Management's Discussion and Analysis

Third Quarter 2004

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

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

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

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

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

<u>Reclassification of prior year results</u>

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

About our business

Who we are

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

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

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

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

Advancing our strategy in 2004

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

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

Maximizing shareholder value

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

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

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

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

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

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

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

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

Everything begins with the customer

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

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

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

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

Simplifying internal processes

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

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

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

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

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

Fostering employee learning and growth

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

Labour disruption

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

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

Estimated financial impact of labour disruption

(millions of dollars, except per share amounts)	2004 Second quarter	2004 Third quarter	2004 Total
Operating revenues	$ (9)	**$ (17)**	**$ (26)**
Cost of operating revenues	4	**6**	**10**
Operating expenses	(16)	**(23)**	**(39)**
Operating income	(21)	**(34)**	**(55)**
Income taxes	8	**12**	**20**
Net income	$ (13)	**$ (22)**	**$ (35)**
Earnings per share	$ (0.10)	**$ (0.16)**	**$ (0.26)**

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

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

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

2004 Outlook

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

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

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

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

	Revised 2004 Outlook	Original 2004 Outlook
Operating revenues	$2,030 to $2,040 million	low single digit percentage growth
Earnings per share	$1.03 to $1.07	low double digit percentage growth
Cash from operations	over $550 million	over $550 million
Capital investments	$285 to $300 million	consistent with 2003 levels at $336 million

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

Operating results

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

Operating revenues

For the period ended September 30	Three months			Nine months		
(millions of dollars)	**2004**	**2003**	**% change**	**2004**	**2003**	**% change**
Telecommunications						
Local	**$ 183.8**	$ 194.4	(5.5)	**$ 560.6**	$ 577.0	(2.8)
Long distance	**85.9**	98.2	(12.5)	**266.1**	296.8	(10.3)
Wireless	**103.0**	89.2	15.5	**283.5**	242.8	16.8
Internet	**30.4**	26.9	12.9	**89.6**	78.8	13.7
Other revenues	**47.6**	51.8	(8.1)	**149.6**	159.0	(5.9)
	$ 450.7	$ 460.5	(2.1)	**$ 1,349.4**	$ 1,354.4	(0.4)
Information Technology						
IT services	**$ 49.8**	$ 50.5	(1.4)	**$ 155.9**	$ 163.9	(4.9)
Fulfillment	**29.6**	30.1	(1.7)	**107.2**	104.3	2.8
	$ 79.4	$ 80.6	(1.5)	**$ 263.1**	$ 268.2	(1.9)
Other and eliminations	**$ (32.9)**	$ (27.2)	(21.0)	**$ (85.3)**	$ (90.5)	5.7
Consolidated operating revenues	**$ 497.2**	$ 513.9	(3.2)	**$ 1,527.2**	$ 1,532.1	(0.3)

