

Simple is better

Second quarter report 2004



Aliant 

Revenues rise; labour disruption impacts earnings

Although we are experiencing a labour disruption, which began early in the second quarter, by approximately two-thirds of our telecommunications employees, we have still been able to meet the needs of our customers and achieve revenue growth. This is due, in large part, to the dedication of our 2,200 remaining employees who have directed their efforts toward a single purpose: serving our customers.

Atlantic Canadians continue to choose our services

Focusing on a single purpose has had significant implications for our company. On the positive side, we are succeeding in maintaining the trust and confidence of customers. Recent public opinion polls indicate that overall satisfaction remains very high with seven-in-ten Atlantic Canadians rating our service as the same or better than before the labour disruption began.

The survey results are supported by growth in our number of customers. Over 17,000 more Atlantic Canadians chose us for cellular service during the second quarter and more than 1,800 came to us for high-speed Internet service. We also won over 20 contracts with business customers for local, television and Internet services. For example, we secured a three-year contact to provide Internet services to five New Brunswick universities. We also won a five-year agreement with Dalhousie University in Nova Scotia to install and maintain local telephone service and Bell ExpressVu in 2,700 residence rooms.

Labour disruption reduces earnings

While we are encouraged by the strength of our core business during the labour disruption, there has been an adverse financial impact. We estimate revenues were reduced by \$9 million this quarter, mostly from the postponement of new installations and equipment purchases, special promotional pricing on long distance, and reduced sales activity due to the re-assignment of sales staff to customer service roles. The impact on revenue was offset by lower direct costs of \$4 million, resulting in a net \$5 million impact on gross profitability.

Also, operating expenses were higher by an estimated \$16 million. Although we are not paying wages to our unionized telecommunications employees, overtime costs and costs related to training and equipping management employees for new roles, providing security and repairing property are more than offsetting these savings. The incremental strike-related costs were particularly high in the month immediately following the beginning of the strike as we implemented our business continuity plan and responded to actions that were taken to try to interrupt our business.

The net, after-tax impact of the labour disruption is estimated to be \$13 million, resulting in a decline in earnings per share this quarter, and year to date, of \$0.10. Excluding the financial impact of the labour disruption, growth in earnings per share would have been nearly 10 per cent for the quarter and 12 per cent year to date, largely the result of increasing revenues, stable operating margins, lower tax rates and lower interest payments on debt.



LETTER TO SHAREHOLDERS

IT posts third consecutive quarter of profitability

Part of our earnings growth comes from the progress we are making at Xwave Solutions, our IT business. This time last year, we decided to retain xwave and reposition it for future success. Since then, we have posted three consecutive quarters of profitability due to a number of restructuring initiatives.

- We created a lower cost structure by reducing administrative overhead and the number of employees in our consultancy practice. In doing so, operating expenses fell by \$19.7 million, year to date, a 16.3 per cent decrease over the prior year.
- We redirected our efforts to three core areas – systems integration, fulfillment and infrastructure services – and, we took steps to narrow our focus, including the sale of our Internet help desk contact centre.
- We focused on market niches in which we have demonstrated capabilities including VoIP, mobility, business intelligence, public safety and health care.

Our IT business enjoyed two notable successes during the quarter. First, xwave is a member of the consortium, led by Sikorsky Aircraft Corporation, chosen to supply the 20-year, \$3.2 billion Maritime Helicopter Program. Second, xwave sold an Offender Management System to the State of Maine Department of Corrections and currently is in contract negotiations with the Commonwealth of Virginia. This will be the third installation of this application, with additional prospects in the sales funnel.

Dividends declared for September

On July 29, 2004, our board of directors declared a common share dividend of \$0.275 per common share and a preferred share dividend of \$0.340625 per preferred share, payable on September 30, 2004, to shareholders of record on September 15, 2004.

Settlement must be fair to all stakeholders

Finally, I would like to provide an update on the ongoing labour disruption. Negotiations have been complex, as we are trying to merge nine existing collective agreements into a single labour contract that will provide our unionized telecommunications employees, across all four provinces, with a common working environment. We require a labour contract that will allow us to preserve our ability to serve our customers, to invest in new technologies and to provide our investors with a competitive return. We are committed to reaching a settlement that is fair to all stakeholders. While an attempt to resume negotiations in July did not yield a breakthrough, we continue to work with mediators to bring the labour disruption to an end.

In the meantime, we will remain focused on serving our customers and on carefully managing our costs and cash flow. Our company remains a compelling investment and we believe our growth in revenues and cash flow is indicative of its value.



Jay Forbes
President and chief executive officer
July 29, 2004

Second quarter financial highlights

For the period ended June 30

(million of dollars, except per share amounts)

	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Consolidated operating revenues	525.6	517.3	1.6	1,030.0	1,018.2	1.2
Net income from continuing operations	50.1	61.2	(18.2)	90.8	98.7	(8.1)
Earnings per common share						
from continuing operations	0.36	0.42	(14.3)	0.65	0.67	(3.0)
Weighted average number of						
common shares outstanding (millions)	132.7	138.7	(4.3)	133.0	139.0	(4.3)

MD&A

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

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

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

This document contains certain statements and information about potential future circumstances and developments. Such forward-looking statements and information are qualified by any of the inherent risks and uncertainties surrounding future expectations generally and may differ materially from our actual future experience. Reference is made to the "Risk and risk management" and "Forward-looking statements" sections for further discussion about the inherent risks and uncertainties surrounding future expectations. We disclaim any intention or obligation to update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise. Forward-looking statements in this MD&A describe our expectations on July 29, 2004, unless otherwise noted.

This MD&A is dated July 29, 2004, which is the date of filing in conjunction with our press release announcing our results for the second quarter of 2004. Disclosure contained in this document is current to that date, unless otherwise stated.

Reclassification of prior year results

Where indicated, prior year results have been reclassified to conform to the presentation adopted in the current year. Generally, these reclassifications were made to realign revenues as a result of new information.

ABOUT OUR BUSINESS

WHO WE ARE

Aliant is a telecommunications and information technology company based in Atlantic Canada.

We operate through two segments, Telecommunications and Information Technology.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

ADVANCING OUR STRATEGY IN 2004

Our value strategy has the flexibility to allow for changing business issues and environmental factors but our overriding objective, to increase value for our shareholders, remains constant. The flexibility of our strategy was demonstrated throughout the second quarter as a legal work stoppage by approximately two-thirds of our Aliant Telecommunications employees, which commenced April 23, 2004, has resulted in us focusing most of our efforts on the customer service aspect of our value strategy. As everything begins with the customer, we have ensured that our customers continue to receive the highest quality of service possible during this labour disruption. Nevertheless, in a quarter that has been primarily devoted to serving our customers, we have still been able to advance our strategy in other areas. The labour disruption is continuing and is discussed further under the “Labour disruption” section.

Maximizing shareholder value

We continue to pursue our strategy to invest and innovate in order to grow profitably. The current labour disruption has temporarily scaled back our activities, but we continue to make advancements.

- Continued expansion of our high-speed Internet network – We launched approximately 13 new high-speed Internet sites in the second quarter of 2004 through our participation in the Broadband and Rural Network Development (BRAND) program and our own digital subscriber line expansion. At June 30, 2004, our high-speed Internet services passed 66 per cent of homes in Atlantic Canada, up from 63 per cent at June 30, 2003.
- Continued enhancement of Internet service – Through our strategic alliance with Microsoft we have entered into an exclusive agreement for Atlantic Canada. This agreement links Sympatico.MSN.ca, the newest leading national and global content destination, with our exclusive local content from Aliant.net to deliver an exceptional on-line experience to our Internet customers. This builds on our existing relationship with Microsoft to offer our Internet customer an enhanced digital media experience through services like TV on my PC™.
- Continued expansion of our Wireless Fidelity (Wi-Fi) service trial – We added a wireless Internet access zone at the Saint John Airport in New Brunswick, bringing the total number of Wi-Fi service locations to six. These sites provide business customers and travellers convenient access to the Internet, e-mail and corporate networks without the need for a physical network connection.
- Continued expansion of our digital wireless network – During the second quarter we completed seven new digital sites. As a result, approximately 85 per cent of Atlantic Canada’s population had access to our digital wireless network as at June 30, 2004, up from 72 per cent at June 30, 2003. The coverage of our one times radio transmission technology (1xRTT) data network continues to mirror our digital wireless voice network.
- Continued development of Voice over Internet Protocol (VoIP) service – Development of VoIP services including premise and network-based solutions are ongoing. Our demo centres in Saint John and Halifax showcase our network-based VoIP solution and have hosted over 25 of our largest enterprise customers with encouraging feedback. We are continuing to design and implement compelling VoIP services for our residential and business customers.

We have continued to strengthen our core business through divestiture of non-strategic operations and profitably growing our core operations, especially with respect to our Information Technology segment.

- The restructuring efforts undertaken in 2003 in our Information Technology segment are restoring profitability, improving productivity, realigning strategy and simplifying the business model. Our strategy is to be a business solution provider with concentration in three lines of business: systems integration, infrastructure services and product fulfillment. In support of this information technology (IT) consulting business model, on June 4, 2004, we announced the sale of our Moncton Internet help desk to ClientLogic, an international leader in contact centre support services.

- We have focused on attaining new business that is consistent with the strategic direction of the Information Technology segment. We are winning and delivering on major contracts that create development activity delivered by Atlantic Canadians to customers in international markets. Specifically, the State of Virginia has requested us to supply them with our corrections based systems integration solutions, which represents our third major customer in this sector and positions us with a strong foothold to leverage into new jurisdictions. Another significant project won this quarter is a multi-million dollar contract for the delivery of a flight simulation and training solution to Airbus.
- Since the Information Technology segment began its restructuring program approximately 12 months ago, we have proven our ability to refocus operations, to increase productivity and profitability. Operating revenues for the first six months have declined, as internal revenues from our Telecommunications segment are 14.0 per cent lower due to role re-alignment and productivity improvement initiatives between the two segments. This decline was partially offset by a 3.1 per cent increase in revenue from external customers as a result of our growth strategy under our new business model. In addition, year-to-date operating expenses have declined 16.3 per cent over the same period in the prior year, reflecting the positive impact of the restructuring program. The second quarter of 2004 represents the third consecutive quarter of profitable growth for our Information Technology segment since the restructuring program was initiated. For the six months ended June 30, 2004, net income was \$3.7 million, an increase of \$8.0 million over the same period in 2003.

The continued generation of solid earnings per share and cash from operations in the second quarter of 2004 has enabled us to return cash to our shareholders as follows:

- the payment of a quarterly dividend of \$0.275 per common share to shareholders of record on June 15, 2004; and
- the purchase and cancellation of 847,168 shares under our current Normal Course Issuer Bid (NCIB) program during the three months ended June 30, 2004.

Refer to the “Financial and capital management” section for a complete discussion of dividends and progress under our NCIB.

Everything begins with the customer

Despite working through a labour disruption, our reputation for high quality service and passion for our customers was rewarded during the quarter with several new contracts with major enterprise customers. These include:

- five-year agreement with Dalhousie University to install and provide local service and Bell ExpressVu in 2,700 residence rooms;
- a three-year contract for Internet services for five New Brunswick universities;
- a fourteen-month long distance contract with the Province of Newfoundland and Labrador;
- an additional contract with a large municipality for the purchase and upgrade of Trunk Mobile Radios, representing significant new sales revenue; and
- preferred sales agreements with two of the largest residential property management companies in Nova Scotia, representing approximately 3,500 apartment units.

Contracts such as these demonstrate the value we bring to our customers and are instrumental in providing for our long-term success.

Our success is also dependent on our ability to offer our customers choice through our Aliant Value Packages as these packages ensure our customers receive the value and services they require and deserve. In the first quarter of 2004, the Canadian Radio-television and Telecommunications Commission (“CRTC” or “the Commission”) determined that certain of our Value Packages (which provide regulated and non-regulated bundles of certain services to residential customers) required their approval. We responded by making the necessary changes to ensure that these Value Packages are compliant with regulatory bundling rules. On July 7, 2004, the CRTC addressed these changes in the context of a related competitor complaint and concluded that the manner in which we sell our Value Packages complies with regulatory bundling rules. We welcome this decision, as it allows us to continue to provide customers with our current packages and to preserve the revenue generated through them.

In May 2004, we became the first Canadian telecommunications company to take an active stand against “modem hi-jacking” in an effort to provide our customers with additional security. Modem hi-jacking occurs when inadvertently downloaded software causes a modem (most frequently a dial-up or a fax modem) to disconnect from the local connection and then reconnect to an international long distance phone number at rates from approximately \$2 to \$7 per minute. Our response has been to block direct dial access to five countries and assist our customers in identifying and removing associated software. Since we initiated these measures we have dramatically reduced the number of incidents of modem hi-jacking for customers.

Our efforts to ensure our customers’ needs are met during the temporary labour disruption have received a welcome response. Feedback from public opinion polls conducted throughout the second quarter indicated that the majority of our customers are satisfied with the job that we are doing to maintain service during the temporary labour disruption, giving us confidence about our customers’ loyalty. We enjoy excellent relationships with our customers, and we appreciate their confidence and trust in our products and services.

Simplifying internal processes

The simplification of internal processes and systems allows us to better serve our customers and reduce costs. During the second quarter of 2004, we continued to build upon initiatives to improve our cost structure:

- We implemented a conversion of our wireless billing platform to better serve our more than 700 mobility national corporate customers. This conversion enables enhanced 1xRTT data and BlackBerry™ billing, providing an easy-to-read billing format and windows-based user functionality;
- We continued to make significant progress in the development and use of electronic transaction channels. Accelerated adoption of our e-Procurement platform by our employees and major suppliers has resulted in a more than four-fold increase in e-purchasing volumes compared to the same period in 2003. In addition, we expanded our use of electronic funds transfer for payment of a large portion of our accounts payable invoices; and
- We continued to identify process improvements and are making changes, as appropriate, to make things better for our customers. We are capturing all of the ideas generated during the labour disruption, with a view to supplementing our already comprehensive transformational change program. We are delivering on our promise of simplicity for our customers.

Fostering employee learning and growth

Considerable training and on-the-job learning has taken place as employees assume new responsibilities because of the labour disruption. These employees are building a greater understanding of our Company, as a whole, from their hands-on experience in various areas of our operations.

We recognize that this labour disruption is challenging for all our employees. As we come back together as a team, we will be helping employees process these experiences and feelings through interactive workshops and counseling, where needed. These sessions will extend from our existing Aliant Health and Wellness programs and include our proactive Employee Assistance Program.

LABOUR DISRUPTION

On April 23, 2004, we tabled a conditional offer, which we believe to be fair, balanced and reasonable for all stakeholders. The offer was rejected by the Council of Atlantic Telecommunication Unions (“CATU”), which represents approximately 4,300 of Aliant Telecommunications’ unionized employees, and a legal work stoppage began. Accordingly, we immediately implemented our comprehensive business continuity plan. We are now operating with approximately 2,200 remaining employees, most of whom are engaged in serving our customers directly.

