30	Three months			Nine months		
(millions of dollars)	**2005**	2004	% change	**2005**	2004	% change
Defined benefit	**18.3**	10.4	76.0	**54.9**	36.2	51.7
Defined contribution	**0.8**	2.6	(69.2)	**5.9**	9.4	(37.2)
Other post-employment benefits	**4.2**	3.9	7.7	**12.7**	11.6	9.5
Pension and OPEBs cost	**23.3**	16.9	38.4	**73.5**	57.2	28.6

Defined benefit (DB) pension cost for the third quarter of 2005 increased over the same period of 2004 primarily due to the amortization of a larger balance of prior years' net actuarial losses. Net actuarial losses have increased due to a rise in the accrued benefit obligation. The increase in the obligation results from a lower interest rate used to discount the future obligations and from additional past service costs relating to plan amendments made in 2004. In the third quarter of 2005, we amortized $4.0 million more accumulated losses through pension cost compared to the third quarter of 2004.

Defined contribution (DC) pension cost represents the current service expense associated with our contributions to employees' retirement savings accounts. DC pension costs for the third quarter of 2005 were lower than for the same period last year due to fewer employee members in our DC pension plan, as certain eligible employees converted their membership from a DC plan to a DB plan pursuant to the 2004 plan amendments. Also contributing to the lower costs was $1.1 million of refunded contributions made earlier in 2005 relating to employees who subsequently converted to a DB plan effective January 1, 2005.

Other operating expenses

Overall, other operating expenses decreased in the third quarter by $23.9 million over the expenses incurred during the same period in the prior year. This reflects approximately $23 million of incremental costs experienced during the 2004 work stoppage. We are containing the costs required to support growth in our wireless and Internet businesses with prudent general expense management, and through productivity improvements and cost savings estimated at approximately $11 million for the quarter and $28 million, year to date, generated by our 2004 ERIP.

Other expenses

Other income (expenses)

Other income (expenses) includes non-operating items such as interest income, gains on sale of property, provincial large corporation tax and expenses related to our accounts receivable securitization program. Comparing the third quarter of 2005 to the same period last year, other expenses decreased due to a non-recurring contingency charge recorded in 2004.

Interest charges

Interest charges for the third quarter of 2005 were consistent with interest charges for the same period in 2004. Although our long-term debt balance is approximately $60 million higher at September 30, 2005, when compared with the same date last year, a lower interest rate on the debt issued in May 2005, along with the benefit of swapping some of our fixed-rate interest for floating, has resulted in our interest expense remaining consistent year over year.

Income taxes

The income tax provision for the third quarter of 2005 increased by $20.0 million over the same period in 2004. Although higher net income before taxes contributed to a larger tax provision in 2005, the main reason for the increase is a reduction of $5.5 million in the tax provision for the third quarter of 2004 due to the favourable resolution of prior years' tax issues that allowed for the reversal of tax reserves set up in previous higher-tax-rate years. In addition, operating losses occurred during the third quarter of 2005 in xwave's Ireland and US operations for which the future tax savings benefit has not been recognized.

Comparing the third quarter of 2005 to the same period last year, the future tax expense component of the total income tax provision has increased. This shift from current tax expense to future tax expense occurs when there are higher deductions or lower additions to income calculated for tax purposes compared to reported income before tax. The increase in future tax expense for the third quarter of 2005 is a result of higher capital investments and ERIP related deductions taken for tax purposes in the third quarter of 2005 than in the same period last year.

FINANCIAL AND CAPITAL MANAGEMENT

Summary of cash flows

For the period ended September 30	Three months			Nine months		
(millions of dollars)	**2005**	2004	% change	**2005**	2004	% change
Cash from (used in):						
Operating activities						
Net income	**50.8**	37.0	37.2	**144.2**	123.2	17.0
Adjustments to reconcile net income to cash from operating activities						
Funding of DB pension and OPEBs plans	**(20.5)**	(17.4)	17.8	**(120.5)**	(77.2)	56.1
Net benefit plans cost	**22.5**	14.3	57.3	**67.6**	47.7	41.7
Change in non-cash working capital	**85.2**	66.6	27.9	**46.0**	5.6	—
Depreciation, amortization and other non-cash items	**100.0**	93.4	7.1	**302.4**	295.4	2.4
	238.0	193.9	22.8	**439.7**	394.7	11.4
Repurchase of common shares	**(46.1)**	(7.1)	—	**(125.6)**	(50.6)	148.2
Preferred and common share dividends	**(39.1)**	(37.3)	4.8	**(118.8)**	(112.5)	5.6
Proceeds of long-term debt	**—**	—	—	**149.3**	—	—
Capital investments	**(99.7)**	(51.4)	94.0	**(286.9)**	(180.7)	58.8
Other financing and investing activities	**(1.4)**	1.8	—	**(9.8)**	(9.6)	2.1
Net increase in cash	**51.7**	99.9	(48.2)	**47.9**	41.3	16.0

Operating activities

During the third quarter of 2005, we generated $238.0 million in cash from operating activities, an increase of $44.1 million over the same period in 2004. Improved working capital, driven by the receipt of a large tax refund and higher net income, contributed to the 22.8 per cent increase.

Funding of DB pension and OPEBs plans

In 2005, we anticipate having to make required contributions to our DB pension plans in the range of $70 million to $80 million. We are making monthly contributions to our pension plans based on this estimate. 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.