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

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

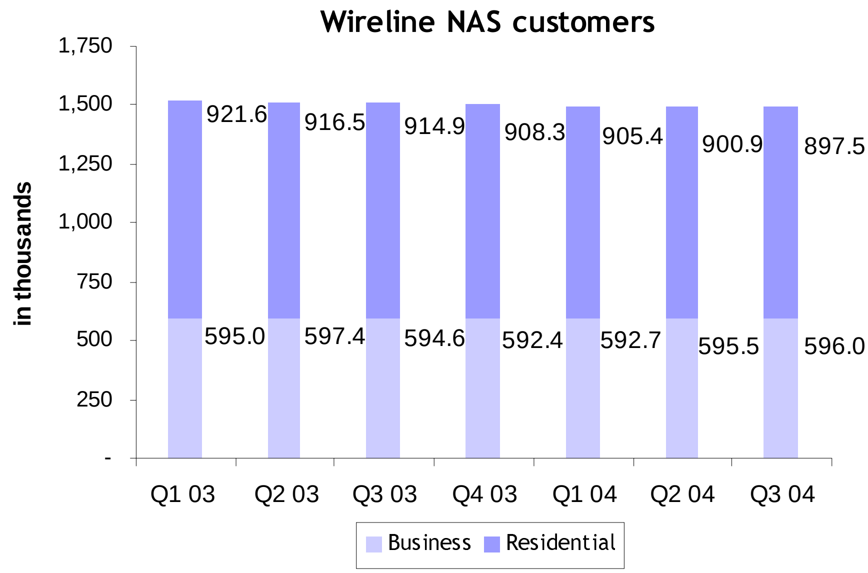
Local revenue

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

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

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

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



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

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

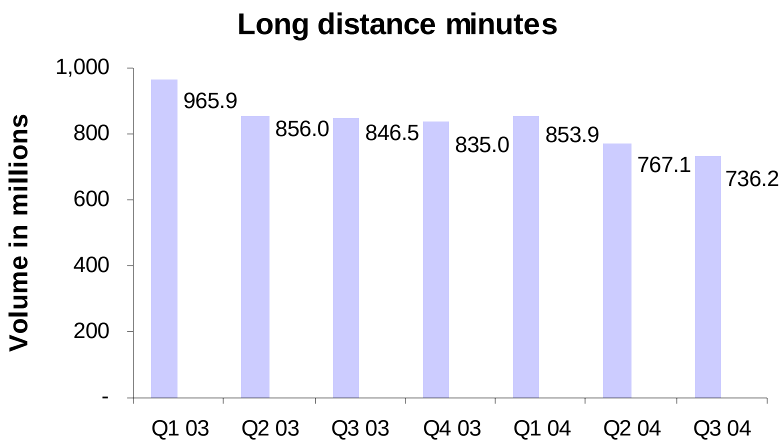
Long distance revenue

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

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

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

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



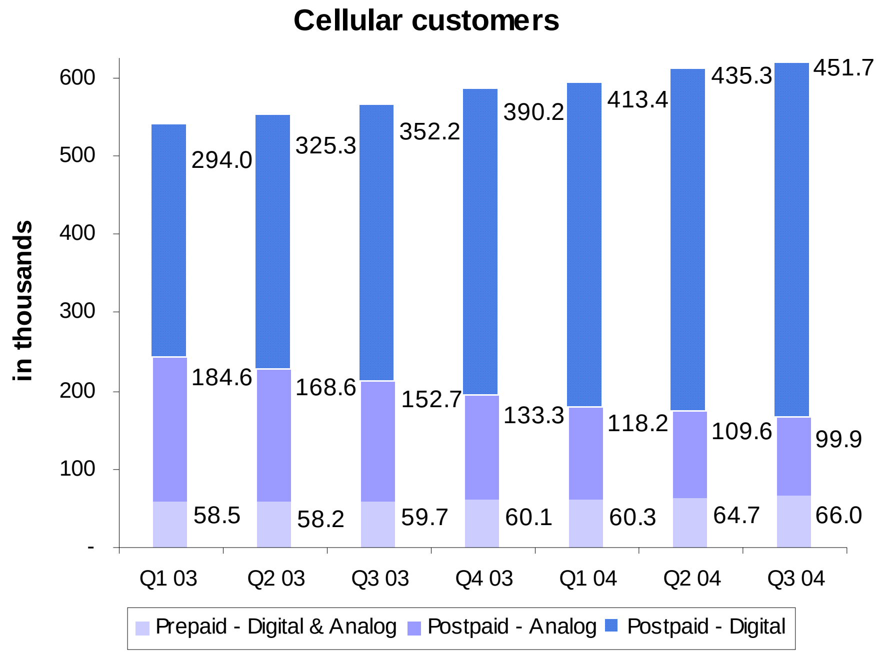
In the third quarter of 2004, our long distance minute volumes decreased by 13.0% over the third quarter of 2003, due in part to our decision to cap the minutes of usage on certain residential unlimited calling plans in 2003 and our competitive environment.

Wireless revenue

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

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

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



Our cellular customers at September 30, 2004 grew 9.4% over September 30, 2003. Included in this result is 30.1% growth in our digital customers and 9.2% growth in our postpaid customers.

