



Management's Discussion and Analysis

Second Quarter 2006

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This document provides management's discussion and analysis (MD&A) of our financial condition and results of operations for the three and six month periods ended June 30, 2006, compared to the corresponding periods in 2005. The MD&A should be read in conjunction with our unaudited interim consolidated financial statements and accompanying notes as at and for the period ended June 30, 2006, and our December 31, 2005, audited consolidated financial statements and accompanying notes, and MD&A. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All amounts in this MD&A are in millions of Canadian dollars, except where otherwise noted.

On July 1, 2006, Aliant Inc. (Aliant) amalgamated with a number of its subsidiary corporations, including Aliant Telecom Inc. and Xwave Solutions Inc., to form an amalgamated corporation named Aliant Inc. Since that time, Aliant Inc. has been succeeded by Bell Aliant Regional Communications Inc., including in its capacity as general partner of Bell Aliant Regional Communications, Limited Partnership (Bell Aliant), in a series of transactions pursuant to a Plan of Arrangement (the Arrangement) under the Canada Business Corporations Act. The Arrangement is described in our Management Information Circular dated April 14, 2006 (the Circular), and was completed on July 7, 2006. Throughout this MD&A, "we", "us" and "our" refer to Aliant and its predecessor corporations, as applicable, up to and including July 7, 2006, and Bell Aliant thereafter.

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

This MD&A is dated July 27, 2006, which is the date of filing in conjunction with our press release announcing our results for the second quarter of 2006. This document contains forward-looking statements, which are qualified by reference to, and should be read together with, the "Forward-looking statements" section. Disclosure contained in this MD&A is current to, and describes our expectations on, July 27, 2006, unless otherwise stated.

About our business

We are a leading information and communications technology (ICT) provider, complementing our telecommunications business with strengths in information technology to deliver complete customer solutions. We serve customers in several geographic markets and across many different industries.

Our telecommunications business provides a wide range of innovative and traditional voice and data communications services and our information technology (IT) business provides clients with a complete range of consulting, infrastructure management and product fulfillment services.

Creation of an income trust

On July 7, 2006, we completed the Arrangement to create one of the largest regional telecommunications service providers in North America, the Bell Aliant Regional Communications Income Fund (the Fund). We combined our wireline telecommunications operation, our information technology business, and other related operations in Atlantic Canada with Bell Canada's wireline telecommunications operation in certain of its regional territories in Ontario and Quebec, and its indirect 63.4 per cent interest in NorthernTel, Limited Partnership and Telebec, Limited Partnership. As part of the transaction, Bell Canada acquired Aliant's wireless telecommunications operation and ownership interest in DownEast Ltd. The Arrangement was completed in accordance with the arrangement steps described in the Circular.

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 exchanged for Fund units on a one-for-one basis, effective at the close of business on July 7, 2006. The remaining Aliant Inc. common shares and 100.0 per cent of Bell Nordiq Group Inc. common shares held by BCE were exchanged for limited partnership units of Fund subsidiaries, which are exchangeable into Fund 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 the Fund.

The Fund units began trading on the Toronto Stock Exchange (TSX) at the commencement of trading on July 10, 2006, under the trading symbol "BA.UN".

Total consideration paid to acquire Bell Canada's and BCE's net assets of the operations noted above was \$7.4 billion, satisfied in the form of a non-interest bearing demand promissory note, Aliant's wireless net assets, Aliant's shares of DownEast Ltd., and limited partnership units of certain Fund subsidiaries.

The Arrangement is being accounted for at estimated fair values, and a discussion of the accounting implications of the transaction can be found in note 11 to our unaudited interim consolidated financial statements for the period ended June 30, 2006.

