



Management's Discussion and Analysis

Second Quarter 2005

| | |
|---|----|
| Table of Contents | |
| About our business | 2 |
| Quarter at a glance..... | 2 |
| Operating results | 7 |
| Financial and capital management..... | 15 |
| Related party transactions..... | 20 |
| Significant accounting policies and critical accounting estimates | 21 |
| Risk and risk management..... | 21 |
| Supplementary financial information | 22 |
| Forward-looking statements | 24 |

This document provides 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, 2005, compared to the corresponding periods in 2004. The MD&A should be read in conjunction with our unaudited interim consolidated financial statements and accompanying notes for the period ended June 30, 2005, our audited consolidated financial statements and accompanying notes contained in our 2004 annual report and our MD&A's contained in our previously issued 2005 first quarter report and our 2004 annual report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All amounts in this MD&A are in millions of Canadian dollars, except where otherwise noted.

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

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

This MD&A is dated July 27, 2005, which is the date of filing in conjunction with our press release announcing our results for the second quarter of 2005. This document contains forward-looking statements, which are qualified by reference to, and should be read together with, the "Forward-

looking statements” section. Disclosure contained in this MD&A is current to, and describes our expectations on, July 27, 2005, unless otherwise stated.

Restatement of prior year results

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

About our business

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

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

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

Quarter at a glance

Financial results

| <i>For the period ended June 30</i> <i>(millions of dollars, except per share amounts)</i> | Three months | | | Six months | | |
|---|--------------|----------|----------|------------|------------|----------|
| | 2005 | 2004 | % change | 2005 | 2004 | % change |
| Operating revenues | \$ 517.3 | \$ 508.2 | 1.8 | \$ 1,041.7 | \$ 1,022.8 | 1.9 |
| Expenses | 419.5 | 429.0 | (2.2) | 857.4 | 853.8 | 0.4 |
| Operating income | 97.8 | 79.2 | 23.4 | 184.3 | 169.0 | 9.1 |
| Other income (expenses) | (0.3) | 2.1 | - | (1.1) | 5.1 | - |
| Interest charges | 18.4 | 18.6 | (0.6) | 35.7 | 37.8 | (5.2) |
| Income taxes | 28.6 | 22.4 | 27.8 | 53.0 | 49.8 | 6.4 |
| Non-controlling interest | 0.7 | 0.3 | 96.8 | 1.1 | 0.8 | 33.0 |
| Net income | \$ 49.8 | \$ 40.0 | 24.4 | \$ 93.4 | \$ 85.7 | 9.0 |
| Earnings per common share | \$ 0.36 | \$ 0.28 | 28.6 | \$ 0.67 | \$ 0.61 | 9.8 |

Operating revenues for the second quarter of 2005 increased by 1.8 per cent over the same period last year, with growth experienced in all areas except traditional local and long

distance. Wireless revenue grew 13.8 per cent over the second quarter of 2004 driven by a 9.7 per cent increase in our customer base and a 4.8 per cent increase in average revenue per customer (ARPC). Our high-speed Internet customer base grew year-over-year by 31.2 per cent, however migration of customers from dial-up service and specific introductory promotions that were offered in late 2004 and early 2005 limited second quarter Internet revenue growth to 6.4 per cent over the prior year.

Telecommunications product revenues increased 10.2 per cent over the second quarter of 2004, reflecting our recovery from the sales slowdown arising from the 2004 work stoppage. Revenues from our local and long distance services continued to decline due to competition, technology substitution and regulatory constraints. The February 2005 Canadian Radio-television and Telecommunications Commission (“CRTC” or the “Commission”) ruling on competitor digital network (CDN) service negatively impacted our local revenues by \$2.3 million in the second quarter.

Excluding the impact of our 2004 divestiture activity, IT service revenue in the second quarter experienced growth of 13.9 per cent over the same period in 2004, driven by an acquisition in late 2004 combined with successful organic growth through new contracts. IT fulfillment revenue increased marginally over the second quarter of 2004 and has returned to a normal level after the increase in public sector spending experienced in the first quarter of 2005.

Second quarter operating income increased by 23.4 per cent, or \$18.6 million, over the results for the same period in the prior year. Despite this significant increase, the full impact of our second quarter growth and recovery from the 2004 labour disruption is still somewhat diluted by the impact of the CRTC’s CDN decision and an increase in pension and other post-employment benefits (OPEBs) costs. However, the underlying profitability of the business is improving as operating expense increases required to drive revenue growth are being contained through sound expense management and productivity savings resulting from the early retirement incentive program (ERIP) implemented in late 2004. As at June 30, 2005, 644 of the 693 employees that accepted the voluntary offer have left Aliant, with the remainder expected to leave by the end of this year. We estimate that this reduction in employees has removed approximately \$17 million in operating expenses in the first half of 2005.

We generated cash from operating activities of \$169.2 million, an increase of \$78.8 million over the same period last year. An improvement in days’ accounts receivable outstanding and a reduction in income tax installments were the largest contributors to a \$56.6 million improvement in working capital. In addition, net income for the quarter was \$9.8 million higher than the net income for the same period in the prior year, which was negatively impacted by the labour disruption. Financing activities generated \$57.3 million in cash, as we received \$149.3 million from the issuance of medium-term notes offset by payments of \$37.3 million for common dividends and \$46.3 million for repurchase of common shares under our normal course issuer bid (NCIB). During the second quarter, we made \$105.0 million in capital investments to support our strategy of growth and transformation.

Progress on our strategic initiatives

Seven strategic initiatives underpin our growth and transformation agenda:

First, in the residential market, we are capturing new growth and defending existing revenues by “owning” the broadband home. We have continued to position ourselves to be customers’

first choice for complete information, communications and entertainment services through a number of activities:

- On June 21, 2005, we formally launched Aliant TV in selected areas of Halifax. Aliant TV is a 100 per cent digital television solution which offers our customers “more TV for less”.
- We installed or augmented approximately 230 broadband sites during the second quarter of 2005, bringing our total number of broadband sites to 702.
- We increased our value package penetration significantly by simplifying the pricing and introducing new long distance offerings in the form of unique, anytime unlimited plans and low per minute rate options. Value packages are key to retaining our high value customers.
- We introduced our upgraded Ultra High-Speed service which provides download speeds of up to 5Mbps.