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

Wireless - statistics

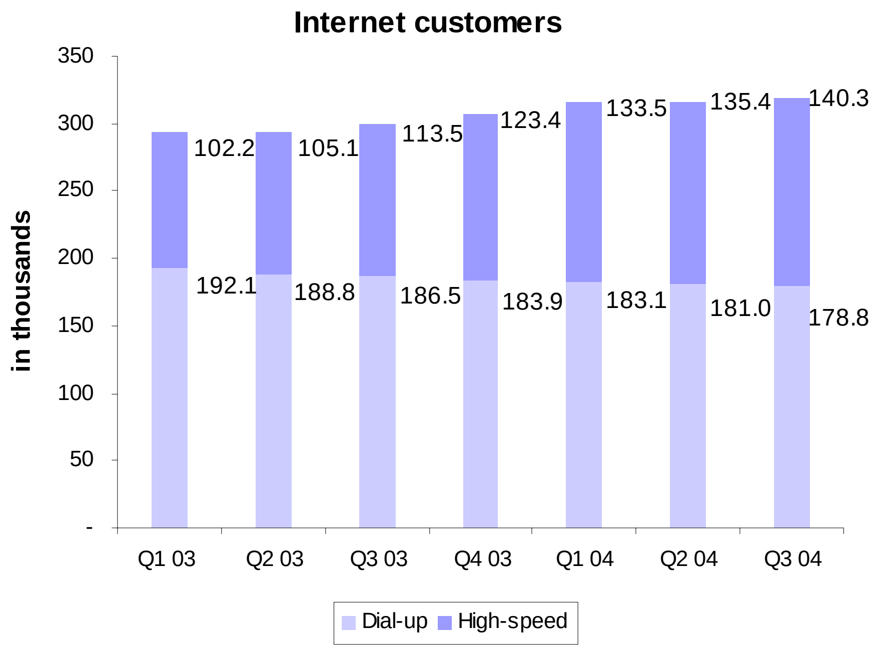
For the period ended September 30	Three months 2004	Three months 2003	Three months % change	Nine months 2004	Nine months 2003	Nine months % change
Monthly - Average revenue per customer						
Postpaid	**$ 58.51**	$ 55.21	6.0	**$ 54.58**	$ 51.15	6.7
Prepaid	**$ 12.27**	$ 11.08	10.7	**$ 10.96**	$ 9.43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

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

Internet revenue

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

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



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

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

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

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

Internet - statistics

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

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

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

Other revenues

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

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

IT services revenue

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

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

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

Fulfillment revenue

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

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

Cost of operating revenues

For the period ended September 30	Three months			Nine months		
(millions of dollars)	**2004**	**2003**	**% change**	**2004**	**2003**	**% change**
Cost of operating revenues	**$ 65.6**	$ 71.0	(7.6)	**$ 209.3**	$ 219.0	(4.4)

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

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

Operating expenses

For the period ended September 30	Three months			Nine months		
(millions of dollars)	**2004**	**2003**	**% change**	**2004**	**2003**	**% change**
Telecommunications	**$ 241.1**	$ 200.0	20.6	**$ 685.3**	$ 601.5	13.9
Information Technology	**44.4**	49.3	(9.9)	**145.3**	169.9	(14.5)
Other and eliminations	**(26.4)**	(22.3)	18.4	**(66.2)**	(77.1)	(14.1)
Consolidated operating expenses	**$ 259.1**	$ 227.0	14.1	**$ 764.4**	$ 694.3	10.1

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

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

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

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

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

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

Pension and other post employment benefits cost

For the period ended September 30	Three months					Nine months				
(millions of dollars)	**2004**		**2003**		**% change**	**2004**		**2003**		**% change**
Defined benefit	**$**	**10.4**	$	10.2	2.0	**$**	**36.1**	$	26.5	36.2
Defined contribution		**2.6**		2.8	(7.1)		**9.5**		8.5	11.8
Other post employment benefits		**3.9**		3.8	2.6		**11.6**		10.8	7.4
Pension and other post employment benefits cost	**$**	**16.9**	$	16.8	0.6	**$**	**57.2**	$	45.8	24.9

Defined Benefit (DB) pension cost has increased in 2004 primarily due to the increase in the amortization of a larger balance of net actuarial losses. The balance of accumulated actuarial losses has increased because past returns on plan assets were lower than expected and because the plan liabilities are higher than anticipated. The liability growth has largely come from lower interest rates being used to discount the future expected payments to pensioners. In the first nine months of 2004, we amortized $14.1 million of the accumulated losses through pension cost while $6.3 million was amortized during the same period in 2003. In the third quarter of 2004, amortization of $4.7 million was recorded compared to $3.5 million in the third quarter of 2003. Offsetting the higher amortization of losses was a $2.5 million decline in the current service cost attributable to unionized employees not accruing pensionable service during the labour disruption.