Net benefit plans cost

Included in net benefit plans cost are DB pension costs and OPEBs costs. Refer to the "Pension and OPEBs cost" section for a discussion of these items.

Change in non-cash working capital

For the period ended September 30		Three months			Nine months	
(millions of dollars)	**2005**	2004	% change	**2005**	2004	% change
Accounts receivable	**(40.5)**	10.5	—	**(12.6)**	45.4	—
Prepayments	**12.9**	17.5	(26.3)	**(9.3)**	(4.0)	132.5
Inventory	**(1.7)**	2.6	—	**2.7**	3.5	(22.9)
Payables and accruals	**35.9**	5.2	—	**(25.2)**	(27.8)	(9.4)
Income taxes receivable and payable	**78.6**	30.8	155.2	**90.4**	(11.5)	—
Change in non-cash working capital	**85.2**	66.6	27.9	**46.0**	5.6	—

During the third quarter of 2005, the change in non-cash working capital balances generated cash of $85.2 million, representing an additional source of cash from operating activities of $18.6 million or 27.9 per cent when compared with the change experienced in the third quarter of 2004. The significant positive working capital change for the quarter is primarily due to the receipt of an outstanding 2004 income tax refund of approximately $55 million and lower tax installments as compared to current tax expense, offset by higher accounts receivable reflecting increased operating revenues and a higher trade receivable outstanding from a related party.

Repurchase of common shares

Under the NCIB that commenced on August 6, 2003, and ended August 5, 2004, we acquired our common shares for cash at the market price through the facilities of the Toronto Stock Exchange (TSX). We commenced a similar but new NCIB on February 4, 2005, under which we may acquire an additional 6,637,200 common shares prior to the expiry of the bid on February 3, 2006.

For the three and nine months ended September 30, 2005, we purchased for cancellation 1,675,643 and 4,524,522 shares, respectively, for an aggregate price of $46.1 million and $125.6 million, respectively. For the three and nine months ended September 30, 2004, we purchased for cancellation 268,846 and 1,732,130 shares, respectively, for an aggregate price of $7.1 million and $50.6 million, respectively.

Further details about the NCIB are provided in note 8 to our unaudited interim consolidated financial statements for the period ended September 30, 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 $1.8 million increase in dividends paid during the quarter, when compared with the same period in the prior year, reflects the $0.02 increase in the quarterly dividend rate to $0.295 per common share approved during the first quarter of 2005, partially offset by fewer shares outstanding as a result of the NCIB.

Proceeds of long-term debt

In May 2005, we issued $150.0 million (for net proceeds of $149.3 million) in seven year notes, pursuant to a shelf prospectus filed on May 9, 2005. The notes bear interest of 4.52 per cent per annum, mature on May 24, 2012, and are callable at any time at the greater of par and the Canada Yield Price. The proceeds of this issue will be used to repay $150.0 million in medium-term notes maturing in November 2005.

Capital investments

Cash used for capital investments during the third quarter and first nine months of 2005 increased by $48.3 million and $106.2 million, respectively compared to the same periods in 2004 as spending returned to normal levels following the work stoppage experienced in 2004. We have continued to invest in our traditional wireline areas as required and have increased our investment in wireless and Internet areas to support growth. We expect the pace of our investment to decrease slightly during the fourth quarter of 2005, due to the successful completion during the third quarter of a significant portion of our planned investments in our broadband, IPTV and next generation data networks.

Other financing and investing activities

We repurchased $5.0 million under our accounts receivable securitization program during the first six months of 2005 and 2004, but there was no change in the third quarter of 2005 or 2004. The accounts receivable securitization program is discussed further in the "Off-balance sheet arrangements" section.

We also acquired $4.7 million worth of capital equipment through a capital lease transaction, the details of which are discussed in note 7 to the unaudited interim consolidated financial statements for the period ended September 30, 2005.

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 balance, 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 September 30, 2005, the balance remaining to be paid for the restructuring charge taken in 2004 is $14.4 million. ERIP participants may elect to receive their payments in whole at their retirement date or defer a portion to January following the year of their retirement.
- Dividend payments at the current rates, totalling approximately $39 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 2,112,678 common shares permitted under our NCIB prior to February 3, 2006.
- Total required contributions to our DB pension plans for 2005 are anticipated to be in the range of $70 million to $80 million for 2005, of which $56.5 million has been made year to date. We are currently updating our DB pension actuarial valuations for the year ended December 31, 2004, and the valuations will be completed and filed with the regulator in the fourth quarter of this year. We will adjust our DB pension funding, if necessary, 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 10 and 11 to the unaudited interim consolidated financial statements for the period ended September 30, 2005.

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 access to the capital markets.

Capital structure

(millions of dollars, except as otherwise noted)	**September 30, 2005**		December 31, 2004	
Common equity	**1,259.8**	**50.6%**	1,358.4	55.6%
Preferred equity	**172.3**	**6.9%**	172.3	7.1%
Non-controlling interest	**4.0**	**0.2%**	5.2	0.2%
Long-term debt, including amount due within one year	**1,049.2**	**42.2%**	896.4	36.7%
Notes payable and bank advances	**3.2**	**0.1%**	9.1	0.4%
Total capital	**2,488.5**	**100.0%**	2,441.4	100.0%
Debt as a percentage of total capital	**42.3%**		37.1%	

Common equity

The rate at which we repurchase common shares under our NCIB is at our discretion. Between October 1 and October 21, 2005, we purchased for cancellation 382,347 shares under the NCIB program for $10.5 million.