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

- We opened the first Aliant Business Solutions store, providing a platform to showcase innovative business solutions and to meet the specific needs of our SMB customers. In addition, we further expanded our SMB distribution channels by signing contracts with two new value-added resellers.
- We educated our customers about the benefits of ICT solutions during a four-week Business Solutions Roadshow that we hosted in seven centres throughout Atlantic Canada.
- We launched our Dial Accelerator service to the SMB market, offering 3X dial download speed.
- We increased our emphasis on integrated solutions by launching specific solution sets to key SMB verticals including the real estate segment.

Third, we are serving the enterprise market by innovating with our customers. We are focusing on key industry verticals, delivering needs-based ICT consulting and business solutions. Several achievements were made in the second quarter:

- We further improved our ability to develop and deliver ICT solutions by integrating functions of our Telecommunications and Information Technology segments. By aligning processes, systems and tools we are able to generate efficiencies and achieve growth in serving the enterprise market. Illustrating the confidence our customers have in our ICT capabilities, the Workplace Health Safety and Compensation Commission in Newfoundland and Labrador selected us to provide a comprehensive service set that will address all of their telecom services, infrastructure upgrades, IT system redesign and application development needs.
- We are innovating and partnering with our customers through two trials of enhanced Internet Protocol (IP)-enabled contact centre solutions.
- We continued to pursue our “make once, sell many” business model. We are building on xwave’s reputation for providing secure public safety communications solutions, having signed contracts this quarter with the City of Kingston, Ontario to deliver a fire

dispatching and mobile workstation solution, and with the City of Camrose, Alberta for a police dispatching and mobile workstation solution.

Fourth, we are innovating with our customers to drive growth through new technologies and enhanced customer experiences. As our industry evolves, offering new value to customers will be key to sustaining and building new revenues and will require us to develop solutions that use new technologies. During the second quarter, we advanced with a number of initiatives:

- We opened the Bell-Aliant SMB Innovation Centre in Saint John. The centre is a state-of-the-art research and development facility where IP based applications for the national SMB market are being created and tested.
- We continued to add trial participants to our Voice over Internet Protocol (VoIP) platforms. We currently have over 130 individuals on our managed IP telephony service and 60 individuals on our consumer VoIP service.
- We launched Aliant Ethernet (AE) Service, a critical step toward our goal of becoming an IP-centric service provider. AE delivers voice and data needs over a single access, with improved quality of service and cost effective high-speed connections for our enterprise customers.

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

- We made further upgrades to the online help and account management capability for consumer and SMB customers. Expanded self-serve capability combined with improvements in the ease of navigation was delivered to our Aliant.net portal. In addition, to support the rapidly growing demand for our wireless products and services, we created a new Wireless Technical Support organization to effectively and efficiently service our customers.
- We aligned people, processes and technologies within Information Services Operations and Corporate functions from across the Aliant family of companies realizing synergies in people, real estate and infrastructure while creating an ICT-ready business.
- We continued our focus on improved productivity and cost management across all segments of our business. Inroads were made in the consolidation and replacement of high-operating cost technologies and systems and we worked with partners and suppliers to improve procurement and certain customer sales and servicing functions.

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

And seventh, we are investing in new skills required to grow and transform our business. We are supporting our employees as their roles evolve in response to the transformation of our business. To provide for employee growth and development, many areas of our organization are using our web-based learning management system to deliver management and technical training.

Environmental update

Regulatory

During the second quarter of 2005, the CRTC issued several new decisions that affected our telecommunications business. The most significant of these was the VoIP decision in which the Commission determined that VoIP services are the equivalent of existing primary exchange service (PES) services and address the same relevant markets. The Commission also determined that these relevant markets are not sufficiently competitive to warrant forbearance for regulated carriers such as us. As a result of those determinations, our VoIP services will be subject to all the regulatory obligations, including price regulation that currently applies to the equivalent PES. Other significant decisions or developments arising during the second quarter and up to and including July 27, 2005, are discussed below:

- The CRTC issued decisions on price controls or “price floor safeguards”. Overall the additional controls were not as severe as originally proposed by the CRTC.
- The Commission initiated a public notice inviting comments on a framework for forbearance from regulation of residential and business local exchange services, and among other things, invited comments on our Part VII application for forbearance from regulation of residential wireline local services. In response to the public notice, we filed an update to our evidence originally filed in our forbearance application dated April 7, 2004.
- The CRTC invited comments on extending the current price cap regime by two years. The Commission noted a review at that time would allow them to take into account the impact of VoIP competition and the framework for local service forbearance, to be decided in 2006. We support a one-year extension.
- We filed an application seeking interim relief from certain marketing restrictions until the CRTC rules on the framework for local service forbearance. A proceeding is underway and the Commission will render a decision on our request when the record of the proceeding is complete.
- The Government of Canada has established the Telecom Policy Review Panel to conduct a review of Canada’s telecommunications policy and regulatory framework. The panel released a consultation paper asking questions about, among other things, the nature and purpose of regulation and the possible need to change the framework. The panel hopes to make its recommendations before the end of 2005.

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

Competitive

Several large cable companies now offer local telephone service in parts of Canada but Atlantic Canada continues to be the most established and competitive local market in the country. Our application for residential forbearance in specific competitive areas is before the CRTC; however a decision is not expected this year.

Cable companies are developing their telecommunications presence in our market through network expansion and acquisitions and are increasingly crossing into more segments of the

market we serve. Technologies such as VoIP, wireless and broadband continue to put downward pressure on prices for traditional local and long distance services.

In the face of increasingly intense competition, we continue our singular focus on our customers, providing reliable service and innovative solutions delivered by our capable employees and robust networks.

