



**ALIAN T INC.**

**2005 ANNUAL INFORMATION FORM**

**March 29, 2006**

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## CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

Throughout this Annual Information form (AIF), “we”, “us”, “our”, the “Corporation”, “the Company” and “Aliant” refer to Aliant Inc. or our Telecommunications and Information Technology segments.

This document contains forward-looking statements related to our future objectives, plans, strategies, financial condition and results of operations. A statement we make is forward looking when it uses what we know and expect today to make a statement about the future. Forward-looking statements are based on our current expectations, estimates and assumptions about the markets we operate in, the Canadian economic environment, and our ability to attract and retain customers and to manage network assets and operating costs. Forward-looking statements may include words such as anticipate, believe, could, expect, goal, guidance, intend, may, objective, plan, outlook, seek, strive, target and will.

It is important to know that:

- Forward-looking statements describe our expectations on the day that they are made. For the forward-looking statements set out in this AIF, unless indicated otherwise, the expectations are stated as of March 29, 2006.
- Forward-looking statements are subject to important assumptions which may prove to be inaccurate and risks and uncertainties which are difficult to predict. Assumptions made in making these forward-looking statements are described below. Many other factors could also cause the actual results or events to differ materially from the results or events predicted. 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; stock market volatility; market or business conditions; the changing competitive environment; changing regulatory conditions or requirements; changing technology; changing discount rates and market returns on pension plan investments; our ability to achieve strategies and plans; our success in implementing productivity initiatives; and unforeseen changes in our relationships with important stakeholders. Some of these factors are largely beyond our control. For greater detail regarding these assumptions and factors please refer to the “Assumptions Made in the Preparation of Forward-Looking Statements” and “Risk Factors” sections of this AIF.
- Our actual results could differ materially from what we expect or predict if known or unknown risks affect our business, or should any factor affect us in an unexpected manner, or if our estimates or assumptions underlying the forward-looking statements turn out to be inaccurate. As a result, we cannot guarantee that any forward-looking statement will materialize and, accordingly, you are cautioned not to place undue reliance on these forward-looking statements.
- Forward-looking statements do not take into account the effect that transactions or non-recurring or other special items announced or occurring after the statements are made may have on our business. In particular, actual results will be different if Aliant successfully completes the transaction, including the income trust conversion announced on March 7, 2006. Forward-looking statements included in this AIF do not anticipate or assume completion of this transaction. If the transaction is completed in the manner announced, actual results will differ materially from what has been anticipated herein. Such statements do not reflect the impact of dispositions, sales of assets, monetization, mergers, acquisitions, other business combinations or transactions, asset write-downs or other charges announced or occurring after forward-looking statements are made. The financial impact of such transactions and non-recurring and other special items can be complex and necessarily depends on the facts particular to each of them. Accordingly, the expected impact cannot be meaningfully described in the abstract or presented in the same manner as known risks affecting our business.

## ASSUMPTIONS MADE IN THE PREPARATION OF FORWARD-LOOKING STATEMENTS

A number of assumptions were applied or made by Aliant in preparing forward-looking statements and in describing the risks that affect our business. The material assumptions are outlined in this section. The reader should note that assumptions applied or made in the preparation of this AIF, although considered reasonable by Aliant at the time of preparation, may prove to be inaccurate due to material factors and risks, as set out herein, that could cause actual results to differ materially from a conclusion, forecast or projection. Furthermore, the assumptions applied in the preparation of this AIF do not reflect the combined business that will result should the proposed income trust transaction described below under the heading "Recent Developments" be completed. Accordingly, our actual results could differ materially from our expectations as set forth in this AIF.

### Economic Assumptions

Aliant expectations are based on various assumptions concerning the Canadian and specifically the Atlantic Canadian economy. First, it assumes Atlantic Canadian GDP growth will be slightly higher than the Canadian average GDP growth of 3% for 2006 as estimated by the Atlantic Provinces Economic Council (APEC). Atlantic Canadian GDP growth is expected to be driven primarily by several large-scale business and public sector projects, while the overall population growth is expected to be lower than in other parts of Canada, if not slightly negative. It also assumes that the general level of interest rates and the inflation rate will remain fairly stable, but will rise slightly (no more than one percentage point each) from current levels. For this purpose current levels are indicated by the approximate 4% interest rate on Government of Canada 5-year bonds and the approximate 2% growth rate of the Consumer Price Index.

### Market Assumptions

Our expectations also reflect various assumptions about the markets in which we operate. First, we have assumed growth in the overall Canadian telecommunications market in 2006 slightly higher than GDP growth. Second, we have assumed that our market share of the consumer voice telecommunications market will continue to decrease in 2006 due to the entrance of new competitors, particularly cable companies, and broad industry trends such as wireless and Voice over Internet Protocol (VoIP) substitution. Third, we do expect some forbearance from regulation in those markets where voice service competition is well established, namely in certain parts of Nova Scotia and Prince Edward Island. Finally, specific to the business market, the information and communication technology (ICT) sector's growth is forecast by International Data Corporation (IDC) to be approximately 5%, which is above that forecasted for the overall Canadian economy. Our assumption is that we will capture more of the ICT market in Atlantic Canada and adjacent geographies, as we leverage our ICT integration and introduce new ICT solutions for key industries, such as contact centres, health care and the public sector.

### Financial Factors and Assumptions

Our financial assumptions anticipate increased net income from revenue growth and through productivity improvements. We also expect to benefit from an effective tax rate that remains consistent with Canadian statutory rates. Our net income for 2006 is expected to be negatively affected by the accounting for non-cash losses on two interest rate derivative contracts that we anticipate will be exercised during 2006. For details on these contracts and the anticipated outcomes, refer to the "Other financial arrangements" section of our management's discussion and analysis for the year ended December 31, 2005.

We anticipate earnings growth to contribute to generating more than sufficient cash flow in 2006 to meet our operating, financing and investing requirements. Operating needs include total defined benefit (DB) pension and other post employment benefit (OPEB) plan contributions for 2006 of an estimated \$120 million to \$130 million. These estimates include our anticipated impact of lower interest rates that were in effect at the end of 2005 and new actuarial valuation rules that were

enacted in the last year, however, they are subject to revision based on new plan valuations to be completed later in 2006.

Financing requirements include our regular common and preferred share dividends. Investing requirements include our capital investment program, estimated to be \$350 million to \$380 million. In 2006, our capital investments will reflect a continued emphasis on strategic initiatives required to grow and transform our business. Approximately 60 per cent of our 2006 capital investments will support continued growth in our business. Approximately 20 per cent of our 2006 capital investments will support improving our customer experience and transforming our operational effectiveness, and the remaining approximately 20 per cent of our 2006 capital investments will be directed toward sustaining our existing business and levels of reliability.

For additional information regarding key assumptions and risk factors please refer to Aliant's Notice Concerning Forward-Looking Statements dated January 26, 2006. Reference is also made to Aliant's Notice of Meeting and Management Information Circular for the Annual and Special Meeting of Shareholders called to consider the transaction announced on March 7, 2006. This document is expected to be filed on SEDAR the week of April 17, 2006.

All of the forward-looking statements made in this document 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 Aliant. Readers should not place undue reliance on any forward-looking statements.

## **CORPORATE STRUCTURE**

### **NAME AND INCORPORATION**

Aliant Inc. was incorporated on March 9, 1999, as 3595641 Canada Inc. under the *Canada Business Corporations Act*. By Articles of Amendment filed May 18, 1999, the Company changed its name to Aliant Inc. Our registered office is at 69 Belvedere Avenue, Charlottetown, Prince Edward Island, C1A 7M1 and our corporate head office is at 1 Brunswick Square, Saint John, New Brunswick, E2L 4K2.

### **INTER-CORPORATE RELATIONSHIPS**

The table below presents our principal direct and indirect subsidiaries organized according to our core lines of business as at December 31, 2005. The table includes the jurisdiction of incorporation or continuance and the percentage of voting and non-voting securities or partnership interests that we beneficially owned or otherwise controlled directly or indirectly as at December 31, 2005.

<b>Subsidiary or Investment</b>	<b>Jurisdiction of Incorporation or Continuance</b>	<b>Percentage of voting securities which Aliant Inc. beneficially owns, controls or directs</b>
Aliant Inc.	Canada	
<u>Telecommunications operating segment</u>		
Aliant Telecom Inc.	Canada	100.0%
MT&T Mobility Inc.	Canada	100.0%
Atlantic Mobility Products Ltd.	Nova Scotia	45.0%
Aliant ActiMedia (Joint Venture)	New Brunswick	87.1%
DownEast Ltd.	Nova Scotia	100.0%
Innovatia Inc.	Canada	100.0%
<u>Information technology operating segment</u>		
Xwave Solutions Inc.	Canada	100.0%

Certain subsidiaries, which represent less than 10% of our consolidated assets, or sales and operating revenues and which, in aggregate, represent not more than 20% of the same consolidated results, have been omitted from the table.

At December 31, 2005 BCE Inc.'s (BCE) indirect ownership of Aliant was approximately 53.2% (2004 - 53.2%) of our outstanding common shares, which makes BCE our majority shareholder.

## **GENERAL DEVELOPMENT OF THE BUSINESS**

### **OVERVIEW**

We are Atlantic Canada's leading information and communications technology (ICT) provider, complementing our telecommunications business with strengths in information technology (IT) to deliver complete customer solutions. We are the largest publicly traded company based in Atlantic Canada with a \$3.7 billion market capitalization as at December 31, 2005, and are listed on the Toronto Stock Exchange (TSX).

We have more than 100 years of experience in traditional communications services and have the knowledge and experience to help organizations make IT a valuable and responsive tool. We are focused on combining these strengths to be the provider of choice for all communications, information and entertainment services.

We have two operating business segments, Telecommunications and Information Technology. Information Technology is a reportable segment and during 2005, our Telecommunications segment was sub-divided into two reportable segments, wireline and wireless. Throughout 2005, we have aggressively continued the convergence of our Telecommunications and Information Technology operating segments such that specialized expertise and common sales, marketing and customer service channels allow us to offer complete ICT solutions for our customers. We serve clients in several geographic markets and across many different industries.

The Telecommunications segment operations are primarily carried out through our 100% ownership interest in Aliant Telecom Inc. (Aliant Telecom). 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 offered through our 100% ownership interest in Innovatia Inc. (Innovatia);
- retail sales at our 48 dealer and communications outlets in Nova Scotia, Newfoundland and Labrador and New Brunswick arising from our acquisition of 100% ownership interest in DownEast Ltd. (DownEast) on October 1, 2004;
- telephone directory advertising through our 87.1% partnership interest in Aliant ActiMedia; and
- wholesale distribution of wireless handsets, accessories and other telecommunications products through our 45% ownership interest in Atlantic Mobility Products Ltd.

Wireless operations constitute a reportable segment and the remaining operations are included in the wireline reportable segment.

The business of the Information Technology operating segment is carried out through our 100% interest in Xwave Solutions Inc. (xwave). Xwave provides end-to-end IT services that range from consulting and engineering through to infrastructure management and product fulfillment. We serve clients in several geographic markets through offices in Canada, the United States and Europe and key industries including energy and telecommunications, and in select areas of the public sector such as defence, aerospace, healthcare, correctional services and education.