We strive to provide all services to customers on a timely basis but some delays have been unavoidable due to limited resources and unanticipated service interruptions. We are prioritizing our workload to ensure continuity of emergency services and restoration of out-of-service customers, so as not to jeopardize public safety. As a result of this prioritization of service, there have been some delays in

installing new services and responding to other customer requests in a timely fashion. We continue to openly communicate to our customers that some delays are to be expected and encourage customers to visit an Aliant authorized dealer or use www.aliant.net to conduct routine business transactions.

We appreciate the continued support from our customers and have taken additional effort to enhance customer satisfaction. This includes waiving service fees where CRTC regulations allow in recognition of service delays and continuing to provide special customer promotions. These promotions included a variety of items ranging from wireless phones with unlimited local calling to special pricing on ultra high-speed Internet and a long distance promotion that allowed our customers to call evenings and weekends anywhere in Canada and the U.S. for only nine cents per minute.

Our operating statistics for the second quarter of 2004 have remained strong, supporting the fact that our customers believe in the quality and reliability of our products and services. Our wireless and Internet customer bases grew 10.4 per cent and 7.7 per cent, respectively, over the same period in 2003. Our network access customers have declined by only 1.2 per cent over the same period in 2003, which is consistent with the trend seen in the last 24 months.

Financially, we estimate that the labour disruption has negatively impacted our operating results by approximately \$21 million, \$13 million after income taxes, for the three months ended June 30, 2004. This includes an estimated operating revenue impact of approximately \$9 million related to lower service charge revenue due to fewer new installations, lower product sales, reduced long distance pricing as well as reduced data and Internet growth. The associated decrease in cost of operating revenues partially offset increased operating expenses, for a net expense impact of approximately \$12 million. At the onset of the labour disruption it was necessary to incur some upfront costs to train and equip our employees for their new roles. In addition, given the over 40 deliberate acts of sabotage that have taken place, it has been necessary to incur incremental costs to protect our communications infrastructure against vandalism and ensure the safety of our employees. Repairing the network, protecting our physical assets and ensuring our employees have safe access to our buildings and equipment to serve customers is of paramount importance to us and we will continue to take appropriate steps to ensure Atlantic Canadians receive quality telecommunications services.

Although the labour disruption has negatively impacted our financial results, our underlying profitability remains strong. Compared to the three months ended June 30, 2003, operating revenues have increased 1.6 per cent, driven by growth in wireless and Internet revenues of 16.8 per cent and 14.1 per cent, respectively. This operating revenue growth, combined with effective operating expense management to contain costs and improve productivity, generated earnings per share of \$0.36 and \$111.2 million in cash from operations. We continue to invest in capital projects to support our network and future revenue growth, spending \$44.7 million in the second quarter.

Maintaining the integrity that we have built around our financial reporting is of utmost importance to us throughout the labour disruption. To this end, we continually monitor the adherence to established processes and controls, and in some instances additional processes have been implemented to ensure the highest quality of financial disclosures continue to be produced.

We continue to maintain our strong balance sheet and financial flexibility with the ensuing result being the affirmation of our credit ratings by the debt rating agencies during the second quarter of 2004.

We are committed to reaching a settlement with our unionized employees that will ensure the long-term viability of the Company and continue our role as an economic enabler in Atlantic Canada. We have continued to work with federal mediators throughout the labour disruption and have expressed our willingness to continue negotiations at any time. While we have exceeded our operational expectations set out in our business continuity plan, we look forward to reuniting our Company and resuming normal business operations.

OPERATING RESULTS

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

OPERATING REVENUES

For the period ended June 30 (millions of dollars)	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Telecommunications						
Local	188.5	192.6	(2.1)	376.8	382.6	(1.5)
Long distance	88.1	97.8	(9.9)	180.2	198.6	(9.3)
Wireless	94.0	80.4	16.8	180.5	153.6	17.5
Internet	30.2	26.5	14.1	59.2	51.9	14.1
Other revenues	65.3	66.7	(2.1)	102.0	107.2	(4.9)
	466.1	464.0	0.5	898.7	893.9	0.5
Information Technology						
IT services	52.1	56.9	(8.4)	106.1	113.4	(6.4)
Fulfillment	33.1	27.7	19.5	77.6	74.2	4.6
	85.2	84.6	0.7	183.7	187.6	(2.1)
Other and eliminations	(25.7)	(31.3)	17.9	(52.4)	(63.3)	17.2
Consolidated operating revenues	525.6	517.3	1.6	1,030.0	1,018.2	1.2

Telecommunications generated year-over-year growth in operating revenues of 0.5 per cent in the second quarter and first six months of 2004 led by strong wireless and Internet growth. The impact of regulatory decisions and changes in customer behaviour in response to the competitive environment and technological advancements continue to negatively impact local, long distance and other revenues mitigating the overall revenue growth. The labour disruption has also negatively impacted the second quarter of 2004 by an estimated \$9 million through a reduction in the number of new service installations, slower product sales, delays in Internet and wireless activations and additional long distance promotions.

Information Technology operating revenues for the second quarter of 2004 were slightly higher than the same period in 2003, but slightly lower when the first six months in 2004 are compared to the same period in 2003. Internal sales have consistently decreased throughout 2004 compared to 2003 due to role re-alignment and productivity initiatives with the Telecommunications segment. External sales continue to strengthen in 2004 compared to 2003 mainly from fulfillment contracts, however new revenue growth arising from co-marketing leads from the Telecommunications segment has been lower than anticipated due to decreased activity during the labour disruption. On a year-to-date basis, external sales have increased 3.1 per cent compared to 2003, with the second quarter of 2004 exhibiting an 8.2 per cent increase over the same period in 2003.

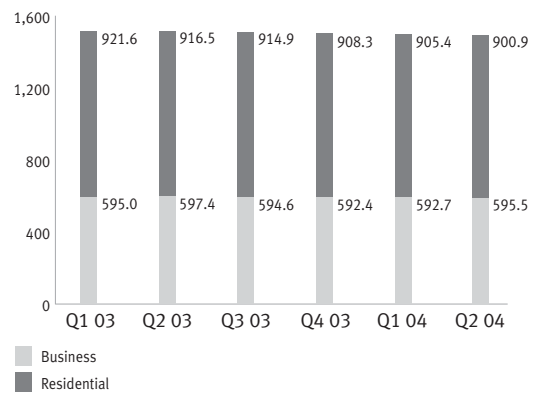
Local revenue

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 decreased by 2.1 per cent in the second quarter and 1.5 per cent in the first six months in comparison to the same periods last year. The decline in revenues in the second quarter of 2004 is higher than the decline in the first quarter due in part to the negative impact of the labour disruption. In general, the decline in local revenue is primarily resulting from competition, changes in consumers' communication needs and current year impacts from previous CRTC regulatory decisions. In order to mitigate these effects on local revenue, we focused on maximizing our customer retention programs, generating new revenue sources in data access and aggressively marketing enhanced service features.

NAS revenue, which represents over one half of all local revenues, declined 2.0 per cent in the second quarter of 2004 compared to the second quarter of 2003. Although we experienced a reduction in residential NAS customers of 1.7 per cent over the last year, the rate of our net residential NAS losses to the competition decreased by 29.4 per cent in the second quarter of 2004 compared to the same period in the prior year. Our residential NAS customer base continues to be negatively impacted by the regulatory restrictions on win-back promotions and the ongoing restriction on bundling and packaging of local service with other non-regulated services in the face of a competitive marketplace. In addition, Atlantic Canadians are increasingly choosing services such as cellular, e-mail, instant messaging and short text messaging to complement or replace traditional telecommunications services. Business NAS decreased 0.3 per cent due to competitive losses, particularly the loss of one large customer in late 2003 due to a regulatory decision. We have been able to offset some business NAS losses through growth in small- to medium-sized businesses. In combination, residential and business NAS customers decreased by 1.2 per cent over last year. During the second quarter of 2004, we focused on customer retention through our continued efforts on customer service and promotion of our local service value packages and business bundles.

Wireline NAS customers
(in thousands)



At June 30, 2004, our residential NAS customer base was 1.7 per cent lower than at June 30, 2003, contributing to a 1.2 per cent year-over-year decline in NAS customers.

Local revenues earned from services other than the provision of NAS have also declined, but to a lesser extent. In the second quarter of 2004, we continued to see the negative impact of the previous year CRTC price cap decision on contribution and competitor payments, lower revenue from monthly telephone set rentals as more customers choose to purchase telephone sets, and lower service charge revenue due to the lower number of new installations performed during the labour disruption.

Strong growth in data access and enhanced service features revenue continued in the second quarter of 2004 and offset the negative impacts experienced in these other areas. Data access revenues grew 7.3 per cent over the second quarter of 2003 due to newer data access services, such as data broadband, despite negative impacts of the prior year CRTC price cap decision that required us to lower data access rates. Enhanced service features revenue grew 4.1 per cent over the second quarter of 2003, as customers chose to add features to their basic local service individually or as part of their local service value packages.

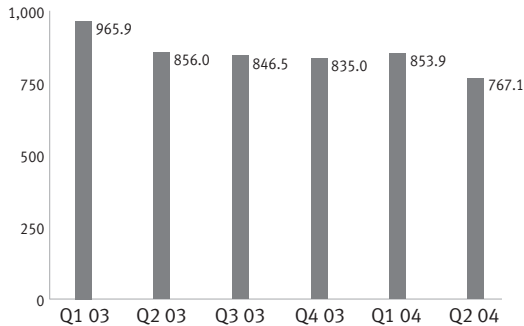
Long distance revenue

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

We continue to see long distance revenues decline in our competitive marketplace, as evidenced by revenue reduction of 9.9 per cent in the second quarter of 2004 and 9.3 per cent in the first six months of 2004 over the same periods in the prior year. The revenue decline has increased over the first quarter of 2004 due in part to the additional impact of our actions during the labour disruption, in particular promotional lower per minute rates. Lower rates, combined with reduced long distance minutes and a lower customer base, resulted in the decline in voice revenues. Data revenue continues to be lower as large customers have reduced or rationalized their need for data circuits. We also experienced declines in terminating revenue due to CRTC mandated rate reductions, however, this decline was offset by savings we achieved in terminating expenses for our customers' calls to other regions.

In the second quarter of 2004, we introduced a long distance promotion as part of our overall retention strategy, which included a nine cents per minute promotion for residential customers and an 8.5 cents per minute promotion for small- to medium-sized businesses. Although we continue to see declines in long distance minutes, the decline in minutes experienced between the first and second quarter of 2004 was 10.2 per cent, which is a reduction from the 11.4 percent decline in the comparable period of 2003.

Long distance minutes
(in millions)



In the second quarter of 2004, our long distance minute volumes decreased by 10.4 per cent over the second quarter of 2003, due in part to our decision to cap the minutes of usage on certain residential unlimited calling plans in 2003 and our competitive environment.

Residential long distance minutes declined due to a lower customer base, increased substitution of long distance calling with wireless and Internet options and the restructuring of our customer plans during 2003. Components of this restructuring, such as capping of the minutes available under certain unlimited calling plans, have enabled us to optimize the usage of our network, improve profitability of this segment, and limit additional capital investment in a difficult market segment.

In the business long distance market, competitive pressure and a decline in contact centre activity has led to reduced business long distance minutes and has had a negative impact on business long distance revenues overall. We continue to aggressively respond to the competitive marketplace through offers designed to continually meet the needs of our customers, which have resulted in some new long distance contracts with business customers in the second quarter of 2004, as previously discussed.

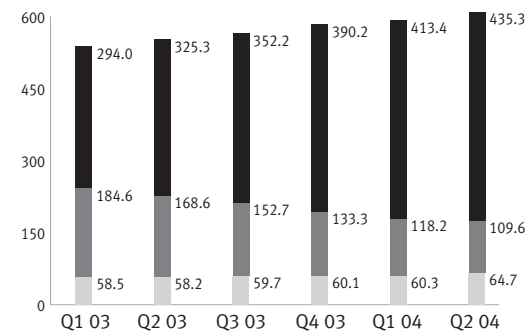
Wireless revenue

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

Our wireless revenues for the second quarter and first six months of 2004 grew 16.8 per cent and 17.5 per cent, respectively, over the same periods in 2003. Second quarter results were basically unimpeded by the labour disruption as a result of our strong market position. Our commitment to provide

the most extensive and reliable cellular and data network available in Atlantic Canada has enabled us to achieve a 36.2 per cent increase in the number of digital customers over the last year. Approximately 85 per cent of Atlantic Canada's population had access to our digital wireless and 1xRTT network at June 30, 2004, up from digital wireless coverage of approximately 72 per cent at the same time last year.

Cellular customers
(in thousands)



Prepaid – digital & analog
Postpaid – analog
Postpaid – digital

Our cellular customers at June 30, 2004, grew 10.4 per cent over June 30, 2003. Included in this result are 36.2 per cent growth in digital customers and 10.3 per cent growth in postpaid customers.

Year-over-year customer growth remained strong at 10.4 per cent due to having the most extensive digital wireless coverage in Atlantic Canada with continued expansion into new service areas and supported by a dealer network offering a sizeable handset selection and competitive pricing offers. We ran successful marketing campaigns for various markets in the second quarter of 2004. Overall, our net activations increased 17.9 per cent over the second quarter of 2003. Our churn, or customer turnover rate, has improved 15.8 per cent over the same period last year. This improvement is due to a higher base of customers on long-term contracts, driven by hardware upgrades and customer service incentive programs focused on customer retention.

Wireless – statistics

For the period ended June 30	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Monthly – average revenue per customer (dollars)						
Postpaid	54.24	51.04	6.3	52.55	49.05	7.1
Prepaid	10.85	9.22	17.7	10.26	8.60	19.3
Total	49.72	46.52	6.9	48.19	44.68	7.9
Monthly – average minutes of use per customer	272	247	10.1	255	231	10.4
Churn	1.23%	1.46%	(15.8)	1.26%	1.43%	(11.9)

The 6.9 per cent growth in total average revenue per customer (ARPC) for the second quarter of 2004 over the same period in the prior year, results from an increase in the average minutes of use, increased customer adoption of feature combination offers, increase in the percentage of customers choosing digital service and an increase in data usage. Digital customers generate higher monthly ARPC than analog, likewise postpaid customers generate higher monthly ARPC than prepaid. Our digital customer base grew by 36.2 per cent over the past year and now represents 74.2 per cent of our cellular customer base compared to 60.2 per cent for the same point in time in 2003. Our postpaid customer mix of 89.4 per cent continues to lead the industry.

