

**ALIAN T INC.**

(Incorporated under the laws of Canada)

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
(Unaudited)

**June 30, 2006**



**ALIAINT INC.**  
**Consolidated balance sheets**  
**(Unaudited)**

(thousands of dollars)

	Notes	As at June 30, 2006	As at December 31, 2005
<b>Assets</b>			
Current assets			
Cash and cash equivalents		\$ 71,635	\$ 195,009
Accounts receivable		282,946	302,348
Inventory		23,064	29,279
Prepayments		41,645	21,410
Future income tax asset	2	3,979	5,510
Income tax receivable		11,243	15,010
		<b>434,512</b>	<b>568,566</b>
Capital investments			
Property, plant and equipment		1,772,964	1,783,848
Finite-life intangibles		134,874	121,178
		<b>1,907,838</b>	<b>1,905,026</b>
Other assets			
Deferred charges	6, 11	67,734	18,101
Future income tax asset	2	44,443	43,281
Accrued benefit asset	3	275,675	266,878
Indefinite-life intangibles		3,726	3,726
Goodwill	1, 4	61,827	61,827
		<b>453,405</b>	<b>393,813</b>
<b>Total assets</b>		<b>\$ 2,795,755</b>	<b>\$ 2,867,405</b>
<b>Liabilities and shareholders' equity</b>			
Current liabilities			
Notes payable and bank advances		\$ -	\$ 11,208
Payables and accruals	5	229,879	195,691
Dividends payable		-	37,577
Income tax payable		21,630	78,537
Future income tax liability	2	5,760	8,746
Long-term debt due within one year	6	7,548	6,623
		<b>264,817</b>	<b>338,382</b>
Future income tax liability	2	12,815	19,821
Long-term debt	6	1,055,036	897,880
Accrued benefit liability	3	183,550	182,038
Deferred credits	7	26,680	11,800
		<b>1,542,898</b>	<b>1,449,921</b>
Non-controlling interest		6,738	5,588
Shareholders' equity			
Capital stock	8	1,017,237	1,176,035
Treasury stock	8	(1,232)	-
Contributed surplus	8	3,547	886
Retained earnings		226,567	234,975
		<b>1,246,119</b>	<b>1,411,896</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 2,795,755</b>	<b>\$ 2,867,405</b>

See accompanying notes to the consolidated financial statements

Signed on behalf of the board of directors

Chairman:

Director:

**ALIAN T INC.**  
**Consolidated statements of income**  
**(Unaudited)**  
**For the period ended June 30**

<i>(thousands of dollars, except per share amounts)</i>	Note	Three months		Six months	
		2006	2005	2006	2005
Operating revenues		\$ 534,252	\$ 515,310	\$1,079,201	\$1,038,771
Expenses					
Operating expenses		333,781	317,509	683,222	655,674
Depreciation and amortization		91,937	98,986	190,833	197,576
Restructuring and other charges	5	8,884	-	9,195	-
		<u>434,602</u>	<u>416,495</u>	<u>883,250</u>	<u>853,250</u>
Operating income		99,650	98,815	195,951	185,521
Other expenses					
Financial derivative loss (gain)	7	(1,835)	-	11,233	-
Other expenses		3,085	1,287	2,816	2,248
		<u>1,250</u>	<u>1,287</u>	<u>14,049</u>	<u>2,248</u>
Interest charges					
Interest on long-term debt		15,644	18,190	32,891	35,376
Other interest expense		320	275	504	474
		<u>15,964</u>	<u>18,465</u>	<u>33,395</u>	<u>35,850</u>
Income before underlisted items		82,436	79,063	148,507	147,423
Income taxes					
Current tax expense		31,840	28,854	63,579	52,844
Future tax expense (recovery)		(3,219)	(245)	(9,623)	138
		<u>28,621</u>	<u>28,609</u>	<u>53,956</u>	<u>52,982</u>
Income before non-controlling interest		53,815	50,454	94,551	94,441
Non-controlling interest		593	669	1,150	1,072
<b>Net income</b>		<b>\$ 53,222</b>	<b>\$ 49,785</b>	<b>\$ 93,401</b>	<b>\$ 93,369</b>
<b>Earnings per common share</b>					
Basic and diluted		<b>\$ 0.40</b>	<b>\$ 0.36</b>	<b>\$ 0.70</b>	<b>\$ 0.67</b>

*See accompanying notes to the consolidated financial statements*

**ALIAN T INC.**  
**Consolidated statements of retained earnings**  
**(Unaudited)**  
**For the six months ended June 30**

*(thousands of dollars)*

	Note	2006	2005
Retained earnings, beginning of period		\$ 234,975	\$ 313,681
Net income		93,401	93,369
Dividends declared on preferred shares		(4,768)	(4,769)
Dividends declared on common shares		(78,993)	(77,565)
Excess of redemption of preferred shares over stated value		(2,736)	-
Excess of repurchase of common shares over stated value	8	(15,312)	(56,923)
<b>Retained earnings, end of period</b>		<b>\$ 226,567</b>	<b>\$ 267,793</b>