Operating results

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

Operating revenues

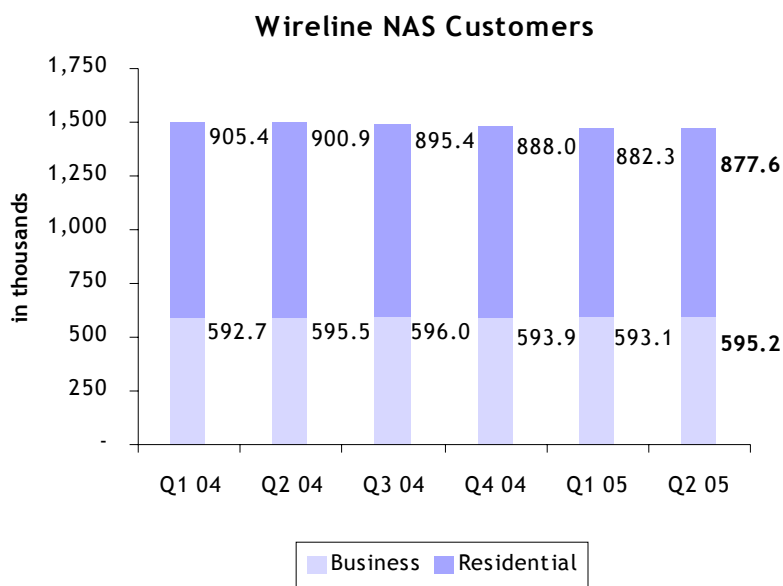
| For the period ended June 30 (millions of dollars) | Three months | | | Six months | | |
|---|-----------------|-----------------|------------|-------------------|-------------------|------------|
| | 2005 | 2004 | % change | 2005 | 2004 | % change |
| Telecommunications | | | | | | |
| Local | \$ 184.2 | \$ 187.8 | (1.9) | \$ 366.6 | \$ 376.5 | (2.6) |
| Long distance | 80.7 | 88.1 | (8.4) | 160.5 | 180.2 | (11.0) |
| Wireless | 107.0 | 94.0 | 13.8 | 206.5 | 180.5 | 14.4 |
| Internet | 32.1 | 30.2 | 6.4 | 62.7 | 59.2 | 6.0 |
| Other revenues | 54.4 | 48.6 | 11.9 | 107.9 | 95.1 | 13.5 |
| | 458.4 | 448.7 | 2.2 | 904.2 | 891.5 | 1.4 |
| Information Technology | | | | | | |
| IT Services | 52.3 | 52.1 | 0.4 | 103.3 | 106.1 | (2.6) |
| Fulfillment | 33.6 | 33.1 | 1.5 | 87.4 | 77.6 | 12.6 |
| | 85.9 | 85.2 | 0.8 | 190.7 | 183.7 | 3.8 |
| Other and intercompany eliminations | (27.0) | (25.7) | 5.1 | (53.2) | (52.4) | 1.5 |
| Operating revenues | \$ 517.3 | \$ 508.2 | 1.8 | \$ 1,041.7 | \$ 1,022.8 | 1.9 |

Local revenue

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

Local revenues for the three months ended June 30, 2005, declined 1.9 per cent compared to the second quarter of 2004 mainly due to competition, technology substitution, and regulatory constraints.

The majority of our local revenues are earned through the provision of NAS. NAS revenues declined 0.7 per cent over the second quarter of 2004 mainly due to a 1.6 per cent decline in our NAS customer base in the last year. Our business NAS has remained virtually unchanged, despite an intensely competitive marketplace, due to our strong marketing programs in both



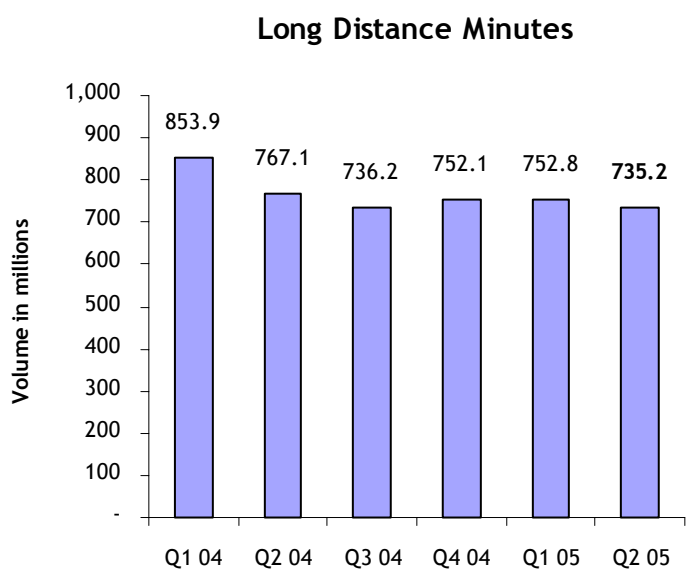
the SMB and Enterprise markets. Our consumer, or residential, NAS is down 2.6 per cent, in line with the trend that we have been experiencing over the past couple of years. This downward trend reflects competitive losses, the reduction in the number of second lines as customers migrate to high-speed Internet service, and the reduction in primary lines as customers adopt wireless technology.

Revenue from sources other than NAS declined by 3.8 per cent over the second quarter of 2004. Growth in data access services was offset by the \$2.3 million impact of the

CRTC's CDN decision. Enhanced service features revenue for the quarter declined 5.0 per cent over the prior year due to consumer NAS declines and also due to lower pricing allocations resulting from the conversion of customers to local value packages - a key part of our customer retention strategy to provide long-term growth. In addition, rental revenues declined due to the changing customer preference to buy rather than rent phone sets, and payphone revenue fell as wireless and card service substitution continued.

Long distance revenue

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



Long distance revenue declined \$7.4 million or 8.4 per cent over the second quarter of 2004 due to competition and technology substitution. Approximately \$3.7 million of the revenue decline can be attributed to lower pricing, with the remainder due to lower calling volumes. Long distance minutes for the second quarter declined 4.2 per cent when compared with the same period in the prior year.