At October 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

	October 21, 2005	
(millions of dollars, except as otherwise noted)	Number of shares	Value
Preference shares, series 2	7,000,000	172.3
Common shares	128,024,427	1,010.8
		1,183.1

	Number of options	Weighted average exercise price
Options outstanding	2,896,466	30.25
Options exercisable	2,088,454	30.34

Debt

Our financial structure provides several possible sources of liquidity:

- We maintain excellent access to capital markets, which provides flexibility in our capital structure. We filed a shelf prospectus in May, 2005, that allows us to issue up to $350.0 million in medium-term notes as and when we require funds during its 25-month life. As noted above, we issued $150.0 million in medium-term notes in the second quarter of 2005, thus a further $200.0 million is permitted under the shelf prospectus.
- As at September 30, 2005, we maintained lines of credit totalling $607.5 million, unchanged from June 30, 2005. Further details on our existing credit arrangements are provided in note 10 to our audited consolidated financial statements for the year ended December 31, 2004.

Credit ratings

	Standard & Poor's (S&P)	Dominion Bond Rating Service (DBRS)
Aliant corporate credit rating	A negative outlook	A (low) negative trend
Aliant preferred shares	P-2 (high)	Pfd-2 (low) negative trend
Aliant commercial paper	A-1	R-1 (low) stable trend
Aliant Telecom unsecured long-term debt	A	A negative trend

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. During the second quarter of 2005, we repurchased $5.0 million of our accounts receivable which reduced our cumulative cash proceeds. At September 30, 2005, cumulative cash proceeds in our securitization trust totalled $120.0 million and the security required under the program, recorded as retained interest, was $41.6 million, unchanged from June 30, 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 main derivative financial instruments that we use are an interest rate swap and interest rate swaptions. There has been no change in the purpose or terms of these agreements during the third 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 March and July of 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 September 30, 2005, the fair value of these agreements is $35.4 million in favour of the counterparty. We have recorded a deferred credit of $7.7 million related to unamortized premium income we received in 1997 and 2001 in relation to these swaptions. The difference of $27.7 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 September 30, 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 third quarter of 2005. For greater detail on our related party transactions refer to note 1 of our unaudited interim consolidated financial statements for the period ended September 30, 2005, and 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 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 period ended September 30, 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 nine months, nor are they expected to result in changes during the remainder of 2005.

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. In September 2005, the action that was commenced against us by 132 former employees who took early retirement under a 1998 early retirement incentive program was discontinued on the basis that the parties bear their own legal costs. There have been no significant changes in the legal proceedings involving us that would impact our financial position. Given current circumstances surrounding deferral account rules, we have revised our estimate of the balance of our deferral account to between $7 million and $36 million as discussed in note 11 of our unaudited interim consolidated financial statements for the period ended September 30, 2005.

Pension and other post-employment benefit contributions

Based on valuations performed in 2004 as of December 31, 2003, and estimations of additional funding requirements resulting from the plan amendments made in 2004, required funding for DB pension plans for 2005 is estimated to be in the range of $70 million to $80 million. This estimate is subject to change, as actuarial valuations are currently being prepared as of December 31, 2004. Required funding levels for 2005 and beyond will be prescribed as a result of these updated actuarial valuations. The actual impact of such factors as the plan amendments, the ERIP, the discount rate and actuarial experience of the plans could be different than initially anticipated. Therefore the valuations could result in minimum required contributions different than the estimate that has been provided.

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 September 30, 2005	2003				2004			**2005**
(millions of dollars, except per share amounts)	Q4	Q1	Q2	Q3	Q4	Q1	Q2	**Q3**
Total operating revenues	530.4	515.6	508.7	499.3	509.8	524.4	517.3	**520.1**
Net income from continuing operations	42.1	46.0	40.2	37.0	7.5	43.6	49.8	**50.8**
Net income from discontinued operations	100.4	—	—	—	—	—	—	**—**
Net income	142.5	46.0	40.2	37.0	7.5	43.6	49.8	**50.8**
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	140.1	43.6	37.8	34.7	5.1	41.2	47.4	**48.4**
Basic earnings per common share								
Continuing operations	0.29	0.33	0.28	0.26	0.04	0.31	0.36	**0.37**
Discontinued operations	0.75	—	—	—	—	—	—	**—**
Basic earnings per common share	1.04	0.33	0.28	0.26	0.04	0.31	0.36	**0.37**
Diluted earnings per common share								
Continuing operations	0.29	0.33	0.28	0.26	0.04	0.31	0.36	**0.37**
Discontinued operations	0.74	—	—	—	—	—	—	**—**
Diluted earnings per common share	1.03	0.33	0.28	0.26	0.04	0.31	0.36	**0.37**

Impact of factors in the normal course of business

The 2004 results were impacted by a labour disruption, which commenced April 23 and concluded on September 20, and the provision of an ERIP in December. The comparability of 2005 with 2004 operating results is discussed in more depth through this document.

Trends and seasonality

Our quarterly results are affected by ongoing trends and seasonality of results as discussed within our MD&A contained in our 2004 annual report. Seasonality of results was significantly reduced, effective January 1, 2005, when 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. As well, during 2005, 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 affected by factors such as the outcome of pension valuations, amendments to the pension plans and the variability in quarterly pensionable earnings. In the third quarter of 2005, DC pension plan expense was reduced by a $1.1 million refund of employer contributions that were made earlier this year.