Internet revenue

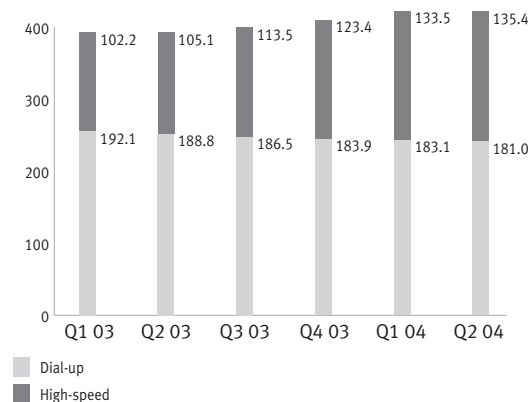
Internet revenue consists of high-speed and dial-up service to residential and business markets, which include enhanced services such as Music on my PC™ and Personal Firewall.

Internet revenue continues to perform well exhibiting growth of 14.1 per cent for the second quarter and first six months of 2004 compared to the same periods in 2003 resulting from customer growth, improved ARPC and lower churn.

Our Internet customers grew 7.7 per cent over the second quarter of 2003, which includes high-speed customer growth of 28.8 per cent. We have been able to generate customer growth through attractive introductory offers, value-added service offerings, dedicated high-speed service and expansion of our high-speed network coverage. Our newest value-added service, ultra high-speed Internet, has seen favourable customer response since its introduction late in the first quarter this year. As at June 30, 2004, our high-speed Internet service passed 66 per cent of homes in Atlantic Canada, up from 63 per cent at June 30, 2003, and continues to expand, albeit at a reduced pace due to the current labour disruption.

Internet customers

(in thousands)



Our Internet customer base at June 30, 2004, grew 7.7 per cent over June 30, 2003, including 28.8 per cent growth in our number of high-speed customers. This continued growth is due, in part, to our competitive pricing, value-added services and network expansion.

Internet – statistics

For the period ended June 30	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Monthly – average revenue per customer (dollars)						
Consumer dial-up*	20.18	19.77	2.1	19.93	19.57	1.8
Consumer high-speed*	33.76	34.67	(2.6)	33.62	34.36	(2.2)
Business dial-up	44.23	44.36	(0.3)	44.86	44.07	1.8
Business high-speed	102.93	93.44	10.2	100.71	92.50	8.9
Churn	1.70%	2.10%	(19.0)	1.90%	2.00%	(5.0)

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

Initiatives to aggressively manage churn and programs to improve ARPC have also contributed to continued strong customer and revenue growth. Business Internet services have seen significant year-over-year improvement in ARPC, while consumer Internet services have remained relatively stable. The business ARPC increases are attributable to the expansion and popularity of security services, price restructuring within product categories and increased usage. The success that we have seen in attracting new customers through introductory promotional programs has had a minimal impact on consumer high-speed ARPC in the short-term but will bring long-term benefits through an increased customer base. Churn continues to remain low and show year-over-year improvement as we continue to focus on loyalty management. The continuation of customer retention programs including loyalty bulletins and emphasis on long-term customer contracts, as well as the integration of Internet offers with our other product lines, has served to minimize the impact of competition on churn.

Other revenues

For the period ended June 30 (millions of dollars)	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Product	26.5	26.7	(0.7)	51.7	51.3	0.8
Directory	28.0	26.1	7.3	30.0	27.9	7.5
Innovatia	6.4	6.6	(3.0)	12.4	12.2	1.6
Miscellaneous	4.4	7.3	(39.7)	7.9	15.8	(50.0)
Other revenues	65.3	66.7	(2.1)	102.0	107.2	(4.9)

Other revenues decreased by 2.1 per cent from the second quarter in 2003 despite strong directory revenues. Directory revenues have grown reflective of strong marketing efforts and the advertisers' commitment to this advertising medium. Consistent with prior years, a large portion of our year-to-date directory revenues were recognized in the second quarter coinciding with the timing of the issuance of some of our larger directories. Product sales were below expectations in the second quarter of 2004 due mainly to the labour disruption. Miscellaneous revenues have decreased as a result of lower late payment rates driven by interest rate declines and lower private line broadcast revenue as 2003 included some large broadcast events.

IT services revenue

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

During the second quarter of 2004, IT services revenue declined by \$4.8 million over the same period in 2003, \$3.7 million of which was to external customers. This decrease reflects the disposition of the Internet help desk contact centre during the second quarter and a slight slow down in new revenue growth due to fewer co-marketing leads from the Telecommunications segment during the labour disruption. Internally generated IT services revenue has decreased by \$1.1 million compared to the second quarter of last year, as continued collaboration with the Telecommunications segments has resulted in efficiencies from role re-alignment and productivity improvement initiatives. On a year-to-date basis, the decline in internal revenues represents \$4.6 million of the \$7.3 million decrease in IT services revenues.

During the second quarter of 2004, xwave renewed contracts with existing clients and secured new business with customers, including the State of Virginia and Airbus, which will help grow IT services revenues into the future.

Fulfillment revenue

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

Fulfillment revenue showed strong performance in the second quarter increasing by \$5.4 million over the second quarter of 2003, despite a \$2.9 million decrease in internal sales from reduced procurement activity by our Telecommunications segment. This \$8.3 million increase in external sales is due to strong sales in Ontario, in both the private and public sectors. On a year-to-date basis, there is a \$6.8 million increase in external revenues offset by a \$3.4 million decrease in internal revenues.

COST OF OPERATING REVENUES

For the period ended June 30

(millions of dollars)	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Cost of operating revenues	69.2	64.6	7.1	143.7	148.0	(2.9)

Higher Information Technology fulfillment revenue in the second quarter of 2004, compared to the same period in 2003, has caused an associated increase in cost of operating revenues. Results were also impacted in the second quarter of 2004 by improved margins on product sales and throughout 2004 by continued lower toll terminating costs in our long distance portfolio and lower payments to the contribution pool than those experienced in 2003.

OPERATING EXPENSES

For the period ended June 30

(millions of dollars)	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Telecommunications	231.3	201.1	15.0	444.2	401.5	10.6
Information Technology	49.0	57.8	(15.2)	100.9	120.6	(16.3)
Other and eliminations	(19.0)	(27.5)	(30.9)	(39.8)	(54.8)	(27.4)
Consolidated operating expenses	261.3	231.4	12.9	505.3	467.3	8.1

Operating expenses have increased in the second quarter and first six months of 2004 over the same periods in 2003 due to growth in the wireless business, the current quarter impact of the labour disruption, and increased pension and other post employment benefit costs. This has been partially offset by significant cost reductions in xwave as the benefits of restructuring activities are realized. Costs eliminated on consolidation have decreased primarily because both of our operating segments

transact business between them at commercial rates which have been renegotiated. The other significant factor is the absence of eliminating entries in 2004 for transaction activity with entities which were disposed of in 2003.

In our Telecommunications segment, operating expenses, excluding pensions and other post employment benefit costs which are dealt with later in this section, increased by \$25.6 million in the second quarter and \$31.7 million in the first six months compared to the same periods in the prior year. The growth of wireless services has created associated operating expense increases in the second quarter of 2004 of \$6.2 million, \$10.7 million in the first six months of 2004, which relate to commissions, subsidies, cellular phone and accessories costs and to actions in support of increased customer service levels. The current labour disruption accounts for approximately \$16.0 million of the additional operating costs in the second quarter, primarily the result of security requirements and property repairs to enable our operations to continue with relatively little interruption. These costs were at their highest in the first month of the disruption when we needed to train, equip and reposition employees for their customer service roles and before we were successful in obtaining legal injunctions, which served to stabilize the environment for our employees. The transfer of approximately 80 employees from the Information Technology segment to the Telecommunications segment in July 2003, combined with normal annual wage and salary adjustments, have contributed \$6.8 million in increased salaries and benefits for the second quarter of 2004, \$10.0 million for the first six months of the year.

Our Information Technology segment has been successfully reducing costs since its 2003 restructuring through improved productivity from the consulting services resource pool and reduced general, selling and administrative expenses. We continue to seek additional synergies in operating costs between this segment and Telecommunications as an extension of the increasingly integrated go-to-market strategy. Future expense savings that relate to the sale of the Internet help desk in June 2004 will offset the related loss of revenue.

Pension and other post employment benefits cost

For the period ended June 30

<i>(millions of dollars)</i>	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Defined benefit	12.9	8.2	57.3	25.8	16.4	57.3
Defined contribution	2.0	2.4	(16.7)	5.3	4.4	20.5
Other post employment benefits	3.8	3.5	8.6	7.7	7.0	10.0
	18.7	14.1	32.6	38.8	27.8	39.6

The increase in pension and other post employment benefits cost contributes \$4.6 million and \$11.0 million to the increase in operating expenses for the second quarter and first six months of 2004, respectively, compared to the same periods in 2003.

The increase in pension and other post employment benefits cost relates primarily to the defined benefit (DB) pension plans. DB pension costs and other post employment benefits (OPEBs) costs are made up of a number of components. Each of these components is dependent on the actuarial valuations of the plans and management's assumptions about future events. These assumptions and the components of DB pension and OPEBs costs are disclosed in notes 1 and 5 to our unaudited interim consolidated financial statements for the period ended June 30, 2004.

DB pension cost has increased in 2004 primarily due to the increase in the amortization of net actuarial losses attributable to the higher balance of accumulated actuarial losses. The balance of accumulated actuarial losses has increased because past returns on plan assets were lower than expected and because the plan liabilities are higher than anticipated. The liability growth has largely come from lower interest rates being used to discount the future expected payments to pensioners. In the second quarter of 2004, we amortized \$4.7 million of the accumulated losses through pension cost while \$1.4 million was amortized during the same period in 2003.

The cost related to defined contribution (DC) pension plans is simply equal to the amount of the employer's required contribution to the employees' accounts. The increase in the first six months of 2004 is due to higher short-term incentive payments in the first quarter, which attract pension contributions. During the second quarter, DC pension plans' cost fell, as contributions are not being made for employee-members that are on legal work stoppage.

Our OPEBs cost has increased due to the interest on the unfunded obligation as the OPEBs liability has grown.

DEPRECIATION AND AMORTIZATION

For the period ended June 30 (millions of dollars)	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Depreciation and amortization	98.5	98.4	0.1	199.5	196.6	1.5

Depreciation and amortization increased mainly due to the higher proportion of Telecommunications' capital investments in recent years being in broadband and wireless assets, which have depreciable lives as short as three years.

RESTRUCTURING CHARGE

For the period ended June 30 (millions of dollars)	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Restructuring charge	1.5	—	—	4.6	—	—

In 2004, Telecommunications executed a restructuring plan, which resulted in a charge of \$1.9 million in the first quarter and \$0.3 million in the second quarter. This plan relates to workforce reductions with the associated costs being severance and related benefits.

Information Technology incurred \$1.2 million in restructuring charges in the second quarter of 2004, bringing the year-to-date total to \$2.4 million. This is a continuation of xwave's strategy realignment and business model simplification and consists of severance and related benefits as well as premises rationalization costs.

OTHER INCOME (EXPENSES)

For the period ended June 30 (millions of dollars)	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Interest income	2.2	2.2	—	9.3	5.3	75.5
Accounts receivable securitization	(0.8)	(1.2)	(33.3)	(1.8)	(2.3)	(21.7)
Provincial large corporation tax	(0.4)	(1.0)	(60.0)	(2.3)	(2.2)	4.5
Miscellaneous income (charges)	1.1	(0.2)	—	(0.1)	(1.3)	(92.3)
	2.1	(0.2)	—	5.1	(0.5)	—

Other income has increased by \$2.3 million for the second quarter compared to the last year due in part to some short-term portfolio investment transactions reflected in miscellaneous income. Other income has increased by \$5.6 million for the first six months of 2004 compared to the same period in 2003 due primarily to interest earned on cash balances and on previous years' tax reassessments.

INTEREST CHARGES

For the period ended June 30

(millions of dollars)	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Interest charges	18.6	21.0	(11.4)	37.8	41.9	(9.8)

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

INCOME TAXES

Calculation of effective income tax rate

For the period ended June 30

(millions of dollars)	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Net income from continuing operations	50.1	61.2	(18.2)	90.8	98.7	(8.1)
Addback:						
Income taxes	28.2	40.6	(30.5)	52.7	65.3	(19.3)
Non-controlling interest	0.3	—	—	0.8	(0.1)	—
Net income from continuing operations before income taxes and non-controlling interest	78.6	101.8	(22.8)	144.3	163.9	(12.0)
Effective income tax rate	35.87%	39.89%	(10.1)	36.55%	39.84%	(8.3)

The income tax provision decreased due to the decrease in net income from continuing operations and the decline in the effective income tax rate. The decline in the rate is mainly attributable to lower statutory rates in 2004, compared to 2003.

NON-CONTROLLING INTEREST

For the period ended June 30

(millions of dollars)	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Non-controlling interest	0.3	—	—	0.8	(0.1)	—

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

NET INCOME AND EARNINGS PER SHARE

For the period ended June 30

(millions of dollars, except per share amounts)	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Net income:						
Continuing operations	50.1	61.2	(18.2)	90.8	98.7	(8.1)
Discontinued operations	—	9.4	—	—	10.8	—
Total net income	50.1	70.6	(29.0)	90.8	109.5	(17.1)
Earnings per common share:						
Continuing operations	0.36	0.42	(14.3)	0.65	0.67	(3.0)
Discontinued operations	—	0.07	—	—	0.08	—
Total earnings per common share	0.36	0.49	(26.5)	0.65	0.75	(13.3)

Our exit from non-core businesses in 2003 resulted in the reclassification of prior period results of these businesses as discontinued operations. In the first six months of 2003, the results from discontinued operations reflect the operating activities of the businesses prior to their disposition and a \$10.9 million gain, net of taxes, on the sale of some of these businesses in the second quarter.

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

FINANCIAL AND CAPITAL MANAGEMENT

SUMMARY OF CONSOLIDATED CASH FLOWS

Cash and cash equivalents at June 30, 2004, were \$306.7 million. During the second quarter of 2004, we have generated \$111.2 million in cash from operations bringing our year-to-date total of cash from operations to \$258.0 million. We anticipate that we will continue to generate strong cash flow from operations throughout the year. We continue to deploy cash that is not required in our operations at this time in a manner consistent with our objective of maximizing shareholder value. This includes the payment of dividends to our shareholders, the buyback of common shares from our shareholders under our NCIB program and the strategic investment in new opportunities complementary to our core business to support our future growth.

Our cash requirements for the remainder of 2004 will consist of purchases of the remaining 268,846 shares allowed under our current NCIB program, quarterly dividend payments, repayment of debt, funding of required pension plan contributions, capital investments and scheduled contractual obligations. The only significant debt repayment that is scheduled for 2004 is a \$100.0 million bond maturing in October and we expect to repay this out of cash from operations. DB pension plan funding required in 2004 is anticipated to be in the range of \$50.0 to \$70.0 million, of which \$32.6 million has been paid to June 30, 2004.