## RECENT DEVELOPMENTS

On March 7, 2006, Aliant announced that it had entered into an agreement with BCE to combine Aliant's wireline telecommunications operations with Bell Canada's wireline telecommunications operations in its regional territories in Ontario and Quebec and BCE's 63.4% indirect interest in the telecommunications operations in certain additional territories in northern Ontario and Quebec that are carried on by Telebec, Limited Partnership and NorthernTel, Limited Partnership, and to convert Aliant from a corporate entity into an income trust. As part of this arrangement, Aliant will also transfer its wireless telecommunications operations and its interest in DownEast to Bell Canada. Completion of this transaction is subject to a number of conditions including approval of the shareholders of Aliant and other regulatory and court approvals and third party consents. A meeting of the shareholders of Aliant is scheduled to be held on May 17, 2006 to consider this transaction. The transaction will be fully described in the Notice of Meeting and Management Information Circular for the Annual and Special Shareholders Meeting which is expected to be filed on SEDAR the week of April 17, 2006. Upon the closing of this transaction, which is currently expected to be by the third quarter of 2006, BCE will hold a 73.5% direct or indirect interest in the new income trust. BCE has announced its intention to reduce its fully-diluted ownership of the new income trust to approximately 45% through a distribution of units in the new income trust to BCE common shareholders. At closing, Aliant's minority shareholders will exchange their existing common shares for units of the new income trust, retaining a 26.5% interest therein. Reference is made to the Aliant Material Change Report dated March 16, 2006, which is incorporated by reference herein and can be accessed on SEDAR at [www.sedar.com](http://www.sedar.com).

## THREE YEAR HISTORY

### 2003 Highlights

During 2003, we completed a number of divestitures pursuant to our strategy to focus on our core telecommunications operations. We sold our 53.2% interest in Stratos Global Corp. as well as the principal business assets of the emerging business segment. Since December 31, 2003, we have been engaged in only two business segments, Telecommunications and Information Technology.

Although an effort had been made to sell xwave during the first half of 2003, on June 19, 2003, we announced a decision to retain and restructure xwave. With this decision, a comprehensive

restructuring plan was prepared and executed with the objectives of restoring profitability, improving productivity, realigning xwave's strategy with our Telecommunications segment and simplifying xwave's business model. The restructuring plan reviewed all elements of the business including leadership, business processes, systems and organizational structure. As a result we incurred restructuring charges of \$14.5 million in 2003 composed primarily of severance and related benefits for over 200 employees, but also included equipment lease cancellation penalties and real estate rationalization costs.

#### 2004 Highlights

In 2004, we restored xwave to profitability drawing on efficiencies gained from restructuring, identifying past successes and selling similar customized solutions to a broader range of clients, and focusing on near-shore opportunities. We realigned our corporate structure to bring our Telecommunications and Information Technology segments closer together enabling us to deliver one point of contact with business customers and provide integrated end-to-end ICT solutions. We completed several small acquisitions and dispositions to further enhance the competencies of our existing core lines of business

#### *Labour Disruption and Voluntary Early Retirement Incentive Program*

Our 2004 performance was marked by a five-month labour disruption at Aliant Telecom that ended on September 20, 2004. During this period management continued to provide a full range of services and products to our customers. A new collective agreement was signed which lasts until December 2007 and which provides us with greater flexibility to manage our workforce in a highly competitive and rapidly changing marketplace. The labour disruption is estimated to have negatively impacted our 2004 net income by \$43 million.

In October 2004, we offered a voluntary Early Retirement Incentive Program (ERIP) to eligible employees. The offer was accepted by 693 employees or 8% of Aliant's workforce, including 654 Aliant Telecom employees. The ERIP resulted in a \$66.6 million charge against income in the fourth quarter of 2004, reducing net income by \$42.1 million.

Both the settlement with our unionized employees and the ERIP resulted in material changes to the costs of providing pensions and other post-employment benefits (OPEB) in 2004 and future years.

#### 2005 Highlights

Aliant delivered revenue growth, cost savings and demonstrated a strong rebound from the challenges of 2004. Employees transitioned back to work from the labour disruption and the effects of the ERIP last year and re-committed to the strategy of growth and transformation. The balance sheet remains strong and generates more than sufficient cash flow to meet operating, financing and investing requirements, including higher pension plan contributions required as a result of 2004 plan changes, lower interest rates and new actuarial valuation rules that were enacted in 2005.

The execution of our growth and transformation strategy resulted in several significant accomplishments during 2005.

Xwave signed a multi-million dollar contract with General Dynamics Canada, part of the Sikorsky Aircraft-led Maritime Helicopter Team, to develop ground-based simulators and software in support of Canada's new CH148 Cyclone helicopters.

We launched Aliant IP virtual private network (VPN), our next generation business IP wide-area network (WAN) data service, connecting customers' offices and data centres throughout Atlantic Canada to the rest of the country. Aliant IP-VPN is the first IP service to be offered over our new state-of-the-art national multi-protocol label switching (MPLS) network, developed along with Bell Canada, and will

enable us to deliver VoIP, IP video conferencing, IP call centre applications and other future IP applications. In 2005 we invested aggressively to accelerate the expansion and augmentation of our DSL network and launched our Aliant IPTV service in the Halifax market.

We launched a technology trial and plan to roll out Evolution Data Optimized (EV-DO), a third generation (3G) digital wireless technology this year. Aliant's EV-DO service was initially introduced to customers in the Halifax area in early 2006 and is being expanded to other areas across Atlantic Canada.

## **2006 STRATEGIC DIRECTION**

On March 7, 2006, Aliant announced that it had entered into an agreement with BCE to combine Aliant's wireline telecommunications operations with Bell Canada's wireline telecommunications operations in its regional territories in Ontario and Quebec and BCE's 63.4% indirect interest in the telecommunications operations in certain additional territories in northern Ontario and Quebec that are carried on by Telebec, Limited Partnership and NorthernTel, Limited Partnership, and to convert Aliant from a corporate entity into an income trust. As part of this arrangement, Aliant will also transfer its wireless telecommunications operations and its interest in DownEast to Bell Canada. Completion of this transaction is subject to a number of conditions including approval of the shareholders of Aliant and other regulatory and court approvals and third party consents.

## **DESCRIPTION OF THE BUSINESS**

### **BUSINESS OF ALIANT**

We operate through two business segments, Telecommunications and Information Technology, which are discussed under the 'Telecommunications' and 'Information technology' sections.

#### Products and Services

The following tables summarize revenue for each category of principal products or services. Revenues are further summarized by the source from which they are derived: external customers, BCE and its controlled interests and inter-segments.

## Revenue by Category

For the year ended December 31, 2005

(in thousands of dollars)

Reportable segment	Revenue category	Revenue source:			Consolidated operating revenue
		External customers	BCE and its controlled investees	Intersegment	
Telecommunications					
Wireline	Local	\$ 692,572	\$ 35,717		\$ 728,289
	Long distance	240,096	70,572	8,291	318,959
	Internet	131,882	0		131,882
	Products	124,351	0		124,351
	Other	108,099	1,426		109,525
		1,297,000	107,715	8,291	1,413,006
Wireless	Wireless	424,692	14,928		439,620
		1,721,692	122,643	8,291	1,852,626
Information technology		234,594	16,028	105,015	355,637
Corporate and other		1,725			1,725
Eliminations		-		(113,306)	(113,306)
Operating revenues		\$ 1,958,011	\$ 138,671	\$ -	\$ 2,096,682

For the year ended December 31, 2004

(in thousands of dollars)

Reportable segment	Revenue category	Revenue source:			Consolidated operating revenue
		External customers	BCE and its controlled investees	Intersegment	
Telecommunications					
Wireline	Local	\$ 716,395	\$ 33,856		\$ 750,251
	Long distance	259,356	82,010	7,143	348,509
	Internet	119,089			119,089
	Products	109,738			109,738
	Other	85,953	2,118		88,071
		1,290,531	117,984	7,143	1,415,658
Wireless	Wireless	382,188	4,173		386,361
		1,672,719	122,157	7,143	1,802,019
Information technology		219,658	17,468	106,339	343,465
Corporate and other		1,413			1,413
Eliminations		-		(113,482)	(113,482)
Operating revenues		\$ 1,893,790	\$ 139,625	\$ -	\$ 2,033,415

We are not dependent on any single customer for 15% or more of our revenues or income, but larger business customers and government agencies do account for a significant portion of our revenues.

### Employees

The number of people employed by us and our subsidiaries is presented in the table below by operating segment, not by legal operating entity. There are currently approximately 81 employees that work directly in our Aliant Mobility division and another 380 employees that provide customer service support to Aliant Mobility indirectly. Also, while Innovatia, SalesBridge, Aliant ActiMedia and DownEast are not owned or operated by Aliant Telecom, for the purposes of this table we have included the employees of these companies in the Telecommunications operating segment. Approximately 44% of our total workforce was unionized as of December 31, 2005.

#### **Employee Headcount by Segment**

<i>As of December 31</i>	2005	2004	2003
Telecommunications	7,456	7,105	6,653
Information Technology	1,291	1,659	2,167
Corporate and Other	153	96	93
	8,900	8,860	8,913

### Intangible Properties

All trademarks, or corporate, trade or domain names used in this AIF are the property of their owners. We believe that our trademarks, brand and domain names and other tangible assets (such as spectrum licences, software, customer lists and residuals) are important to our success. Our exclusive trademark registrations may be renewed every 15 years provided we continue to use the trademarks in our business activities. We take appropriate measures to protect, renew and defend our trademarks. We spend considerable time and resources overseeing, registering, renewing, licensing and protecting our trademarks and prosecuting those who infringe on them. Given our great sensitivity to the importance of these assets, we are also very careful not to infringe the intellectual property of others.

### Relationship with BCE and Bell Canada

#### *Memorandum of Agreement with BCE & Bell Canada*

On March 19, 1999, we entered into a Memorandum of Agreement (“MOA”) with BCE and Bell Canada. This long-term strategic alliance agreement describes the understanding between Aliant, BCE and Bell Canada with respect to a strategic alliance for the provision and delivery of telecommunications services.

The MOA identifies the Atlantic Provinces as our serving territory and Quebec and Ontario as the serving territory of Bell Canada. The MOA provides that we are the vehicle by which telecommunications services will be offered in our territory, and commits BCE and Bell Canada to the development and growth of a strong and independent Aliant. The MOA assures that we are Bell Canada’s preferred supplier of telecommunications services offered in the Atlantic Provinces and it identifies specific areas of co-operation for the purpose of providing seamless delivery of services.

Through this MOA, we gained access to Bell Canada’s technology, the exclusive right to use specified Bell Canada trademarks in our territory, and a license to use Bell Canada’s promotional materials. Bell Canada agreed to promote the use and sale of technology and intellectual property developed by us. We agreed to provide each other with support services, including access to operational support and

technical, marketing, training and similar assistance. We have and will continue to attempt to achieve benefits resulting from collaboration such as the aggregation of traffic and purchasing requirements.

With an initial term of five years, the MOA will continue in effect for as long as BCE holds an interest in Aliant of at least 10%, subject to termination rights on the occurrence of certain specified events. BCE agreed not to proactively increase its ownership interest in Aliant beyond 55% except by making an offer for all remaining common shares. BCE is entitled to appoint at least two directors to a current Aliant board of 12 directors (which can be increased to 15 directors without BCE's consent or additional representation). BCE currently has 5 directors appointed to the Aliant board.

#### *Bell network alliance*

In 2002, with the objective of developing a more integrated network infrastructure between Aliant Telecom and Bell Canada, we signed a Network Outsourcing Agreement ("NOA") under which:

- Bell Canada provides Technology Planning & Development engineering services for the strategic evolution and development of Aliant Telecom's network architecture and services platform;
- Bell Canada also provides Network Planning & Provisioning services for the planning, design and deployment of Aliant Telecom's network infrastructure for annual growth and augmentation; and
- Aliant Telecom manages and approves network capital expenditures, manages technology introduction and supports the development of enhanced service applications.