Impact of pension and OPEBs cost *(unaudited)*

For the eight quarters ended September 30, 2005	2003				2004			**2005**
(millions of dollars, except per share amounts)	Q4	Q1	Q2	Q3	Q4	Q1	Q2	**Q3**
Decrease in:								
Net income from continuing operations	(9.9)	(13.3)	(12.2)	(10.7)	(11.7)	(16.0)	(15.7)	**(14.8)**

Impact of factors outside the normal course of business

During the first three quarters 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 September 30, 2005	2003				2004			**2005**
(millions of dollars, except per share amounts)	Q4	Q1	Q2	Q3	Q4	Q1	Q2	**Q3**
Decrease in net income from continuing operations								
Restructuring charge	0.6	(1.9)	(0.9)	(0.4)	(42.3)	—	—	**—**
Writedown of investments	(12.3)	—	—	—	—	—	—	**—**
	(11.7)	(1.9)	(0.9)	(0.4)	(42.3)	—	—	**—**
Increase (decrease) in net income from discontinued operations								
Gain (loss) on sale of subsidiary	95.7	—	—	—	—	—	—	**—**
Impact on net income	84.0	(1.9)	(0.9)	(0.4)	(42.3)	—	—	**—**

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; changing interest rates and market returns on pension plan investments; and success in implementing productivity initiatives. Some of these factors are largely beyond our control. Should any factor affect 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. 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.

Statements *(unaudited)*

CONSOLIDATED BALANCE SHEETS

(thousands of dollars)	Notes	**As at September 30, 2005**	As at December 31, 2004
			(as restated, note 1)
Assets			
Current assets			
Cash and cash equivalents		**71,148**	138,265
Note receivable from related party	1	**300,000**	185,000
Accounts receivable	2	**259,535**	251,054
Inventory		**19,954**	22,654
Prepayments		**31,920**	22,642
Income tax receivable	3	**3,829**	28,299
		686,386	647,914
Capital investments	4	**1,913,073**	1,920,282
Other assets			
Deferred charges		**61,194**	56,101
Future income tax asset	3	**25,232**	32,883
Accrued benefit asset	5	**234,280**	172,680
Goodwill	1	**60,838**	60,783
Indefinite-life intangibles	1	**2,975**	2,952
		384,519	325,399
Total assets		**2,983,978**	2,893,595
Liabilities and shareholders' equity			
Current liabilities			
Notes payable and bank advances		**3,188**	9,101
Payables and accruals	6	**243,326**	263,485
Income tax payable	3	**63,871**	1,865
Future income tax liability		**460**	4,840
Long-term debt due within one year		**155,096**	153,043
		465,941	432,334
Long-term debt	7	**894,165**	743,342
Accrued benefit liability	5	**179,065**	170,344
Deferred credits		**8,760**	11,660
		1,547,931	1,357,680
Non-controlling interest		**3,972**	5,242
Shareholders' equity			
Capital stock	8	**1,186,106**	1,216,993
Contributed surplus		**618**	—
Retained earnings		**245,351**	313,680
		1,432,075	1,530,673
Total liabilities and shareholders' equity		**2,983,978**	2,893,595

See accompanying notes to the consolidated financial statements

Signed on behalf of the board of directors

Charles White

Charles White
Chairman

Edward Reevey
Director

CONSOLIDATED STATEMENTS OF INCOME

For the period ended September 30		Three months		Nine months	
(thousands of dollars, except per share amounts)	Note	**2005**	2004	**2005**	2004
			(as restated, note 1)		*(as restated, note 1)*
Operating revenues		**520,054**	499,298	**1,561,793**	1,523,644
Expenses					
Operating expenses		**317,645**	326,941	**976,287**	976,630
Depreciation and amortization		**98,244**	98,570	**295,820**	298,078
Restructuring charge	6	**—**	642	**—**	5,198
		415,889	426,153	**1,272,107**	1,279,906
Operating income		**104,165**	73,145	**289,686**	243,738
Other income (expenses)		**305**	(2,716)	**(1,943)**	1,539
Interest charges					
Interest on long-term debt		**19,186**	19,619	**54,562**	57,243
Other interest expenses		**454**	146	**928**	329
		19,640	19,765	**55,490**	57,572
Income before underlisted items		**84,830**	50,664	**232,253**	187,705
Income taxes					
Current tax expense		**32,640**	16,907	**81,842**	69,876
Future tax expense (recovery)		**609**	(3,683)	**4,389**	(6,574)
		33,249	13,224	**86,231**	63,302
Income before non-controlling interest		**51,581**	37,440	**146,022**	124,403
Non-controlling interest		**754**	405	**1,826**	1,211
Net income		**50,827**	37,035	**144,196**	123,192
Earnings per common share					
Basic and diluted		**0.37**	0.26	**1.05**	0.87

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the nine months ended September 30			
(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	**(46,670)**	(40,282)
Retained earnings, beginning of period, as restated		**313,681**	375,584
Net income		**144,196**	123,192
Preferred share dividends		**(7,153)**	(7,153)
Common share dividends – paid in cash		**(111,661)**	(105,316)
Common share dividends – reinvested through dividend reinvestment plan		**(3,958)**	(4,146)
Excess of repurchase of common shares over stated value	8	**(89,754)**	(36,705)
Retained earnings, end of period		**245,351**	345,456