Strategic direction

We are committed to our strategy to be a leading ICT services provider to our business customers and to be the provider of choice for our consumers' information, communications and entertainment services. We are well positioned for an enhanced focus on serving the needs of our customers. We now enjoy the scale and geographic reach to enable greater operational efficiencies, while providing customers with access to the latest high-quality networks, products and services, including value added services (VAS), broadband and Internet. We will continue to meet our customers' wireless needs through close collaboration and bundling initiatives with Bell Canada. In addition, we intend to extend our ICT strategy and IT expertise to serve approximately 75,000 business customers in Ontario and Quebec, providing them with leading edge business solutions.

Customer experience

Our operations are comprised principally of small- to medium-sized cities and geographically dispersed rural areas. We are focused on the needs of regional customers, yet we can leverage the scale we've created to provide customers with access to the latest high-quality networks, products and services. We plan to provide best-in-class service to support customers through a highly trained and skilled workforce focusing on providing a superior customer experience. Enhanced self-service tools and automated service activation will be delivered to reduce manual processes and provide enhanced service to customers based on value. We strive to continually improve

service reliability and trouble rates through investment in service improvement programs, and commit to consistent service experiences across all channels. We are committed to making the transition into an income trust structure seamless for customers by providing the same service, same bill and same brands that they know and trust today.

Growth opportunities

We intend to drive operating revenue growth by increasing the penetration of high-speed Internet and VAS, leveraging our IT capabilities in Ontario and Quebec, continuing our emphasis on bundling strategies and introducing new products and services.

We expect that our increased operational scale will enhance the stability and strength of cash flows, which we believe will complement our new income trust structure. We expect that the Fund will have a higher market value than the previous Aliant corporate structure, as the market often places a premium on the valuation of income trusts. We anticipate that this may position us well for future growth opportunities, including additional wireline communications acquisitions in regions with relatively low population density, or other acquisitions that support our strategy and are accretive to distributable cash flows.

Quarter at a glance

Financial results

<i>For the period ended June 30</i> <i>(millions of dollars, except per share amounts)</i>	Three Months			Six Months		
	2006	2005	% change	2006	2005	% change
Operating revenues	\$ 534.3	\$ 515.3	3.7	\$ 1,079.2	\$ 1,038.8	3.9
Expenses	434.6	416.5	4.3	883.2	853.3	3.5
Operating income	99.7	98.8	0.8	196.0	185.5	5.6
Other expenses	1.3	1.3	-	14.1	2.2	-
Interest charges	16.0	18.4	(13.5)	33.4	35.8	(6.8)
Income taxes	28.6	28.6	-	53.9	53.0	1.8
Non-controlling interest	0.6	0.7	(11.4)	1.2	1.1	7.3
Net income	\$ 53.2	\$ 49.8	6.9	\$ 93.4	\$ 93.4	-
Earnings per common share	\$ 0.40	\$ 0.36	11.1	\$ 0.70	\$ 0.67	4.5

Operating revenues for the second quarter of 2006 increased by 3.7 per cent over the same quarter last year, reflecting strong growth in Internet and wireless services and telecommunications product sales.

- Internet revenue grew 20.0 per cent in the second quarter, fuelled by 39.3 per cent high-speed Internet revenue growth.
- Wireless revenue grew 15.4 per cent over the second quarter of 2005 driven by a 13.6 per cent increase in our customer base and increases in average revenue per customer (ARPC) for both postpaid and prepaid customers.
- External IT services revenue experienced 6.6 per cent growth in the second quarter, mainly due to new or incremental contracts in the health care, justice and public safety sectors.
- Telecommunications product sales revenue increased 24.6 per cent in the second quarter, with growth attributed to our PC purchase program, which began in mid-2005, and increased sales of cellular sets and related accessories.
- Revenues from our local and long distance services declined by a combined 4.1 per cent in the second quarter over the same period last year. The local revenue decrease, consistent with the decrease experienced in the first quarter of 2006, is due to competition, technology substitution and regulatory constraints. Lower average revenue per minute contributed to a decline in long distance revenue,

however, residential long distance minutes increased during the quarter due to customer adoption of our value packages.