We also signed a bi-lateral Intellectual Property Agreement with Bell Canada that provides access to a broad spectrum of each other's intellectual property in addition to providing us with access to Bell Canada's engineering and network intellectual property.

Through these agreements we are able to leverage the economies of scale of Bell Canada's engineering organization to plan and develop our network infrastructure. This supports the following:

- migration to common network technologies;
- sharing best-in-class systems and processes;
- improvement to customer service delivery and support;
- reduction of capital and operating expense costs; and
- reduction of provisioning intervals for technology deployment to support new services.

The implementation of the NOA began in early 2003. During 2004, we strengthened our alignment with Bell Canada on new technology research and development to further increase the benefits realized under this agreement. The integration of key systems and processes was delayed in 2004 and is expected to be completed in 2006.

In November 2004, we also signed a Letter of Agreement ("LOA") that outlined the intent to build a joint MPLS network to further leverage technologies and facilitate service for our National customers. The network was designed and implemented in the fall of 2005. This network was designed to handle emerging technologies such as VOIP and IPVPN. In 2005 we also entered into discussions with Bell Canada regarding our 411 service. Aliant was seeking to leverage Bell Canada in outsourcing operator service calls during non-prime hours and weekends. This arrangement was successfully consummated on January 23, 2006.

### *Bell Wireline Business Combination*

As noted above, on March 7, 2006 Aliant announced that it had entered into an agreement with BCE to combine Aliant's wireline telecommunications operations with Bell Canada's wireline telecommunications operations in its regional territories in Ontario and Quebec and BCE's 63.4% indirect interest in the telecommunications operations in certain additional territories in northern Ontario and Quebec that are carried on by Telebec, Limited Partnership and NorthernTel, Limited Partnership, and to convert Aliant from a corporate entity into an income trust. As part of this arrangement, Aliant will also transfer its wireless telecommunications operations and its interest in DownEast to Bell Canada. Readers are referred to the Material Change Report and the Property Exchange and Arrangement Agreement for further details of this transaction, both of which can be accessed on SEDAR at [www.sedar.com](http://www.sedar.com).

### Environmental Policy

Protecting our people and the environment is a top priority in all aspects of our operations. Our employees work together effectively:

- to identify activities and situations which may have potential to harm the environment; and
- to implement environmentally positive practices and preventive measures.

Our environmental program ensures we comply with regulatory requirements and we monitor results to minimize risk to the environment. This policy is implemented through training and awareness, and is integrated into operations to ensure that we do not cause significant impact to the environment in the course of our regular operations. We have an environment emergency response procedure in place in case an incident occurs. The policy statement itself is reviewed regularly and authorized by our chief operating officer.

The costs of the environmental program are not expected to have a material impact on earnings, capital expenditures or our competitive position in the current year or future years. As well, management is not aware of any environmental matters that materially threaten our future earnings or financial and competitive position. In the event there is a significant environmental infraction, it will be brought to the attention of our Audit Committee.

### **TELECOMMUNICATIONS**

The telecommunications segment has two reportable segments; wireless operations constitute a reportable segment and the remaining operations are included in the wireline reportable segment.

### Products and Services

Atlantic Canada is the principal market in which the Telecommunications segment operates. This operating segment focuses on three customer segments: consumer, SMB and enterprise businesses.

The following telecommunication products and services are offered to our customers:

#### *Local*

Local revenue is earned from providing the following services:

- Network access service - monthly access charges for provision of local telephone service;

- Enhanced service features - value added services, such as call answer, call display and call forwarding;
- Data access - local data access services such as frame relay, asynchronous transfer mode and interoffice digital access;
- Contribution payments - subsidies from the telecommunications industry-financed National Contribution Fund for the provision of residential local service in high cost areas;
- Competitor payments - fees paid by competitors that access our local network; and
- Other revenues - from telephone set rentals, payphone usage and service charges.

#### *Long distance*

Long distance revenue is earned through providing the following services:

- Toll service - long distance voice services, including toll-free service;
- Data network service - long distance data transmission circuits; and
- Long distance terminating - the rates paid by certain telecommunications carriers for long distance calls terminating with our customers.

#### *Wireless*

Wireless revenue is earned through the provision of cellular, paging and mobile radio services over our analog and digital wireless network. Cellular revenues consist primarily of monthly recurring charges and also include charges for airtime, long distance, roaming and enhanced service features such as text and video messaging and Web browsing.

#### *Internet*

Internet revenue is earned through high-speed (regular and ultra) service, dial-up service and enhanced services and applications such as TV on my PC™, security services, music download service and dial-up accelerator.

#### *Other telecommunications services*

Other telecommunications revenues are primarily earned from telephone directory advertising, product sales, e-learning and newer revenue services such as network management and e-Commerce.

#### Cycles

Telecommunications operating revenues and expenses have historically experienced some degree of seasonality, but this impact has lessened in recent years. In the past wireless revenues peaked in the third quarter of the year, resulting from increased airtime, long distance and roaming during summer vacations but have recently been experiencing steady growth. Also, the revenue from advertising sales from several of our larger directories has occurred in the second quarter of each year, but in 2005 an accounting policy change affecting the recognition of directory revenue and expenses reduced the seasonal effects of this business on our quarterly operating results.

The comparability of quarterly results continues to be affected by the timing of product sales, which are typically large and sporadic in nature.

### New products and services

We are constantly evaluating our market and changing our product and service offerings to better meet the needs of our customers. These changes can involve pricing, packaging and new products, such as those outlined below.

In 2005, we introduced new wireless products and other handsets with expanded data and video capabilities. We were the first to launch video messaging in Atlantic Canada and we introduced international text messaging. We also launched new Internet services in 2005.

Our development efforts in 2005 focused on the following:

- Collaborating with our business customers to develop IP-based solutions through the launch of three Voice over Internet Protocol (VoIP) demonstration centers, enabling us to work with our enterprise customers. We also worked with Bell Canada towards the launch of a SMB Innovation Centre in 2005.
- Developing a Fibre-to-the-Home solution that was launched in January 2005 as a pilot project in Halifax. This project delivers VoIP and high-speed Internet at speeds almost ten times faster than regular high-speed and will allow us to trial future IP-based solutions.
- Developing an IPTV solution for our consumer market to provide digital television service. We launched Aliant TV in parts of Halifax in the second quarter of 2005, offering a fully digital television service with over 200 TV and music channels, including local content.

### Marketing and distribution channels

We sell our products and services through approximately 1,650 call centre representatives, 210 independent dealer stores, 48 DownEast retail stores and our Aliant.net website. As well, we are able to facilitate customer payments through over 250 payment agencies. During 2005, we made process improvements to simplify and speed-up various types of customer interactions and introduced online ordering on our website.

Our ability to combine service offerings is integral to our success, driving loyalty and protecting our customer base. In 2005, we continued market penetration by offering Value Packages that combine high-speed or dial-up Internet service with the customer's choice of a long distance plan and, if desired cellular service and IPTV. In our business market, we also provide combined service offerings in the form of business bundles and customized solutions.

### Evolution of our network

We continue to build a state of the art Next Generation Network (NGN) that will position our business to grow while providing new innovative services to our customers. We shall continue to invest in IP-based network infrastructure and customer centric applications such as VoIP, Optical Ethernet (OE) and Virtual Private Network Enterprise services. Our network will incorporate emerging and mature standards such as Session Initiation Protocol, and Multi Protocol Label Switch (MPLS) as part of the transition to NGN. By building and positioning the network to support future IP based services, the investments we are making in the network will increase its longevity.

In 2005, we continued to place greater emphasis on our next generation business by upgrading our network and services to be IP capable. In conjunction with Bell Canada and our other technology partners, we will continue to build the network to support VoIP, OE and MPLS based services as customer demands, customer needs and technology dictate.

We continue to actively invest and partner with communities and government to realize the objectives and vision of Industry Canada's Broadband for Rural and Northern Development (BRAND) program.

BRAND is an initiative designed to bring broadband service to Aboriginal, northern and rural communities across Canada. In New Brunswick, we also work in partnership with the provincial and federal governments to deliver broadband infrastructure to rural communities. These partnership opportunities complement our overall investment in the growth and expansion of our Broadband High-Speed Internet DSL based service.

Our NGN transition also includes our mobile wireless network which has evolved from our existing Code-Division Multiple Access (CDMA) voice wireless network to 1xRTT. Our network now delivers the fastest wireless data speeds with the best coverage in Atlantic Canada. The rapid adoption of wireless data services by our customers has prompted us to advance our next phase of CDMA evolution called 1x Evolution Data Optimized (1xEVDO). 1xEVDO mobile IP technology provides even faster access to the Internet, e-mail, instant text-messaging, games, corporate networks and data, which will bring a new level of appeal for wireless devices among customers seeking a personalized, feature-rich mobile experience.

#### Specialized Skill and Knowledge

To provide reliable, competitive and innovative products and services to our customers, we will be adopting IP based technologies at an increasing rate. We will also build solutions that take advantage of the convergence of traditional ICT. Employee development remains a key priority to advance the skills of network employees in IP based technologies, as well as those responsible for product/service development, sales and delivery of IP based products and services to our customers. We are also investing in the development of our leaders at every level of the organization to ensure that employees understand our future direction and continue to have the capability to deliver in the increasingly competitive ICT sector.

#### Competitive Conditions

Refer to the 'Risk Factors' section under 'Increasing Competition' for a discussion of the competitive conditions in the Telecommunications segment.

### **INFORMATION TECHNOLOGY**

The Information Technology operating segment is a reportable segment.

In 2005, we continued our integration and alignment program with the Telecommunications segment for delivery of infrastructure managed services as well as service management for enterprise clients. This complements the shared operations model implemented in late 2004 for sales and corporate support functions and enables our integrated ICT solution strategy, allowing us to create a "single face" to the market when serving our enterprise customers.

#### Products and Services

Our Information Technology segment generates IT services and fulfilment revenues. IT services revenue is earned through systems integration, software engineering, application development and maintenance, infrastructure managed services and other IT consulting. Fulfillment revenue is generated through the sale of computer hardware and peripherals and packaged software.

Within Atlantic Canada we sell our products and services through an integrated sales channel with the Telecommunications segment and also have approximately 55 direct sales representatives in other regions. Through our team of IT professionals we plan, design, build and operate IT solutions for our customers that span their end-to-end IT requirements and fulfill all infrastructure needs. We also provide both products and services to the various business units within the Aliant group of companies. By leveraging xwave's expertise, knowledge and abilities, we have strengthened our position in the market and are able to offer integrated solutions to customers that span their complete

communications and IT requirements. Xwave's presence in Central Canada and international markets is also an effective channel to leverage the capabilities and offerings developed within Atlantic Canada and we expect this to contribute to our future growth and the Atlantic Canadian economy.

#### Specialized Skill and Knowledge

The ICT growth and transformation strategy is driving an increased requirement for professional services resources with business change capability. Throughout 2005, we added senior project management, solution architecture and change management consulting skills that were also complemented by the acquisition of Fujitsu's Atlantic operations in late 2004. Although the labour market has become increasingly competitive we have been able to meet demand through both direct hiring activity as well as relationships with the subcontractor community. As we build our capabilities within specific industry verticals including defence and aerospace and healthcare, demand for domain expertise will also increase and we anticipate more recruitment will be required for these specialized roles.