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the period ended September 30		Three months		Nine months	
(thousands of dollars)	Notes	**2005**	2004	**2005**	2004
			(as restated, note 1)		*(as restated, note 1)*
Cash from (used in) operating activities					
Net income		**50,827**	37,035	**144,196**	123,192
Adjustments to reconcile net income to cash from operating activities					
Depreciation and amortization		**98,244**	98,570	**295,820**	298,078
Future income taxes		**609**	(3,683)	**4,389**	(6,574)
Net benefit plans cost	5	**22,533**	14,250	**67,599**	47,727
Funding of defined benefit pension and other post-employment benefits plans	5	**(20,434)**	(17,406)	**(120,479)**	(77,239)
Non-controlling interest		**754**	405	**1,826**	1,211
Other non-cash items		**303**	(1,946)	**309**	2,715
Change in non-cash working capital		**85,169**	66,649	**45,991**	5,616
		238,005	193,874	**439,651**	394,726
Cash from (used in) financing activities					
Repurchase of accounts receivable	2	**—**	—	**(5,000)**	(5,000)
Collection of long-term receivable		**—**	—	**4,823**	4,874
Net proceeds (repayments) of notes payable and bank advances		**1,287**	(705)	**(5,913)**	(13,078)
Proceeds of long-term debt	7	**—**	—	**149,349**	—
Repayment of long-term debt		**(53)**	35	**(151)**	(65)
Decrease in capital lease obligations		**(424)**	(424)	**(1,231)**	(1,124)
Decrease in non-controlling interest		**(2,196)**	—	**(3,096)**	(583)
Issuance of common shares		**275**	411	**1,026**	2,191
Repurchase of common shares	8	**(46,149)**	(7,067)	**(125,625)**	(50,571)
Preferred share dividends		**(2,384)**	(2,384)	**(7,153)**	(7,153)
Common share dividends		**(36,725)**	(34,930)	**(111,661)**	(105,316)
		(86,369)	(45,064)	**(104,632)**	(175,825)
Cash from (used in) investing activities					
Purchase of capital investments		**(99,766)**	(51,438)	**(286,921)**	(180,707)
Proceeds on sale of capital investments		**18**	2,529	**46**	3,297
Purchase of indefinite-life intangibles		**—**	—	**(23)**	(227)
Increase in contributed surplus		**(184)**	—	**(184)**	—
Business acquisitions, net of cash		**—**	—	**(54)**	—
		(99,932)	(48,909)	**(287,136)**	(177,637)
Net increase in cash		**51,704**	99,901	**47,883**	41,264
Cash, beginning of period		**319,444**	306,693	**323,265**	365,330
Cash, end of period		**371,148**	406,594	**371,148**	406,594
Cash consists of:					
Cash and cash equivalents		**71,148**	207,094	**71,148**	207,094
Notes receivable from related party		**300,000**	199,500	**300,000**	199,500
		371,148	406,594	**371,148**	406,594
Supplementary disclosure					
Interest paid		**12,980**	13,015	**48,825**	52,110
Net income taxes paid (received)		**(34,392)**	(10,700)	**3,530**	80,112

See accompanying notes to the consolidated financial statements

Statement notes *(unaudited)*

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 2.71 per cent per annum (December 31, 2004 – 2.56 per cent per annum). The presentation of note receivable from related party was reclassified from cash and cash equivalents in 2005.

Deferred charges

Deferred charges include contract costs, such as software development costs, licenses, bid pursuit and other up-front costs related to long-term customer contracts. They are amortized on a straight-line basis over the length of the customer contracts.

Indefinite-life intangibles and goodwill

Indefinite-life intangible assets consist of spectrum licences. We assess indefinite-life intangibles and goodwill for impairment in the second quarter of every year, and when events or changes in circumstances indicate that an asset might be impaired. The annual impairment test was conducted during the second quarter of 2005 and no impairment loss was required.

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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

(thousands of dollars, except per share amounts)	Three months ended September 30, 2004	Nine months ended September 30, 2004	Year ended December 31, 2004
Consolidated statements of income			
Increase (decrease) to:			
Operating expenses	1,539	3,694	9,184
Income taxes	(565)	(1,356)	(3,347)
Net income	(974)	(2,338)	(5,837)
Consolidated balance sheets			
Increase (decrease) to:			
Deferred charges	(45,106)	(45,106)	(50,598)
Future income tax liability	(16,846)	(16,846)	(18,838)
Retained earnings	(28,260)	(28,260)	(31,760)
Earnings per common share			
Basic and diluted	(0.01)	(0.02)	(0.04)

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.

(thousands of dollars, except per share amounts)	Three months ended September 30, 2004	Nine months ended September 30, 2004	Year ended December 31, 2004
Consolidated statements of income			
Increase (decrease) to:			
Operating revenues	2,109	(3,572)	55
Operating expenses	495	(57)	926
Income taxes	592	(1,289)	(319)
Net income	1,022	(2,226)	(552)
Consolidated balance sheets			
Increase (decrease) to:			
Accounts receivable	(25,877)	(25,877)	(22,876)
Prepayments	3,159	3,159	2,491
Payables and accruals	3,479	3,479	3,169
Future income tax liability	(9,614)	(9,614)	(8,644)
Retained earnings	(16,583)	(16,583)	(14,910)
Earnings per common share			
Basic and diluted	0.01	(0.02)	—

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Comparative figures

The comparative financial information has been reclassified to conform to the presentation adopted for 2005.