- IT fulfillment revenues declined 4.2 per cent, reflecting reduced customer spending after very strong growth of 13.9 per cent in the first quarter of 2006.

Second quarter operating income increased by 0.8 per cent over the results for the same period in the prior year. Operating expenses increased during the second quarter, as in addition to the costs required to support revenue growth, the launch of a new core advertising platform, and restructuring and other charges related to the creation of the income trust offset the effects of productivity initiatives and lower depreciation.

Net income increased by 6.9 per cent in the second quarter of 2006, mainly as a result of lower interest charges when compared to the same period in the prior year.

We generated cash from operating activities of \$120.2 million in the second quarter, a decrease of \$48.3 million over the same period last year. Higher cash requirements for pension funding and for operating assets and liabilities, and a lower cash net income contributed to the year over year decrease. Financing activities used cash of \$25.9 million during the quarter as we redeemed \$75.0 million of bonds and \$175.0 million of preferred shares. These activities were financed by drawing on our new demand credit facility, discussed further in the "Summary of cash flows" section. Investing activities used cash of \$104.1 million in the quarter, and related mainly to capital investments.

Progress on our strategic initiatives

During the second quarter we remained focused on our growth strategy in residential, small-to medium-sized business (SMB) and enterprise markets, and our initiatives for productivity and cost structure improvements. A few highlights from the quarter include:

- We advanced our strategy to roll out our Internet protocol (IP)-based television service, Aliant TV, expanding our service to areas of Bedford, NS, and St. John's, NL.
- We expanded our efforts around the development and evolution of IP-virtual private network services and the tools used to deliver these services, in order to serve the growing number of our customers who are transforming their networks from traditional data services to IP-based networks. Our team has now installed over 300 sites for SMB and enterprise customers.
- We completed our New Brunswick broadband initiative ahead of schedule. This program was a joint effort between the Government of Canada, the Government of New Brunswick and us to provide high-speed Internet service to all regional health care centers, business parks and First Nations communities, as well as most New Brunswick residences and businesses. This project has successfully made New Brunswick one of the most broadband-connected provinces or territories in Canada.
- We launched Aliant Hotspot service, a fast, reliable wireless fidelity (Wi-Fi) technology provided in collaboration with SolutionInc Limited. This service offers customers the convenience of accessing the Internet using their Wi-Fi enabled wireless device, such as a laptop, in several airports and other public complexes in our region.
- We expanded our high-speed wireless evolution data optimized (EVDO) network to Saint John, Moncton and Fredericton, NB, Charlottetown, PEI, and St. John's, NL. The EVDO network will provide our customers with access to unprecedented wireless data speeds and new enhanced applications for wireless devices.
- We continued to enhance wireless features, with full track music downloads now available on an EVDO multimedia phone. We simplified our text messaging to allow customers the ability to reply to email messages, and we are now offering new wireless email and messaging services to SMB customers on devices using Palm and Pocket PC.
- We recently partnered with Time Warner Cable to provide back-end support for their new cable data center in Portland, Maine.
- We have been selected to develop an online, real-time claims adjudication and management system for the Newfoundland and Labrador Prescription Drug Program (NLPDP). The new system will improve service delivery

for pharmacists and NLPDP beneficiaries, by allowing drug claims under the NLPDP to be adjudicated as soon as pharmacists enter prescriptions into their computers.

- We have been contracted by General Dynamics Canada to develop and deliver three Procedures Crew Trainer (PCT) simulators for training of Aurora aircraft flight crews. The PCT is a variation of our Mission Crew Trainer, an intelligence, surveillance, and reconnaissance training simulator for airborne platforms. The contract is valued at \$7.4 million.
- We completed the development of a new platform for executing customer orders and troubleshooting for our enterprise customers, enhancing our ability to serve customers effectively and efficiently.
- We are approaching the completion of our contact center infrastructure project, with employees now using a new state-of-the-art contact routing system. The new equipment enables virtual call sharing, skills-based routing for all in-bound contacts and more efficient reporting capabilities. Our customers benefit from consistent interactive voice response menu options, wording and voice, as well as reduced call transfers.