More consistent delivery methods will also require sustained commitment to development of skills associated with tools such as "rational unified process", IBM's software development platform, and industry recognized delivery standards including the Capability Maturity Model Integration (CMMI). Technology based skill sets in support of Microsoft.net™ and other leading application development tools are also needed to maintain a leadership position in the ICT market. Employee development and process redesign efforts are underway to address these areas.

#### Competitive Conditions

During 2005 xwave secured several large contracts that have positively impacted its competitive position particularly in the defence and aerospace, healthcare and public safety sectors. Xwave's involvement in the federal government's Maritime Helicopter Program not only represents a significant long term contract in the defence sector but has also provided international exposure to the Company's expertise in this sector which we expect to lead to future growth.

The IT industry in general has experienced a general upswing but it continues to be a very aggressive and highly competitive market. Pricing pressures continue which must be balanced against the generally increasing cost of labour due to strong market demand for specialized skills. Clients are also demanding innovative solutions that respond to their business needs and return operational and financial efficiencies.

#### Cycles

For the IT 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. IT service revenues are contract based and fluctuate in accordance with the size and number of outstanding contracts.

#### Changes to contracts and new contracts

During 2005 xwave experienced significant change order activity within existing contracts and also initiated new projects under contracts with the RCMP, Government of Nova Scotia, NAV Canada, Smart Systems for Health Agency and the Government of Ontario. Xwave also signed three contracts in 2005 related to the federal government's Maritime Helicopter program that will involve development and support work spanning a twenty year period and contributing over \$210 million to our future backlog of business, and was successful in renewing key outsourcing contracts with both NB Power and Service New Brunswick to provide infrastructure managed services for the next five years valued at approximately \$60 million. Xwave also entered into a partnership with GE Healthcare to develop a clinical management system and deliver the system to the Ontario physician community through an

Application Service Provider model. These renewed and new contracts will significantly contribute to sustaining and growing future revenues.

## **RISK FACTORS**

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. The risks noted may not be exhaustive as there may be other risks that we are currently unaware of or that we presently consider insignificant to our consolidated operations.

### Our Corporate Structure

Aliant Inc., as a corporate entity does not carry on any significant operations and has no major sources of income or assets, other than interest in its subsidiaries and a joint venture. Our financial performance and our ability to service our debt and pay dividends to our shareholders are dependent on the dividends and other distributions we receive from our interest in our subsidiaries and joint venture.

### Our Dependence on the Telecommunications Segment

Our financial performance is dependent on the performance of our subsidiaries and joint venture, in particular the performance of those interests that constitute our Telecommunications segment. Therefore the risks that impact this segment are more likely to have a significant impact on the financial condition, results of operations and business of our Company as a whole.

### Stock Market Volatility

Stock markets are generally subject to significant volatility due to such factors as fluctuating interest rates, economic conditions and political uncertainty. This market volatility influences the market price and trading volumes of the shares of many companies. In particular, the shares of telecommunications companies have been experiencing price volatility due to industry factors such as competition, mergers and acquisitions activity, speculation on conversion to an income trust structure and various regulatory developments. Differences between our actual or anticipated financial results and the published expectations of financial analysts may also contribute to volatility in our common shares. A major decline in the capital markets in general, or an adjustment in the market price or trading volumes of our common shares or other securities, may materially and negatively impact our ability to raise capital, issue debt, retain employees or make future strategic acquisitions or joint ventures.

### General Economic Conditions

Changes in general economic conditions, customer confidence and spending affect the demand for, and prices of, our products and services. In particular, a downturn in general economic conditions could lead to:

- Lower than anticipated demand for IT services and products and integrated ICT solutions;
- Lower than expected growth in data revenue due to softer demand from enterprise and wholesale customers;
- Lower than anticipated long distance and wireless revenues due to decreased usage; and
- Higher than anticipated bad debt expense due to increased credit risk.

The existence of these conditions or the emergence of new conditions could reduce revenues or increase costs, negatively affecting results. We constantly monitor economic conditions to enable us to respond by implementing strategies to mitigate risks or adjusting assumptions used in recording the effects of these risks on our results.

#### Pension Plan Funding

Our required DB pension and OPEB plan funding for 2006 is estimated to be in the range of \$120 million to \$130 million. This estimate is subject to change, as we remain exposed to general future valuation risk. Actuarial valuations will be required as of December 31, 2005, for all of our DB pension plans. Required funding levels for 2006 and beyond may change as a result of these updated actuarial valuations. 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.

Higher cash contributions are gradually leading toward an improved going concern funding position for the DB pension plans. As this occurs, we are shifting the asset mix and strategies in the pension plan funds to mitigate the impact that future interest rate changes and investment returns will have on the plans' funding position. As well, all of our DB pension and OPEB plans are now closed to new entrants, placing a cap on the future growth of these obligations.

#### Reliance on Systems

We are reliant on our systems as they enable us to provide services to customers, manage customer relationships, billings and inventory. They also support many other vital activities. These systems are made up of many integrated parts consisting of cable, equipment, buildings and towers, IT equipment, IT software and the related data. Our operations depend on how well we protect these components against damage from fire, natural disaster, power loss, hacking, computer viruses, disabling devices, deliberate acts of vandalism, acts of war or terrorism, and other events. Any of these events could cause our operations to be shut down indefinitely. Our systems are connected with the systems of other telecommunications carriers, and we rely on them to deliver some of our services. Any of the events mentioned previously, as well as strikes or other work disruptions, bankruptcies, technical difficulties or other events affecting the networks of these other carriers, could hurt our business, including our customer relationships and operating results.

#### Changing Technology

We operate in an industry that experiences constant change, driven by rapid advances in technology, evolving industry standards, customer demands and short product life cycles. Our success is dependent on our ability to anticipate and respond to these changes in order to effectively deliver new services and technologies to our customers.

There is a risk associated with adopting new technologies to serve our business needs. New technologies invested in may have shorter than anticipated product life cycles due to evolving standards or sudden advances in the development of competing products or services. This may result in increased re-engineering costs to incorporate new technology and may cause current products or services to become unmarketable or could cause prices to fall, resulting in a negative financial impact.

We are continuing the evolution of our network from a circuit-based technology infrastructure to an IP infrastructure. This evolution enables the development of enhanced services for our customers through the integration of voice, data and video. This integration plays a significant role in increasing operating and capital efficiency. In some cases, significant investments need to be made before it can be determined if the new services will be successful in the marketplace. There is no assurance that customers will adopt these new services or migrate from existing services in a reasonable period of time.

The adoption of new IP-based services may be influenced by the customer perception of the security, reliability and quality of IP networks. There are no assurances that solutions will be available to allow service providers to totally defend customers against all forms of computer viruses and attacks.

We are responding to the fast pace of technological change by embracing new service development with strategic partners, accelerating new service introduction and developing an integrated growth plan to remain a next generation services provider. The success of new products is influenced by a number of factors, not all of which are under our control. Considerable effort is expended to ensure we correctly interpret, predict and respond to changes in technology, the regulatory environment, partner relationships and customer demand. However, we are not immune to sudden or unanticipated changes in any of these areas. This may result in the failure of new services and products to meet expectations and result in lower than anticipated net income.

### Increasing Competition

Atlantic Canada continues to be among the most competitive telecommunications markets in North America for local residential service. Our Atlantic Canadian population and economy are growing slowly compared to the rest of the country, yet our competitors are among the largest, nationally and internationally. In our business market, we compete with traditional telecommunication operators that are commoditizing communications services and also with international system integrators offering consulting and solutions, based on in-depth vertical knowledge learned elsewhere.

Our focus is on building trust-based relationships with our customers and collaborating with them to make their businesses successful. Our strategy includes enhancing our services and packages to create compelling value, innovating with our customers to provide complete integrated ICT solutions, improving our cost structure to enable greater price competitiveness, and expanding our IP network and its capabilities to provide broader access and innovative solutions. Competition, and particularly changes in the competitive landscape, can place these strategies at risk, and as such have a negative impact on future revenue growth and profitability. In recognition of this we constantly monitor our marketplace and respond accordingly to ensure we maintain our leadership position.

### *Local and long distance*

In 2006, it is expected that a new competitor will begin to offer local telephone service in a large portion of our marketplace. This competitor will have the ability to offer four-services bundles, consisting of telephone, Internet, wireless and TV. Cable competitors are free from regulation and are able to offer local service in bundles at greatly reduced prices in a bid to gain market share. We are vigilant and passionate about our customers and continue to pursue them with compelling value packages, offering value, simplicity and competitive pricing. However, there is no assurance that this will mitigate churn and market share erosion resulting from new competitive entrants to our marketplace.

In addition to cable competitors in our local service market, a threat to our customer base continues to be the slow and gradual replacement of local landline service with wireless-only service. This puts pressure on revenues for local service and also leads to declining revenues for services and features that are carried on the local network, including Internet and long distance.

The value of long distance as a stand-alone service has diminished but it is an integral component in the customer solution. In the telecommunications industry, long distance is increasingly offered within flat-rate calling plans while alternatives like VoIP, instant messaging and peer-to-peer applications replace traditional calling, contributing to continued price and minute erosion. Competition continues with dial-around and prepaid card providers, traditional primary inter-exchange carrier competitors and resellers, and most recently, VoIP providers. VoIP will continue to erode traditional long distance as the technology improves and managed VoIP services are launched, making the technology

transparent and more attractive to the consumer. We are currently conducting a VoIP technical trial and results will be integrated into our voice evolution strategy.

### *Wireless*

National and international wireless providers dominate our landscape. Competitors are increasing their network coverage and dealer channel breadth while service offerings including reduced rates for local and long distance minutes, innovative applications and handsets are being promoted as the new differentiators. This activity results in constant pressure on our pricing and revenues. We expect intense competition to continue as the industry has forecasted continued growth in wireless penetration and application opportunities. While competitors threaten our position in the market place, we continue to invest in our network, collaborate with our customers to provide innovative solutions, and present extensive, reliable coverage and customer service they can trust.

### *Internet*

Internet penetration is still growing in our market. As IP becomes standard, we are experiencing an increasingly diverse and global group of competitors ranging from cable providers with excess network capacity to IT companies, equipment providers and system integrators that increasingly bundle telephony components and professional services into solutions at commodity prices. We are continually challenged by these competitors as they assert pressure on our pricing, revenues and market share. We will continue to build our ICT expertise and to serve our customers holistically, helping them evolve their networks and providing them with world-class industry-specific solutions.

### *Television*

We are new entrants to the television market with our launch of Aliant TV, our IP-TV service. We launched this service in one area while offering our entire market the choice of satellite TV through Bell ExpressVu service. Cable TV penetrates the majority of our market and accounts for the majority of market share. While we are starting to gain market share with Aliant TV service, and the opportunity for growth is large in specific markets, Aliant TV service requires high-speed Internet and will be dependent on high-speed Internet-penetrated urban areas. Television is integral to home entertainment and to bundled packages. Through Aliant TV service we are offering customers the opportunity to be early adopters of an innovative, yet familiar, product.

## Changing Regulations

### *Overall regulatory environment*

The business of our primary telecommunications company, Aliant Telecom, is affected by decisions made by the Canadian Radio-television and Telecommunications Commission (the "Commission or "CRTC"). This has been a challenging year with several significant decisions being made by the Commission.

Our profitability continues to be negatively influenced by regulatory changes concerning the rates charged and the terms and conditions offered for price-regulated services. The outcome of future regulatory reviews could have an impact on our ability to compete effectively and our future revenues and costs.