*See accompanying notes to the consolidated financial statements*

**ALIAN T INC.**  
**Consolidated statements of cash flows**  
**(Unaudited)**  
**For the period ended June 30**

(thousands of dollars)	Notes	Three months		Six months	
		2006	2005	2006	2005
Cash from (used in) operating activities					
Net income		\$ 53,222	\$ 49,785	\$ 93,401	\$ 93,369
Adjustments to reconcile net income to cash from operating activities					
Depreciation and amortization		91,937	98,986	190,833	197,576
Gain on disposal of assets		(150)	-	(150)	-
Future income taxes		(3,219)	(245)	(9,623)	138
Net benefit plans cost	3	22,052	22,633	44,662	45,066
Funding of defined benefit pension and other post-employment benefit plans	3	(28,921)	(19,956)	(51,946)	(100,045)
Non-controlling interest		593	669	1,150	1,072
Financial derivative loss (gain)	7	(1,160)	-	11,908	-
Other non-cash items		2,505	(238)	3,254	(648)
Change in operating assets and liabilities		(16,619)	16,843	(63,529)	(35,536)
		<b>120,240</b>	<b>168,477</b>	<b>219,960</b>	<b>200,992</b>
Cash from (used in) financing activities					
Repurchase of accounts receivable		-	(5,000)	-	(5,000)
Collection of long-term receivable		-	-	-	4,823
Repayments of notes payable and bank advances		(2,666)	(1,291)	(11,208)	(7,200)
Proceeds of long-term debt	6	279,649	149,349	279,649	149,349
Repayments of long-term debt	6	(75,002)	-	(125,016)	(98)
Repayments of capital lease obligations		(1,168)	(420)	(2,306)	(807)
Increase (decrease) in non-controlling interest		-	245	-	(1,401)
Purchase of treasury stock	8	(1,232)	-	(1,232)	-
Issuance of common shares	8	10,033	349	14,199	751
Redemption of preferred shares	8	(175,000)	-	(175,000)	-
Repurchase of common shares	8	(19,791)	(46,284)	(19,791)	(79,476)
Cash dividends paid on preferred shares		(2,384)	(2,385)	(4,768)	(4,769)
Cash dividends paid on common shares		(38,307)	(37,260)	(112,824)	(74,936)
		<b>(25,868)</b>	<b>57,303</b>	<b>(158,297)</b>	<b>(18,764)</b>
Cash from (used in) investing activities					
Purchase of capital investments		(104,339)	(104,323)	(185,286)	(186,000)
Proceeds on sale of capital investments		249	28	249	28
Purchase of indefinite-life intangibles		-	(23)	-	(23)
Business acquisitions, net of cash		-	-	-	(54)
		<b>(104,090)</b>	<b>(104,318)</b>	<b>(185,037)</b>	<b>(186,049)</b>
Net increase (decrease) in cash		<b>(9,718)</b>	121,462	<b>(123,374)</b>	(3,821)
Cash, beginning of period		<b>81,353</b>	197,982	<b>195,009</b>	323,265
<b>Cash, end of period</b>		<b>\$ 71,635</b>	<b>\$ 319,444</b>	<b>\$ 71,635</b>	<b>\$ 319,444</b>
Cash consists of:					
Cash and cash equivalents		71,635	157,444	71,635	157,444
Note receivable from related party		-	162,000	-	162,000
		<b>\$ 71,635</b>	<b>\$ 319,444</b>	<b>\$ 71,635</b>	<b>\$ 319,444</b>
Supplementary disclosure					
Interest paid		\$ 20,940	\$ 22,758	\$ 34,447	\$ 35,845
Income taxes paid, net		\$ 27,761	\$ 13,015	\$ 103,944	\$ 37,922

See accompanying notes to the consolidated financial statements

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
**June 30, 2006**

**1. SIGNIFICANT ACCOUNTING POLICIES**

We have prepared the unaudited interim consolidated financial statements in accordance with Canadian generally accepted accounting principles using the same basis of presentation and accounting policies as the annual audited consolidated financial statements for the year ended December 31, 2005. These unaudited interim consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2005.

*Use of accounting estimates*

On April 1, 2006, we extended the estimated useful life of some of our internally developed software from three to five years, which remains consistent with our accounting policies. This change in estimate which has been applied prospectively resulted in a reduction of depreciation expense of \$7.7 million for the second quarter of 2006.

*Comparative figures*

Certain comparative financial information has been reclassified to conform to the presentation adopted for 2005. Goodwill and deferred credits for 2005 have been restated to reflect an adjustment related to the accounting for warranty revenue in DownEast Ltd. prior to their acquisition on October 1, 2004.

**2. INCOME TAXES**

The May 2, 2006, Canadian federal budget announced several general corporate income tax rate reductions and the acceleration of the elimination of the Large Corporations Tax. These federal tax reductions, as well as all of the 2006 provincial budget tax rate proposals have been enacted. Future tax assets and liabilities have been revalued accordingly, resulting in a future tax recovery of \$3.5 million. The elimination of the Large Corporations Tax has resulted in a current tax recovery of \$0.4 million.

**3. ACCRUED BENEFIT ASSET (LIABILITY)**

*Components of net benefit plans cost*

The following tables show the components of the net benefit plans' cost.