Environmental update

Regulatory

Recent significant regulatory developments that affected our telecommunications business in Atlantic Canada up to and including July 27, 2006, were:

- On February 16, 2006, the Canadian Radio-television and Telecommunications Commission (CRTC or the Commission) issued its decision regarding the application of the deferral account balances and allowable measures to reduce those balances.

As required by this decision, on May 15, 2006, we filed with the CRTC our 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 earlier 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 further proposals.

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.

- On April 6, 2006, the CRTC ruled on our April 2004 application for forbearance of local residential services in 32 exchanges in Nova Scotia and Prince Edward Island which, if approved, would have allowed for greater pricing flexibility and symmetrical regulation. Instead, the Commission denied our application and set out a framework to be used for all future local phone service forbearance applications.

We have appealed the local forbearance decision to the Federal Court and, together with Bell Canada and others, have filed a joint appeal to the Governor in Council. In the meantime, we intend to work within the regulatory rules provided to meet the tests for forbearance and provide choice and flexibility to our customers.

- On May 4, 2006, the Governor in Council referred the Voice-over Internet Protocol (VoIP) decision back to the Commission for reconsideration. The Commission has until the end of August 2006 to issue its new decision regarding VoIP.
- On May 9, 2006, the CRTC issued Telecom Public Notice CRTC 2006-5 initiating a proceeding to establish a price cap framework to replace the existing framework that ends May 31, 2007. On July 10, 2006, we, along with Bell Canada and Saskatchewan Telecommunications, filed a pricing framework proposal which reflects the dramatic changes that have taken place in the industry. The proposed framework would come into effect on June 1, 2007, and apply for a period of two years. We proposed that there should be no regulatory limits on price increases in areas where services are available over alternative facilities, allowing consumers and competition in these areas to drive market prices. In areas where alternative

facilities are not available, we proposed that service prices remain subject to regulation with upward pricing capped, on average, at current levels. In keeping with both the recommendations of the Telecom Policy Review Panel and the draft policy direction for the CRTC tabled by the Minister of Industry on June 13, 2006, the proposed regulation would interfere with market forces to the least extent possible. Our evidence will be subject to an interrogatory process as well as a public hearing that is scheduled to commence on October 10, 2006. The CRTC intends to issue a decision on this proceeding by April 30, 2007.

- On May 16, 2006, the Commission ruled on our application to exclude certain Quality of Service (QoS) results relating to those affected by the 2004 labour disruption from the QoS Rate Adjustment Plan (RAP). The Commission determined that we had to give our customers a credit equal to 50 per cent of the amount that would have been calculated under the RAP using the actual QoS results for the affected indicators. In June 2006, we began the process of issuing rebates to customers of \$2.69 per phone line, totalling \$3.6 million.
- On June 13, 2006, the Minister of Industry tabled a proposed policy directive with Parliament signaling the government's intention to direct the CRTC to rely on market forces to the maximum extent feasible and to regulate, where necessary, in a manner that interferes with market forces to the minimum extent necessary. This directive captures the spirit of the Telecom Policy Review Report issued in March 2006.

Competitive

In Atlantic Canada, an area with a history of some of the most intense local residential competition in the country, a national cable company has recently announced that it is providing local telephone service in three cities in New Brunswick. Local residential competition has not previously existed in New Brunswick. As a result, we expect a negative impact on our local and long distance residential market share, as this competitor promotes its service in a bundle to its existing Internet and cable customers.

Our major cable competitors are increasing their footprint largely through bundling services without the burden of regulated restrictions. We continue to encourage the regulator to allow customers a fair choice of provider by allowing market forces to prevail rather than placing strict regulations on incumbents and little, if any, on cable companies.