On March 22, 2006 the Telecom Policy Review Panel released its long awaited Final Report. This comprehensive report provides the Minister of Industry with recommendations on Telecom Policy, Regulatory Regime and Information Communication Technology (ICT) strategy. The Panel concluded that it is time for significant changes to current regulatory and policy approaches, which will allow our industry to respond more rapidly to new technology and market developments.

Today the prices of telecommunications services offered by competitive local exchange carriers (CLECs) are free from rate regulation while many of our local and other telephone service rates continue to be regulated by the CRTC. Any change in the regulations governing these services can potentially affect us.

The CRTC is currently reviewing a number of items that could have a financial impact on our Company. A decision on our application for forbearance from price regulation of local residential services in certain areas or exchanges in Nova Scotia and Prince Edward Island which would allow for greater pricing flexibility and symmetrical competition is expected in April 2006. As well, we are expecting a decision shortly on our request that the CRTC exclude from the calculation of service quality related customer rebates for the reporting period of April to December 2004, certain below-level service standards associated with the 2004 labour disputation. We will also be faced with other challenges in 2006, including appealing the VoIP decision and implementing the CRTC's requirements for wireless number portability.

#### *Local services forbearance application*

In April 2004, we filed a forbearance application with the CRTC requesting them to stop regulating local residential phone service within certain areas of Nova Scotia and Prince Edward Island where there is significant local residential competition.

In addition to the forbearance request, we also asked for interim relief from certain restrictions on promotions and certain rates that required CRTC approval until the CRTC ruled on the framework for local service forbearance. In August 2004, the CRTC determined that our request for relief from these restrictions will be considered as part of a proceeding in which our request for forbearance for local service will be addressed.

On October 7, 2005, the formal process with regards to the CRTC proceeding on local forbearance was completed and a decision is expected in April 2006.

#### *Quality of service rebates*

In 2005, we filed applications requesting that the CRTC exclude from the calculation of service quality related rebates, certain below-level service standards associated with the labour disruption of our unionized workforce in 2004 and the residual effects of the lengthy work stoppage.

A decision from the CRTC related to our 2004 reporting period has been delayed and is expected later in 2006.

#### *Deferral account*

In the 2002 Price Cap Decision, the CRTC established deferral accounts. The CRTC created deferral accounts to address concerns that ILEC price decreases for residential services based on the price cap formula would negatively affect competition. Based on this rationale, the Commission ordered companies to put the amount that would otherwise have been granted as annual price reductions into this notional account. On February 16, 2006, the CRTC issued its decision regarding the application of the deferral account rules, indicating that ILECs should clear the accumulated balances in their deferral accounts by expanding broadband services to rural and remote areas that are currently unserved and would not otherwise be served, and by improving the accessibility to telecommunications services for persons with disabilities. Our deferral account is estimated at \$22.0 million.

### *Current price cap regime extended*

Current price cap rules that were scheduled to expire in 2006 under the CRTC Price Cap Decision of May 2002, have been extended for a period of one year to May 31, 2007. Prices for certain ILEC services will continue to be capped by an index calculated using a target productivity factor and an inflation measure. During years that inflation is lower than the target productivity factor, ILECs will be required to reduce certain retail prices.

The CRTC will begin a price cap review in the first half of 2006 after they have released their decision on local service forbearance. The CRTC decision based on this review could greatly affect us, as well as our customers and competitors.

### *VoIP appeal*

In conjunction with other Canadian ILECs, we filed a petition with the Governor in Council seeking a fundamental change to the Commission's VoIP decision. The petition emphasized the fact that VoIP is indeed a different service than traditional landline access service and that the Commission's approach to regulating VoIP would ultimately harm innovation and competition in Canada.

If the Commission's decision is not altered, we will be working in an environment in which we are subject to price-regulation while competitors are not. This could negatively affect our future revenue potential.

### *Wireless number portability*

In December 2005, the CRTC issued its decision on the implementation of Wireless Number Portability, providing for the porting of telephone numbers between wireless carriers in Canada and between wireless and wireline services.

Certain wireless carriers are required to implement complete portability by March 14, 2007, while other carriers, including Aliant Telecom, must be able to port-out numbers by March 14, 2007, with the ability to port-in by September 12, 2007. To accommodate this, our system modifications will likely require a single implementation plan, therefore we are working toward the delivery of full number portability by the earlier date.

This issue affects our customers and a number of our internal wireless and wireline systems. The timeframe for implementation will be very challenging.

### Legal Contingencies and Changes in Laws

We review all legal proceedings and make an assessment of the likelihood of a negative outcome and the estimated impact. Losses are accrued when a potential loss is deemed probable and its impact can be reasonably estimated. However, pending or future litigation could still have a material and negative effect on our results of operations, cash flows and financial position in the period in which the judgment or settlement occurs. In addition, the adoption of new laws, changes in laws or changes in their interpretation, including changes in tax laws or rates, could materially or negatively affect our results of operations, cash flows and financial position.

### Capital Management Risks

The financial transactions we participate in may expose us to credit, foreign currency, interest rate and financial instrument risks. A more detailed description of our exposure to these risks and the procedures in place to mitigate these risks is described in note 18 to our consolidated financial statements for the year ended December 31, 2005.

## Credit risk

We are exposed to credit risk with respect to accounts receivable from customers, but the concentration of this risk is minimized because we have a large and diverse customer base. We have credit evaluation, approval and monitoring processes intended to mitigate potential credit risks, and maintain provisions for potential credit losses that are assessed on an ongoing basis.

## Interest rate exposures

Our long-term debt consists primarily of fixed interest rate financing. We have in place an interest rate swap agreement that involves us exchanging our underlying fixed interest rate on a notional \$100 million of long-term debt for a floating interest rate. The foregoing results in approximately 11 per cent of our aggregate debt being exposed to short-term fluctuations in interest rates.

## DIVIDEND POLICY

We pay dividends, as approved by the board of directors, based upon our earnings level. Dividends are usually paid at the end of March, June, September and December. One exception to this schedule occurred when Aliant announced that it would defer by four days the payment of the previously announced quarterly common share dividend of \$0.295 per common share until January 3, 2006. Aliant's board of directors decided to make this change, from the previously announced payment date of December 30, 2005, so that shareholders would benefit from the recent federal government announcement of its intention to enhance the tax credit and dividend gross-up regime under the Income Tax Act for dividends paid after January 1, 2006.

We paid a dividend at the quarterly rate of \$0.225 per common share (\$0.90 per annum) from 1999 until the third quarter of 2002. Our quarterly dividends paid per common share for the last 3 years are disclosed in the table below:

### Historical Quarterly Dividends

Year	Q1	Q2	Q3	Q4
2005	\$ 0.295	\$ 0.295	\$ 0.295	\$ 0.295
2004	\$ 0.275	\$ 0.275	\$ 0.275	\$ 0.275
2003	\$ 0.250	\$ 0.275	\$ 0.275	\$ 0.275

On January 26, 2006, the dividend rate was raised again through a declared dividend of \$0.31 (\$1.24 per share per annum) per common share, payable on March 31, 2006, to shareholders of record on March 15, 2006.

If Aliant is converted to an income trust as described under Recent Developments, shareholders of Aliant will receive fund units in exchange for Aliant common shares. It is anticipated that the fund will make monthly cash distributions to the unit holders.

The series 2 preference shareholders are entitled to a fixed cumulative preferential cash dividend of \$1.3625 per share per annum, if, as and when declared by the Aliant board of directors, payable quarterly on the last day of March, June, September and December in each year. If not redeemed on an earlier date, the fixed dividend on the series 2 shares will be reset every five years starting on June 30, 2006, to a rate that is not less than 80% of the five-year Government of Canada bond yield. On January 26, 2006, our board declared a preferred share dividend of \$0.340625 per preferred share

payable on March 31, 2006 to shareholders of record on March 15, 2006. A dividend of \$0.340625 per preferred share has been paid quarterly since inception, in July 2001.

## DESCRIPTION OF CAPITAL STRUCTURE

### GENERAL DESCRIPTION OF THE CAPITAL STRUCTURE

Our capital structure currently includes various debt obligations, unlimited number of common shares and preference shares issueable in series. If Aliant is converted to an income trust as described under Recent Developments, the capital structure will be changed.

#### Debt obligations

At December 31, 2005, we had operating lines of credit totalling \$686.0 million (2004 - \$636.5 million), of which \$350.0 million (2004 - \$350.0 million) is committed to support our commercial paper (CP) program, \$125.9 million (2004 - \$80.6 million) is committed to support letters of credit and guarantees and \$210.1 million (2004 - \$205.9 million) is uncommitted operating lines of credit. At the end of 2005, we had no balances outstanding under the CP program (2004 - \$nil), \$98.3 million in letters of credit and guarantees committed against operating lines of credit (2004 - \$80.6 million) and \$10.5 million (2004 - \$2.2 million) outstanding on our uncommitted operating lines of credit.

We had \$904.5 million (2004 - \$896.4 million) of long-term debt as at December 31, 2005. The foregoing was composed of \$185.0 million (2004 - \$185.0 million) of first mortgage bonds that are secured by certain of our assets, \$700.0 million (2004 - \$700.0 million) of unsecured debentures and medium term notes (MTNs), \$14.0 million (2004 - \$4.5 million) of capital lease obligations and \$5.5 million of other obligations (2004 - \$6.8 million).

#### Common Shares

We had 127,137,554 common shares issued and outstanding as of December 31, 2005. The holders of our common shares are entitled to receive dividends if, as and when declared by the board of directors. Each common share entitles its holder to one vote at meetings of shareholders. In the event of a voluntary or involuntary liquidation, dissolution or winding-up, after payment of all outstanding debts and amounts payable in respect of shares ranking in priority to the common shares, our remaining assets available for distribution are to be distributed *pro rata* to the holders of the common shares. Holders of common shares have no conversion, subscription or pre-emptive rights.

On February 2, 2005 we announced that we had filed with the TSX a notice of intention to purchase, from time to time, up to 6,637,200 of our issued and outstanding common shares through a Normal Course Issuer Bid (NCIB). Shares to be purchased represented approximately 5.0% of our total issued and outstanding common shares as of January 31, 2005, being 132,744,009. For the year ended December 31, 2005, we purchased for cancellation 5,797,715 shares. We also obtained TSX approval to enable Bell Canada, Aliant's majority shareholder, to participate on a *pro rata* basis in the NCIB to the extent that it decides to do so. Bell Canada's participation was approved by its board of directors and it participated *pro rata* in this bid. Under the NCIB, Aliant was able to acquire, from time to time, its common shares for cash at the market price at a pace and in an amount at our discretion, subject to the rules of the TSX. Our board of directors believed that such purchases were in our best interest and a desirable use of corporate funds. Purchases of shares under the NCIB were made during the twelve month period commencing February 4, 2005. All shares purchased pursuant to the NCIB were cancelled. Our shareholders can obtain a copy of the notice of intention without charge by contacting us.

## Cumulative Redeemable Preference Shares

We had 7,000,000 Series 2 preference shares issued and outstanding as of December 31, 2005, redeemable at the price of \$25.00 per share and with a fixed annual dividend rate of \$1.3625 per share. These shares are non-voting, except under certain conditions, and are redeemable at our option on June 30, 2006, or on June 30 of each fifth year thereafter. Preference shareholders may convert their Series 2 preference shares to Series 3 shares on a one-to-one basis on June 30, 2006, or on June 30 each fifth year thereafter, provided that we have not delivered a notice of redemption. The fixed dividend on the Series 2 shares is paid quarterly and will be re-set every five years starting on June 30, 2006, to a rate that is not less than 80% of the five-year Government of Canada bond yield. The Series 3 shares have terms that are substantially the same as the Series 2 shares except that, if issued, will pay a floating adjustable dividend rate monthly.