For the period ended June 30 <i>(thousands of dollars)</i>	<i>Defined benefit (DB) pension plans</i>			
	Three months		Six months	
	2006	2005	2006	2005
Current service cost	\$ 11,637	\$ 7,592	\$ 23,274	\$ 15,184
Interest on the accrued benefit obligation	30,782	27,525	61,563	55,050
Actual loss (gain) on plan assets	70,195	(51,394)	3,095	(80,127)
Elements of employee future benefit plans cost, before recognizing its long-term nature	\$ 112,614	\$ (16,277)	\$ 87,932	\$ (9,893)
Excess (shortfall) of actual return over expected return	\$ (104,340)	\$ 25,803	\$ (70,869)	\$ 28,945
Amortization of deferred amounts:				
Past service costs	1,375	1,375	2,750	2,750
Net actuarial losses	10,016	7,382	20,075	14,764
Adjustments to recognize long-term nature of employee future benefit plans cost	\$ (92,949)	\$ 34,560	\$ (48,044)	\$ 46,459
<b>Net benefit plans cost</b>	<b>\$ 19,665</b>	<b>\$ 18,283</b>	<b>\$ 39,888</b>	<b>\$ 36,566</b>

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
**June 30, 2006**

**3. ACCRUED BENEFIT ASSET (LIABILITY) (Continued)**

*Components of net benefit plans cost (continued)*

For the period ended June 30 <i>(thousands of dollars)</i>	<i>Other post-employment benefit (OPEB) plans</i>			
	Three months		Six months	
	2006	2005	2006	2005
Current service cost	\$ 571	\$ 1,390	\$ 1,142	\$ 2,580
Interest on the accrued benefit obligation	2,339	2,889	4,678	5,778
Past service costs relating to plan amendments	-	-	(44,939)	-
Elements of employee future benefit plans cost, before recognizing its long-term nature	\$ 2,910	\$ 4,279	\$ (39,119)	\$ 8,358
Deferral of past service costs relating to plan amendments arising during the year	\$ -	-	\$ 44,939	-
Amortization of deferred amounts:				
Past service costs	(1,490)	-	(2,980)	-
Net actuarial losses	967	71	1,934	142
Adjustments to recognize long-term nature of employee future benefit plans cost	\$ (523)	\$ 71	\$ 43,893	\$ 142
<b>Net benefit plans cost</b>	<b>\$ 2,387</b>	<b>\$ 4,350</b>	<b>\$ 4,774</b>	<b>\$ 8,500</b>

Effective January 15, 2006, certain employees transferred participation from our existing defined benefit OPEB plans to a new plan having a maximum annual benefit that the employee may use to purchase group benefits upon retirement. As a result of these changes, a reduction in past service costs of \$44.9 million was recorded during the first quarter and is being amortized on a straight-line basis over the expected average remaining service lives of employees. In addition, the plan changes will result in a reduction of current service costs and interest costs.

*Pension plan contributions*

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

For the period ended June 30 <i>(thousands of dollars)</i>	Three months		Six months	
	2006	2005	2006	2005
DB pension plans				
Required contributions	\$ 27,311	\$ 18,713	\$ 48,684	\$ 37,483
Additional voluntary funding	-	-	-	60,000
OPEB plans contributions	1,610	1,243	3,262	2,562
<b>Funding of DB pension and OPEB plans</b>	<b>\$ 28,921</b>	<b>\$ 19,956</b>	<b>\$ 51,946</b>	<b>\$ 100,045</b>

In the fourth quarter of 2005, \$17.3 million of additional voluntary funding of DB pension plans made in the first quarter of 2005 was reallocated to required contributions.

In the second quarter of 2006, we received final valuations of our DB pension plans effective December 31, 2005. These valuations indicated 2006 required contributions of \$103.5 million, which is net of the reallocation of voluntary contributions made in prior years. Contributions made in the second quarter of 2006 reflect payments necessary to bring year-to-date contributions to the required level.

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
**June 30, 2006**

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**4. GOODWILL**

The annual goodwill impairment test was not required to be performed during the second quarter as there was no significant change in the carrying value of the reporting units and fair value of goodwill from the 2005 impairment test.

**5. RESTRUCTURING AND OTHER CHARGES**

In 2004, we restructured our operations by reducing the workforce in certain areas and offered a voluntary early retirement incentive program (ERIP) to all eligible employees, which resulted in a pre-tax charge against earnings for the year ended December 31, 2004, of \$72.3 million.

At June 30, 2006, payables and accruals included a restructuring charge balance of \$3.5 million (December 31, 2005 - \$12.5 million). The balance remaining at June 30, 2006, mainly represents amounts payable to ERIP participants who elected to defer a portion of their payment following their retirement. The cash payments associated with the ERIP will be charged against this balance.

During 2006, we commenced a planned restructuring of our operations to improve productivity and incurred other restructuring charges. These activities resulted in a \$9.2 million charge against earnings, the majority of which is severance and related benefits. At June 30, 2006, payables and accruals include a provision of \$8.2 million related to these activities.

**6. LONG-TERM DEBT**

During the first quarter of 2006, we:

- redeemed, prior to maturity, 10.45 per cent first mortgage bonds, Series AD, due March 1, 2013, at a price equal to 101.00 per cent of their \$50.0 million principal amount.
- recorded a long-term obligation totalling \$5.4 million for the acquisition of software licences, which is non-interest bearing and payable to 2008 as contract milestones are met.

During the second quarter of 2006, we:

- established a demand credit facility with Canadian financial institutions in an aggregate maximum amount of \$1.0 billion at June 30, 2006. As at June 30, 2006, \$280.0 million of the demand credit facility had been drawn by means of Bankers' Acceptances which bear interest at 4.32 per cent.
- redeemed, prior to maturity our 10.75 per cent first mortgage bonds, Series T, due June 12, 2014, at a price equal to 139.68 per cent of their \$75.0 million principal amount. The redemption premium of \$29.8 million has been recorded in deferred charges at June 30, 2006.