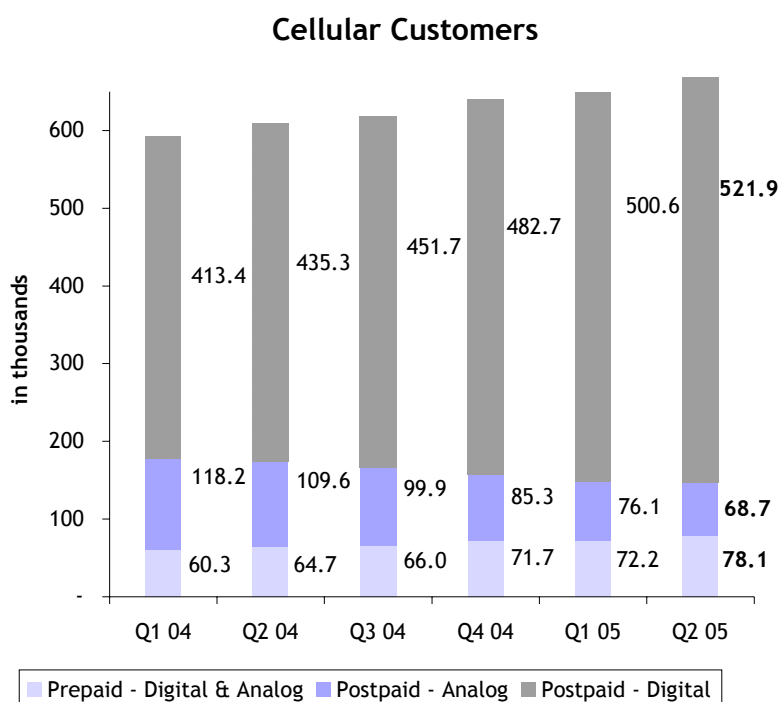
Business long distance revenues are declining due to competitive pricing pressures and contact centre minute usage reductions, as the contact centre industry implements new technologies to

gain efficiencies.

In the consumer market, revenues have declined due to the impact of intense competition, particularly from dial-around competitors, resulting in minute erosion. The substitution of wireline long distance calling with wireless and Internet communications also contributes to minute erosion. The impact of minute erosion is mitigated in part by the number of customers on long distance plans. Our success in marketing our value packages has resulted in increased customer retention and has enabled us to stabilize our customer base in 2005. Converting customers to our bundled solutions contributes to lower pricing allocations to our long distance revenues but improves total household retention and secures future revenues.

Wireless revenue

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



Wireless revenues grew 13.8 per cent over the second quarter of 2004, reflecting continued strong growth in our customer base, ARPC and average minutes of use.

Our customer base grew 9.7 per cent year over year due to our strong market position, supported by our extensive coverage, comprehensive dealer network, broad product selection, innovative wireless data solutions, and competitive offers. As at June 30, 2005, approximately 89 per cent of Atlantic Canada’s population had access to our digital wireless network, up from approximately 85 per cent at the same time last year. Customer net additions showed strong growth over the same period in the prior year, increasing by 12.1

per cent.

Our customer turnover rate, or churn, remained strong at 1.37 per cent due to our value packages and business bundles, hardware upgrades, and the high number of customers on contracts.

Second quarter ARPC grew by 4.8 per cent over the prior year. This growth reflects increases in average minutes of use, data growth such as text messaging and web usage, and an increased percentage of customers choosing digital service. Digital customers generate higher ARPC than analog customers. By the end of the second quarter, digital customers represented 84.0 per

cent of our cellular customer base compared to 74.2 per cent one year ago, representing growth of 24.1 per cent. Postpaid customers generate higher monthly ARPC than prepaid customers. We maintained our industry leading position with 88.3 per cent of our customer base subscribing to postpaid plans as at June 30, 2005.

Wireless - statistics

| For the period ended June 30 | Three months | | | Six months | | |
|---|---------------|---------------|-------------|---------------|---------------|-------------|
| | 2005 | 2004 | % change | 2005 | 2004 | % change |
| Monthly - Average revenue per customer (dollars) | | | | | | |
| Postpaid | \$ 57.32 | \$ 54.24 | 5.7 | \$ 55.79 | \$ 52.55 | 6.2 |
| Prepaid | \$ 11.16 | \$ 10.85 | 2.9 | \$ 10.97 | \$ 10.26 | 6.9 |
| Total | \$ 52.12 | \$ 49.72 | 4.8 | \$ 50.75 | \$ 48.19 | 5.3 |
| Monthly - Average minutes of use per customer | 299 | 272 | 9.9 | 281 | 255 | 10.3 |
| Net additions | 19,847 | 17,702 | 12.1 | 29,044 | 26,005 | 11.7 |
| Churn | 1.37% | 1.23% | 11.4 | 1.37% | 1.26% | 8.7 |

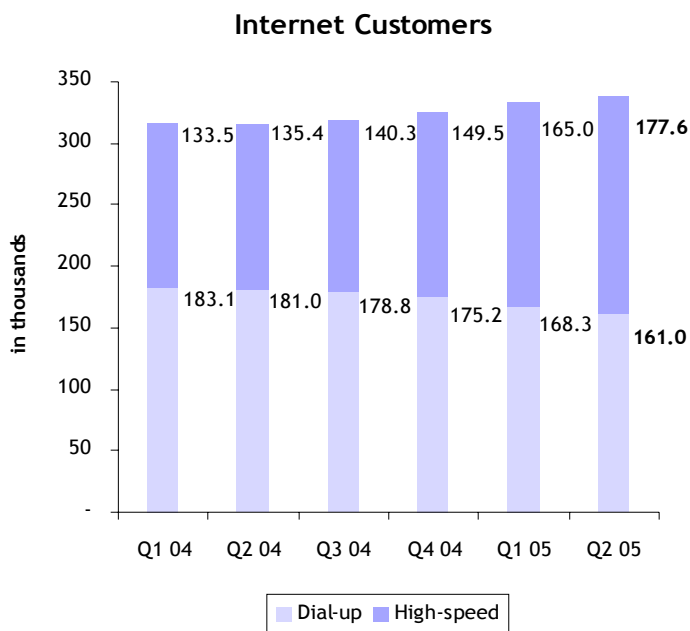
Internet revenue

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

Internet revenue increased 6.4 per cent over the second quarter in 2004, driven by the migration of customers from dial to high-speed service as well as overall Internet customer

growth. Attracting new customers was facilitated by the provision of introductory promotional offers and value package options, mitigating the related revenue growth.

Our high-speed Internet customer base increased 31.2 per cent over the second quarter of 2004. High-speed customer net additions in the quarter were more than five times higher than the same period last year due to strong customer demand, aggressive expansion, competitive offers, and lower activations in 2004 as a result of the labour disruption. Combined churn for the second quarter of 2.1 per cent was higher than the 1.7 per cent churn for the second quarter of 2004. Processing delays in 2004 as a result of the labour disruption contributed to temporarily suppressed churn levels during



2004.