## Constraints

The *Telecommunications Act* of 1993 established foreign investment restrictions in the telecommunications industry. Section 16 of this Act requires that in order to be eligible to operate in Canada, a telecommunications common carrier must be a "Canadian-owned and controlled corporation," incorporated or continued under the laws of Canada. Subsection 16(3) of the Act requires that Canadians beneficially own, directly or indirectly, in the aggregate and otherwise than by way of security only, not less than 80% of the corporation's voting shares issued and outstanding.

In 1994, the Government of Canada promulgated the Canadian Telecommunications Common Carrier Ownership and Control Regulations, which set the minimum Canadian ownership level for ownership at the holding company level at 66 2/3% of voting shares. Aliant, as the publicly traded holding company owning Aliant Telecom, maintains our foreign ownership limits within this constraint.

## **RATINGS**

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities.

Short-term ratings are meant to give an indication of the risk that a borrower will not fulfill its near-term debt obligations in a timely manner. Dominion Bond Rating Service (DBRS) provides ratings on short-term debt, including CP, ranging from "R-1", which represents prime credit quality, to "R-3", speculative. Similarly, Standard & Poor's (S&P) ratings range from a high of "A-1" to a low of "C".

Long-term debt ratings are meant to give an indication of the risk that a borrower will not fulfill its full obligations in a timely manner, with respect to both interest and principal commitments. The DBRS long-term debt rating scale ranges from "AAA", which represents highest credit quality, to "D", in arrears. Similarly, S&P ratings range from a high of "AAA" to a low of "D".

Preferred share ratings are meant to give an indication of the risk that a borrower will not fulfill its full obligations in a timely manner, with respect to both dividend and principal commitments. DBRS provides ratings on preferred shares ranging from "Pfd-1", which represents superior credit quality, to "Pfd-5", speculative. Similarly, S&P ratings range from a high of "P-1" to a low of "P-5".

For DBRS and S&P, a designation of "high" or "low" and "plus" or "minus", respectively, after a rating indicates an issuer's relative strength within the rating category. The lack of one of these designations indicates a rating that is essentially in the middle of the category.

The "outlook" or "trend" indication by S&P and DBRS, respectively, appends the rating and is a "positive", "stable" or "negative". This is intended to give the investor an understanding of the rating agency's opinion regarding the outlook for the rating in question. However, a positive or negative

outlook or trend does not necessarily indicate that a rating change is imminent. S&P provides its outlook only on the issuer’s corporate credit rating, not each specific issue.

During the second quarter of 2005, 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 short-term debt (our CP program), which remained stable.

Then, during the fourth quarter of 2005, DBRS downgraded our corporate credit and long-term debt ratings, but resumed a stable trend for the rating. Again, the short-term rating on Aliant’s CP program remained unchanged. Our ratings at December 31, 2005, and comparative ratings at December 31, 2004, were as follows:

	Rating at December 31, 2005		Rating at December 31, 2004	
	S&P	DBRS	S&P	DBRS
Aliant corporate credit rating	“A” negative outlook	“BBB (high)” stable trend	“A” stable outlook	“A (low)” stable trend
Aliant preferred shares	P-2 (high)	“Pfd-3 (high)” stable trend	P-2 (high)	“Pfd-2 (low)” stable trend
Aliant commercial paper	A-1	“R-1 (low)” stable trend	A-1	“R-1 (low)” stable trend
Aliant Telecom unsecured long-term debt	“A”	“A (low)” stable trend	A	“A” stable trend

The adjustments during 2005 generally reflect the expectation by these rating agencies of increased competition in local services as cable companies launch VoIP services in Canada.

The “A” rating range from DBRS is considered satisfactory credit quality. While the protection of principal and interest is substantial, these entities are considered more susceptible to adverse changes in financial and economic conditions and are more cyclical biased than higher rated companies. The “BBB” rating range from DBRS is considered adequate credit quality. The protection of principal and interest is considered acceptable, but these entities are fairly susceptible to adverse changes in financial and economic conditions, or there may be other adverse conditions present which reduce the strength of the entity and its rated securities.

For S&P, an “A” rating range represents a strong capacity to meet financial commitments but with a negative outlook it suggests Aliant is more vulnerable to a difficult economic environment than higher rated companies.

Short term debt rated R-1 (low) by DBRS is considered satisfactory credit quality. The overall strength and outlook for key liquidity, debt and profitability ratios is not normally as favourable as with higher rating categories, but these considerations are still respectable. Any qualifying negative factors which exist are considered manageable, and the entity is normally of sufficient size to have some influence in its industry. Short-term obligations rated “A-1” by S&P reflect a strong capacity for the obligor to meet its financial commitment on the obligation.

Preferred shares rated “P-2” by S&P are of satisfactory credit quality. Preferred shares rated “Pfd-3” by DBRS are of adequate credit quality. “Pfd-3” ratings generally correspond with companies whose senior bonds are rated in the higher end of the BBB category.

The most recent rating report from DBRS, prior to our March 7, 2006 income trust conversion announcement, highlights Aliant’s holding company structural subordination and our strong dependence on upstream cash flow from our principal subsidiary, Aliant Telecom, as challenges. As well, DBRS suggested there is a risk that we may invest in assets with long payback periods. We derive credit strength from Aliant Telecom.

With regard to Aliant Telecom, DBRS highlights the following challenges to Aliant Telecom’s current credit rating. Aliant Telecom lacks size relative to other North American telecommunications companies, with only 1.5 million network access subscribers. The foregoing is related to the fact that Aliant Telecom operates in Atlantic Canada with lower population and economic growth rates than the national average. These factors contribute to limited growth opportunities in Atlantic Canada. However, this limitation also acts as a major barrier to entry against new competition.

DBRS also noted that while technology changes rapidly, infrastructure enhancements are expensive to initiate. In the past five years, Aliant Telecom has invested heavily in broadband and wireless infrastructure, with no guarantee that these services will provide new revenue growth. Future investments may drive capital expenditure levels higher within the next five years. At that time, DBRS remarked we lacked a long-term television solution to complete our current suite of communication services. Instead, our solution was to use satellite provider Bell ExpressVu to offer video services.

Meanwhile, prior to our March 7, 2006 income trust conversion announcement, the most recent rating rationale from S&P discusses the following risks. We have experienced some erosion of residential subscribers, primarily to an incumbent cable operator in the Nova Scotia and Prince Edward Island markets. We have largely offset declines in local revenues as well as marginal declines in long distance revenues through growth in wireless and high-speed Internet revenues. A large portion of our revenue comes from local and long distance voice services, which may come under increased pressure in future from new entrants offering VoIP. Although VoIP is not expected to impact results over the near term, the long-term effects could be more significant. To maintain our ratings, we must continue offsetting declines in these areas through growth in wireless and Internet services, and maintain a strong financial profile. Additionally, S&P expects that we will continue to have modest funding requirements for post retirement benefits for the next several years. However, the funding requirements are manageable and should not have a material effect on our cash flows.

On March 7, 2006, after Aliant and BCE announced plans to create an income trust of regional wireline operations, DBRS placed Aliant’s and Aliant Telecom’s ratings under review with developing implications. DBRS reasoned that the impending change to capital structure associated with the movement of Aliant’s wireline assets into an income trust structure, along with potential uncertainty around how existing debt holders at Aliant will be treated during the process needed to be reviewed. On completion of the trust conversion DBRS has indicated preliminary ratings of “BBB (high)” for the new income trust. DBRS expects to issue a full rating report when the transaction closes in the second half of 2006. Similarly, S&P placed Aliant’s and Aliant Telecom’s credit ratings on credit watch with negative implications. On completion of the trust conversion, S&P anticipates that the credit rating on Aliant is expected to be lowered to “BBB” with a stable outlook. S&P expects to issue a full rating report when the transaction closes in the second half of 2006.

The credit ratings accorded to our securities by S&P and DBRS are not recommendations to purchase, hold or sell the securities inasmuch as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that the foregoing ratings will remain in effect for any given period of time or that the ratings will not be withdrawn or revised entirely by S&P or DBRS at any time in the future if, in the judgment of either or both, circumstances so warrant.

## MARKET FOR SECURITIES

### TRADING PRICE AND VOLUME

Our common and preferred shares are publicly traded on the TSX under the symbol “AIT” and “AIT.PR.A”, respectively. Monthly price ranges and trading volume for the securities for 2005 are illustrated below.

#### Monthly common share price range and volume

	Price		Avg. Volume (000's shares)
	High (\$)	Low (\$)	
January	29.73	27.10	101.01
February	29.37	27.26	117.85
March	29.49	28.27	91.59
April	29.00	25.75	79.86
May	28.05	26.25	92.67
June	28.00	26.40	112.87
July	27.50	26.02	90.10
August	27.80	26.59	85.63
September	30.00	27.16	164.13
October	28.85	26.05	110.40
November	29.48	27.00	181.45
December	31.00	28.50	343.36

#### Monthly preferred share price range and volume

	Price		Avg. Volume (000's shares)
	High (\$)	Low (\$)	
January	26.50	25.65	3.28
February	26.60	25.66	4.19
March	26.16	25.50	2.08
April	26.10	25.03	3.77
May	26.14	25.76	22.88
June	26.74	25.45	2.36
July	26.09	25.40	3.09
August	26.09	25.60	2.73
September	26.50	25.35	1.78
October	25.60	25.30	1.53
November	25.99	25.00	8.96
December	25.59	24.56	2.84

Aliant's commercial paper trades publicly in the Canadian money market; however Aliant did not issue commercial paper during 2005.

Aliant Telecom's common shares are all owned by Aliant and are not publicly traded. Aliant Telecom's debentures, MTNs and first mortgage bonds were publicly issued and trade in the public bond market.

## DIRECTORS AND OFFICERS

On March 29, 2006, our directors and executive officers as a group beneficially owned, directly or indirectly, or exercised control or direction over approximately 83,740 Aliant common shares.

### Directors

Our directors are listed in the accompanying table. All directors hold office for one term at a time. The term of office is the time period between the annual meetings of shareholders of Aliant. We have the following standing committees: 1) Audit; 2) Corporate governance; 3) Human resources & compensation; 4) Investment; 5) Pension-defined benefit; and 6) Pension-defined contribution. We do not have an executive committee of the board of directors. As well, on December 7, 2005, the board of directors established an independent committee, composed entirely of independent directors, to consider and advise the board on the proposed transaction described under the “Recent Developments” section of this AIF.