OPERATING ACTIVITIES

Summary of cash flows from operating activities

For the period ended June 30

(millions of dollars)	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Net income from continuing operations	50.1	61.2	(18.2)	90.8	98.7	(8.1)
Non-cash items	119.2	108.9	9.5	235.9	190.4	23.9
	169.3	170.1	(0.5)	326.7	289.1	13.0
Change in non-cash working capital	(58.1)	(14.2)	—	(68.7)	89.1	—
Cash from continuing operations	111.2	155.9	(28.6)	258.0	378.2	(31.8)

Cash generated from continuing operating activities in the second quarter and first six months of 2004 has decreased by \$44.7 million and \$120.2 million, respectively, compared to the same period last year. Cash from continuing operations before the change in non-cash working capital are comparable to the second quarter of 2003 but have increased \$37.6 million or 13.0 per cent year to date as non-cash pension cost has been one of the larger contributors to the decline in net income for the second quarter and first six months. As well, a non-recurring future tax recovery in 2003 arising from the reversal of temporary taxable timing differences, and a higher future tax expense in the first quarter of 2004 resulting from increased pension contributions, as well as other timing differences in the second quarter of 2004, have created a higher non-cash future tax expense in 2004 compared to 2003.

Change in non-cash working capital

For the period ended June 30

(millions of dollars)	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Accounts receivable	(9.8)	13.7	—	27.4	21.4	28.0
Income and other taxes payable	(19.1)	(6.2)	—	(45.1)	91.5	—
Prepayments	(16.0)	(22.5)	(28.9)	(19.9)	(28.6)	(30.4)
Inventory	1.5	2.0	(25.0)	0.8	0.7	14.3
Accounts payable and other liabilities	(14.7)	(1.2)	—	(31.9)	4.1	—
Change in non-cash working capital	(58.1)	(14.2)	—	(68.7)	89.1	—

Changes in non-cash working capital reduced cash from operations during the second quarter and first six months of 2004, which compared to the same periods in 2003 represents an additional use of cash from operations of \$43.9 million and \$157.8 million, respectively.

During the second quarter of 2004, the number of days sales outstanding in accounts receivable exhibited a 3.2 day degradation compared to the same period in 2003, which is mainly due to the labour disruption. The reduction of accounts payable is due primarily to lower capital spending in the second quarter of 2004. Timing differences between recording the provision for income and other taxes and making the installment payments has also impacted the change in non-cash working capital balance. The majority of the change in non-cash working capital in the second quarter is anticipated to reverse in future quarters.

On a year-to-date basis, larger income tax and harmonized sales tax refunds received in the first six months of 2003, as compared to 2004, as well as timing differences between recording the tax provisions and payment of tax installments have contributed to the additional use of cash. We have been able to maintain our working capital management at levels similar to those seen in the same period in 2003 with the exception of the impact of the 2003 refunds on income and other taxes payable and the significant decreases in accounts payable, relating to the reduced capital investment in the second quarter of 2004.

FINANCING ACTIVITIES

Summary of cash flows from financing activities

For the period ended June 30

(millions of dollars)	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Net proceeds (repayments) of notes payable and bank advances	(4.7)	30.8	—	(13.4)	(10.9)	22.9
Repayments of long-term debt	(0.1)	(66.3)	(99.8)	(0.1)	(66.3)	(99.8)
Increase in capital lease obligations	0.8	2.8	(71.4)	0.6	1.7	(64.7)
Repurchase of common shares	(23.0)	(14.6)	57.5	(41.7)	(32.7)	27.5
Preferred and common share dividends	(37.5)	(39.1)	(4.1)	(75.2)	(75.0)	0.3
Other financing activities	(0.1)	(4.9)	(98.0)	(5.6)	(4.9)	14.3
Cash used in financing activities	(64.6)	(91.3)	(29.2)	(135.4)	(188.1)	(28.0)

Cash used in financing activities in the second quarter of 2004 has been related primarily to common share repurchases made under our NCIB program as well as the payment of dividends on preferred and common shares. More cash was required for financing activities in the second quarter and first six months of 2003 due to the repayment of a \$65.0 million debenture in June 2003. Increased share buyback activity has also been undertaken in the NCIB program in 2004. The use of cash from other financing activities related primarily to the repurchase of \$5.0 million accounts receivable under our accounts receivable securitization program in each of the second quarter of 2003 and the first quarter of 2004, as reported under “Other financing activities”.

Liquidity and financing resources

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

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

Bank operating lines of credit within our business segments include:

- \$42.0 million in Telecommunications – which had \$0.7 million outstanding as at June 30, 2004, compared to \$4.5 million at December 31, 2003.
- \$15.0 million in Information Technology – there were no amounts drawn at June 30, 2004, on this line of credit compared to a balance of \$6.0 million at December 31, 2003. Letters of credit committed against this line of credit total \$6.1 million at June 30, 2004, compared to \$6.9 million at December 31, 2003.

Our solid financial position and stable outlook were affirmed, as indicated in the accompanying table, by credit ratings issued during the second quarter of 2004 from Standard & Poor's and Dominion Bond Rating Service. Our ratings have remained consistent throughout 2003 and into 2004, except for Standard & Poor's preferred share rating, which moved from P-2 to P-2 (high) with stable outlook in the second quarter of 2004.

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

Consolidated capital structure

The percentage of debt to total capital was 38.7 per cent at June 30, 2004, unchanged from December 31, 2003.

<i>(millions of dollars)</i>	June 30, 2004		December 31, 2003	
Common equity	1,425.5	54.5%	1,451.6	54.7%
Preferred equity	172.3	6.6%	172.3	6.5%
Non-controlling interest	4.3	0.2%	4.1	0.1%
Long-term debt, including current portion	990.6	37.9%	990.1	37.3%
Short-term debt, including bank indebtedness and interest payable	21.9	0.8%	36.1	1.4%
	2,614.6	100.0%	2,654.2	100.0%

Corporate equity instruments

We issued common shares in the amount of \$1.9 million during the second quarter of 2004 and \$4.1 million during the first six months of 2004, by way of our common shareholder dividend reinvestment and stock purchase plan, and the exercise of options under our employee stock option plan. Shares were purchased on the open market to fulfill the requirements of our employees' stock savings plan.

Under the current NCIB program, which commenced on August 6, 2003, for a 12-month period ending August 5, 2004, we purchase, from time to time, our common shares for cash through the facilities of the Toronto Stock Exchange. All common shares purchased pursuant to the NCIB are cancelled. Further details on this NCIB are provided in note 11 to our unaudited interim consolidated financial statements for the period ended June 30, 2004. As at June 30, 2004, we had purchased for cancellation 6,656,154 common shares under this NCIB at an aggregate price of \$207.4 million, of which 1,463,284 common shares were purchased during the first six months of 2004 at an aggregate price of \$43.5 million.

Due to the lower number of shares outstanding, the total dividends that we paid to our common shareholders decreased \$1.6 million for the second quarter of 2004 over 2003 levels to \$36.5 million. On a year-to-date basis, the total dividends paid to our common shareholders were \$73.1 million, an increase of \$0.3 million over the first six months of 2003 due to the fact that the current dividend rate per share was increased effective in the second quarter of 2003. Dividends paid that were subsequently reinvested in the dividend reinvestment plan and employees' stock savings plans were \$2.4 million for each of the first two quarters of 2004, consistent with the prior year.

We paid preferred shareholder dividends of \$2.4 million and \$4.8 million for the second quarter and first six months of 2004, respectively, consistent with the amounts paid in 2003.

Outstanding shares and stock options

as of July 26, 2004

Authorized

Unlimited number of preference shares, issuable in series.

Unlimited number of common shares, without par value.

Issued

	July 26, 2004	
	Number of shares	Value
<i>(millions of dollars, except as otherwise noted)</i>		
Preference shares, series 2	7,000,000	172.3
Common shares	132,120,061	1,027.0
		1,199.3

	July 26, 2004	
	Number of options	Weighted average exercise price
<i>(dollars)</i>		
Options outstanding	2,694,856	30.60
Options exercisable	1,899,456	30.70

Between July 1, 2004, and July 26, 2004, we purchased for cancellation 192,345 common shares under the NCIB at an aggregate price of \$5.1 million.

INVESTING ACTIVITIES

Summary of cash flows from investing activities

For the period ended June 30

	Three months			Six months		
<i>(millions of dollars)</i>	2004	2003	% change	2004	2003	% change
Purchase of capital investments	(44.7)	(72.9)	(38.6)	(129.5)	(143.5)	(9.7)
Other investing activities	(18.9)	(24.1)	(21.6)	(51.8)	(18.8)	—
Cash used in investing activities	(63.6)	(97.0)	(34.4)	(181.3)	(162.3)	11.7

Cash used in investing activities for the second quarter of 2004 has decreased significantly over the same period in 2003 due mainly to a slower pace of capital investments resulting from the labour disruption. Capital investments for the first six months of 2004 are down 9.7 per cent compared with 2003. For the six months ended June 30, 2004, cash used in other investing activities has increased over the same period in 2003 due to a special deficit-funding pension contribution of \$25.0 million in the first quarter of 2004 and an increase in regular funding of the DB pension plans due to the funding requirements identified in the December 31, 2002, actuarial valuations. Most of the 2003 pension funding occurred in the latter six months of the year as the 2002 actuarial valuation was completed in September 2003.

CAPITAL INVESTMENTS

For the period ended June 30

(millions of dollars)	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Telecommunications	42.4	71.4	(40.6)	126.8	141.2	(10.2)
Information Technology	2.2	0.6	—	2.6	1.1	—
Other	0.1	0.9	(88.9)	0.1	1.2	(91.7)
Total purchase of capital investments	44.7	72.9	(38.6)	129.5	143.5	(9.7)

Telecommunications

Telecommunications' capital investment for the second quarter of 2004 is \$29.0 million lower than the investment for the same period in 2003. Due to the higher investment made in the first quarter of 2004, year-to-date capital investment is only \$14.4 million lower than in 2003. Although the labour disruption has slowed some of our capital projects, we are continuing to make core investments as required to support our existing network, grow our high-speed Internet and wireless digital coverage and fund development of our VoIP solution. Once normal operations resume, we will accelerate work on our capital projects.

Information Technology

Information technology's capital investment during the second quarter was higher compared to the same period of the prior year. The capital investment during the first half of 2003 was kept to a minimum as significant investment had been incurred in 2002, limiting the requirement for capital early in 2003. During the second quarter of 2004, capital was invested in software, which is required in our data centres to support our clients' outsourcing requirements. The IT industry is not highly capital intensive and capital needs are driven largely by changes in the employee base, the data processing business and customer support requirements.

OTHER FINANCIAL ARRANGEMENTS

Off-balance sheet arrangements

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

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

Derivative financial instruments

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

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

Most of our employees participate in one of our pension plans in order to assist in providing for their retirement. While most new employees participate in a DC pension plan, we still have many active employees in one of our four non-contributory DB pension plans. We also offer retiring employees certain other non-pension benefits such as health and dental care and disability insurance. The DB pension plans require periodic funding payments to be made to a trust fund while the OPEB plans require cash payments to be made directly to the plan carrier or to the retired employee. Details of our DC, DB and OPEB plans are provided in notes 1 and 5 to our unaudited interim consolidated financial statements for the period ended June 30, 2004.

We perform actuarial valuations on our DB pension plans at least every three years. During 2003, we completed the actuarial valuations of our DB plans as of December 31, 2002. Based on these actuarial valuations we are making periodic funding contributions at the 2003 required funding rate of approximately \$64 million annually. This translates into \$16.6 million and \$32.6 million for the second quarter and first six months of 2004, respectively.

Related party transactions

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

SIGNIFICANT ACCOUNTING POLICIES

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

RISK AND RISK MANAGEMENT

While management is confident about our long-term prospects, we are exposed to a number of risks in the normal course of business that could have a negative effect on our financial condition or results of operations. A comprehensive discussion of these risks can be found in our MD&A for the year ended December 31, 2003, as presented on pages 37 to 40 of our 2003 annual report. In addition to identifying significant changes in the risks that we discussed at year end we have expanded our discussion of risk to include pension fund contributions, events affecting our networks and stock market volatility.

PENSION FUND CONTRIBUTIONS

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

In 2004, we are currently making periodic funding contributions at the rate required in 2003, or approximately \$16 million per quarter. We are updating our actuarial valuations as required for the year ended December 31, 2003 and expect these to be complete in the third quarter of 2004. If the return on plan assets, interest on the obligation or actuarial experience of the plans are better or worse than initially anticipated these valuations could result in either lower or higher minimum required contributions to the DB pension plans than the approximately \$64 million funding level currently being used.

If required funding levels were to change as a result of these updated actuarial valuations we could be required to make significant cash outlays. Based on improved investment returns of the DB pension plans assets in 2003 and the extra voluntary contributions made to the plans, minimum funding requirements for 2004 are currently expected to decline in the updated valuations.

EVENTS AFFECTING OUR NETWORKS

Network failures could materially hurt our business, including our customer relationships and operating results. Our operations depend on how well we protect our networks, our equipment, our applications and the information stored in our data centres against damage from fire, natural disaster, power loss, hacking, computer viruses, disabling devices, deliberate acts of vandalism, acts of war or terrorism, and other events. Any of these events could cause our operations to be shut down indefinitely. Our network is connected with the networks of other telecommunications carriers, and we rely on them to deliver some of our services. Any of the events mentioned previously, as well as strikes or other work disruptions, bankruptcies, technical difficulties or other events affecting the networks of these other carriers, could also hurt our business, including our customer relationships and operating results.

During the second quarter of 2004, our network has been impacted by computer viruses and deliberate acts of vandalism and our work force has effectively dealt with these issues in a timely and efficient manner despite our ongoing labour disruption. Public safety and restoring emergency services remain our top priority and we are working in cooperation with local authorities to investigate these incidents in an attempt to communicate the seriousness of these incidents and in hopes of mitigating the likelihood of recurrence.

STOCK MARKET VOLATILITY

Stock markets have experienced significant volatility in the current year and over the last few years due to several factors in the market overall, such as fluctuating interest rates and political uncertainty. This market volatility has affected the market price and trading volumes of the shares of many companies. In particular, telecommunications companies have been experiencing additional volatility due to industry factors such as competition, mergers and acquisitions activity, income trust debates and regulatory developments. Differences between our actual or anticipated financial results and the published expectations of financial analysts may also contribute to volatility in our common shares. A major decline in the capital markets in general, or an adjustment in the market price or trading volumes of our common shares or other securities, may materially and negatively impact our ability to raise capital, issue debt, retain employees or make future strategic acquisitions or joint ventures.

REGULATORY DEVELOPMENTS

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

Earlier this year, the CRTC issued a public notice for comment entitled "Regulatory framework for voice communications using Internet Protocol". The CRTC has indicated it supports imposing rules for some VoIP services, similar to those that currently apply to traditional local phone services. On June 18, 2004, we filed a joint submission with Bell, SaskTel and Telebec, urging the CRTC to refrain from regulating prices for VoIP services and allow all VoIP service providers to compete for customers according to the same rules. There is a risk that the CRTC may rule contrary to the position made in this submission and create an environment in which we are subject to price-regulation and competitors are not. This would negatively impact our future revenue potential from VoIP services.