Dial-up customers continued to upgrade their Internet connection to our feature-rich high-speed service. With management of this migration, our overall Internet customer base continued to grow quarter-over-quarter and year-over-year.

Our total Internet customer growth of 7.0 per cent over the second quarter of 2004 demonstrates that our customers are responding to our enhanced services, value packages, and expanding high-speed footprint. At June 30, 2005, our high-speed Internet service passed 77.3 per cent of homes and 82.4 per cent of businesses in Atlantic Canada, up from 66.0 per cent and 77.0 per cent respectively at June 30, 2004.

Consumer ARPC declined when compared to the same period last year as successful high-speed Internet promotional offers in the fourth quarter of 2004 and early 2005 have temporarily lowered ARPC. In addition, an increased percentage of customers are choosing value packages which generates lower ARPC, but provides increased value to the customer and improves long-term customer retention. Customers are increasingly adopting enhanced services, such as anti-spyware and personal firewall, which help to mitigate the ARPC decline caused by promotional offers and value package pricing.

Business dial-up ARPC continued to increase due to greater customer adoption of our unlimited usage plans, and as subscribers remained with multi-user and customized plans, improving 7.2 per cent over the same period last year. Business high-speed ARPC decreased due to the increased adoption of business bundles priced to appeal to the small business market and promotional pricing for new acquisitions.

Internet - statistics

| <i>For the period ended June 30</i> | Three months | | | Six months | | |
|---|--------------|-----------|----------|------------|-----------|----------|
| | 2005 | 2004 | % change | 2005 | 2004 | % change |
| Monthly - Average revenue per customer (dollars) | | | | | | |
| Consumer dial-up | \$ 18.84 | \$ 20.18 | (6.6) | \$ 18.93 | \$ 19.93 | (5.0) |
| Consumer high-speed | \$ 32.52 | \$ 33.76 | (3.7) | \$ 32.02 | \$ 33.62 | (4.7) |
| Business dial-up | \$ 47.42 | \$ 44.23 | 7.2 | \$ 47.09 | \$ 44.86 | 5.0 |
| Business high-speed | \$ 86.78 | \$ 102.93 | (15.7) | \$ 89.25 | \$ 100.71 | (11.4) |
| Net additions | | | | | | |
| Dial-up | (7,245) | (2,057) | (252.2) | (14,196) | (2,907) | (388.3) |
| High-speed | 12,485 | 1,893 | 559.5 | 28,084 | 11,980 | 134.4 |
| Total | 5,240 | (164) | - | 13,888 | 9,073 | 53.1 |
| High-speed churn | | | | | | |
| Consumer | 1.93% | 1.36% | 41.9 | 1.60% | 1.34% | 19.4 |
| Business | 1.64% | 1.56% | 5.1 | 1.63% | 1.79% | (8.9) |

Other revenues

Product sales, directory advertising and knowledge-service application sales contributed to the 11.9 per cent growth in other revenues this quarter compared to the same period in the prior year. The increase in product sales reflects the impact of last year's work stoppage when limited resources caused product sales efforts to be significantly reduced. Directory advertising has grown as a result of strong marketing efforts, and growth in the SMB market. Expansion of an existing project and the addition of new business spurred the growth of our knowledge-service applications during the second quarter.

IT services revenue

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

IT service revenue grew \$0.2 million in the second quarter, or 0.4 per cent, compared to the second quarter of 2004. Underlying revenue growth of 13.9 per cent was largely offset by the \$6.2 million impact of 2004 business unit divestiture activity. The underlying growth was mostly derived from external customers with approximately \$2.6 million resulting from our December 2004 acquisition of the Atlantic Canadian operations of Fujitsu Consulting (Canada) Inc., and the remaining 8.3 per cent representing organic growth.

During the second quarter of 2005, xwave secured new or extended service business from a number of customers including State of Maine Department of Corrections, Government of Newfoundland and Labrador, RCMP and Workplace Health Safety and Compensation Commission in Newfoundland and Labrador.

Fulfillment revenue

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

Fulfillment revenues in the second quarter of 2005 were comparable with the same period of 2004, growing modestly by 1.5 per cent. Year-to-date fulfillment revenues are 12.6 per cent higher in 2005 largely due to increased public sector sales in the first quarter.

Expenses

| For the period ended June 30 (millions of dollars) | Three months | | | Six months | | |
|---|--------------|----------|----------|------------|----------|----------|
| | 2005 | 2004 | % change | 2005 | 2004 | % change |
| Expenses | | | | | | |
| Cost of operating revenues | \$ 70.2 | \$ 69.2 | 1.5 | \$ 159.2 | \$ 143.7 | 10.8 |
| Operating expenses | | | | | | |
| Pension and OPEBs cost | 24.8 | 19.1 | 29.9 | 50.2 | 40.3 | 24.5 |
| Other operating expenses | 225.5 | 240.7 | (6.3) | 450.4 | 465.7 | (3.3) |
| | 250.3 | 259.8 | (3.7) | 500.6 | 506.0 | (1.1) |
| Depreciation and amortization | 99.0 | 98.5 | 0.4 | 197.6 | 199.5 | (1.0) |
| Restructuring charge | - | 1.5 | - | - | 4.6 | - |
| | \$ 419.5 | \$ 429.0 | (2.2) | \$ 857.4 | \$ 853.8 | 0.4 |

Cost of operating revenues

The 1.5 per cent increase in cost of operating revenues for the second quarter reflects the higher cost of goods sold associated with the increased volume of telecommunications product sales. The higher cost of operating revenues on a year-to-date basis reflects costs associated with higher fulfillment revenues in the first quarter. Gross margins on these sales and on fulfillment revenues are slightly higher than for the same period last year.