The name, board position, committee membership, province or state of residence and principal occupation for each of our directors as at March 29, 2006, appears below:

Name, position and committees	Principal Occupation	Province or State and Country	Director since
Miller H. Ayre, C.M. Corporate governance (chair), Human resources & compensation and Independent	Group Publisher, Transcontinental Atlantic Media Group GP and publisher of The Telegram (newspapers)	Newfoundland and Labrador, Canada	September 29, 1999
J. Charles Caty Human resources & compensation (chair), Investment and Independent	Corporate Director	Ontario, Canada	September 29, 1999
Robert P. Dexter, Q.C. Investment (chair), Audit and Independent	Chairman and Chief Executive Officer, Maritime Travel Inc. (travel)	Nova Scotia, Canada	September 29, 1999
Jay Forbes, F.C.A.	President and Chief Executive Officer, Aliant Inc. (telecommunications)	New Brunswick, Canada	April 19, 2002
Lawson Hunter Investment	Executive Vice-President and Chief Corporate Officer, BCE Inc. and Bell Canada (telecommunications)	Ontario, Canada	June 28, 2004
R. Terry Mosey Pension-defined benefit and Pension-defined contribution	Corporate Director	Ontario, Canada	December 15, 2003
Edward Reevey, F.C.A. Audit (chair), Pension-defined benefit (chair), Pension-defined contribution (chair) and Independent (chair)	Chairman and Chief Executive Officer, Addee Developments Limited and Edda Capital Inc. (private holding corporations)	New Brunswick, Canada	September 29, 1999
Karen Sheriff Corporate governance	President, Small and Medium Business, Bell Canada (telecommunications)	Ontario, Canada	June 28, 2004
Catherine Tait Audit, Corporate governance and Independent	President, Duopoly Inc. (independent production company)	New York, United States of America	April 20, 2001
Stephen G. Wetmore Human resources & compensation	Executive Vice-President of BCE Inc. and Group President Corporate Performance and National Markets for Bell Canada (telecommunications)	Ontario, Canada	September 29, 1999
Charles W. White Q.C. Board Chair, Audit, Corporate governance, Human resources & compensation, Pension-defined benefit, Pension-defined contribution, Investment	Lawyer, White Ottenheimer & Baker (Law firm)	Newfoundland and Labrador, Canada	September 29, 1999
Victor L. Young, Q.C. Audit and Corporate governance	Corporate Director	Newfoundland and Labrador, Canada	April 19, 2002

With the exception of the following individuals, all of the directors have been employed in the designated principal occupation for the preceding five years or have been engaged in different executive functions with their current employer or with one of its affiliates:

Mr. Mosey was executive vice-president of Bell Canada until his retirement in June 2005.

Mr. Hunter is executive vice-president and chief corporate officer of BCE Inc. and Bell Canada. Prior to this, he was a partner with the law firm Stikeman Elliott.

Ms. Tait is president of Duopoly Inc. Prior to this, she was president and chief operating officer of Salter Street Films from 1997 to 2001.

Mr. Young was chairman and chief executive officer of Fishery Products International Ltd. from November 1984 to May 2001.

For background information on Mr. Forbes please refer to the section titled "Officers" below.

### Officers

The name, province of residence and principal occupation for each of our executive officers as at March 29, 2006, are as follows:

<b>Name</b>	<b>Office of Aliant presently held</b>	<b>Province or State and Country</b>
Jay Forbes, F.C.A.	President and Chief Executive Officer	New Brunswick, Canada
Frank Fagan	Executive Vice President and Chief Operating Officer	Newfoundland and Labrador, Canada
Glen LeBlanc	Senior Vice President and Chief Financial Officer	Nova Scotia, Canada
Eleanor Marshall	Vice President and Treasurer	New Brunswick, Canada
Frederick Crooks, Q.C.	Senior Vice President, General Counsel and Corporate Secretary	Nova Scotia, Canada
Paul Kent	Senior Vice President Aliant and Chief Operating Officer xwave	Nova Scotia, Canada
David Rathbun	Senior Vice President Corporate and Chief Human Resources Officer	Nova Scotia, Canada

All of the officers of Aliant have held their present position or other executive positions with Aliant or one or more affiliated companies for the preceding five years with the exception of the following individuals:

Jay Forbes was appointed president and chief executive officer of Aliant in March 2002. He joined Aliant as executive vice president and chief financial officer of Aliant and Aliant Telecom on February 19, 2001, from his role as executive vice president, corporate resources and chief financial officer of Oxford Properties Group Inc. Prior to this, he was chief financial officer and senior vice president of Emera Inc.

Glen LeBlanc was promoted to the position of senior vice president and chief financial officer on September 15, 2005. Mr. LeBlanc most recently served as Aliant's vice president of finance and controller, responsible for providing financial leadership and direction for all general accounting operations activities.

Eleanor Marshall was promoted to the position of vice president and treasurer on August 1, 2005. Previous to her current position, Mrs. Marshall was director of corporate finance responsible for investor relations, pensions and corporate finance.

Frederick Crooks joined Aliant in the role of senior vice president, general counsel and corporate secretary on October 20, 2003, prior to which he was a partner with the law firm Cox Hanson O'Reilly Matheson in Halifax since 1985.

Prior to his appointment as senior vice president on October 6, 2003, Mr. Kent was senior vice president and managing director for the Strategic Consulting Unit of Fujitsu. Prior to that role, he held increasingly senior positions at Fujitsu. He has also held IT roles in several government organizations.

## LEGAL PROCEEDINGS

This section describes important legal proceedings as of March 29, 2006 that you should be aware of. While we cannot predict the final outcome of the claims and litigation described below or any other pending claims and litigation at March 29, 2006, management believes that the resolution of these claims and litigation will not have a material and negative effect on our consolidated financial position or results of operations. None of the claims and litigation described below currently seeks from us payment of damages in an amount exceeding the threshold requiring disclosure in this AIF pursuant to Canadian securities laws.

### Potential Saskatchewan Class Action

On August 9, 2004, a lawsuit was filed in the Saskatchewan Court of Queen's Bench against several Canadian wireless and cellular service providers, including Aliant Telecom. The suit is brought by several alleged customers or former customers of the defendants, who seek court permission to proceed by way of class action under the *Saskatchewan Class Actions Act*. The claim relates to certain system access fees that the defendants charge to their customers. In the claim, the plaintiffs allege, among other things, breach of contract, misrepresentation, negligence, collusion and breach of statutory obligations under the *Competition Act* (Canada) in relation to the system access fees, and seek unspecified damages, including punitive and exemplary damages. The certification hearing was completed in May 2005 but no decision has yet been filed. It is not currently known whether the proceeding will actually be certified as a class action. While the plaintiffs' counsel has indicated an intention to litigate this matter in Saskatchewan, during the fourth quarter of 2004 they also filed identical lawsuits in several other Provinces. While we feel we have strong defences to this claim, the outcome of the matter is not determinable at this time.

### Ellph.com

On November 30, 2005, a lawsuit was filed against us in the Supreme Court of Nova Scotia by Ellph.com Solutions Inc. and Ellph.com Technologies Incorporated (Ellph) seeking approximately \$9 million for alleged breach of a software license contract. The dispute arises out of a transaction in which Aliant Telecom proposed to acquire software from Ellph for provision to broadband customers. The initiative was cancelled due to what Aliant Telecom perceived as unresolved deficiencies with the software. We believe we have strong defences to this claim but the outcome of the matter is not determinable at this time.

Significant legal contingencies outstanding as at December 31, 2005 are presented in note 22 to our consolidated financial statements for the year ended December 31, 2005.

## TRANSFER AGENTS AND REGISTRARS

### Aliant

Classes	Common Shares	Cumulative Redeemable Preference Shares
Series:	not applicable	Series 2
Transfer Agent and Registrar:	CIBC Mellon Trust Company	CIBC Mellon Trust Company
Register Location(s):	Halifax, NS	Toronto, ON
Transfer Location(s):	Halifax NS, Montreal PQ, Toronto ON, Winnipeg MB, Regina SK, Calgary AB, St. John's NL, Saint John NB, Charlottetown PE	Toronto, ON

### Aliant Telecom

Classes	Medium Term Notes	Debentures	First Mortgage Bonds
Series:	Aliant Telecom: 6.65% Series 2 6.80% Series 4 5.35% Series 5 4.52% Series 6	Maritime Tel & Tel: 8.3% Series 2 9.7% Series 4 9.05% Series 5 NB Tel: 11.125% Series AA	Island Telecom: 10.60% Series T 11.15% Series U 9.77% Series V 8.76% Series W NewTel Communications: 10.75% Series T 11.40% Series V
Transfer Agent and Registrar:	CIBC Mellon Trust Company	Computershare Trust Company of Canada	Computershare Trust Company of Canada
Register Location(s):	Halifax, NS	Halifax, NS	Halifax, NS
Transfer Location(s):	Toronto, ON	Halifax, NS	Halifax, NS

## MATERIAL CONTRACTS

### Union Contracts

In September 2004, negotiations between Aliant Telecom and the Council of Atlantic Telecommunication Unions, then representing approximately 66% of Aliant Telecom's employees, resulted in a new Collective Agreement being reached with an effective date of January 1, 2002, and an expiry date of December 31, 2007. The agreement was reached with the assistance of the Federal Mediation Services after a 147 day strike, with employees returning to work on September 20, 2004. The new Collective Agreement incorporates annual increases in base wages, wage alignment, pension enhancements and increased flexibility in workforce management in areas such as contracting out, workplace change and workforce reduction.

## ADDITIONAL INFORMATION

Additional disclosure as required under section 5.1 and Form 52-110F1 of Multilateral Instrument 52-110 *Audit Committees*, is contained in Schedules 1 and 2 of this AIF.

Additional information including directors' and officers' remuneration and indebtedness, principal holders of our securities, options to purchase securities and interests of insiders in material

transactions, where applicable, is contained in our Information Circular for our most recent annual meeting of shareholders.

Additional financial information is available in our financial statements and management's discussion and analysis (MD&A) for the year ended December 31, 2005.

Additional information relating to our Company, including the AIF as well as our annual and quarterly reports, news releases and other continuous disclosure documents, are filed electronically through the System for Electronic Document Analysis and Retrieval and are available online at [www.sedar.com](http://www.sedar.com).

In addition, quarterly reports, annual reports and supplementary information can be found under "financial reports" on our corporate website at [www.aliant.ca](http://www.aliant.ca).

## SCHEDULE 1: AUDIT COMMITTEE INFORMATION

### 1. The Audit Committee's Charter

The Aliant Audit Committee (the “committee”) charter is available in the governance section of Aliant’s website at [www.aliant.ca](http://www.aliant.ca) and attached as Schedule 2 to this AIF. Also included with Schedule 2 is a copy of the audit committee chair responsibilities, as outlined in Aliant’s corporate governance manual, which documents the corporate governance principles and practices of the board and provides directors with information and guidance on the fiduciary and functional responsibilities of the board, its committees, and each director.

### 2. Composition of the Audit Committee

The committee is composed of the following five members: Edward Reevey (chair), Robert Dexter, Catherine Tait, Charles White and Victor Young. Each member of the committee is an external and independent director and is financially literate.

For the purposes of National Instrument 58-101 *Disclosure of Corporate Governance Practices* (NI 58-101), and Multilateral Instrument 52-110 *Audit Committees* (MI 52-110), a director is independent if he or she has no direct or indirect material relationship with the issuer. A “material relationship” means a relationship which could, in the view of the issuer’s board of directors, be reasonably expected to interfere with the exercise of a director’s independent judgment.

The Aliant board is responsible for determining whether a director is “independent” for the purposes of NI 58-101. In making this determination the board assesses whether a director has any material relationship with the Corporation or any of its affiliates which could reasonably interfere with the exercise of independent judgment. To assist with this determination, the board obtains information from directors as to their particular circumstances and relationships, including through an annual questionnaire completed by directors. The Canadian securities regulators have stipulated certain relationships which are deemed to affect independence. MI 52-110 stipulates that an audit committee member that sits on the board of directors of an affiliated entity is exempt from the requirement to be independent if the member, except for being a director of the issuer and the affiliated entity, is otherwise independent of the issuer and the affiliated entity.

Based on information provided to the board by individual directors, the board has concluded that each member of the committee is “independent” within the meaning of NI 58-101 and MI 52-110. Mr. Young also sits on the board of directors of BCE. He is considered an independent director. He is also exempt from the requirement that all audit committee members be independent because, except for being a director of both Aliant and BCE, he is otherwise independent of both companies, as outlined in subsection 3.3(1) of MI 52-110.