We are countering our competitive threat as we continue to expand our broadband network reach and capacity, offer new communications solutions, enhance our value packages, provide valuable ICT solutions to our enterprise customers, and service our customers on their terms.

Operating results

The following is our discussion and analysis of the significant components of our consolidated operating results for the three and six months ended June 30, 2006, in comparison to the same periods in the prior year.

Operating revenues

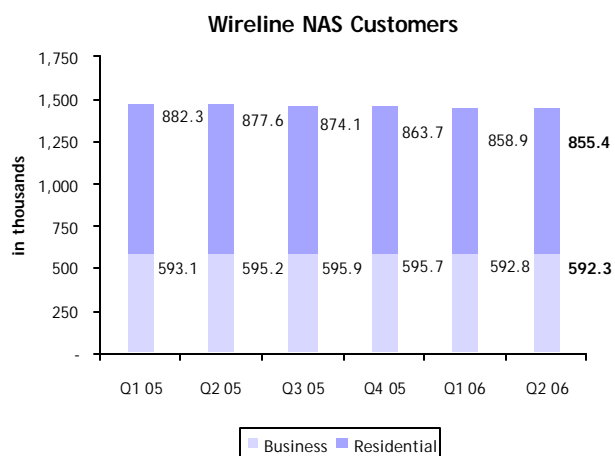
For the period ended June 30

(millions of dollars)

	Three Months			Six Months		
	2006	2005	% change	2006	2005	% change
Telecommunications						
Local	\$ 180.2	\$ 184.2	(2.2)	\$ 357.5	\$ 366.7	(2.5)
Long distance	73.9	80.8	(8.5)	148.6	160.5	(7.4)
Wireless	123.4	106.9	15.4	237.2	206.5	14.8
Internet	38.5	32.1	20.0	75.5	62.7	20.4
Other revenues	61.0	54.4	12.0	118.3	107.8	9.7
	477.0	458.4	4.0	937.1	904.2	3.6
Information Technology						
IT Services	43.8	52.4	(16.4)	86.6	103.3	(16.2)
Fulfillment	32.1	33.5	(4.2)	93.5	87.4	7.0
	75.9	85.9	(11.6)	180.1	190.7	(5.6)
Other and intercompany eliminations	(18.6)	(29.0)	(35.9)	(38.0)	(56.1)	(32.3)
Operating revenues	\$ 534.3	\$ 515.3	3.7	\$ 1,079.2	\$ 1,038.8	3.9

Local revenue

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



Local revenue declined \$4.0 million, or 2.2 per cent, in the second quarter of 2006. This decline is similar to the pace experienced during the first quarter of 2006 and throughout 2005, and is caused by recent service area expansion by our competition, technology substitution and regulatory constraints.

The majority of our local revenue is earned through the provision of NAS. Total NAS revenues for the second quarter of 2006 declined 1.2 per cent compared to the second quarter of 2005, a direct result of the 1.7 per cent decline in our NAS customer base. Residential NAS revenue declined 2.4 per cent year over year, consistent with a NAS customer decline of 2.5 per cent, reflecting competitive losses, the reduction of second lines as dial Internet customers migrate to high-speed, and the reduction in primary lines as

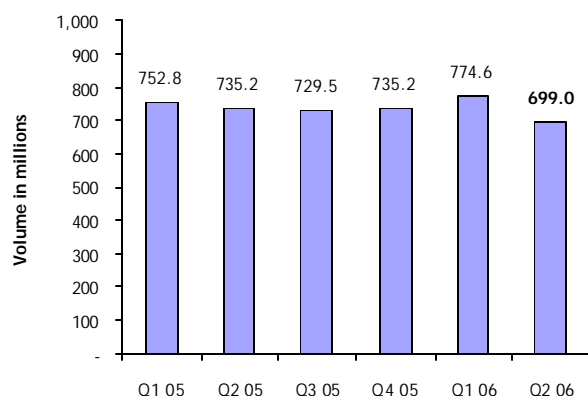
customers adopt wireless and VoIP technologies. Our business NAS revenue remained virtually unchanged in the second quarter of 2006, as our strong marketing programs in both the SMB and enterprise markets support customer retention.