As at June 30, 2006, the term to maturity on the demand credit line was less than 364 days but is reflected as long-term debt on the balance sheet as it will be replaced with long-term facilities through the issue of public and private debt, which is anticipated to occur in the third quarter of 2006.

**ALIANTE INC.**  
**Notes to the consolidated financial statements**  
**June 30, 2006**

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**7. DERIVATIVE FINANCIAL INSTRUMENTS**

*Swaps*

On March 1, 2006, our Series AD, 10.45 per cent, first mortgage bonds were redeemed prior to maturity. Effective March 2, 2006, an outstanding interest rate swaption related to the call option on our Series AD first mortgage bonds was exercised by the counterparty. As a result, we were placed into an interest rate swap agreement, whereby we pay a fixed interest rate of 10.45 per cent and receive the three-month Bankers' Acceptance floating interest rate on a notional amount of \$50.0 million. Payments will be made semi-annually, commencing on September 2, 2006, and ending on March 2, 2013. On March 2, 2006, the fair value of the swap was \$17.9 million in favour of the counterparty, and was recorded as a derivative liability in deferred credits. An unamortized premium amount of \$4.7 million related to the swaption that was previously recorded as a deferred credit was also extinguished. The resulting net charge to other expenses was \$13.2 million, less a \$0.1 million fair value adjustment to March 31, 2006. At June 30, 2006, the fair value of the swap was \$16.6 million in favour of the counterparty. This change in the fair value of the swap of \$1.2 million was recorded as other income.

In the second quarter of 2006, we settled an outstanding interest rate swap for net cash proceeds of \$0.7 million. The swap had a notional principal amount of \$100.0 million and had been accounted for as a fair value hedge.

During the second quarter of 2006, we entered into forward fixed-floating interest rate swaps with notional amounts totaling \$1.765 billion, and with effective dates ranging from August 31, 2006, to December 15, 2006. The purpose of the swaps is to hedge the interest rate exposure related to future fixed-rate debt that is anticipated to be issued by Bell Aliant Regional Communications, Limited Partnership. These instruments are being accounted for as cash flow hedges, and the fair value at June 30, 2006, totaling \$31.1 million in our favour is not currently recorded in our financial statements due to the application of hedge accounting.

*Swaption*

We also participate in a swaption transaction related to our NBTel Series AA debentures with a notional amount of \$40.0 million. These debentures are callable at our option on or after July 19, 2006, up to their maturity date in 2013. The swaption is exercisable by the counterparty effective July 19, 2006, and grants an option to the counterparty to enter into a fixed-floating interest rate swap agreement with us. Under the swap agreement we would pay a fixed interest rate of 11.125 per cent in exchange for receiving the three-month Bankers' Acceptance floating interest rate from the effective date until maturity in 2013. In exchange for providing the counterparty with this option, we received premium income of \$5.4 million in 1997, which is being amortized against interest charges over the period to maturity of the underlying debentures.

At June 30, 2006, the fair value of the swaption was \$14.4 million in favour of the counterparty. The fair value, less unamortized premium income of \$2.4 million, results in a \$12.0 million deferred financial derivative liability that is not currently recorded in our financial statements due to the application of hedge accounting. If the debentures are called prior to their maturity, hedge accounting will cease and the fair value of the financial derivative liability on that date will be charged to other expense and reflected as a deferred credit in the balance sheet.

Refer to note 11 for details on the exercise of the swaption subsequent to June 30, 2006.

**ALIAN'T INC.**  
**Notes to the consolidated financial statements**  
**June 30, 2006**

**8. CAPITAL STOCK**

*Preferred shares:*

On June 30, 2006, we redeemed all 7,000,000 issued and outstanding cumulative redeemable preference shares, Series 2, at par value of \$25.00 per share for a total redemption cost of \$175.0 million. The \$2.7 million excess of the redemption cost over their stated value was charged to retained earnings.

*Common shares:*

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

	As at June 30, 2006		As at December 31, 2005	
	Number of shares	Stated capital	Number of shares	Stated capital
<i>(thousands of dollars, except as otherwise noted)</i>				
Common shares, beginning of period	127,137,554	\$ 1,003,771	132,744,009	\$ 1,044,729
Common shares purchased for cancellation	(562,216)	(4,479)	(5,797,715)	(46,068)
Fractional share adjustment	(13,411)	-	-	-
Shares issued under:				
Dividend reinvestments	128,138	4,229	163,360	4,571
Stock option plan	470,802	13,716	27,900	539
Common shares, end of period	127,160,867	\$ 1,017,237	127,137,554	\$ 1,003,771

*Common shares purchased for cancellation*

We commenced a normal course issuer bid (NCIB) on May 3, 2006, which allowed us to purchase, from time to time, up to 3,000,000 of our outstanding common shares at the market price with cash through the facilities of the Toronto Stock Exchange (TSX), representing approximately 2.4 per cent of our issued and outstanding common shares as of April 26, 2006, being 127,447,012 common shares. Purchases of common shares could be made up to the NCIB expiry date being the earlier of the closing of the transaction that will create Bell Aliant Regional Communications Income Fund or May 2, 2007. In 2005, we acquired common shares under a similar NCIB, which ended on February 3, 2006. Bell Canada, our majority shareholder, sold shares into this NCIB on a *pro rata* basis. For the six months ended June 30, 2006, we purchased for cancellation 562,216 shares (June 30, 2005 – 2,848,879) for an aggregate price of \$19.8 million (June 30, 2005 - \$79.5 million), which reduced capital stock by \$4.5 million (June 30, 2005 - \$22.6 million) and retained earnings by \$15.3 million (June 30, 2005 - \$56.9 million).