2 TRANSFER OF RECEIVABLES

During the second quarter of 2005, we repurchased $5.0 million of accounts receivable from the securitization trust, which reduced our cumulative cash proceeds from our accounts receivable securitization program to $120.0 million at September 30, 2005 (December 31, 2004 – $125.0 million). The security required under the program recorded as retained interest was $41.6 million at September 30, 2005 (December 31, 2004 – $43.5 million).

3 INCOME TAXES

During the first quarter of 2005, we revised our estimate for the timing of the payout of the voluntary early retirement incentive program (ERIP), which resulted in an increase to current tax liability of $10.0 million and a corresponding increase to the current portion of future income tax asset. As a result of ERIP payments made since the beginning of the year, $5.5 million has been reclassified from future tax asset to current tax liability.

Receipt of outstanding tax refunds of $55 million combined with lower tax instalments as compared to current tax expense resulted in an $86 million increase in net income tax liability since the beginning of the year.

4 CAPITAL INVESTMENTS

As at September 30, 2005 (thousands of dollars)	Cost	Accumulated depreciation and amortization	Net book value
Property plant and equipment			
Land	**12,787**	**—**	**12,787**
Buildings and towers	**357,377**	**168,282**	**189,095**
Telecommunications facilities and equipment	**4,263,492**	**2,817,668**	**1,445,824**
Other equipment	**233,391**	**150,778**	**82,613**
Plant under construction	**62,845**	**—**	**62,845**
Materials and supplies	**5,500**	**—**	**5,500**
Total property plant and equipment	**4,935,392**	**3,136,728**	**1,798,664**
Finite-life intangibles			
Software	**258,877**	**153,494**	**105,383**
Customer relationships	**6,319**	**2,375**	**3,944**
Residual commissions	**7,600**	**2,518**	**5,082**
	5,208,188	**3,295,115**	**1,913,073**

4 CAPITAL INVESTMENTS *(continued)*

As at December 31, 2004 *(thousands of dollars)*	Cost	Accumulated depreciation and amortization	Net book value
Property plant and equipment			
Land	12,828	—	12,828
Buildings and towers	367,494	179,652	187,842
Telecommunications facilities and equipment	4,507,451	3,044,641	1,462,810
Other equipment	276,166	197,070	79,096
Plant under construction	52,200	—	52,200
Materials and supplies	5,500	—	5,500
Total property plant and equipment	5,221,639	3,421,363	1,800,276
Finite-life intangibles			
Software	253,635	145,150	108,485
Customer relationships	6,357	1,736	4,621
Residual commissions	7,600	700	6,900
	5,489,231	3,568,949	1,920,282

In addition to normal disposal and retirement activity, during the second quarter of 2005 we performed a review of our capital investments, which resulted in removing retired assets with a cost of $523.8 million and net book value of nil.

5 ACCRUED BENEFIT ASSET (LIABILITY)

Components of net benefit plans cost

The tables below show the components of the net benefit plans cost.

Defined benefit (DB) pension plans

For the period ended September 30	Three months		Nine months	
(thousands of dollars)	**2005**	2004	**2005**	2004
Current service cost	**7,592**	4,618	**22,776**	18,674
Interest on the accrued benefit obligation	**27,525**	24,756	**82,575**	74,310
Actual return on plan assets	**(62,117)**	(5,331)	**(142,244)**	(47,533)
Elements of employee future benefit plans cost, before recognizing its long-term nature	**(27,000)**	24,043	**(36,893)**	45,451
Excess of actual return over expected return	**36,526**	(18,374)	**65,471**	(23,467)
Amortization of deferred amounts:				
Past service costs	**1,375**	—	**4,125**	—
Net actuarial losses	**7,382**	4,712	**22,146**	14,136
Adjustments to recognize long-term nature of employee future benefit plans cost	**45,283**	(13,662)	**91,742**	(9,331)
Net benefit plans cost	**18,283**	10,381	**54,849**	36,120

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

Other post-employment benefit (OPEB) plans

For the period ended September 30	Three months		Nine months	
(thousands of dollars)	**2005**	2004	**2005**	2004
Current service cost	**1,290**	1,144	**3,870**	3,432
Interest on the accrued benefit obligation	**2,889**	2,725	**8,667**	8,175
Elements of employee future benefit plans cost, before recognizing its long-term nature	**4,179**	3,869	**12,537**	11,607
Amortization of deferred net actuarial losses	**71**	—	**213**	—
Net benefit plans cost	**4,250**	3,869	**12,750**	11,607

Pension plan contributions

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

For the period ended September 30	Three months		Nine months	
(thousands of dollars)	**2005**	2004	**2005**	2004
DB pension plans				
Required contributions	**18,967**	16,314	**56,450**	48,957
2003 contributions received by the plans	**—**	—	**—**	25,000
Additional voluntary contributions	**—**	—	**60,000**	—
OPEBs plans contributions	**1,467**	1,092	**4,029**	3,282
Funding of DB pension and OPEBs plans	**20,434**	17,406	**120,479**	77,239

6 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 and nine months ended September 30, 2004, of $0.6 million and $5.2 million, respectively (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.

The restructuring charge balance in payables and accruals at September 30, 2005, is $ 14.4 million (December 31, 2004 – $68.6 million). As the employees leave the organization in 2005, the cash payments associated with the ERIP will be charged against this balance. Alternatively, the employee may opt to defer part of their payment to the January following the year of their retirement.