Pension and OPEBs cost

| For the period ended June 30 (millions of dollars) | Three months | | | Six months | | |
|---|--------------|---------|----------|------------|---------|----------|
| | 2005 | 2004 | % change | 2005 | 2004 | % change |
| Defined benefit | \$ 18.3 | \$ 12.9 | 41.9 | \$ 36.6 | \$ 25.8 | 41.9 |
| Defined contribution | 2.2 | 2.4 | (8.3) | 5.1 | 6.8 | (25.0) |
| Other post-employment benefits | 4.3 | 3.8 | 13.2 | 8.5 | 7.7 | 10.4 |
| Pension and OPEBs cost | \$ 24.8 | \$ 19.1 | 29.9 | \$ 50.2 | \$ 40.3 | 24.5 |

Defined benefit (DB) pension cost for the second quarter of 2005 increased over the same period of 2004 primarily due to the amortization of a larger balance of net actuarial losses. Net actuarial losses have increased in the past year due to a rise in the accrued benefit obligation. The increase in the obligation results from a lower rate used to discount the future obligations, 6.25 per cent versus 6.75 per cent, and from additional past service costs relating to plan amendments made in 2004. In the second quarter of 2005, we amortized \$4.1 million more accumulated losses through pension cost compared to the second quarter of 2004.

Defined contribution (DC) pension cost represents the current service expense associated with our contributions to employees' retirement savings accounts. DC costs for the second quarter of 2005 decreased slightly compared to the same period last year. There are now fewer employee members in our DC pension plan, as certain eligible employees converted their membership from a DC plan to a DB plan pursuant to the 2004 plan amendments.

Other operating expenses

Overall, other operating expenses decreased in the second quarter by \$15.2 million over the expenses incurred during the same period in the prior year. This reflects approximately \$16 million of incremental costs experienced during the 2004 work stoppage. The underlying increased costs required to support growth in our wireless and Internet businesses in the second quarter of 2005 were significantly offset by the impact of a net reduction in costs associated with business acquisitions and divestitures in 2004 and sound expense management, including productivity improvements and cost savings from our 2004 ERIP.

Other expenses

Other income (expenses)

Other income (expenses) includes non-operating items such as interest income, gains on sale of property, provincial large corporation tax and expenses related to our accounts receivable securitization program. Comparing the second quarter of 2005 to the same period last year, other income experienced a decline due to several non-recurring gains on short-term portfolio investment transactions that occurred during 2004.

Interest charges

Interest charges for the second quarter of 2005 were \$0.2 million lower than for the second quarter of 2004. Savings in interest from the repayment of \$100.0 million in maturing long-term debt in October 2004 have been partially offset by new interest costs associated with \$150.0 million of medium-term notes issued in late May 2005.

Income taxes

The impact of higher taxable income in the second quarter resulted in an increase in income taxes over the same period in the prior year. Comparing the second quarter of 2005 to the same period last year, the future tax expense component of the total income tax provision has increased. This shift between future and current tax expense occurs when there are higher deductions or lower additions to income calculated for tax purposes compared to reported income before tax. The increase in 2005 is a result of accruals for restructuring charges and a higher deferral of directory revenues in the second quarter of 2004, offset by cash payments associated with the 2004 ERIP made in the first six months of 2005.

Financial and capital management

Summary of cash flows

| <i>For the period ended June 30</i> <i>(millions of dollars)</i> | Three months | | | Six months | | |
|---|--------------|-----------|----------|------------|-----------|----------|
| | 2005 | 2004 | % change | 2005 | 2004 | % change |
| Cash from (used in): | | | | | | |
| Operating activities | | | | | | |
| Net income | \$ 49.8 | \$ 40.0 | 24.4 | \$ 93.4 | \$ 85.7 | 9.0 |
| Adjustments to reconcile net income to cash from operating activities | | | | | | |
| Funding of DB pension and OPEBs plans | (20.0) | (18.0) | 11.1 | (100.0) | (59.8) | 67.2 |
| Change in non-cash working capital | 11.4 | (45.2) | - | (39.2) | (60.3) | (35.0) |
| Depreciation, amortization and other non-cash items | 128.0 | 113.6 | 12.7 | 247.5 | 233.9 | 5.8 |
| | 169.2 | 90.4 | 87.0 | 201.7 | 199.5 | 1.1 |
| Repurchase of common shares | \$ (46.3) | \$ (23.8) | 94.5 | \$ (79.5) | \$ (43.5) | 82.8 |
| Preferred and common share dividends | (39.6) | (37.5) | 5.6 | (79.7) | (75.2) | 6.0 |
| Proceeds of long-term debt | 149.3 | - | - | 149.3 | - | - |
| Capital investments | (105.0) | (44.7) | 134.9 | (187.2) | (129.3) | 44.8 |
| Other financing and investing activities | (6.1) | (1.3) | - | (8.4) | (10.1) | (16.8) |
| Net increase (decrease) in cash | \$ 121.5 | \$ (16.9) | - | \$ (3.8) | \$ (58.6) | (93.5) |

Operating activities

During the second quarter of 2005, we generated \$169.2 million in cash from operating activities, bringing the year-to-date total to \$201.7 million. Compared to the same quarter of 2004, this represents a significant improvement of \$78.8 million, driven by improvements in working capital and net income. On a year-to-date basis, cash from operating activities is in line with our 2004 performance as increased pension funding offset working capital improvements.

Funding of DB pension and OPEBs plans

In 2005, we anticipate having to make required contributions to our DB pension plans in the range of \$70 million to \$80 million. Our required contributions are higher than 2004 primarily due to the expected impact of the DB plan amendments made in late 2004. We expect 2005 contributions to our OPEBs plans to be in the range of \$5 million to \$7 million.

Change in non-cash working capital

| For the period ended June 30 (millions of dollars) | Three months | | | Six months | | |
|---|--------------|-----------|----------|------------|-----------|----------|
| | 2005 | 2004 | % change | 2005 | 2004 | % change |
| Accounts receivable | \$ 25.0 | \$ 9.1 | 174.7 | \$ 27.9 | \$ 36.3 | (23.1) |
| Prepayments | (15.3) | (19.6) | (21.9) | (22.2) | (21.3) | 4.2 |
| Inventory | 4.2 | 1.5 | 180.0 | 4.4 | 0.8 | - |
| Payables and accruals | (14.6) | (15.5) | (5.8) | (61.1) | (33.8) | 80.8 |
| Income and other taxes receivable and payable | 12.1 | (20.7) | - | 11.8 | (42.3) | - |
| Change in non-cash working capital | \$ 11.4 | \$ (45.2) | - | \$ (39.2) | \$ (60.3) | (35.0) |

During the second quarter of 2005, non-cash working capital balances changed by \$11.4 million, representing an additional source of cash from operating activities of \$56.6 million when compared with the same period in 2004. The improved working capital position is primarily due to an improvement in days' accounts receivable outstanding and a reduction in income tax installments during the second quarter of 2005 compared to the second quarter of 2004.