Revenue from sources other than NAS declined by 3.7 per cent compared to the second quarter of 2005. Declines were experienced in telephone set rentals as customers are buying rather than renting, and in service charges due to decreasing NAS customers and greater use of promotional rates. In addition, due to lower rates mandated by the CRTC, fees received from long distance competitors accessing our network have declined.

Long distance revenue

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

Long Distance Minutes



Long distance revenue declined in the second quarter of 2006 by \$6.9 million or 8.5 per cent compared to the second quarter of 2005, mainly as a result of lower per-minute prices.

In the residential market, the average price per minute decreased 6.0 per cent in the second quarter of 2006 compared to the same period in 2005, due to a significant increase in the number of customers taking unlimited long distance plans in our value packages. Although we experience lower long-distance pricing allocations, our success in marketing value packages has resulted in increased customer retention, and has enabled us to secure growing wireless and Internet revenues.

Business long distance revenues are declining due to competitive pricing pressures and contact centre minute usage reductions. In the second quarter of 2006, we

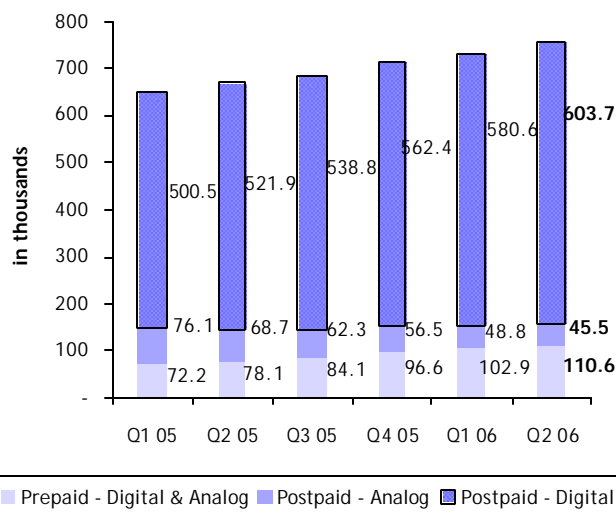
experienced a 6.3 per cent decline in the average rate per minute compared to the same period in 2005.

Data circuit revenues declined 1.6 per cent in the second quarter of 2006, reflective of lower prices in the enterprise market.

Wireless revenue

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.

Wireless Customers



Wireless revenue grew by 15.4 per cent in the second quarter of 2006, compared to the same period in the prior year, driven by strong customer growth, higher ARPC and an increase in data usage.

Our customer base grew 13.6 per cent year over year, with net activations of 27,440, up by 38.3 per cent over the second quarter of 2005. Gross activations in the second quarter of 2006 were up by 4.8 per cent over the prior year and our customer turnover rate, or churn, improved by 29.2 per cent. Our monthly churn rate remains very strong at 0.97 per cent, as a growing number of our customers are subscribing to value packages, business bundles and longer term contracts. The churn rate for postpaid customers was 0.84 per cent for the second quarter of 2006. At June 30, 2006, approximately 90 per cent of Atlantic Canada's population had access to our digital wireless network, up from approximately 89 per cent at the same time last year.

For the three months ended June 30, 2006, ARPC for postpaid customers grew by 5.2 per cent over the same period in 2005, reflecting increased average minutes of use and significantly higher data usage, driven by text messaging, Web browsing, Blackberry® and premium content