For the six months ended June 30, 2006 no shares were purchased from Bell Canada. Included in the common share purchases for the six months ended June 30, 2005, were 1,476,479 shares purchased at market value from Bell Canada for an aggregate price of \$41.2 million.

*Fractional share adjustment*

In the second quarter of 2006, an adjustment totalling 13,411 shares was made to the common share register in respect of fractional shares not issued on the conversion of shares from our predecessor companies to Aliant.

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
**June 30, 2006**

**8. CAPITAL STOCK (Continued)**

*Stock option plan*

A summary of the status of our stock option plan as at June 30, 2006, and December 31, 2005, and changes during the periods ended on those dates is presented below:

	As at June 30, 2006		As at December 31, 2005	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of period	2,892,493	\$ 30.26	2,496,777	\$ 30.37
Granted / Reinstated	121,563	\$ 33.37	481,520	\$ 29.24
Forfeited	(91,994)	\$ 33.08	(57,904)	\$ 31.82
Exercised	(470,802)	\$ 28.98	(27,900)	\$ 19.30
Options outstanding, end of period	2,451,260	\$ 30.55	2,892,493	\$ 30.26
Options exercisable, end of period	2,019,011	\$ 30.63	2,084,481	\$ 30.35

During the second quarter of 2006, 121,563 of options granted prior to January 1, 2003, that were forfeited in error in 2004 and 2005, were reinstated.

For the three and six months ended June 30, 2006, compensation expense in the amount of \$0.5 million and \$1.0 million, respectively (June 30, 2005 - \$0.5 million and \$1.0 million, respectively) related to stock options granted was recorded.

*Performance share unit (PSU) and personal performance share unit (PPSU) plans*

A summary of the status of our PSU and PPSU plans as at June 30, 2006, and December 31, 2005, and changes during the periods ended on those dates is presented below:

	As at June 30, 2006		As at December 31, 2005	
	Number of units		Number of units	
Units outstanding, beginning of period	173,750		109,322	
Granted	11,331		144,889	
Forfeited	-		(16,463)	
Exercised	-		(63,998)	
Units outstanding, end of period	185,081		173,750	

For the three and six months ended June 30, 2006, compensation expense in the amount of \$1.2 million and \$2.3 million, respectively (June 30, 2005 - \$0.7 million and \$1.0 million, respectively) related to the PSUs and PPSUs outstanding was recorded.

*Employees' stock savings plan*

The total number of common shares bought on the open market for employees during the three and six months ended June 30, 2006, was 157,159 and 427,232, respectively (June 30, 2005 - 330,977 and 711,027, respectively). At June 30, 2006, 39,000 shares purchased for \$1.2 million have been recorded as treasury stock as they had not yet been transferred to employees to satisfy our commitment under the employees' stock savings plan. Compensation expense related to the employees' stock savings plan of \$1.9 million and \$3.9 million, respectively, for the three and six months ended June 30, 2006, (June 30, 2005 - \$1.8 million and \$3.4 million, respectively) was recorded. For the six months ended June 30, 2006 a gain of \$1.7 million was recorded to contributed surplus representing the change in share value from the time of purchase to the date of distribution.

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
**June 30, 2006**

**9. SEGMENTED INFORMATION**

For the three months ended June 30, 2006 (thousands of dollars)	Telecommunications			Information Technology	Corporate and others	Eliminations	Consolidated
	Wireline	Wireless	Total				
Revenue from external customers	\$ 355,200	\$ 120,038	\$ 475,238	\$ 58,975	\$ 39	\$ -	\$ 534,252
Intersegment revenue	(2,169)	3,881	1,712	16,941	-	(18,653)	-
Operating revenues	353,031	123,919	476,950	75,916	39	(18,653)	534,252
Operating expenses	205,393	68,131	273,524	70,194	7,646	(17,583)	333,781
Restructuring and other charges	1,084	-	1,084	600	7,200	-	8,884
Depreciation and amortization	78,389	12,399	90,788	899	298	(48)	91,937
Operating income	\$ 68,165	\$ 43,389	111,554	4,223	(15,105)	(1,022)	99,650
Other income (expenses)			239	8	58,362	(59,859)	(1,250)
Interest charges			16,460	64	(266)	(294)	15,964
Income taxes (recovery)			31,096	2,561	(4,665)	(371)	28,621
Non-controlling interest			593	-	-	-	593
Net income			\$ 63,644	\$ 1,606	\$ 48,188	\$ (60,216)	\$ 53,222
Purchase of capital investments	\$ 92,079	\$ 12,723	\$ 104,802	\$ 611	\$ -	\$ (1,074)	\$ 104,339
Total assets			\$ 2,809,758	\$ 137,336	\$ 1,529,094	\$ (1,680,433)	\$ 2,795,755