Repurchase of common shares

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

For the three and six months ended June 30, 2005, we purchased for cancellation 1,697,691 and 2,848,879 shares, respectively, for an aggregate price of \$46.3 million and \$79.5 million, respectively. For the three and six months ended June 30, 2004, we purchased for cancellation 847,168 and 1,463,284 shares, respectively, for an aggregate price of \$23.9 million and \$43.5 million, respectively.

Further details about the NCIB are provided in note 9 to our unaudited interim consolidated financial statements for the period ended June 30, 2005. Shareholders may obtain a copy of the Notice of Intention that was filed with the TSX in relation to the NCIB by contacting us.

Preferred and common share dividends

The \$2.1 million increase in dividends paid during the quarter, when compared with the same period in the prior year, reflects the \$0.02 increase in the quarterly dividend rate to \$0.295 per common share that was approved during the first quarter of 2005.

Proceeds of long-term debt

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

Capital investments

Capital investments during the second quarter of 2005 increased by \$60.3 million compared to the second quarter of 2004 as spending returned to normal levels following the work stoppage experienced in 2004. We have continued to invest in our traditional wireline areas as required and have increased our investment in areas to support growth. We expect the pace of our investment to increase slightly throughout the remainder of 2005, due both to normal seasonality of network investment made in the non-winter months and for the further advancement of 2005 strategic initiatives. In particular, we are supporting future growth by expanding and updating our broadband and wireless networks, developing IPTV and VoIP solutions and investing in software and other tools to support xwave in its execution of new contracts.

Other financing and investing activities

During the second quarter of 2005, \$5.0 million was repurchased under our accounts receivable securitization program. \$5.0 million was also repurchased in the first quarter of 2004. The accounts receivable securitization program is discussed further in the “Off-balance sheet arrangements” section.

Liquidity

Cash requirements

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

- Capital investments will be made as required to support our existing infrastructure and to advance our strategies of growth and transformation.
- Scheduled long-term debt repayments for 2005 consisting primarily of a \$150.0 million note maturing in November.
- Cash payments associated with prior years’ restructuring activities, primarily the 2004 ERIP. As at June 30, 2005, the balance remaining to be paid for the restructuring charge taken in 2004 is \$24.3 million. ERIP participants may elect to receive their payments in whole at their retirement date or they may opt to defer a portion to the January following the year of their retirement.
- Dividend payments at the current rates, totalling approximately \$40 million per quarter for common and preferred shares. To the extent that shares are repurchased under the NCIB, the total cash required for dividend payments will be slightly reduced.
- We expect to repurchase the remaining 3,788,321 common shares permitted under our NCIB prior to February 3, 2006.
- Total required contributions to our DB pension plans for 2005 are anticipated to be in the range of \$70 million to \$80 million for 2005, of which \$20.0 million was made during the

second quarter of 2005. We are currently updating our DB pension actuarial valuations for the year ended December 31, 2004, and expect these to be completed in the third quarter of this year. We will adjust our DB pension funding based on the outcome of these valuations.

- Other commitments, such as operating leases and purchase commitments for equipment and other network infrastructure, and contingencies as disclosed in notes 11 and 12 to the unaudited interim consolidated financial statements for the period ended June 30, 2005.

Sources of liquidity

We anticipate that we will be able to meet our future cash requirements from cash on hand, the generation of cash from operating activities, and through access to the capital markets as described below.

Capital structure

| <i>(millions of dollars, except as otherwise noted)</i> | June 30, 2005 | | December 31, 2004 | |
|---|----------------------|---------------|--------------------------|---------------|
| Common equity | \$ 1,295.7 | 51.4% | \$ 1,360.3 | 55.7% |
| Preferred equity | 172.3 | 6.8% | 172.3 | 7.0% |
| Non-controlling interest | 5.4 | 0.2% | 5.2 | 0.2% |
| Long-term debt, including amount due within one year | 1,045.5 | 41.5% | 896.4 | 36.7% |
| Notes payable and bank advances | 1.9 | 0.1% | 9.1 | 0.4% |
| Total capital | \$ 2,520.8 | 100.0% | \$ 2,443.3 | 100.0% |
| Debt as a percentage of total capital | 41.6% | | 37.1% | |

Common equity

The rate at which we repurchase common shares under our NCIB is at our discretion. Between July 1 and July 22, 2005, we purchased for cancellation 352,825 shares under the NCIB program for \$9.4 million.

At July 22, 2005, we had the following outstanding shares and stock options:

Authorized

Unlimited number of preference shares, issuable in series.

Unlimited number of common shares, without par value.

Issued

(millions of dollars, except as otherwise noted)

July 22, 2005

| | Number of shares | Value |
|-----------------------------|------------------|------------|
| Preference shares, series 2 | 7,000,000 | \$ 172.3 |
| Common shares | 129,670,659 | 1,022.8 |
| | | \$ 1,195.1 |

| | Number of options | Weighted average exercise price |
|---------------------|-------------------|---------------------------------|
| Options outstanding | 2,917,909 | \$ 30.62 |
| Options exercisable | 2,106,192 | \$ 30.00 |

Debt

Our financial structure provides several possible sources of liquidity:

- We maintain excellent access to capital markets which provides flexibility in our capital structure. We filed a shelf prospectus on May 9, 2005 that allows us to issue up to \$350.0 million in medium-term notes as and when we require funds during its 25-month life. As noted above, we issued \$150.0 million in medium-term notes in late May, 2005, thus a further \$200.0 million is permitted under the shelf prospectus.
- As at June 30, 2005, we maintained lines of credit totalling \$607.5 million, unchanged from March 31, 2005. Further details on our existing credit arrangements are provided in note 10 to our audited consolidated financial statements for the year ended December 31, 2004, and in our MD&A contained in our 2005 first quarter report.