The responsibilities and duties of the committee are set out in the committee’s charter, attached as Schedule 2 to this AIF.

### 3. Relevant Education and Experience

The following sets out the education and experience of each director relevant to the performance of his or her duties as a member of the committee.

Edward Reevey, F.C.A., is chair of the committee. Mr. Reevey is Chairman and chief executive officer of Addee Developments Limited and Edda Capital Inc., private holding companies. He holds a

Bachelor of Commerce from Dalhousie University and a Chartered Accountancy designation, and was awarded the F.C.A. designation in 1998. Mr. Reevey worked previously with Clarkson Gordon & Co. in Montreal from 1965 to 1968 and H.R. Doane & Co. in Saint John from 1968 to 1970. He was President of Autotec Inc. from 1970 to 1994.

Robert Dexter, Q.C., holds a Bachelor of Commerce and an LL.B. from Dalhousie University. He is Chairman and chief executive officer of Maritime Travel Inc. He is also a partner of the law firm Stewart McKelvey Stirling Scales.

Catherine Tait is President of Duopoly Inc., an independent film and television production company based in New York. Ms. Tait holds a Bachelor of Arts from the University of Toronto, a Master of Science from Boston University and a D.E.A. (diplôme d'études approfondies) from the University of Paris. From 1997 to 2001, Ms. Tait was President and chief operating officer of Salter Street Films, a publicly traded entertainment company based in Canada. Prior to Salter Street Films, Ms. Tait was Executive director of the Independent Feature Project in New York.

Charles W. White, Q.C., is a lawyer with the law firm White, Ottenheimer & Baker. His legal career in private practice spans over three decades, practicing principally in the area of corporate and commercial law. Mr. White holds a Bachelor of Commerce from Memorial University of Newfoundland and Labrador and an LL.B. from Dalhousie University.

Victor L. Young, Q.C., holds a Bachelor of Commerce from Memorial University of Newfoundland and a Master's Degree in Business Administration from the University of Western Ontario. Mr. Young is past Chairman and chief executive officer of Fishery Products International Limited. He also served as Deputy Minister of the Treasury Board and special advisor to the Premier of Newfoundland and Labrador, and was Chairman and chief executive officer of Newfoundland and Labrador Hydro.

#### 4. Reliance on Certain Exemptions

Aliant has not relied on any of the exemptions in sections 2.4 (*De Minimis Non-audit Services*), 3.2 (*Initial Public Offerings*), 3.4 (*Events Outside Control of Member*), 3.5 (*Death, Disability or Resignation of Audit Committee Member*) or Part 8 (*Exemptions*) at any time since January 1, 2005.

#### 5. Reliance on Exemption in Subsection 3.3(2) or Section 3.6

Aliant has not relied on the exemption in subsection 3.3(2) (*Controlled Companies*) or section 3.6 (*Temporary Exemption for Limited and Exceptional Circumstances*) at any time since January 1, 2005.

#### 6. Reliance on Section 3.8

Aliant has not relied on section 3.8 (*Acquisition of Financial Literacy*) at any time since January 1, 2005.

#### 7. Audit Committee Oversight

At no time since January 1, 2005, has the board of directors not adopted a recommendation of the audit committee to nominate or compensate an external auditor.

#### 8. Pre-Approval Policies and Procedures

In 2004, Aliant adopted a Pre-Approval Policy for audit and non-audit services. In compliance with MI 52-110, the Audit Committee of the board of directors is responsible for the appointment, compensation and oversight of the work of the external auditor. As part of this responsibility, the committee is required to provide specific or general pre-approval of any audit services. The committee is also required to provide specific pre-approval of any permissible non-audit services

performed by the external auditor in order to ensure that such services do not impair the auditor's independence from Aliant. Any services completed under the pre-approval guidelines must be reported to the committee at least quarterly for its review and final endorsement.

The key highlights of the Policy include:

- A quarterly review and approval of all services performed by the external auditors is required by the committee;
- Unless a type of service has received general pre-approval, it will require specific pre-approval by the committee;
- Any proposed services exceeding pre-approved levels will require specific approval by the committee; and
- Specific pre-approval will be required in relation to non-audit services provided by the external auditor.

#### 9. External Auditor Service Fees (By Category)

Ernst & Young LLP has served as Aliant's auditing firm since April 1999. Fees payable for the years ended December 31, 2005 and 2004 are \$1.2 million and \$1.9 million, respectively and are detailed below.

	<u>2005</u>	<u>2004</u>
Audit fees	\$709,160	\$607,336
Audit-related fees	\$461,192	\$345,888
Tax Fees	\$60,367	\$1,016,411
All Other Fees	\$0	\$0

#### *Audit fees*

These fees include professional services rendered by the external auditors for the review of the interim financial statements and statutory audits of the annual financial statements.

#### *Audit-related fees*

These fees include professional services that reasonably relate to the above services, including non-statutory audits, Sarbanes-Oxley Act initiatives, pension plan audits, consultations about financial accounting and reporting standards and French translation of quarterly and annual reports.

#### *Tax fees*

These fees include professional services for the attestation of compliance with our conflict of interest policy, tax compliance, tax advice, tax planning and advisory services.

## SCHEDULE 2: TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

### I. Purpose

The purpose of the Audit Committee (the Committee) shall be to assist the board of directors in carrying out its responsibilities with respect to the integrity of the Corporation's financial reporting, adequacy of internal controls and appropriateness of accounting policies.

### II. Composition and Term of Office

The Audit Committee shall consist of at least three (3) directors. All members of the Audit Committee shall be "independent" and "financially literate" in accordance with MI 52-110. A quorum shall consist of not less than two (2) members of the Committee.

Based on recommendations of the Corporate Governance Committee, the Audit Committee shall be appointed by the board at the organization meeting of the board following the annual meeting of shareholders and each member of the Committee shall serve until the next annual meeting of shareholders. If a vacancy subsequently occurs, the chairman of the board may appoint a new member to serve until the next annual meeting. The board shall appoint the chair of the Audit Committee and the corporate secretary or her/his authorized representative shall serve as secretary for the Committee.

### III. Frequency of Regular Meetings

Regular meetings of the Committee shall occur at least four (4) times a year. The regular meetings of the Committee shall be called by the secretary of the Committee so as to allow the Committee to review the annual and interim consolidated financial statements of the Corporation prior to approval of the statements by the board and prior to the release of the annual report or the interim reports to shareholders, as the case may be.

### IV. Special Meetings

The chair or any two members of the Committee may call a special meeting of the Committee. The secretary shall provide written notice of such special meetings and such notice must be delivered to the members of the Committee not less than seven (7) days prior to the date of such meeting and shall state the purpose for which such meeting is being called. The chair or secretary of the Committee shall call a special meeting of the Committee if requested to do so by the external auditor.

### V. Attendance of Others at Committee Meetings

The Chairman of the board of directors, the Chief executive officer, the Chief financial officer (CFO), the Secretary, the Controller and the internal audit manager of the Corporation and the external auditor shall receive notice of all regular and special meetings of the Committee and all shall be entitled to attend such meetings subject to the right of the Committee to excuse any or all non-members of the Committee from the meeting or some part thereof. The CFO shall be required to attend all meetings unless excused. The external auditor shall be required to attend all meetings to approve quarterly financial materials unless excused. The Audit Committee shall meet privately with the external auditors without management present, at each regularly scheduled Audit Committee meeting.

### VI. Objective and Responsibilities of the Committees

The objective of the Committee shall be to assist the board of directors in carrying out its responsibilities with respect to the integrity of the Corporation's financial reporting, adequacy of

internal controls and appropriateness of accounting policies.

The Committee shall be responsible for:

- A. the review of all financial statements, MD&A and earnings press releases of the Corporation, which require the approval of the board of directors. Financial statements and MD&A to be reviewed by the Committee include:
  - (i) year-end audited and interim unaudited consolidated financial statements and MD&A; and
  - (ii) any other set of financial statements which will be released to shareholders, other security holders or regulatory agencies and/or which will form part, either directly or by reference, of any prospectus, offering circular, information circular, AIF, or any legal filing.
- B. ensuring adequate procedures are in place for the review of the Corporation's disclosure of financial information extracted or derived from the Corporation's financial statements (other than the Corporation's financial statements, MD&A and earnings press release) and must periodically assess the adequacy of those procedures.
- C. assuring that the financial statements of subsidiaries, upon which the financial statements of the Corporation are based, do not introduce any material uncertainty in the presentation of the Corporation's financial results and that the external auditors of these corporations have no reservations about the statements.

To this end, the Committee shall conduct such activities as:

- (i) periodically reviewing the financial statements of all subsidiaries; and
  - (ii) reviewing with the external auditors the results of their work with the external auditors of the subsidiary companies.
- D. the terms of the engagement and general oversight of the external auditor.

This will generally include:

- (i) the scope of the external audit, the audit plan and the extent to which the audit can be relied upon to detect internal control weaknesses, fraud or other illegal acts;
  - (ii) the review of the fees charged for these and other special audit services;
  - (iii) the pre-approval of non-audit services provided by the external auditors to the Corporation or its subsidiaries;
  - (iv) the general confirmation that the services provided are of good quality and that management have no reservations about the quality or cost of same; and
  - (v) the provision of recommendations to the board on the appointment and re-appointment or dismissal of the external auditor as well as compensation of the external auditors.
- E. the review and approval of the Corporation's hiring policies regarding employees and former employees of the present and former external auditors of the Corporation.
- F. the scope of internal audit work being carried out in the Corporation.

The review will ascertain that the internal audit program is designed to detect any major areas of internal control weakness or any fraud or other illegal acts.

G. the nature of internal controls in major accounting and financial reporting systems.

The review will:

- (i) inquire as to major internal control weaknesses identified by the external and internal auditors and the effectiveness of management action taken to correct these problems;
- (ii) ensure that there are no unresolved issues between management and the external auditors that could affect the financial statements. To this end, the Committee will regularly meet privately with each of management, the internal auditor and the external auditors;
- (iii) include a specific review of controls to ensure compliance with financial covenants contained in trust deeds, prospectuses, security instruments or other significant financing agreements.

H. the accounting policies and practices.

I. the corporate code of ethics for senior financial executives as it relates to the integrity of financial reporting and to generally review controls to ensure compliance with the code .

J. establishing procedures for:

- (i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or audit matters; and
- (ii) the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

K. the expenses of the board of directors and officers of the Corporation who report directly to the board and their use of Corporation assets and to comment to the board on the appropriateness of these expenses.

L. the conflict of interest guidelines and the review of controls used to ensure compliance.

M. ensuring that any corporate governance matters, which are brought to the Committee, be also referred to the Corporate Governance Committee of the board.

N. performing an annual self-assessment to consider the effectiveness of the Committee, and possible ways of improving the functioning of the Committee.

## VII Reporting to the Board of Directors

The Committee shall report the results of its activities and its findings and its recommendations to the board of directors at the first meeting of the board following each Committee meeting.

### **Audit Committee Chair Responsibilities**

- Develop the agenda for each meeting of the Audit Committee;
- Preside over Audit Committee meetings;
- Oversee the Audit Committee's compliance with its terms of reference;
- Work with management to develop the Audit Committee's annual work plan;
- Provide leadership in assessing the effectiveness of the internal control structure and procedures for financial reporting;
- Together with the CFO, evaluate the external auditor;
- Report regularly to the Board on the business of the Committee.