For the three months ended June 30, 2005 (thousands of dollars)	Telecommunications			Information Technology	Corporate and others	Eliminations	Consolidated
	Wireline	Wireless	Total				
Revenue from external customers	\$ 351,433	\$ 105,315	\$ 456,748	\$ 58,562	\$ -	\$ -	\$ 515,310
Intersegment revenue	(1,549)	3,212	1,663	27,344	-	(29,007)	-
Operating revenues	349,884	108,527	458,411	85,906	-	(29,007)	515,310
Operating expenses	201,333	57,933	259,266	77,306	9,273	(28,336)	317,509
Depreciation and amortization	85,438	11,750	97,188	2,030	307	(539)	98,986
Operating income	\$ 63,113	\$ 38,844	101,957	6,570	(9,580)	(132)	98,815
Other income (expenses)			(2,484)	234	52,533	(51,570)	(1,287)
Interest charges			18,124	27	1,382	(1,068)	18,465
Income taxes (recovery)			30,589	1,880	(3,816)	(44)	28,609
Non-controlling interest			669	-	-	-	669
Net income			\$ 50,091	\$ 4,897	\$ 45,387	\$ (50,590)	\$ 49,785
Purchase of capital investments	\$ 89,545	\$ 15,507	\$ 105,052	\$ (60)	\$ (669)	\$ -	\$ 104,323
Total assets			\$ 2,715,022	\$ 179,197	\$ 1,793,456	\$ (1,774,333)	\$ 2,913,342

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
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**9. SEGMENTED INFORMATION (Continued)**

For the six months ended June 30, 2006 (thousands of dollars)	Telecommunications			Information Technology	Corporate and others	Eliminations	Consolidated
	Wireline	Wireless	Total				
Revenue from external customers	\$ 701,171	\$ 232,731	\$ 933,902	\$ 145,299	\$ -	\$ -	\$ 1,079,201
Intersegment revenue	(4,161)	7,358	3,197	34,813	-	(38,010)	-
Operating revenues	697,010	240,089	937,099	180,112	-	(38,010)	1,079,201
Operating expenses	405,311	128,153	533,464	169,694	16,145	(36,081)	683,222
Restructuring and other charges	1,395	-	1,395	600	7,200	-	9,195
Depreciation and amortization	163,754	24,798	188,552	1,787	646	(152)	190,833
Operating income	\$ 126,550	\$ 87,138	213,688	8,031	(23,991)	(1,777)	195,951
Other income (expenses)			(14,513)	369	102,424	(102,329)	(14,049)
Interest charges			33,698	168	941	(1,412)	33,395
Income taxes (recovery)			56,514	5,062	(6,976)	(644)	53,956
Non-controlling interest			1,150	-	-	-	1,150
Net income			\$ 107,813	\$ 3,170	\$ 84,468	\$ (102,050)	\$ 93,401
Purchase of capital investments	\$ 164,391	\$ 21,429	\$ 185,820	\$ 1,344	\$ -	\$ (1,878)	\$ 185,286
Total assets			\$ 2,809,758	\$ 137,336	\$ 1,529,094	\$ (1,679,903)	\$ 2,796,285

For the six months ended June 30, 2005 (thousands of dollars)	Telecommunications			Information Technology	Corporate and others	Eliminations	Consolidated
	Wireline	Wireless	Total				
Revenue from external customers	\$ 698,102	\$ 202,952	\$ 901,054	\$ 137,717	\$ -	\$ -	\$ 1,038,771
Intersegment revenue	(2,603)	5,790	3,187	53,019	-	(56,206)	-
Operating revenues	695,499	208,742	904,241	190,736	-	(56,206)	1,038,771
Operating expenses	409,644	111,577	521,221	172,487	17,016	(55,050)	655,674
Depreciation and amortization	170,540	23,500	194,040	3,975	615	(1,054)	197,576
Operating income	\$ 115,315	\$ 73,665	188,980	14,274	(17,631)	(102)	185,521
Other income (expenses)			(3,823)	14	96,962	(95,401)	(2,248)
Interest charges			35,254	107	2,592	(2,103)	35,850
Income taxes (recovery)			55,955	4,920	(7,864)	(29)	52,982
Non-controlling interest			1,072	-	-	-	1,072
Net income			\$ 92,876	\$ 9,261	\$ 84,603	\$ (93,371)	\$ 93,369
Purchase of capital investments	\$ 162,619	\$ 21,750	\$ 184,369	\$ 2,777	\$ (660)	\$ (486)	\$ 186,000
Total assets			\$ 2,715,022	\$ 179,197	\$ 1,793,456	\$ (1,774,333)	\$ 2,913,342

**ALIAN'T INC.**  
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**10. COMMITMENTS**

*Operating leases and purchase commitments*

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

<i>(thousands of dollars)</i>	<i>Remainder of</i>					
	2006	2007	2008	2009	2010	Thereafter
Operating leases	\$ 20,404	\$ 37,980	\$ 35,746	\$ 33,787	\$ 29,453	\$ 120,989
Purchase commitments	44,738	23,936	11,886	7,463	5,692	3,148
	\$ 65,142	\$ 61,916	\$ 47,632	\$ 41,250	\$ 35,145	\$ 124,137

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

*Deferral account*

On February 16, 2006, the Canadian Radio-television and Telecommunications Commission (CRTC) issued its decision regarding the application of deferral account balances and allowable measures to reduce the accumulated deferral account balance. In this decision, the CRTC also estimated incumbent local exchange carriers' (ILEC) deferral account amounts, on both an accumulated balance and future annualized commitment basis. Aliant's estimated balance at May 31, 2006, was expected to be \$21.8 million with an estimated annualized commitment of \$2.2 million.