Credit ratings

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

During the quarter, S&P and DBRS adjusted the outlook, or trend, on our corporate credit ratings from stable to negative, except for the rating of Aliant's commercial paper program by DBRS that remained stable. The adjustment generally reflects the expectation by rating agencies of increased competition in local services as cable companies launch VoIP services in Canada.

Other financial arrangements

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

Off-balance sheet arrangements

Under a purchase and sale agreement, we sell certain accounts receivable to a securitization trust. During the second quarter of 2005, we repurchased \$5.0 million of accounts receivable from the securitization trust which reduced our cumulative cash proceeds to \$120.0 million at June 30, 2005. The reduced cumulative cash proceeds lowered the security required at June 30, 2005, resulting in retained interest of \$41.6 million.

Further details of this arrangement are described in notes 1 and 3 to our audited consolidated financial statements for the year ended December 31, 2004.

Use of derivative financial instruments

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

Given current and forecasted interest rate levels over the next year, we anticipate the exercise of our two interest rate swaption agreements upon their expiry dates in 2006. The exercise of these swaptions by the counterparty will cause us to be placed into a fixed-floating interest rate swap starting in 2006 and lasting until 2013. We will pay fixed interest payments of 10.45 per cent on a notional principal of \$50.0 million and 11.125 per cent on a notional principal of \$40.0 million and, in return, we will receive floating interest payments related to the three-month Banker's Acceptance rates. At June 30, 2005, the fair value of these agreements is \$36.1 million in favour of the counterparty. We have recorded a deferred credit of \$7.9 million related to unamortized premium income we received in 1997 and 2001 in relation to these swaptions. The difference of \$28.2 million is a deferred loss that is not recorded in our financial statements due to the application of hedge accounting treatment to these transactions. If the agreements were to be cancelled as of June 30, 2005, this amount would have to be recorded as a loss on our income statement. The loss that will be recorded on the exercise of the swaptions will depend on interest rate levels in effect on the exercise dates in 2006.

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

Related party transactions

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

Significant accounting policies and critical accounting estimates

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

We changed our accounting policies for the treatment of our subscriber acquisition costs and the recognition of our directory revenues and expenses to provide more relevant presentation in the financial statements. Greater detail on changes in accounting policies is provided in note 1 to our unaudited interim consolidated financial statements for the period ended June 30, 2005.

Accounting policy developments

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

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

Risk and risk management

Management is confident about our long-term prospects, but we recognize that we are exposed to a number of risks in the normal course of business that could have a negative effect on our financial condition or results of operations. We identified significant risks that we were aware of for the year ended December 31, 2004, as presented in our MD&A contained in our 2004 annual report.

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

Legal and other contingencies

We described certain legal proceedings and other contingencies that involved us in note 24 to our audited consolidated financial statements for the year ended December 31, 2004. There have been no significant changes in these matters that would impact our financial position. Given current circumstances surrounding deferral account rules, we have revised our estimate of the balance of our deferral account to between \$7 million and \$33 million as discussed in note 12 of our unaudited interim consolidated financial statements for the period ended June 30, 2005.

Supplementary financial information

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

Quarterly financial information (unaudited)

For the eight quarters ended June 30, 2005

| (millions of dollars, except for per share amounts) | 2003 | | 2004 | | | | 2005 | |
|---|----------|----------|----------|----------|----------|----------|----------|----------|
| | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| Total operating revenues | \$ 515.5 | \$ 530.4 | \$ 514.5 | \$ 508.3 | \$ 499.4 | \$ 509.6 | \$ 524.4 | \$ 517.3 |
| Net income from continuing operations | \$ 50.9 | \$ 42.1 | \$ 45.7 | \$ 40.0 | \$ 37.2 | \$ 7.6 | \$ 43.6 | \$ 49.8 |
| Net income from discontinued operations | 0.2 | 100.4 | - | - | - | - | - | - |
| Net income | \$ 51.1 | \$ 142.5 | \$ 45.7 | \$ 40.0 | \$ 37.2 | \$ 7.6 | \$ 43.6 | \$ 49.8 |
| Preferred share dividends | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 |
| Net income applicable to common shares | \$ 48.7 | \$ 140.1 | \$ 43.3 | \$ 37.6 | \$ 34.8 | \$ 5.2 | \$ 41.2 | \$ 47.4 |
| Basic earnings per common share | | | | | | | | |
| Continuing operations | \$ 0.35 | \$ 0.29 | \$ 0.32 | \$ 0.28 | \$ 0.26 | \$ 0.04 | \$ 0.31 | \$ 0.36 |
| Discontinued operations | - | 0.75 | - | - | - | - | - | - |
| Basic earnings per common share | \$ 0.35 | \$ 1.04 | \$ 0.32 | \$ 0.28 | \$ 0.26 | \$ 0.04 | \$ 0.31 | \$ 0.36 |
| Diluted earnings per common share | | | | | | | | |
| Continuing operations | \$ 0.35 | \$ 0.29 | \$ 0.32 | \$ 0.28 | \$ 0.26 | \$ 0.04 | \$ 0.31 | \$ 0.36 |
| Discontinued operations | - | 0.74 | - | - | - | - | - | - |
| Diluted earnings per common share | \$ 0.35 | \$ 1.03 | \$ 0.32 | \$ 0.28 | \$ 0.26 | \$ 0.04 | \$ 0.31 | \$ 0.36 |

Impact of factors in the normal course of business

Trends and seasonality

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

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

Pension and OPEBs cost

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

Impact of pension and OPEBs cost (unaudited)

For the eight quarters ended June 30, 2005

(millions of dollars, except
per share amounts)

| | 2003 | | 2004 | | | | 2005 | |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| Decrease in: | | | | | | | | |
| Net income from continuing operations | \$ (10.4) | \$ (9.9) | \$ (13.3) | \$ (12.2) | \$ (10.7) | \$ (11.7) | \$ (16.0) | \$ (15.7) |
| Earnings per share from continuing operations | \$ (0.08) | \$ (0.07) | \$ (0.10) | \$ (0.09) | \$ (0.08) | \$ (0.09) | \$ (0.12) | \$ (0.12) |

Impact of factors outside the normal course of business

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

For the eight quarters ended June 30, 2005

(millions of dollars, except for per share amounts)

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

Forward-looking statements

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