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

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

Depreciation

For the period ended September 30	Three months					Nine months				
(millions of dollars)	**2004**		**2003**		**% change**	**2004**		**2003**		**% change**
Depreciation	**$**	**98.6**	$	98.3	0.3	**$**	**298.1**	$	294.9	1.1

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

Restructuring charge

For the period ended September 30	Three months					Nine months				
(millions of dollars)	**2004**		**2003**		**% change**	**2004**		**2003**		**% change**
Restructuring charge	**$**	**0.6**	$	15.5	(96.1)	**$**	**5.2**	$	15.5	(66.5)

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

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

Other income (expenses)

For the period ended September 30	Three months			Nine months		
(millions of dollars)	**2004**	**2003**	**% change**	**2004**	**2003**	**% change**
Interest income	**$ 1.3**	$ 3.0	(56.7)	**$ 10.6**	$ 8.3	27.7
Accounts receivable securitization	**(0.7)**	(1.1)	(36.4)	**(2.5)**	(3.4)	(26.5)
Provincial large corporation tax	**(1.4)**	(1.0)	40.0	**(3.7)**	(3.2)	15.6
Miscellaneous income (charges)	**(2.1)**	1.2	-	**(2.2)**	(0.1)	-
Other income (expenses)	**$ (2.9)**	$ 2.1	-	**$ 2.2**	$ 1.6	37.5

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

Interest charges

For the period ended September 30	Three months			Nine months		
(millions of dollars)	**2004**	**2003**	**% change**	**2004**	**2003**	**% change**
Interest charges	**$ 19.8**	$ 20.4	(2.9)	**$ 57.6**	$ 62.3	(7.5)

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

Income taxes

Calculation of effective income tax rate

For the period ended September 30 (millions of dollars)	Three months			Nine months		
	2004	**2003**	**% change**	**2004**	**2003**	**% change**
Net income from continuing operations	**$ 37.0**	$ 50.7	(27.1)	**$ 127.8**	$ 149.4	(14.5)
Addback:						
Income taxes	**13.2**	32.6	(59.5)	**65.9**	97.9	(32.7)
Non-controlling interest	**0.4**	0.3	33.3	**1.2**	0.2	-
Net income from continuing operations before income taxes and non-controlling interest	**$ 50.6**	$ 83.6	(39.5)	**$ 194.9**	$ 247.5	(21.3)
Effective income tax rate	**26.09%**	39.00%	(33.1)	**33.83%**	39.55%	(14.5)

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

Non-controlling interest

For the period ended September 30 (millions of dollars)	Three months			Nine months		
	2004	**2003**	**% change**	**2004**	**2003**	**% change**
Non-controlling interest	**$ 0.4**	$ 0.3	33.3	**$ 1.2**	$ 0.2	**-**

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

Net income and earnings per share

For the period ended September 30 (millions of dollars, except per share amounts)	Three months			Nine months		
	2004	**2003**	**% change**	**2004**	**2003**	**% change**
Net income:						
Continuing operations	**$ 37.0**	$ 50.7	(27.1)	**$ 127.8**	$ 149.4	(14.5)
Discontinued operations	**-**	0.2	-	**-**	11.0	-
Total net income	**$ 37.0**	$ 50.9	(27.3)	**$ 127.8**	$ 160.4	(20.3)
Earnings per common share:						
Continuing operations	**$ 0.26**	$ 0.35	(25.7)	**$ 0.91**	$ 1.03	(11.7)
Discontinued operations	**-**	-	-	**-**	0.08	-
Total earnings per common share	**$ 0.26**	$ 0.35	(25.7)	**$ 0.91**	$ 1.11	(18.0)

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

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

Financial and capital management

Summary of consolidated cash flows

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

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

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

Operating activities

Summary of cash flows from operating activities

For the period ended September 30	Three months			Nine months		
(millions of dollars)	**2004**	**2003**	**% change**	**2004**	**2003**	**% change**
Net income from continuing operations	**$ 37.0**	$ 50.7	(27.1)	**$ 127.8**	$ 149.4	(14.5)
Deferred commissions and subsidies	**(12.5)**	(9.2)	35.9	**(34.9)**	(24.4)	43.0
Non-cash items	**119.2**	104.9	13.6	**375.4**	310.9	20.7
	143.7	146.4	(1.8)	**468.3**	435.9	7.4
Change in non-cash working capital	**70.7**	43.0	64.4	**2.0**	132.0	(98.5)
Cash from continuing operations	**$ 214.4**	$ 189.4	13.2	**$ 470.3**	$ 567.9	(17.2)

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

Change in non-cash working capital

For the period ended September 30	Three months			Nine months		
(millions of dollars)	**2004**	**2003**	**% change**	**2004**	**2003**	**% change**
Accounts receivable	**$ 20.6**	$ (30.3)	-	**$ 44.4**	$ (12.3)	-
Income and other taxes payable	**30.8**	28.7	7.3	**(14.3)**	120.1	-
Prepayments	**9.1**	3.9	-	**(7.2)**	(21.3)	(66.2)
Inventory	**2.7**	0.7	-	**3.5**	1.4	-
Accounts payable and other liabilities	**7.5**	40.0	(81.3)	**(24.4)**	44.1	-
Change in non-cash working capital	**$ 70.7**	$ 43.0	64.4	**$ 2.0**	$ 132.0	(98.5)