The CRTC's decision requires a minimum of 5.0 per cent of the accumulated deferral account balance be reduced through improvements to telecommunications services access for persons with disabilities. For the remaining 95.0 per cent of the funds in the deferral account, the CRTC addressed both broadband service investments and subscriber rebates. The CRTC concluded that each ILEC could use funds in its deferral accounts for initiatives to expand broadband services to rural and remote communities. Those ILECs who choose to invest in broadband expansion were required to file a proposal with the CRTC by June 30, 2006, for approval to draw down qualified expenditures from their deferral accounts. If an ILEC chooses not to invest in broadband expansion, or invests in such expansion but has money left over in its deferral account, the remaining funds will be rebated to the ILEC's residential local subscribers in non-high cost serving areas. On June 22, 2006 the CRTC extended the deadline for proposals to September 1, 2006.

The future annual deferral account obligations of ILECs are to be eliminated by reducing monthly prices for primary exchange service and optional local services for residential customers in non-high cost serving areas. On May 15, 2006, we filed with the CRTC updated deferral account balances and included a proposal to clear the accumulated balance in our deferral account. Due to a higher than anticipated demand for Competitor Digital Network services and the corresponding increase in related draw downs from the deferral account, our filing indicated that our accumulated balance has decreased from the CRTC's original estimate of \$21.8 million to \$8.2 million, and the annual recurring deferral account obligation has decreased from \$2.2 million to (\$3.2) million. As we proposed to clear the accumulated balance in our deferral account by partially off-setting the annual recurring shortfall, we will not include broadband investment as part of our proposal.

The CRTC has not provided a decision on whether they will accept our proposal concerning the disposition of the accumulated balance in the deferral account. As a result, we are unable to reflect the impact of the CRTC's decision in our financial results.

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
**June 30, 2006**

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**11. SUBSEQUENT EVENTS**

*Formation of Bell Aliant Regional Communications Income Fund*

On July 7, 2006, the Plan of Arrangement (the Arrangement) creating Bell Aliant Regional Communications Income Fund (Bell Aliant) was completed in accordance with the arrangement steps described in our Management Information Circular dated April 14, 2006.

The new income trust combines our wireline operation in Atlantic Canada, information technology and other operations with Bell Canada's wireline operation in its regional territories in Ontario and Quebec as well as its indirect 63.4 per cent interest in the operating partnerships of the Bell Nordiq Income Fund.

As a result of the Arrangement, Aliant Inc. common shares held by the public and a certain number of Aliant Inc. common shares held by BCE were automatically exchanged for Bell Aliant units, effective at the close of business on July 7, 2006. The remaining Aliant Inc. common shares held by BCE and Bell Nordiq Group Inc. common shares held by BCE were exchanged for limited partnership units of a subsidiary of Bell Aliant, which are exchangeable into Bell Aliant units. As a result, 100.0 per cent of the common shares of Aliant Inc. and 100.0 per cent of the common shares of Bell Nordiq Group Inc., which holds a 63.4 per cent interest in the Bell Nordiq Income Fund (assuming the exchange of the units of Télébec, Limited Partnership and NorthernTel, Limited Partnership into units of Bell Nordiq Income Fund) were acquired indirectly by Bell Aliant.

The Bell Aliant units began trading on the Toronto TSX at the commencement of trading on July 10, 2006, under the trading symbol "BA.UN".

Total consideration paid to acquire the net assets of the operations noted above was \$7.4 billion, which was satisfied in the form of a \$1.256 billion cash settlement of a non-interest bearing demand promissory note, Aliant's wireless net assets, Aliant's shares of DownEast Ltd., and units of subsidiaries of Bell Aliant including:

- 72,205,024 Class B exchangeable LP units of Bell Aliant Regional Communications, Limited Partnership
- 72,205,024 Special Voting units in connection with the Class B exchangeable LP units
- 28,168,803 Class 1 exchangeable units of Bell Aliant Regional Communications Holdings, Limited Partnership; and
- 28,168,803 of Bell Aliant Regional Communications, Limited Partnership Special Voting units in connection with the Class 1 exchangeable LP units.

The Arrangement is being accounted for at estimated fair values as the transactions are between related parties and there has been a substantive change in ownership. This will require us to allocate the total consideration paid to the assets acquired and liabilities assumed, based on their respective fair values on July 7, 2006, with the remainder being allocated to goodwill. We are in the process of determining the fair value of the net assets acquired and anticipate having a preliminary purchase price allocation by the end of the third quarter of 2006.

Transaction costs as at June 30, 2006, include \$8.6 million mainly relating to investment banking and consulting fees, which have been recorded in deferred charges.

**ALIAN'T INC.**  
**Notes to the consolidated financial statements**  
**June 30, 2006**

**11. SUBSEQUENT EVENTS (Continued)**

*Long-term debt*

New credit facilities

On July 7, 2006, Bell Aliant finalized \$3.5 billion in credit facilities with a syndicate of financial institutions co-led by two Canadian chartered banks. The new facilities will be used by Bell Aliant to finance the Arrangement transactions, refinance existing long-term debt, support a \$400.0 million commercial paper program and for general working capital purposes.