The final submissions from the parties participating in the review of the floor-price proceeding were filed with the CRTC on June 25, 2004. The ILECs (including Aliant), consumer groups, and business customer groups opposed any new restrictions while competitors supported the proposed restrictions on the ILECs or requested stronger measures. Any new restrictions on the floor prices for regulated services could limit our ability to satisfy customer requirements and could negatively affect our financial performance. A decision is expected by early 2005.

On April 7, 2004, we filed a forbearance application with the CRTC requesting them to stop regulating local residential phone service within certain areas of Nova Scotia and Prince Edward Island where there is significant local residential competition. In April 2004, the CRTC issued its Three-Year Work Plan for the years 2004 to 2007. That work plan indicates that the CRTC expects to deal with the local forbearance application during the April 2005 to March 2006 time frame. If the CRTC denies this application we expect to experience continued market share degradation, as our ability to compete will continue to be hindered.

In addition to the forbearance request, our April 7, 2004, application also requested that the CRTC provide us with immediate exemption from several past CRTC decisions that negatively affect customers in competitive areas, including:

- the restriction that prevents us from providing special promotional offers to local customers in competitive areas;
- the restriction imposed on us related to when we can contact customers who have left our local service to invite them to return to us; and
- the ability to file special promotional offer requests with the CRTC in a confidential manner, so that we can launch these offers to customers without competitors having advance notice, as is appropriate in a competitive market.

During April and May 2004, the CRTC requested and received ILEC, competitor, and customer group comments on whether our request for expedited relief should be dealt with by the Commission in an expedited process separate from the forbearance process. The CRTC is expected to issue a decision on whether these issues will be the subject of an expedited process within the next few months.

The CRTC initiated a public proceeding on March 24, 2004, to review the amounts in each ILEC's deferral account and to determine how to dispose of any of those amounts. On June 22, 2004, the CRTC issued its decision on some items that affect the amount in our deferral account. The Commission approved our proposals regarding some calculations and denied other proposed calculations. The remaining items that affect the size of the deferral account are expected to be addressed at a later date. Due to the reallocation of some of our corporate resources to customer service functions, we requested to make deferral account proposals at a later date, pending resolution of the labour disruption. The Commission accepted our proposal. We do not expect a decision in this proceeding to be issued until 2005. For additional information on the deferral account mechanism refer to note 21 to our unaudited interim consolidated financial statements for the period ended June 30, 2004.

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

COMPETITIVE DEVELOPMENTS

Throughout the second quarter of 2004, the competition in the telecommunications market in Canada became increasingly intense. While existing competitors transformed themselves through mergers and acquisitions, new competitors continued to attempt to gain footing and some existing competitors expanded their telecommunication offerings.

Both traditional telephone and VoIP alternatives for local service are becoming increasingly available from a variety of providers. In particular, some of the new VoIP entrants are offering long distance and local services packages with discounted calling rates. Although this activity does not appear to be generating an immediate impact, it is indicative of the impact that VoIP transformation could have on our business.

Competition in our key growth areas of wireless and Internet continue to evolve. Internet providers continue to focus on speed as a primary competitive element and value-add service offerings to enhance the customer experience. We continue to maintain our leadership position in Atlantic Canada through continued evolution of our service offerings such as ultra high-speed service and our complete suite of security services. Sales propositions also focus on providing complete entertainment and communications packages. Our response includes our complementary offerings of Bell ExpressVu and TV on my PC™. Wireless competition continues to focus on handset and low network usage pricing. The retail and advertising activity of our wireless competitors has increased in the second quarter. We remain well positioned with the most reliable network in Atlantic Canada, the most extensive dealer network and a wide selection of product offerings.

Competition can place our strategies, revenue and net income at risk. We constantly monitor all market developments and work to ensure we maintain the flexibility required to respond quickly to our changing landscape. We constantly strive to optimize our competitive position by modifying and creating plans to arrive at solutions that are right for our customers and our marketplace.

RENEGOTIATING LABOUR AGREEMENTS

At present, 4,300 of our employees represented by the Communications, Energy and Paperworkers Union of Canada and Atlantic Communications and Technical Workers' Union are in a legal work stoppage situation. We have been negotiating with the CATU, the council representing these unions, since March 2002, in an effort to amalgamate nine collective agreements into one. Last October, we were joined by two federal conciliators and discussions continued. On March 11, 2004, we tabled a complete offer, and on April 12, 2004, were advised that the unions' membership had rejected our offer. We returned to the table to resume negotiations with the support of the same two conciliators in the role of mediators. Despite continued negotiations throughout the week of April 19, 2004, and a new Company offer on April 23, 2004, a mutually acceptable agreement could not be reached. On April 23, 2004, the CATU rejected the offer and a legal work stoppage began and continues to be in effect.

We have continued to work with federal mediators since the onset of the work stoppage. We engaged in exploratory talks during the week of July 12, 2004, with the union and the federal mediators, but were unable to reach agreement on a framework that would enable us to return to full negotiations. We are deeply disappointed with this outcome. We tried very hard to address the issues that are important to our employees, giving consideration to the environment we operate in and the future of our business. Although these talks did not result in the outcome that we were looking for, we remain committed to reaching a settlement that is fair and reasonable for all concerned, and we will continue to work with the mediators.

While additional costs are being incurred during the strike, the settlement of the collective agreements may result in higher costs at the time the agreement is signed and into the future, thus affecting our operating results and financial condition.

OTHER LEGAL AND REGULATORY MATTERS

During the second quarter of 2004, we started an action in New Brunswick against Exigen Ltd. (Exigen) and its Canadian operating subsidiary, seeking adjudication of many of the issues brought forth in the action commenced against us by Exigen in California during the first quarter of 2004. This step was taken as we consider New Brunswick to be the proper jurisdiction in which to adjudicate these issues. We are in consultation with our legal counsel over the matter but are unable to predict the outcome at this time. Note 21 to our unaudited interim consolidated financial statements for the period ended June 30, 2004, presents a discussion of this and other significant contingencies outstanding at this time.

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

FORWARD-LOOKING STATEMENTS

Certain statements contained in this document constitute forward-looking statements. These forward-looking statements relate 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", "target", "goal" and similar expressions. These statements are subject to important risks and uncertainties, which are difficult to predict and assumptions which may prove to be inaccurate. Some of the factors which could cause results or events to differ materially from current expectations include but are not limited to: general economic conditions; market or business conditions; increased competition; changing regulatory conditions or requirements; changing technology; the outcome of collective bargaining; the duration and impact of the current labour disruption; and success in implementing productivity initiatives. Some of these factors are largely beyond our control. Should any factor impact us in an unexpected manner, or should assumptions underlying the forward-looking statements prove incorrect, the results or events predicted in management's discussion and analysis might differ materially from actual results or events. Consequently, all of the forward-looking statements made in this document and the documents referred to within are qualified by these cautionary statements, and there can be no assurance that the results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences for us. Readers should not place undue reliance on any forward-looking statements. Further, we disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or any other occurrence.

SUPPLEMENTARY FINANCIAL INFORMATION

CONSOLIDATED QUARTERLY FINANCIAL INFORMATION *(unaudited)*

<i>For the eight quarters ended June 30, 2004</i>	2002		2003				2004	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
<i>(millions of dollars, except per share amounts)</i>								
Total operating revenues	507.4	511.4	500.9	517.3	513.9	527.0	504.4	525.6
Net income from continuing operations	44.8	2.2	37.5	61.3	50.7	45.4	40.7	50.1
Net income (loss) from								
discontinued operations	(0.7)	(6.7)	1.4	9.3	0.2	100.4	—	—
Net income (loss)	44.1	(4.5)	38.9	70.6	50.9	145.8	40.7	50.1
Preferred share dividends	2.4	2.4	2.4	2.4	2.3	2.4	2.4	2.4
Net income (loss) applicable								
to common shares	41.7	(6.9)	36.5	68.2	48.6	143.4	38.3	47.7
Basic earnings per common share:								
Continuing operations	0.30	—	0.25	0.42	0.36	0.32	0.29	0.36
Discontinued operations	—	(0.05)	0.01	0.07	—	0.75	—	—
Basic earnings per common share	0.30	(0.05)	0.26	0.49	0.36	1.07	0.29	0.36
Diluted earnings per common share:								
Continuing operations	0.30	—	0.25	0.42	0.36	0.32	0.29	0.36
Discontinued operations	—	(0.05)	0.01	0.07	—	0.74	—	—
Diluted earnings per common share	0.30	(0.05)	0.26	0.49	0.36	1.06	0.29	0.36

Factors impacting comparability of quarterly results

Trends

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

Information Technology operating revenues have decreased as clients scaled back their information technology expenditures in response to subdued market conditions and a slow down in government spending. A restructuring program was implemented in the first six months of 2003, which simplified the business model and is resulting in improved 2004 results. Productivity and profitability of the segment are improving as external operating revenues are increasing while operating expenses have declined.

Seasonality of results

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

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

Other factors

Net income and earnings per share fluctuates from quarter to quarter due to items outside of the normal course of operations and the impact of pension and other post employment benefits cost.

CONSOLIDATED QUARTERLY RESULTS ANALYSIS *(unaudited)*

Impact of items outside of the normal course of operations

<i>For the eight quarters ended June 30, 2004</i>		2002		2003		2004			
<i>(millions of dollars, except per share amounts)</i>		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Impact on net income									
Increase (decrease) in net income									
from continuing operations:									
Restructuring charge, net of tax	—	—	—	—	—	(9.3)	0.6	(1.9)	(0.9)
Writedown of investments, net of tax	—	—	—	—	—	—	(12.3)	—	—
Writedown of goodwill related to xwave	—	(50.0)	—	—	—	—	—	—	—
Writedown of assets related to xwave, net of tax	(7.4)	—	—	—	—	—	—	—	—
	(7.4)	(50.0)	—	—	—	(9.3)	(11.7)	(1.9)	(0.9)
Increase (decrease) in net income									
from discontinued operations:									
Gain (loss) on sale of subsidiary, net of tax	—	—	—	10.9	(2.0)	95.7	—	—	—
Investment writedowns, net of tax	(19.7)	—	—	—	—	—	—	—	—
	(19.7)	—	—	10.9	(2.0)	95.7	—	—	—
Increase (decrease) in net income	(27.1)	(50.0)	—	10.9	(11.3)	84.0	—	(1.9)	(0.9)
Impact on earnings per share									
Increase (decrease) in:									
Earnings per share									
from continuing operations	(0.05)	(0.36)	—	—	(0.06)	(0.09)	(0.01)	—	—
from discontinued operations	(0.14)	—	—	0.08	(0.01)	0.71	—	—	—
Earnings per share	(0.19)	(0.36)	—	0.08	(0.07)	0.62	(0.01)	—	—

Impact of pension and other post employment benefits cost

<i>For the eight quarters ended June 30, 2004</i>		2002		2003		2004			
<i>(millions of dollars, except per share amounts)</i>		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Decrease in:									
Net income from continuing operations	(3.0)	(3.0)	(8.5)	(8.7)	(10.1)	(9.6)	(12.4)	(11.9)	—
Earnings per share from continuing operations	(0.02)	(0.02)	(0.06)	(0.06)	(0.07)	(0.07)	(0.09)	(0.09)	—

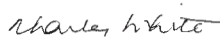
Statements (unaudited)

CONSOLIDATED BALANCE SHEETS

<i>(thousands of dollars)</i>	Notes	As at June 30, 2004	As at December 31, 2003
Assets			
Current assets			
Cash and cash equivalents		306,693	365,330
Accounts receivable	2, 19	286,180	315,903
Inventory		20,332	21,177
Prepayments		45,774	25,871
Income tax receivable	3	61,715	23,423
Future income tax asset	3	141	—
		720,835	751,704
Capital investments	4	1,942,299	2,013,522
Other assets			
Deferred charges		95,944	92,932
Future income tax asset	3	4,325	12,891
Accrued benefit asset	5	170,344	163,440
Goodwill	6	31,804	31,804
		302,417	301,067
Total assets		2,965,551	3,066,293
Liabilities and shareholders' equity			
Current liabilities			
Notes payable and bank advances	7	4,383	17,827
Payables and accruals	8, 19	181,993	238,332
Income tax payable	3	9,398	18,806
Future income tax liability	3	—	3,797
Long-term debt due within one year	9	101,781	101,535
		297,555	380,297
Long-term debt	9	888,829	888,524
Accrued benefit liability	5	164,704	159,156
Deferred credits		12,434	10,337
		1,363,522	1,438,314
Non-controlling interest	10	4,274	4,051
Shareholders' equity			
Capital stock	11	1,200,878	1,208,062
Retained earnings		396,877	415,866
		1,597,755	1,623,928
Total liabilities and shareholders' equity		2,965,551	3,066,293

See accompanying notes to the consolidated financial statements

Signed on behalf of the board of directors



Charles White
Chairman



Edward Reevey
Director

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF INCOME

For the period ended June 30

(thousands of dollars, except per share amounts)	Notes	Three months		Six months	
		2004	2003	2004	2003
Operating revenues	12	525,584	517,277	1,030,026	1,018,166
Expenses					
Cost of operating revenues		69,182	64,568	143,677	148,004
Operating expenses		261,261	231,334	505,269	467,325
Depreciation		98,549	98,382	199,508	196,572
Restructuring charge	8	1,473	—	4,556	—
		430,465	394,284	853,010	811,901
Operating income		95,119	122,993	177,016	206,265
Other income (expenses)	13	2,106	(228)	5,116	(492)
Interest charges					
Interest on long-term debt		18,769	20,716	37,624	41,367
Other interest		(184)	225	183	517
		18,585	20,941	37,807	41,884
Income before underlisted items		78,640	101,824	144,325	163,889
Income taxes	3	28,212	40,614	52,751	65,286
Income before non-controlling interest		50,428	61,210	91,574	98,603
Non-controlling interest		340	(14)	806	(121)
Net income from continuing operations		50,088	61,224	90,768	98,724
Net income from discontinued operations	14	—	9,342	—	10,730
Net income		50,088	70,566	90,768	109,454
Earnings per common share	15				
Basic from continuing operations		0.36	0.42	0.65	0.67
Basic from discontinued operations		—	0.07	—	0.08
Basic		0.36	0.49	0.65	0.75
Diluted from continuing operations		0.36	0.42	0.65	0.67
Diluted from discontinued operations		—	0.07	—	0.08
Diluted		0.36	0.49	0.65	0.75

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the six months ended June 30

(thousands of dollars)	Note	2004	2003
Retained earnings, beginning of period		415,866	354,080
Net income		90,768	109,454
Preferred share dividends		(4,769)	(4,769)
Common share dividends		(73,136)	(72,852)
Excess of repurchase of common shares over stated value	11	(31,852)	—
Retained earnings, end of period		396,877	385,913