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

Financing activities

For the period ended September 30	Three months			Nine months		
(millions of dollars)	**2004**	**2003**	**% change**	**2004**	**2003**	**% change**
Net proceeds (repayments) of notes payable and bank advances	**$ (4.4)**	$ 22.6	-	**$ (17.8)**	$ (21.9)	(18.7)
Repayments of long-term debt	**-**	(9.2)	-	**(0.1)**	(75.5)	(99.9)
Increase (decrease) in capital lease obligations	**(0.4)**	(0.1)	-	**0.2**	1.6	(87.5)
Repurchase of common shares	**(6.6)**	(77.6)	(91.5)	**(48.3)**	(110.3)	(56.2)
Preferred and common share dividends	**(37.3)**	(38.9)	(4.1)	**(112.5)**	(113.9)	(1.2)
Other financing activities	**-**	0.2	-	**(0.7)**	-	-
Cash used in financing activities	**$ (48.7)**	$ (103.0)	(52.7)	**$ (179.2)**	$ (320.0)	(44.0)

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

Liquidity and financing resources

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

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

Bank operating lines of credit within our business segments include:

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

Consolidated capital structure

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

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

Corporate equity instruments

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

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

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

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

Our outstanding shares and stock options as of October 22, 2004 are as follows:

Authorized

Unlimited number of preference shares, issuable in series.

Unlimited number of common shares, without par value.

Issued

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

	October 22, 2004		
	Number of options		**Weighted average exercise price**
Options outstanding	2,694,856	$	30.60
Options exercisable	1,900,678	$	30.70

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

Investing activities

Summary of cash flows from investing activities

For the period ended September 30	Three months					Nine months				
(millions of dollars)		**2004**		**2003**	**% change**		**2004**		**2003**	**% change**
Purchase of capital investments	**$**	**(51.4)**	$	(91.3)	(43.7)	**$**	**(180.9)**	$	(234.8)	(23.0)
Funding of pension plans		**(17.4)**		(9.6)	81.3		**(77.2)**		(30.5)	153.1
Other investing activities		**3.0**		11.0	(72.7)		**8.3**		8.1	2.5
Cash used in investing activities	**$**	**(65.8)**	$	(89.9)	(26.8)	**$**	**(249.8)**	$	(257.2)	(2.9)

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

Capital investments

For the period ended September 30	Three months			Nine months		
(millions of dollars)	**2004**	**2003**	**% change**	**2004**	**2003**	**% change**
Telecommunications	**$ 49.9**	$ 90.9	(45.1)	**$ 176.7**	$ 232.1	(23.9)
Information Technology	**1.5**	0.2	-	**4.1**	1.3	215.4
Other	**-**	0.2	-	**0.1**	1.4	(92.9)
Total purchase of capital investments	**$ 51.4**	$ 91.3	(43.7)	**$ 180.9**	$ 234.8	(23.0)

Telecommunications

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

Information Technology

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

Other financial arrangements

Off-balance sheet arrangements

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

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

Derivative financial instruments

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

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

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

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

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

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

Related party transactions

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

Significant accounting policies

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

Risk and risk management

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

Pension and other post employment benefit contributions

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

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

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

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

Regulatory developments

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

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

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

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

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

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

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

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

Competitive developments

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

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

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

Other legal and regulatory matters

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

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

Supplementary financial information

Consolidated quarterly financial information (unaudited)

For the eight quarters ended September 30, 2004

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

Factors impacting comparability of quarterly results

Labour disruption

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

Divestiture activity

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

Trends

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

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

Seasonality of results

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

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

Pension and other post employment benefits cost

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

Consolidated quarterly results analysis (unaudited)

Impact of pension and other post employment benefits cost

For the eight quarters ended September 30, 2004

(millions of dollars, except per share amounts)	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3
Decrease in:								
Net income from continuing operations	$ (3.4)	$ (9.1)	$ (8.9)	$ (10.4)	$ (9.9)	$ (13.4)	$ (12.1)	**$ (10.7)**
Earnings per share from continuing operations	$ (0.02)	$ (0.07)	$ (0.06)	$ (0.08)	$ (0.07)	$ (0.10)	$ (0.09)	**$ (0.08)**

Other factors

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

Consolidated quarterly results analysis (unaudited)

Impact of items outside of the normal course of operations

For the eight quarters ended September 30, 2004

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

Forward-looking statements

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