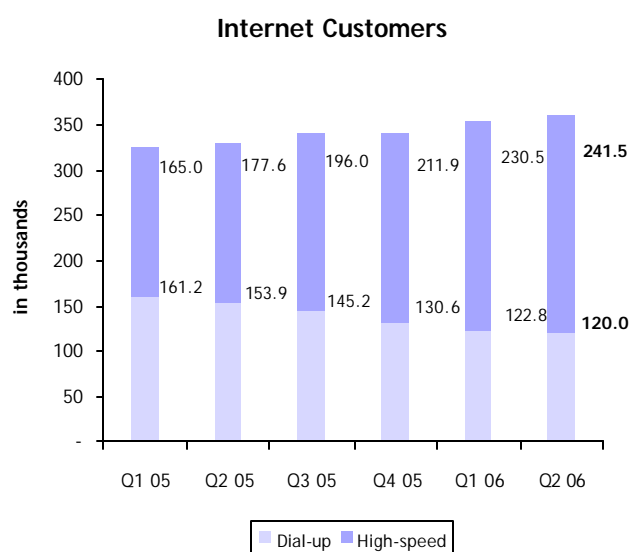
downloads. Prepaid ARPC grew by 14.3 per cent, as a higher number of prepaid customers are increasing their voice usage as well as subscribing to value-added services offered in some of our prepaid plans. Overall ARPC grew by 2.7 per cent over the same period in 2005; this lower overall growth being more reflective of a slightly higher proportion of prepaid customers relative to 2005. Prepaid customers represent 14.6 per cent of total customers at June 30, 2006, compared to 11.7 per cent at June 30, 2005. The higher prepaid mix reflects our strategy of achieving wireless growth through an increased focus on profitable growth of our prepaid customers, while maintaining our solid postpaid performance.

Wireless - statistics

For the period ended June 30	Three Months			Six Months		
	2006	2005	% change	2006	2005	% change
Monthly - ARPC (dollars)						
Postpaid	\$ 60.29	\$ 57.32	5.2	\$ 58.63	\$ 55.79	5.1
Prepaid	\$ 12.76	\$ 11.16	14.3	\$ 12.16	\$ 10.97	10.8
Total	\$ 53.51	\$ 52.12	2.7	\$ 52.11	\$ 50.75	2.7
Gross activations	49,184	46,917	4.8	89,542	82,473	8.6
Deactivations	21,744	27,070	(19.7)	45,252	53,429	(15.3)
Net activations	27,440	19,847	38.3	44,290	29,044	52.5
Monthly - Average minutes of use per customer	302	299	1.0	290	281	3.2
Postpaid churn	0.84%	1.25%	(32.8)	0.92%	1.25%	(26.4)
Blended churn	0.97%	1.37%	(29.2)	1.03%	1.37%	(24.8)

Internet revenue

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



Internet revenue for the second quarter of 2006 grew by 20.0 per cent over the same period in 2005, led by a 39.3 per cent growth in high-speed revenue. Revenue growth was driven by high-speed customer growth, lower use of promotional pricing and increased adoption of enhanced services.

The number of high-speed customers grew 36.0 per cent over the second quarter of 2005, contributing to total year over year Internet customer growth of 9.1 per cent. 11,012 net high-speed customers were added in the second quarter, largely due to competitive marketing offers, proactive management of dial migration, expansion of our service area, success in marketing our new home business Internet service and the continued popularity of the PC purchase program. The rate of decline in our dial-up customer base has eased, contributing to a higher overall net customer growth compared to the second quarter of 2005. At June 30, 2006, our high-speed Internet service passed 83.6 per cent of homes and 87.7 per cent of

businesses in Atlantic Canada, up from 77.3 per cent and 82.4 per cent, respectively, at June 30, 2005.

Customer churn has been mitigated by our focus on customer retention and loyalty management programs, and through the continued success of value packages and business bundles that integrate Internet services with other

products. Overall, our blended customer churn for the second quarter of 1.88 per cent was lower than the 2.07 per cent churn for the second quarter of 2005.

Consumer high-speed ARPC continued to increase and has shown strong growth over the second quarter of 2005, due to a move away from promotional pricing and increased penetration of ultra high-speed and value added services. Business high-speed ARPC declined, as expected, based on continued adoption of our home business high-speed Internet package introduced in 2005 as part of our strategic initiative to achieve Internet growth in the SMB marketplace.