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the period ended June 30

<i>(thousands of dollars)</i>	Notes	Three months		Six months	
		2004	2003	2004	2003
Cash and cash equivalents from (used in) operations					
Net income from continuing operations		50,088	61,224	90,768	98,724
Add (deduct) non-cash items:					
Depreciation		98,549	98,382	199,508	196,572
Future income taxes		3,919	(1,472)	2,519	(29,682)
Post employment benefit costs		16,742	11,660	33,477	23,320
Non-controlling interest		340	(14)	806	(121)
Other non-cash items		(294)	319	(375)	298
		169,344	170,099	326,703	289,111
Change in non-cash working capital		(58,109)	(14,211)	(68,694)	89,075
		111,235	155,888	258,009	378,186
Cash and cash equivalents from (used in) financing					
Repurchase of accounts receivable	2	—	(5,000)	(5,000)	(5,000)
Net proceeds (repayments) of notes payable and bank advances		(4,694)	(2,866)	(13,444)	(44,524)
Repayments of long-term debt		(100)	(66,324)	(100)	(66,348)
Increase in capital lease obligations		844	2,791	651	1,684
Increase (decrease) in non-controlling interest		(114)	139	(583)	139
Repurchase of common shares		(23,001)	(14,616)	(41,724)	(32,726)
Preferred share dividends		(2,385)	(2,385)	(4,769)	(4,769)
Common share dividends		(35,096)	(36,713)	(70,386)	(70,200)
		(64,546)	(124,974)	(135,355)	(221,744)
Cash and cash equivalents from (used in) investing					
Purchase of capital investments		(44,700)	(72,833)	(129,496)	(143,469)
Proceeds on sale of capital investments		769	374	769	2,481
Increase in investments		—	(14)	—	(14)
Funding of pension plans		(17,911)	(16,428)	(59,833)	(20,888)
Decrease (increase) in deferred charges and credits		(1,780)	(8,077)	7,269	(344)
		(63,622)	(96,978)	(181,291)	(162,234)
Cash and cash equivalents from (used in) continuing operations					
		(16,933)	(66,064)	(58,637)	(5,792)
Cash and cash equivalents from (used in) discontinued operations					
	14	—	18,550	—	18,439
Cash and cash equivalents, beginning of period		323,626	238,373	365,330	178,212
Cash and cash equivalents, end of period		306,693	190,859	306,693	190,859
Supplementary disclosure					
Interest paid		25,705	29,018	39,095	43,446
Income taxes paid		41,131	33,956	90,812	40,184

See accompanying notes to the consolidated financial statements

Statement notes *(unaudited)*

1 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and methods used for interim reporting purposes are consistent with those in effect for the most recent annual audited financial statements for the year ended December 31, 2003, except as noted under Asset retirement obligations. These unaudited interim financial statements should be read in conjunction with our audited financial statements for the year ended December 31, 2003.

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

Consolidated financial statements

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

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

Use of accounting estimates

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

Revenue recognition

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

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

Transfer of receivables

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

Inventory

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

Income taxes

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

Capital investments

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

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

We capitalize contracted costs, labour and overhead related to our self-constructed assets, classified as plant under construction. We do not record depreciation on plant under construction that is not yet operational.

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

Deferred charges

Deferred charges mainly include:

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

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

Derivative financial instruments

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

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

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

The following describes our policy for specific kinds of derivatives:

We use interest rate swap agreements as part of a plan to manage the fixed and floating interest rate mix of our total debt portfolio and related overall cost of borrowing. The interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based, and are recorded as an adjustment of interest expense on the hedged debt instrument. The related amount payable to or receivable from counterparties is included as an adjustment to accrued interest.

We use interest rate swaption agreements as part of a plan to manage the fixed and floating interest rate mix of our total debt portfolio and related overall cost of borrowing. If the swaption is exercised it will result in us entering into an interest rate swap, which will be accounted for as described above. Prior to the exercise of the swaption the premiums we receive are amortized as an adjustment to interest expense over the period from receipt of the premium to maturity of the underlying debt obligation.

Post employment benefits

We provide certain pension plans and non-pension post employment benefits to qualified employees. These include contributory defined contribution (DC) pension plans, non-contributory defined benefit (DB) pension plans based on a percentage of the best five year average earnings for each year of service and other post employment benefit (OPEB) plans such as life insurance and health care plans.

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

- discount rates for the employee benefit plans that are selected in reference to current interest rates on long-term debt of high-quality corporate issuers. The expected long-term rate of return on plan assets is based on the mid-point range of long-term forecasts of capital market returns, given our policy asset mix. Over the past 10 years, our weighted average rate of return for our defined benefit pension plans was 9.7 per cent per annum.
- For the purpose of calculating the expected return on plan assets, those assets are valued at market-related value where investment returns (gains and losses) in excess of expected returns are recognized in the asset value over a period of three years.
- We amortize past service costs from plan amendments on a straight-line basis over the average remaining service period of employees who were active at the date of amendment. This represents the period over which we expect to realize the benefit from the amendment.
- We use the corridor approach to recognize actuarial gains and losses into earnings. This involves deducting the greater of 10 per cent of the benefit obligation or the market-related value of the plan assets from the unamortized net actuarial gains or losses. The excess amount calculated is then amortized over the average remaining service period of active employees being 13 years at June 30, 2004 (December 31, 2003 – 13 years).
- When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, we account for the curtailment prior to the settlement.

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

We are responsible for adequately funding our DB pension plans. We make required contributions to them as determined by actuarial valuations. These contributions reflect actuarial assumptions about future investment returns, salary projections and future service benefits. We are currently updating our actuarial valuations for the year ended December 31, 2003, and expect these to be completed in the third quarter of 2004. These valuations could result in either lower or higher minimum required contributions to the DB pension plans than the \$63.7 million that was identified in 2003. In addition, we could make special deficit funding contributions, which represent a voluntary acceleration of required funding. For the three and six months ended June 30, 2004, we made special deficit funding contributions of \$nil million and \$25.0 million, respectively (June 30, 2003 – \$nil million and \$nil million, respectively).

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

Earnings per common share

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

Stock-based compensation plan

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

Asset retirement obligations

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

2 TRANSFER OF RECEIVABLES

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

As part of the agreement, we are required to provide security, currently in the form of additional accounts receivable over and above the cash proceeds received, which is held and owned by the trust. This security is transferred back to us upon the expiry of the agreement and as such we have recorded these accounts receivable in deferred charges as a retained interest in the securitization trust. At June 30, 2004, this retained interest amounted to \$36.1 million (December 31, 2003 – \$28.7 million).

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

Under the agreement the trust reinvests the amounts collected by buying additional interest in our accounts receivable until the agreement expires. During this time, we remain exposed to certain risks of default that could cause the agreement to terminate early.

During the three and six months ended June 30, 2004, we recognized a pre-tax loss and administration fees of approximately \$0.8 million and \$1.8 million, respectively (June 30, 2003 – \$1.2 million and \$2.3 million, respectively) on the transfer of receivables.

2 TRANSFER OF RECEIVABLES *(continued)*

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

<i>(thousands of dollars, except as otherwise noted)</i>	Range 2004	As at June 30, 2004	As at December 31, 2003
Securitized interest in accounts receivable		161,095	158,726
Cash proceeds		125,000	130,000
Retained interest		36,095	28,726
Servicing liability		403	424
Average trade accounts receivable managed		212,181	209,796
Assumptions:			
Cost of funds	2.44 – 2.94%	2.44%	3.42%
Average delinquency ratio	13.30 – 18.00%	18.00%	11.90%
Average net credit loss ratio	0.97 – 1.18%	1.04%	1.08%
Weighted average life in days	41 – 44	44	42

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

<i>For the period ended June 30</i> <i>(thousands of dollars)</i>	Three months		Six months	
	2004	2003	2004	2003
Collections reinvested in revolving sales	431,284	442,588	915,614	921,020
Decrease in sales proceeds	—	5,000	5,000	5,000

3 INCOME TAXES

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

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

<i>(thousands of dollars)</i>	As at June 30, 2004	As at December 31, 2003
Capital investments	10,343	3,884
Pension and post employment benefits	(4,398)	7,651
Deferred charges	(17,509)	(17,376)
Loss carryforwards	4,393	2,083
Other	11,637	12,852
Net future tax asset	4,466	9,094
Less: current portion of future tax asset (liability)	141	(3,797)
Future tax asset	4,325	12,891

3 INCOME TAXES *(continued)*

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

<i>For the period ended June 30</i> <i>(thousands of dollars)</i>	Three months		Six months	
	2004	2003	2004	2003
Current tax expense	24,293	42,086	50,232	94,968
Future tax expense:				
Change in temporary differences	3,381	(893)	2,161	(28,971)
Change in statutory rate	538	(579)	358	(711)
Income tax expense	28,212	40,614	52,751	65,286

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

<i>For the period ended June 30</i>	Three months		Six months	
	2004	2003	2004	2003
Statutory income tax rate (including surtax)	35.67%	37.93%	35.73%	38.91%
Federal large corporation tax	0.74	0.26	1.07	0.27
Tax rate change – future asset	(1.09)	(0.59)	(0.69)	(0.56)
Non-taxable gain	0.09	0.81	0.05	0.57
Non-deductible goodwill	0.05	0.07	0.06	0.05
Benefit of non-capital losses not recognized	—	—	0.01	—
Other permanent differences	0.41	1.41	0.32	0.60
Effective income tax rate	35.87%	39.89%	36.55%	39.84%

Tax losses

At June 30, 2004, we have accumulated \$13.5 million (December 31, 2003 – \$6.5 million) in non-capital tax losses that are available to reduce taxable income in future years. These losses will expire after 2010 if not used. The tax benefit of the non-capital losses has been recognized as part of the future tax asset.

We also have capital losses of approximately \$37.2 million at June 30, 2004, (December 31, 2003 – \$34.6 million) available to be carried forward indefinitely to reduce capital gains in future years. No future tax asset associated with \$34.6 million of these losses has been recognized for financial reporting purposes.

4 CAPITAL INVESTMENTS

As at June 30, 2004

<i>(thousands of dollars)</i>	Cost	Accumulated depreciation	Net book value
Land	13,008	—	13,008
Buildings and towers	355,642	174,234	181,408
Telecommunications facilities and equipment	4,428,955	2,923,749	1,505,206
Application software and other equipment	585,989	387,319	198,670
Plant under construction	38,507	—	38,507
Materials and supplies	5,500	—	5,500
	5,427,601	3,485,302	1,942,299

4 CAPITAL INVESTMENTS *(continued)*

As at December 31, 2003

(thousands of dollars)

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

5 ACCRUED BENEFIT ASSET (LIABILITY)

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

DC pension plans

Our DC pension plans require company contributions between 4 per cent and 6 per cent and employee contributions between nil and 6 per cent of a member-employee's pensionable earnings. The total cost for the DC pension plans is equal to our required contributions and was \$2.0 million and \$5.3 million, respectively, for the three and six months ended June 30, 2004 (June 30, 2003 – \$2.4 million and \$4.4 million, respectively).

DB pension plans

Our DB pension plans provide a pension to employees that reach 65 years of age at retirement with at least two years of service. The formulas for determining the benefits provided under these plans vary by plan. As an example, under a plan that provides a pension equal to 1.5 per cent of the employee's best five year average earnings for each year of service, an employee with 30 years of service at 1.5 per cent per year could receive a pension equal to 45 per cent of the employee's best five-year average earnings. For employees that retire before age 65 but meet other age plus service requirements either a reduced or unreduced pension may be payable. Pensions paid are subject to annual indexing with the Consumer Price Index up to a maximum of 2 per cent per year.

We have some DB pension plans that are registered under the Income Tax Act and are regulated by the Office of the Superintendent of Financial Institutions. We also have some DB pension arrangements for executives that are not registered plans. We are required to maintain funding levels of the registered plans by making contributions to a trust fund that is used to pay benefits under the plans. We fund the non-registered plans directly when the benefits under those plans are paid to retirees.

OPEB plans

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

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

Assumptions

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

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

Investment of DB pension plans assets

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

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

The Master Trust is not permitted to directly own common shares or debt obligations of our Company or our subsidiaries. The Master Trust does own units of index funds that may hold shares of Aliant Inc. or debt instruments of our subsidiaries by virtue of the fact that these securities are included in the relevant indices. The Master Trust does hold common shares of BCE Inc. worth approximately \$5.8 million (less than 1.0 per cent of total plan assets) at June 30, 2004. Fixed income securities include BCE Inc. and Bell Canada debentures of approximately \$6.5 million (less than 1.0 per cent of total plan assets) at June 30, 2004. The total value of all our securities and those of related issuers held directly or indirectly in the Master Trust at June 30, 2004, was approximately \$13.4 million (1.0 per cent of plan assets) and at December 31, 2003, was approximately \$15.0 million (1.2 per cent of plan assets).

Components of accrued benefit asset (liability)

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

	DB pension plans		OPEB plans	
	June 30, 2004	December 31, 2003	June 30, 2004	December 31, 2003
<i>(thousands of dollars)</i>				
Plan obligations:				
Accrued benefit obligation, beginning of period	1,496,455	1,379,459	161,376	159,681
Cost of benefits earned in the period	14,056	24,753	2,288	4,431
Interest on the obligation	49,554	93,893	5,450	10,189
Actuarial (gains) losses	—	83,413	—	(8,914)
Benefits paid out of the plan	(38,616)	(85,063)	(2,190)	(4,011)
Accrued benefit obligation, end of period	1,521,449	1,496,455	166,924	161,376

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

	DB pension plans		OPEB plans	
	June 30, 2004	December 31, 2003	June 30, 2004	December 31, 2003
<i>(thousands of dollars)</i>				
Plan assets:				
Fair value of plan assets, beginning of period	1,262,442	1,081,830	—	—
Actual return on plan assets	42,202	140,986	—	—
Benefits paid out of the plan	(38,616)	(85,063)	(2,190)	(4,011)
Employer contributions to the plan	32,643	124,689	2,190	4,011
Fair value of plan assets, end of period	1,298,671	1,262,442	—	—
Plan deficit, end of period	(222,778)	(234,013)	(166,924)	(161,376)
Unamortized losses	393,122	397,453	2,220	2,220
Accrued benefit asset (liability), end of period	170,344	163,440	(164,704)	(159,156)

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

Components of DB pension plans and OPEB plans cost

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

<i>For the period ended June 30</i> <i>(thousands of dollars)</i>	DB pension plans			
	Three months		Six months	
	2004	2003	2004	2003
Cost of benefits earned in the period	7,028	6,188	14,056	12,376
Interest on the obligation	24,777	23,473	49,554	46,946
Expected return on plan assets	(23,644)	(22,890)	(47,295)	(45,780)
Amortization of net actuarial losses	4,712	1,404	9,424	2,808
Net benefit plans' cost	12,873	8,175	25,739	16,350

<i>For the period ended June 30</i> <i>(thousands of dollars)</i>	OPEB plans			
	Three months		Six months	
	2004	2003	2004	2003
Cost of benefits earned in the period	1,144	1,108	2,288	2,216
Interest on the obligation	2,725	2,377	5,450	4,754
Net benefit plans' cost	3,869	3,485	7,738	6,970

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

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

<i>For the period ended June 30</i> <i>(thousands of dollars)</i>	DB pension plans			
	Three months		Six months	
	2004	2003	2004	2003
Net benefit plans cost as calculated	12,873	8,175	25,739	16,350
Remove amortization of net actuarial losses	(4,712)	(1,404)	(9,424)	(2,808)
Remove expected return on plan assets	23,644	22,890	47,295	45,780
Actual (gain) loss on plan assets	13,936	(79,913)	(42,202)	(22,103)
Adjusted net benefit plans' (income) cost	45,741	(50,252)	21,408	37,219

<i>For the period ended June 30</i> <i>(thousands of dollars)</i>	OPEB plans			
	Three months		Six months	
	2004	2003	2004	2003
Net benefit plans cost as calculated	3,869	3,485	7,738	6,970
Actuarial gain incurred	—	—	—	(8,914)
Adjusted net benefit plans' (income) cost	3,869	3,485	7,738	(1,944)

Sensitivity to changes in assumptions

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

<i>(thousands of dollars, rounded to millions)</i>	Assumption	Rate change	DB pension plans		OPEB plans	
			Obligation	Annual cost	Obligation	Annual cost
Rate used to discount the obligations	6.75%	+/- 0.25%	54,000	1,000	6,000	—
Expected return on plan assets	7.50%	+/- 0.25%	—	3,000	—	—
Rate of compensation increase	3.50%	+/- 0.25%	8,000	1,000	—	—
Growth in per capita health care costs	4.50 – 8.00%	+ 1.00%	—	—	27,000	3,000
		- 1.00%	—	—	(23,000)	(2,000)

The indicated impact of a 0.25 change in the discount rate on annual net benefit plans' cost includes the impact on the interest and current service cost components of pension cost. In addition to these impacts, the amount of amortization of net actuarial losses would also change, however this change would depend on whether the 0.25 change was an increase in the discount rate or a decrease in the discount rate and would not extrapolate to other assumed changes in the discount rate. For reference, the amount of amortization of net actuarial losses would increase by approximately \$4.0 million annually if the discount rate were to be reduced by 0.25 per cent to 6.50 per cent.