7 LONG-TERM DEBT

During the third quarter of 2005, we entered into a 36 month $4.7 million capital lease obligation for the acquisition of computer equipment bearing implicit interest of 3.75 per cent.

During the second quarter of 2005, we issued $150.0 million of unsecured medium-term notes bearing interest at 4.52 per cent per annum, maturing in May 2012, and callable at any time at the greater of par and the Canada Yield Price.

8 CAPITAL STOCK

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

	As at September 30, 2005		As at December 31, 2004	
(thousands of dollars, except as otherwise noted)	**Number of shares**	**Stated capital**	Number of shares	Stated capital
Common shares, beginning of period	**132,744,009**	**1,044,729**	133,616,920	1,035,798
Common shares purchased for cancellation	**(4,524,522)**	**(35,870)**	(1,732,130)	(13,410)
Shares issued:				
Under business acquisition	**—**	**—**	582,081	15,000
Under dividend reinvestments	**163,360**	**4,577**	229,316	6,405
Under stock option plan	**22,727**	**406**	47,822	936
Common shares, end of period	**128,405,574**	**1,013,842**	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 NCIB on a pro rata basis. In 2004, we acquired common shares under a similar NCIB, which ended on August 5, 2004. For the nine months ended September 30, 2005, we purchased for cancellation 4,524,522 shares (September 30, 2004 – 1,732,130 shares) for an aggregate price of $125.6 million (September 30, 2004 – $50.6 million), which reduced capital stock by $35.8 million (September 30, 2004 – $13.4 million), contributed surplus by nil (September 30, 2004 – $0.5 million) and retained earnings by $89.8 million (September 30, 2004 – $36.7 million).

Included in the common share purchases for the nine months ended September 30, 2005, were 2,336,222 shares purchased at market value from Bell Canada (September 30, 2004 – 827,497 shares) for an aggregate price of $64.8 million (September 30, 2004 – $24.2 million).

Stock option plan

A summary of the status of our stock option plan as at September 30, 2005, and December 31, 2004, and changes during the periods ended on those dates is presented below:

	As at September 30, 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	**481,520**	**29.24**	432,621	32.39
Forfeited	**(57,904)**	**31.82**	(226,389)	33.31
Exercised	**(22,727)**	**17.85**	(47,822)	19.58
Options outstanding, end of period	**2,897,666**	**30.25**	2,496,777	30.37
Options exercisable, end of period	**2,089,654**	**30.34**	1,703,581	30.38

For the three and nine months ended September 30, 2005, compensation expense in the amount of $0.5 million and $1.5 million, respectively (September 30, 2004 – $0.2 million and $0.8 million, respectively) related to stock options granted was recorded.

8 CAPITAL STOCK *(continued)*

For the three and nine months ended September 30, 2004, the pro-forma adjustment to net income for compensation expense related to the 2002 stock options was $0.3 million and $0.9 million, respectively, 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

During the second quarter of 2005, the performance share unit plan (PSU) was amended to include a supplementary personal performance share unit plan (PPSU) component, which was approved by the board of directors. The PPSU plan was established for certain executives and senior management. The PPSUs and PSUs are similar except that the PPSUs have performance-based criteria for vesting of share unit grants, which are based on the achievement of personal objectives supporting specific key corporate objectives rather than overall corporate performance. The 2004 PSU grant was repurposed as a PPSU grant in the second quarter of 2005.

	As at September 30, 2005	As at December 31, 2004
	Number of units	Number of units
Units outstanding, beginning of period	**109,322**	61,121
Granted	**144,890**	50,193
Forfeited	**(16,464)**	—
Exercised	**(15,991)**	(1,992)
Units outstanding, end of period	**221,757**	109,322

For the three and nine months ended September 30, 2005, compensation expense in the amount of $0.5 million and $1.5 million, respectively (September 30, 2004 – $0.2 million and $0.7 million, respectively) related to the PSUs and PPSUs granted was recorded.

Employees' stock savings plan

The total number of common shares bought for employees during the three and nine months ended September 30, 2005, was 299,800 and 1,010,827, respectively (September 30, 2004 – 238,900 and 792,900, respectively). Compensation expense related to the employees' stock savings plan of $2.0 million and $5.4 million, respectively, for the three and nine months ended September 30, 2005 (September 30, 2004 – $1.3 million and $4.0 million, respectively) was recorded.

9 SEGMENTED INFORMATION

For the three months ended September 30, 2005

(thousands of dollars)	Telecommunications	Information Technology	Corporate and others	Eliminations	Consolidated
Revenue from external customers	**466,223**	**53,400**	**431**	**—**	**520,054**
Intersegment revenue	**2,081**	**29,287**	**—**	**(31,368)**	**—**
Operating revenues	**468,304**	**82,687**	**431**	**(31,368)**	**520,054**
Operating expenses	**261,513**	**78,069**	**8,710**	**(30,647)**	**317,645**
Depreciation and amortization	**97,476**	**1,125**	**297**	**(654)**	**98,244**
Other income	**1,138**	**62**	**53,523**	**(54,418)**	**305**
Interest charges	**19,224**	**131**	**2,230**	**(1,945)**	**19,640**
Income taxes (recovery)	**33,743**	**2,424**	**(2,955)**	**37**	**33,249**
Non-controlling interest	**754**	**—**	**—**	**—**	**754**
Net income	**56,732**	**1,000**	**45,672**	**(52,577)**	**50,827**
Purchase of capital investments	**98,545**	**1,221**	**—**	**—**	**99,766**
Total assets	**2,817,262**	**202,520**	**1,796,271**	**(1,832,075)**	**2,983,978**