The following table outlines the components and terms of the facilities.

<b>Credit facility</b> <i>(millions of dollars)</i>	<b>Available</b>	<b>Term</b>
Revolving	\$ 550.0	5 years
Non-revolving term	1,250.0	3 years
Non-revolving pension reserve utilization	450.0	5 years
Non-revolving bond bridge	1,250.0	18 months
	<b>\$ 3,500.0</b>	

Interest rates on the credit facilities depend upon the form of borrowing selected and the investment grade rating. Prime rate based loans bear interest at the prime rate per annum while Canadian Bankers' Acceptance, US LIBOR loans, Letters of Credit and Letters of Guarantee bear interest at the base rate plus 0.50 per annum. These rates may vary based on the credit ratings of our long-term debt. As at July 27, 2006, \$1.680 billion had been drawn under these facilities.

On July 13, 2006, a commercial paper program was established for Bell Aliant Regional Communications, Limited partnership with a maximum borrowing capacity of \$400.0 million with a credit rating of R-1 (low) for the short-term promissory notes. Sufficient undrawn capacity will be maintained on the \$550.0 million revolving bank credit to support issuances of notes under the commercial paper program. The notes will be offered through a dealer group comprising CIBC World Markets, Scotia Capital, RBC Capital Markets, Bank of Montreal and The Toronto-Dominion Bank. As at July 27, 2006, \$200.0 million of notes had been issued under this program.

Debt redemption and repayment

On July 7, 2006, our demand credit facility discussed in note 6 was repaid in full and cancelled. This repayment was facilitated by a draw of \$280.0 million on the non-revolving bond bridge component of our new credit facilities.

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
**June 30, 2006**

**11. SUBSEQUENT EVENTS (Continued)**

Debt redemption and repayment (continued)

As part of the Arrangement, we redeemed or repaid certain bonds prior to maturity. One bond was redeemed prior to June 30, 2006, as discussed in note 6, while several others were redeemed or repaid on July 4, 2006, immediately prior to the Arrangement.

Debt instrument <i>(million of dollars, except as otherwise noted)</i>	Issuer	Series	Interest rate	Maturity date	Principal amount	Redemption premium	Redemption or repayment date
Debentures	Maritime Tel & Tel	2	8.300%	January 15, 2019	\$ 50.0	\$ 17.2	July 4, 2006
Debentures	Maritime Tel & Tel	4	9.700%	October 31, 2019	50.0	25.2	July 4, 2006
Debentures	Maritime Tel & Tel	5	9.050%	June 16, 2025	60.0	33.4	July 4, 2006
First mortgage bonds	Island Telecom	T	10.600%	July 14, 2009	3.5	0.6	July 4, 2006
First mortgage bonds	Island Telecom	U	11.150%	March 1, 2010	6.5	1.4	July 4, 2006
First mortgage bonds	Island Telecom	V	9.770%	March 1, 2018	5.0	2.1	July 4, 2006
First mortgage bonds	Island Telecom	W	8.760%	January 15, 2019	5.0	1.8	July 4, 2006
First mortgage bonds	NewTel Communications	V	11.400%	July 5, 2010	40.0	10.1	July 4, 2006
					\$ 220.0	\$ 91.8	

At June 30, 2006, we have recorded \$10.1 million of redemption premiums in deferred charges related to the debt having a July 4, 2006, redemption or repayment date with the remaining \$81.7 million recorded on July 4, 2006.

On July 19, 2006, we also redeemed \$40.0 million principal amount of NBTel Series AA debentures prior to their maturity, for a fixed price of 101.00 per cent of the principal amount. This redemption would have been completed apart from the Arrangement transactions in any event.

*Stock option plan*

On July 5, 2006, the employee stock option plan was terminated. In accordance with the terms of the stock option plan, holders of vested and exercisable options could exercise them up to July 4, 2006. In addition, the terms of the stock option plan were amended effective July 5, 2006, to permit holders of unvested options to exercise their options on an accelerated vesting basis, and to permit holders of options, in lieu of exercising their options, to require us to pay the holder cash, in respect of each common share under option, the amount by which the volume weighted average of the common share price for the final ten trading days exceeded the exercise price of the options. On July 5, 2006, there were 2,451,260 options outstanding, of which 1,947,733 were exercised or cash settled, resulting in a \$8.5 million restructuring and other charge being recorded. The remaining options had exercise prices in excess of the cash settlement price and so were forfeited as worthless effective July 5, 2006. There are no more options outstanding.

*Derivative financial instrument*

As mentioned previously, on July 19, 2006, our NBTel Series AA, 11.125 per cent, debentures were redeemed prior to maturity. Also on this date, an outstanding interest rate swaption related to the call option on the Series AA debentures was exercised by the counterparty. As a result, we were placed into an interest rate swap agreement, whereby we will pay a fixed interest rate of 11.125 per cent and receive the three-month Bankers' Acceptance floating interest rate on a notional principal amount of \$40.0 million. Payments will be made semi-annually, commencing on January 20, 2007, and ending on July 20, 2013. On July 19, 2006, the fair value of the swap was \$14.9 million in favour of the counterparty, and was recorded as a derivative liability in deferred credits. An unamortized premium amount of \$2.4 million related to the swaption that was previously recorded as a deferred credit was also extinguished. The resulting net charge to other expenses was \$12.5 million.