6 GOODWILL

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

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

7 NOTES PAYABLE AND BANK ADVANCES

At June 30, 2004, we have \$nil million (December 31, 2003 – \$nil million) outstanding under our commercial paper program. We maintain lines of credit totalling \$557.0 million (December 31, 2003 – \$557.0 million) of which \$350.0 million (December 31, 2003 – \$350.0 million) are committed lines supporting our commercial paper program, \$150.0 million (December 31, 2003 – \$150.0 million) are uncommitted operating lines and \$57.0 million (December 31, 2003 – \$57.0 million) are operating lines of credit within our subsidiaries. At June 30, 2004, there was \$6.8 million (December 31, 2003 – \$11.4 million) outstanding on our subsidiaries' operating lines of credit.

8 RESTRUCTURING CHARGE

During the first six months of 2004, we continued to restructure our Information Technology segment operations, which resulted in a provision of \$1.2 million and \$2.4 million for the three and six months, respectively, against earnings. The objective of this is to improve productivity and profitability, realign xwave's strategy and simplify its business model. Costs associated with the restructuring, the majority of which are severance and related benefits, but also include premises rationalization costs, are being charged against this provision. As at June 30, 2004, the balance of this year's and prior years' restructuring provision included in payables and accruals totalled \$4.2 million. The remaining provision is expected to be drawn down during 2004.

In the first six months of 2004, we also performed some restructuring in our Telecommunications segment operations, which resulted in a provision of \$0.3 million and \$2.2 million for the three and six months, respectively, against earnings. The restructuring relates to workforce reductions with the associated costs being severance and related benefits. The objective of this is to improve productivity and profitability. As at June 30, 2004, the balance of this restructuring provision included in payables and accruals totalled \$1.3 million, and is expected to be drawn down during 2004.

9 LONG-TERM DEBT

<i>(thousands of dollars)</i>	Interest rate	Maturity	As at June 30, 2004	As at December 31, 2003
Telecommunications				
Notes				
Aliant Telecom Inc.				
Series 1	6.46%	2004	100,000	100,000
Series 2	6.65%	2009	100,000	100,000
Series 3	6.70%	2005	150,000	150,000
Series 4	6.80%	2011	150,000	150,000
Series 5	5.35%	2007	100,000	100,000
			600,000	600,000
Bonds				
Maritime Tel & Tel Limited				
AD	10.45%	2013	50,000	50,000
Island Telecom Inc.				
T	10.60%	2009	3,500	3,500
U	11.15%	2010	6,500	6,500
V	9.77%	2018	5,000	5,000
W	8.76%	2019	5,000	5,000
NewTel Communications Inc.				
T	10.75%	2014	75,000	75,000
V	11.40%	2010	40,000	40,000
			185,000	185,000
Debentures				
Maritime Tel & Tel Limited				
Series 2	8.30%	2019	50,000	50,000
Series 4	9.70%	2019	50,000	50,000
Series 5	9.05%	2025	60,000	60,000
NBTEL Inc.				
AA	11.13%	2013	40,000	40,000
			200,000	200,000
			985,000	985,000
Present value of obligations under capital leases			5,397	4,746
Total – Telecommunications			990,397	989,746
Information Technology				
		2005	213	313
Total long-term debt			990,610	990,059
Less: Portion due within one year			101,781	101,535
			888,829	888,524

9 LONG-TERM DEBT *(continued)*

Telecommunications

All bonds are issued in series and are redeemable at our option prior to maturity at the prices, times and conditions specified in each series. The bonds are secured by deeds of trust and mortgage and by supplemental deeds. These instruments contain a first fixed and specific mortgage, a pledge and charge upon certain real and immovable property and equipment of Aliant Telecom Inc., and a floating charge on certain other property of Aliant Telecom Inc., both present and future.

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

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

<i>(thousands of dollars)</i>	Remainder of 2004	2005	2006	2007	2008	Thereafter
Long-term debt	100,138	150,075	—	100,000	—	635,000
Capital leases	1,643	1,300	1,800	654	—	—
	101,781	151,375	1,800	100,654	—	635,000

10 NON-CONTROLLING INTEREST

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

<i>(thousands of dollars)</i>	As at June 30, 2004	As at December 31, 2003
Xwave New England Corp. (formally TechKnowledge Inc.)	—	583
Atlantic Mobility Products Ltd.	4,274	3,468
	4,274	4,051

11 CAPITAL STOCK

Authorized

Unlimited number of preference shares, cumulative, redeemable at the price of \$25.00 per share and with a fixed annual dividend rate of \$1.3625 per share. These shares are non-voting, except under certain conditions, and are redeemable at our option on June 30, 2006, or on June 30 of each fifth year thereafter. Preference shareholders (series 2) may convert series 2 preference shares to series 3 shares on June 30, 2006, or on June 30 each fifth year thereafter, provided that we have not delivered a notice of redemption.

Unlimited number of common shares, without par value.

Issued and outstanding

	As at June 30, 2004		As at December 31, 2003	
	Number of shares	Stated capital	Number of shares	Stated capital
<i>(thousands of dollars, except as otherwise noted)</i>				
Preference shares, series 2	7,000,000	172,264	7,000,000	172,264
Common shares	132,312,406	1,028,614	133,616,920	1,035,798
		1,200,878		1,208,062

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

	Six months ended June 30, 2004		Twelve months ended December 31, 2003	
	Number of shares	Stated capital	Number of shares	Stated capital
<i>(thousands of dollars, except as otherwise noted)</i>				
Common shares, beginning of period	133,616,920	1,035,798	139,513,639	1,070,551
Stock option plan (note 16)	47,822	936	434,132	8,629
Common shareholder dividend reinvestment and stock purchase plan	110,948	3,214	197,719	5,927
Shares purchased for cancellation	(1,463,284)	(11,334)	(6,528,570)	(49,309)
Common shares, end of period	132,312,406	1,028,614	133,616,920	1,035,798

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

Under the provisions of our common shareholder dividend reinvestment and stock purchase plan and employees' stock savings plan, shareholders purchase additional common shares in lieu of receiving corporate dividends in the form of cash. In relation to these plans, we issued shares in lieu of paying cash dividends during the three and six months ended June 30, 2004, of \$2.4 million and \$4.7 million, respectively (June 30, 2003 – \$2.4 million and \$4.6 million, respectively).

11 CAPITAL STOCK *(continued)*

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

On July 30, 2003, we announced the TSX had accepted our Notice of intention to purchase from time to time up to a further 6,925,000 of our outstanding common shares, representing approximately 5.0 per cent of our issued and outstanding common shares as of that date, being 138,517,283 common shares. Under this normal course issuer bid, we acquire our common shares at the market price with cash through the facilities of the TSX. Bell Canada, our majority shareholder, sells shares into the normal course issuer bid on a pro-rata basis. The TSX has granted an exemption to permit us to make purchases from Bell Canada on this basis. Purchases of common shares may be made during the twelve-month period commencing August 6, 2003, and ending on August 5, 2004. As of June 30, 2004, 6,656,154 shares (shares purchased from Bell Canada – 3,357,854) were purchased for cancellation under this bid, of which 5,192,870 shares were purchased in 2003 (shares purchased from Bell Canada in 2003 – 2,643,070).

For the six months ended, June 30, 2004, we purchased for cancellation 1,463,284 shares (December 31, 2003 – 6,528,570) for an aggregate price of \$43.5 million (December 31, 2003 – \$200.9 million) which reduced capital stock by \$11.4 million (December 31, 2003 – \$49.3 million), contributed surplus by \$0.2 million (December 31, 2003 – \$64.2 million) and retained earnings by \$31.9 million (December 31, 2003 – \$87.4 million).

12 SEGMENTED INFORMATION

We operate through two reportable segments:

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

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

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

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

The Remote Communications and Emerging Business segments were divested of during 2003 and are included in prior year discontinued operations as discussed in note 14.

12 SEGMENTED INFORMATION *(continued)*

For the three months ended June 30, 2004

<i>(thousands of dollars)</i>	Telecommunications	Information Technology	All others	Eliminations	Consolidated
Revenue from external customers	464,027	60,873	684	—	525,584
Intersegment revenue	2,047	24,354	—	(26,401)	—
Operating revenues	466,074	85,227	684	(26,401)	525,584
Operating expenses	270,161	79,344	6,999	(26,061)	330,443
Depreciation and amortization	97,060	2,134	369	(1,014)	98,549
Restructuring charge	309	1,164	—	—	1,473
Other income	485	178	48,784	(47,341)	2,106
Interest charges (income)	18,758	(112)	1,248	(1,309)	18,585
Income taxes	25,042	501	2,364	305	28,212
Non-controlling interest	340	—	—	—	340
Net income (loss) from					
continuing operations	54,889	2,374	38,488	(45,663)	50,088
Net income from					
discontinued operations	—	—	—	—	—
Net income (loss)	54,889	2,374	38,488	(45,663)	50,088
Total assets	2,682,470	159,309	1,842,826	(1,719,054)	2,965,551
Purchase of capital investments	42,415	2,227	58	—	44,700

For the three months ended June 30, 2003

<i>(thousands of dollars)</i>	Telecommunications	Information Technology	All others	Eliminations	Consolidated
Revenue from external customers	460,363	56,265	649	—	517,277
Intersegment revenue	3,710	28,350	—	(32,060)	—
Operating revenues	464,073	84,615	649	(32,060)	517,277
Operating expenses	240,656	82,769	5,739	(33,262)	295,902
Depreciation and amortization	95,977	3,007	356	(958)	98,382
Other income (expenses)	628	54	79,086	(79,996)	(228)
Interest charges	20,778	631	2,863	(3,331)	20,941
Income taxes (recovery)	41,891	(716)	(1,234)	673	40,614
Non-controlling interest	(37)	23	—	—	(14)
Net income (loss) from					
continuing operations	65,436	(1,045)	72,011	(75,178)	61,224
Net income (loss) from					
discontinued operations	(173)	—	9,515	—	9,342
Net income (loss)	65,263	(1,045)	81,526	(75,178)	70,566
Total assets	2,696,330	168,533	2,646,968	(1,929,571)	3,582,260
Purchase of capital investments	71,379	633	821	—	72,833

12 SEGMENTED INFORMATION *(continued)*

For the six months ended June 30, 2004

<i>(thousands of dollars)</i>	Telecommunications	Information Technology	All others	Eliminations	Consolidated
Revenue from external customers	894,535	134,627	864	—	1,030,026
Intersegment revenue	4,171	49,065	—	(53,236)	—
Operating revenues	898,706	183,692	864	(53,236)	1,030,026
Operating expenses	517,240	171,561	12,714	(52,569)	648,946
Depreciation and amortization	196,399	4,453	674	(2,018)	199,508
Restructuring charge	2,230	2,326	—	—	4,556
Other income	4,123	208	93,623	(92,838)	5,116
Interest charges	37,704	351	2,658	(2,906)	37,807
Income taxes	50,453	1,493	196	609	52,751
Non-controlling interest	805	1	—	—	806
Net income (loss) from continuing operations	97,998	3,715	78,245	(89,190)	90,768
Net income from discontinued operations	—	—	—	—	—
Net income (loss)	97,998	3,715	78,245	(89,190)	90,768
Total assets	2,682,470	159,309	1,842,826	(1,719,054)	2,965,551
Purchase of capital investments	126,817	2,584	95	—	129,496

For the six months ended June 30, 2003

<i>(thousands of dollars)</i>	Telecommunications	Information Technology	All others	Eliminations	Consolidated
Revenue from external customers	886,824	130,609	733	—	1,018,166
Intersegment revenue	7,110	57,030	—	(64,140)	—
Operating revenues	893,934	187,639	733	(64,140)	1,018,166
Operating expenses	482,796	187,328	11,237	(66,032)	615,329
Depreciation and amortization	192,085	5,791	544	(1,848)	196,572
Other income (expenses)	182	(39)	121,041	(121,676)	(492)
Interest charges	41,590	1,264	4,506	(5,476)	41,884
Income taxes (recovery)	69,464	(2,429)	(2,210)	461	65,286
Non-controlling interest	(81)	(40)	—	—	(121)
Net income (loss) from continuing operations	108,262	(4,314)	107,697	(112,921)	98,724
Net income (loss) from discontinued operations	(338)	—	11,068	—	10,730
Net income (loss)	107,924	(4,314)	118,765	(112,921)	109,454
Total assets	2,696,330	168,533	2,646,968	(1,929,571)	3,582,260
Purchase of capital investments	141,169	1,141	1,159	—	143,469

12 SEGMENTED INFORMATION *(continued)*

Revenue from external customers by product and service:

<i>For the period ended June 30</i> <i>(thousands of dollars)</i>	Three months		Six months	
	2004	2003	2004	2003
Telecommunications				
Local	188,571	192,630	376,828	382,659
Long distance	86,080	94,089	176,053	191,493
Wireless	94,012	80,485	180,561	153,646
Internet	30,183	26,463	59,162	51,849
Directory	27,970	26,113	29,983	27,876
Product	26,487	26,679	51,664	51,303
Other telecommunications	10,724	13,904	20,284	27,998
	464,027	460,363	894,535	886,824
Information Technology				
Fulfillment	31,171	22,833	72,148	65,366
IT services	29,702	33,432	62,479	65,243
	60,873	56,265	134,627	130,609
Other	684	649	864	733
	525,584	517,277	1,030,026	1,018,166

13 OTHER INCOME (EXPENSES)

<i>For the period ended June 30</i> <i>(thousands of dollars)</i>	Three months		Six months	
	2004	2003	2004	2003
Interest income	2,145	2,216	9,256	5,338
Accounts receivable securitization (note 2)	(804)	(1,214)	(1,780)	(2,288)
Provincial large corporation tax	(401)	(1,026)	(2,297)	(2,186)
Miscellaneous income (charges)	1,166	(204)	(63)	(1,356)
	2,106	(228)	5,116	(492)

14 DISCONTINUED OPERATIONS

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

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

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

14 DISCONTINUED OPERATIONS *(continued)*

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

<i>For the period ended June 30</i> <i>(thousands of dollars)</i>	Three months		Six months	
	2004	2003	2004	2003
Operating revenues	—	161,670	—	318,040
Operating expenses	—	144,196	—	281,681
Other income	—	9,025	—	6,752
Interest on long-term debt	—	5,443	—	11,824
Income tax	—	6,744	—	10,736
Non-controlling interest	—	4,970	—	9,821
Net income from discontinued operations	—	9,342	—	10,730

15 EARNINGS PER COMMON SHARE

<i>For the period ended June 30</i> <i>(thousands of dollars, except per share amounts)</i>	Three months		Six months	
	2004	2003	2004	2003
Net income applicable to common shares:				
Net income from continuing operations	50,088	61,224	90,768	98,724
Preferred share dividends	(2,385)	(2,385)	(4,769)	(4,769)
Net income applicable to common shares				
from continuing operations	47,703	58,839	85,999	93,955
Net income from discontinued operations	—	9,342	—	10,730
Net income applicable to common shares	47,703	68,181	85,999	104,685
Basic:				
Weighted average number of common shares outstanding	132,685	138,683	133,038	138,976
Basic earnings per common share				
from continuing operations	0.36	0.42	0.65	0.67
Basic earnings per common share				
from discontinued operations	—	0.07	—	0.08
Basic earnings per common share	0.36	0.49	0.65	0.75
Diluted:				
Weighted average number of common shares outstanding	132,685	138,683	133,038	138,976
Impact of outstanding stock options	—	—	—	—
	132,685	138,683	133,038	138,976
Diluted earnings per common share				
from continuing operations	0.36	0.42	0.65	0.67
Diluted earnings per common share				
from discontinued operations	—	0.07	—	0.08
Diluted earnings per common share	0.36	0.49	0.65	0.75

The impact of outstanding stock options represents common shares issuable under the terms of our stock option plan that have a weighted average exercise price that is lower than the average market value during the period. There was no impact in 2003 or 2004 as the options would not have been exercised because their weighted average exercise price was greater than the average market value during the period.

Refer to note 16 for details of our stock option plan.

15 EARNINGS PER COMMON SHARE *(continued)*

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

<i>For the period ended June 30</i>	Three months		Six months	
<i>(thousands of dollars, except per share amounts)</i>	2004	2003	2004	2003
Pro-forma net income applicable to common shares:				
Net income from continuing operations	50,088	61,224	90,768	98,724
Pro-forma adjustments	(309)	(467)	(619)	(923)
Pro-forma net income from continuing operations	49,779	60,757	90,149	97,801
Preferred share dividends	(2,385)	(2,385)	(4,769)	(4,769)
Pro-forma net income applicable to common shares				
from continuing operations	47,394	58,372	85,380	93,032
Net income from discontinued operations	—	9,342	—	10,730
Pro-forma net income applicable to common shares	47,394	67,714	85,380	103,762
Basic:				
Weighted average number of common shares outstanding	132,685	138,683	133,038	138,976
Pro-forma basic earnings per common share from continuing operations	0.36	0.42	0.64	0.67
Pro-forma basic earnings per common share from discontinued operations	—	0.07	—	0.08
Pro-forma basic earnings per common share	0.36	0.49	0.64	0.75
Diluted:				
Weighted average number of common shares outstanding	132,685	138,683	133,038	138,976
Impact of outstanding stock options	—	—	—	—
	132,685	138,683	133,038	138,976
Pro-forma diluted earnings per common share from continuing operations	0.36	0.42	0.64	0.67
Pro-forma diluted earnings per common share from discontinued operations	—	0.07	—	0.08
Pro-forma diluted earnings per common share	0.36	0.49	0.64	0.75

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

<i>June 30</i>	2004	2003
Dividend yield	3.76%	3.41%
Expected volatility	22.20%	25.30%
Risk-free interest rate	4.24%	4.33%
Expected lives	5.4 years	6.4 years

16 STOCK-BASED COMPENSATION PLANS

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

Stock option plan

Under the stock option plan, we may grant stock options to plan members for up to 6,867,104 shares of common stock, of which 2,694,856 options for the same number of common shares were outstanding as at June 30, 2004 (December 31, 2003 – 2,338,367). The exercise price of each option equals the market price of our common shares on the date of grant. The right to exercise the options vests or accrues evenly over three years from the date they are granted under the plan and can be exercised for a period of up to 10 years from the date of grant.

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

	As at June 30, 2004		As at December 31, 2003	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Options outstanding at beginning of period	2,338,367	30.06	2,680,450	28.94
Granted	432,621	32.39	289,138	26.84
Forfeited	(28,310)	31.98	(197,089)	32.59
Exercised	(47,822)	19.58	(434,132)	19.88
Options outstanding at end of period	2,694,856	30.60	2,338,367	30.06
Options exercisable at end of period	1,892,790	30.71	1,595,257	30.48

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

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining contractual life in years	Weighted average exercise price	Number exercisable	Weighted average exercise price
11.746 to 15.718	68,289	2.3	14.16	68,289	14.16
19.125 to 20.079	83,106	3.6	19.96	83,106	19.96
21.768 to 25.552	148,302	4.6	22.91	148,302	22.91
26.790 to 34.900	1,917,585	7.9	31.04	1,115,519	31.55
35.250 to 38.100	477,574	6.6	35.42	477,574	35.42
	2,694,856		30.60	1,892,790	30.71

16 STOCK-BASED COMPENSATION PLANS *(continued)*

Employees' stock savings plan

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

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

The total number of common shares bought for employees during the six months ended June 30, 2004 was 554,000 (for the year ended December 31, 2003, – 1,022,000).

Performance share unit plan

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

Performance share units granted in the first six months of 2004 were 47,945 (June 30, 2003 – 58,959) with total share units outstanding at June 30, 2004, of 109,066 (December 31, 2003 – 61,121). No performance share units had vested as at June 30, 2004.

17 FINANCIAL INSTRUMENTS

Risk management

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

Credit risk

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

17 FINANCIAL INSTRUMENTS *(continued)*

Currency exposures

We have no principal amounts outstanding under cross-currency forward contracts or forward rate agreements.

Interest rate exposures

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

- Interest rate swap – We have entered into, for hedging purposes, an interest rate swap transaction with a notional amount at June 30, 2004, of \$100.0 million (December 31, 2003 – \$100.0 million) expiring on May 11, 2011. The swap transaction involves us exchanging our underlying fixed interest rate of 6.80 per cent per annum for a three-month Bankers' Acceptance floating interest rate plus 2.06 per cent.
- Interest rate swaption – We have also entered into swaption transactions related to two outstanding issues of long-term debt with a total notional amount at June 30, 2004, of \$90.0 million (December 31, 2003 – \$90.0 million). The swaptions grant an option to the counterparty in the transaction to enter into an interest rate swap transaction with us on the call dates of the two underlying debt instruments. If exercised, these swaptions will involve us paying the underlying fixed interest rates on the debt instruments of 10.45 per cent and 11.125 per cent, respectively, in exchange for receiving the three-month Bankers' Acceptance floating rate from the call dates in 2006 until maturity in 2013. In exchange for providing the counterparty with these options, we received payments from the counterparty of \$7.6 million in 2001 and \$5.4 million in 1997. The remaining unamortized premium income as at June 30, 2004, of \$9.0 million (\$9.4 million – December 31, 2003) is recorded as a deferred credit. This premium income is being amortized against interest expense over the period to maturity of the underlying debt issues.

Fair value

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

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

<i>(thousands of dollars)</i>	As at June 30, 2004		As at December 31, 2003	
	Carrying value	Fair value	Carrying value	Fair value
Long-term debt	990,610	1,168,800	990,059	1,173,600
Derivative financial instruments, net liability position	(9,000)	(25,800)	(9,400)	(24,700)

18 COMMITMENTS

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

<i>(thousands of dollars)</i>	Remainder of 2004	2005	2006	2007	2008	Thereafter
Operating leases	22,106	40,433	36,483	34,778	33,842	178,644
Purchase commitments	19,984	30,220	6,999	2,549	—	—
	42,090	70,653	43,482	37,327	33,842	178,644

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

19 RELATED PARTY TRANSACTIONS

Bell Canada beneficially owns and controls 53.48 per cent (December 31, 2003 – 53.50 per cent) of our outstanding common shares as at June 30, 2004.

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

Transactions with controlled investees of Bell Canada

<i>(thousands of dollars)</i>	Three months		Six months	
	2004	2003	2004	2003
Purchases of telecommunications and other services	29,421	32,734	56,163	63,277
Provisions of telecommunications services	36,940	34,146	76,413	69,148
Purchases of capital investments	90	885	923	1,712

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

<i>(thousands of dollars, except as otherwise noted)</i>	Six months ended June 30, 2004	Twelve months ended December 31, 2003
Shares purchased	714,784	2,643,070
Value	21,177	83,388

These transactions are measured at market value.

19 RELATED PARTY TRANSACTIONS (continued)

Balances with controlled investees of Bell Canada are as follows:

<i>(thousands of dollars)</i>	As at June 30, 2004	As at December 31, 2003
Notes receivable	104,000	—
Accounts receivable	21,080	13,792
Payables and accruals	8,947	8,579

As at June 30, 2004, we had notes receivable with Bell Canada in the form of a revolving loan that matures on the first day of each month and can be recalled at any time, bearing interest of 2.05 per cent per annum.

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

20 JOINT VENTURES

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

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

<i>For the period ended June 30</i> <i>(thousands of dollars)</i>	Three months		Six months	
	2004	2003	2004	2003
Consolidated statements of income				
Operating revenues	28,191	26,113	29,983	27,876
Expenses	7,978	7,320	10,296	9,606
Operating income	20,213	18,793	19,687	18,270
Consolidated balance sheets				
Current assets	39,484	36,743	39,484	36,743
Long-term assets	293	246	293	246
Current liabilities	6,978	5,136	6,978	5,136
Net investment	32,799	31,853	32,799	31,853
Consolidated statements of cash flows				
Operating activities	(39)	(293)	79	576
Investing activities	—	20	(47)	(2)
Net cash flow	(39)	(273)	32	574

Included in cash flow from operating activities are cash distributions received by us from Aliant ActiMedia of \$7.0 million and \$13.7 million for the three and six months ended June 30, 2004, respectively (June 30, 2003 – \$7.7 million and \$13.9 million, respectively).

21 CONTINGENCIES

- (a) We have had an action commenced against us by 132 former employees who took early retirement under a 1998 early retirement incentive program. The former employees seek damages in the amount of the difference between what they received upon retirement in 1998, and what they would have received had they retired under the 1999 early retirement incentive program. The outcome of this matter is not determinable at this time.
- (b) We have had an action commenced against us by Exigen Ltd. (“Exigen”) in the State of California. The action stems from the sale of Connectivity Contact Centre Solutions Inc. to Exigen, the termination of certain commercial agreements, and claims of interference with Exigen’s commercial relations. Exigen seeks US\$30 million in specified damages, and other damages to be presented. A preliminary issue concerns whether Canada is the proper place to bring the action instead of California. Accordingly, we have started an action in New Brunswick against Exigen and its Canadian operating subsidiary seeking adjudication of many of these issues. The outcome of this matter is not determinable at this time.
- (c) The nine collective agreements between us and the Communications, Energy and Paperworkers Union of Canada and the Atlantic Communications and Technical Workers’ Union representing approximately 4,300 of our unionized employees, expired on December 31, 2001. Despite continued negotiations with the council representing these unions since March 2002, and assistance from federal conciliators and mediators, the Company offer that was made on April 23, 2004, was rejected and a legal work stoppage commenced. The stoppage continues to be in effect. Although it is not currently possible to determine the outcome of future negotiations, we have accrued what is deemed by management to be adequate reserves.
- (d) On May 30, 2002, the CRTC released its price cap decision, that prescribed new rules to determine the rates charged for certain telecommunications services provided by incumbent local exchange carriers (ILECs) for the four years beginning June 1, 2002. The price caps decision requires the use of a new mechanism, the deferral account, to mitigate the potential adverse effects on competition in the local market as a result of mandated rate reductions. The deferral account may be reduced by one or a combination of the following:
- Rate reductions for residential local services that are proposed as the result of competitive pressures;
 - Certain rate reductions for services provided to competitors;
 - The approval of exogenous factors for matters beyond control of the ILECs;
 - Rate increases less than the amount by which inflation exceeds productivity;
 - Subscriber rebates; and
 - Funding initiatives that would benefit residential customers in other ways.

We await clarification from the CRTC regarding application of the deferral account rules and allowable cost mitigation features. We have not recognized the deferral account as a liability in our financial statements because we are awaiting clarification from the CRTC. Given the circumstances outlined we estimate the deferral account balance could be between \$1 million and \$28 million. A liability, should one arise, will be charged to operating income or capital as appropriate.

22 COMPARATIVE FIGURES

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

Owning AIT

STOCK EXCHANGE AND TRADING SYMBOLS

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

IMPORTANT DATES

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

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

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

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

SHAREHOLDER SERVICES

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

Direct deposit of dividends

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

Dividend reinvestment and share purchase plan

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

E-services

On-line account inquiry

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

Electronic distribution of reports

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

E-voting

Visit www.eproxyvoting.com/aliant.

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

CIBC Mellon Trust Company Investor Correspondence

PO Box 7010 Phone: 1.800.387.0825 *(toll free in Canada and U.S.)*
Adelaide Street Postal Station E-mail: inquiries@cibcmellon.com
Toronto ON M5C 2W9 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

Aliant Investor Relations

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BOND TRUSTEE, REGISTRAR AND TRANSFER AGENT

Computershare Investor Services and CIBC Mellon Trust Company

SHAREHOLDER INFORMATION

Simple is better

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

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

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

Is simple better? We think so.

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here. for you.™