For the three months ended September 30, 2004

(thousands of dollars)	Telecommunications	Information Technology	Corporate and others	Eliminations	Consolidated
Revenue from external customers	451,350	47,451	497	—	499,298
Intersegment revenue	1,424	31,970	—	(33,394)	—
Operating revenues	452,774	79,421	497	(33,394)	499,298
Operating expenses	281,757	71,446	6,758	(33,020)	326,941
Depreciation and amortization	97,154	2,079	370	(1,033)	98,570
Restructuring charge	126	516	—	—	642
Other income (expenses)	(4,802)	1,161	33,790	(32,865)	(2,716)
Interest charges	19,614	282	1,045	(1,176)	19,765
Income taxes (recovery)	14,216	882	(2,172)	298	13,224
Non-controlling interest	405	—	—	—	405
Net income	34,700	5,377	28,286	(31,328)	37,035
Purchase of capital investments	49,899	1,472	67	—	51,438
Total assets	2,682,007	186,280	1,886,778	(1,868,217)	2,886,848

9 SEGMENTED INFORMATION *(continued)*

For the nine months ended September 30, 2005

(thousands of dollars)	**Telecommunications**	**Information Technology**	**Corporate and others**	**Eliminations**	**Consolidated**
Revenue from external customers	**1,366,389**	**194,085**	**1,319**	**—**	**1,561,793**
Intersegment revenue	**6,156**	**79,338**	**—**	**(85,494)**	**—**
Operating revenues	**1,372,545**	**273,423**	**1,319**	**(85,494)**	**1,561,793**
Operating expenses	**782,734**	**250,556**	**26,302**	**(83,305)**	**976,287**
Depreciation and amortization	**291,516**	**5,100**	**912**	**(1,708)**	**295,820**
Other income (expenses)	**(2,685)**	**76**	**150,485**	**(149,819)**	**(1,943)**
Interest charges	**54,478**	**238**	**4,822**	**(4,048)**	**55,490**
Income taxes (recovery)	**89,698**	**7,344**	**(10,819)**	**8**	**86,231**
Non-controlling interest	**1,826**	**—**	**—**	**—**	**1,826**
Net income	**149,608**	**10,261**	**130,587**	**(146,260)**	**144,196**
Purchase of capital investments	**282,914**	**3,998**	**9**	**—**	**286,921**
Goodwill acquired	**54**	**—**	**—**	**—**	**54**
Total assets	**2,817,262**	**202,520**	**1,796,271**	**(1,832,075)**	**2,983,978**

For the nine months ended September 30, 2004

(thousands of dollars)	Telecommunications	Information Technology	Corporate and others	Eliminations	Consolidated
Revenue from external customers	1,340,205	182,078	1,361	—	1,523,644
Intersegment revenue	5,595	81,035	—	(86,630)	—
Operating revenues	1,345,800	263,113	1,361	(86,630)	1,523,644
Operating expenses	799,716	243,007	19,495	(85,588)	976,630
Depreciation and amortization	293,553	6,532	1,044	(3,051)	298,078
Restructuring charge	2,356	2,842	—	—	5,198
Other income (expenses)	(1,562)	1,369	126,997	(125,265)	1,539
Interest charges	57,318	633	3,703	(4,082)	57,572
Income taxes	61,998	2,375	(1,977)	906	63,302
Non-controlling interest	1,210	1	—	—	1,211
Net income	128,087	9,092	106,093	(120,080)	123,192
Purchase of capital investments	176,491	4,055	161	—	180,707
Total assets	2,682,007	186,280	1,886,778	(1,868,217)	2,886,848

10 COMMITMENTS

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

(thousands of dollars)	Remainder of 2005	2006	2007	2008	2009	Thereafter
Operating leases	13,754	43,223	38,624	36,704	35,235	136,768
Purchase commitments	15,239	33,642	5,594	4,143	1,854	—
	28,993	76,865	44,218	40,847	37,089	136,768

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

11 CONTINGENCIES

(a) On September 21, 2005, the action that was commenced against us by 132 former employees who took early retirement under a 1998 early retirement incentive program was discontinued on the basis that the parties bear their own legal costs.

(b) 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 $36 million. A liability, should one arise, will be charged to operating income or capital investments, as appropriate.

Owning AIT

STOCK EXCHANGE AND TRADING SYMBOLS

Toronto Stock Exchange	*Trading symbol*
Common shares	AIT
Preferred shares	AIT.PR.A

IMPORTANT DATES

Common share dividends for 2005 *(subject to approval by the board of directors)*

Record dates	*Payment dates*
March 15	March 30
June 15	June 30
September 15	September 30
December 15	December 30

Earnings release dates for 2005 *(subject to change)*

	Release dates
Quarter 1	April 28
Quarter 2	July 27
Quarter 3	October 27
Quarter 4	January 26, 2006

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

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From the time we are born we have an innate desire to communicate, at first with mom and dad and then with the wider world. Throughout life that desire never wanes. Helping Atlantic Canadians fulfill this basic human need with simple and dependable solutions is our purpose.

Whether you're communicating with a friend across town or a business colleague around the world, we're here for you.

Our vision

To be the company with the strongest connection to the hearts and minds of Atlantic Canadians

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Aliant

Conlan, son of Dayna Campbell, Aliant consumer outbound manager, Newfoundland & Labrador