Internet - statistics

<i>For the period ended June 30</i>	Three Months			Six Months		
	2006	2005	% change	2006	2005	% change
Operating revenue (millions of dollars)						
Dial-up	\$ 8.0	\$ 10.2	(21.6)	\$ 16.7	\$ 21.0	(20.2)
High-speed	\$ 30.5	\$ 21.9	39.3	\$ 58.8	\$ 41.7	40.8
Total	\$ 38.5	\$ 32.1	20.0	\$ 75.5	\$ 62.7	20.4
Monthly - ARPC (dollars)						
Consumer dial-up	\$ 21.17	\$ 19.76	7.1	\$ 21.19	\$ 18.93	11.9
Consumer high-speed	\$ 34.70	\$ 32.52	6.7	\$ 34.37	\$ 32.02	7.3
Business dial-up	\$ 42.51	\$ 47.42	(10.4)	\$ 44.47	\$ 47.09	(5.6)
Business high-speed	\$ 80.67	\$ 86.78	(7.0)	\$ 81.64	\$ 89.25	(8.5)
Net additions						
Dial-up	(2,860)	(7,245)	(60.5)	(10,668)	(14,196)	(24.9)
High-speed	11,012	12,485	(11.8)	29,612	28,084	5.4
Total	8,152	5,240	55.6	18,944	13,888	36.4
Churn						
Consumer high-speed	1.77%	1.93%	(8.3)	1.51%	1.60%	(5.6)
Business high-speed	2.00%	1.64%	22.0	1.89%	1.63%	16.0
Blended (high-speed and dial-up)	1.88%	2.07%	(9.2)	1.75%	1.93%	(9.3)

Other revenues

<i>For the period ended June 30</i> <i>(millions of dollars)</i>	Three Months			Six Months		
	2006	2005	% change	2006	2005	% change
Product	\$ 33.9	\$ 27.2	24.6	\$ 63.8	\$ 55.0	16.0
Directory	13.9	13.6	2.4	27.3	26.0	5.0
Innovatia	10.3	10.3	-	20.8	18.8	10.6
Miscellaneous	2.9	3.3	(14.4)	6.4	8.0	(20.0)
	\$ 61.0	\$ 54.4	12.0	\$ 118.3	\$ 107.8	9.7

Product sales grew by 24.6 per cent in the second quarter of 2006, mainly attributable to growing PC sales associated with our PC purchase program. Higher cellular set and related accessory sales also contributed to the year over year product sales growth.

IT services revenue

IT services revenue is earned through systems integration, software engineering, business consulting and infrastructure services, such as data centre, help desk, security and technical support services.

IT services revenue declined by \$8.6 million in the second quarter of 2006, compared to the same period in the prior year. IT service revenue from internal customers declined by \$10.5 million, which reflects the 2005 organizational integration of the infrastructure services function of our information technology segment into our

telecommunications segment, which involved the transfer of approximately 425 employees from xwave to Aliant Telecom. Approximately \$9.5 million of IT outsourcing revenue, charged to the telecommunications segment in the second quarter of 2005, is now performed directly by the telecommunications segment, reducing internal revenues. At the consolidated reporting level, these internal revenues are eliminated. IT services revenues from external customers grew by \$1.9 million in the second quarter of 2006, or 6.6 per cent, compared to the same period in the prior year. The increase was driven mainly by new contracts or incremental growth in existing contracts with external customers in the government, health care, and justice and public safety industry verticals.

Fulfillment revenue

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

IT fulfillment revenue declined by 4.2 per cent, or \$1.4 million, in the second quarter of 2006 compared to the same period in 2005. The second quarter decline is mainly due the acceleration of spending by a major client, which contributed to growth in the first quarter of 2006. Year-to-date fulfillment revenue growth is 7.0 per cent.

Expenses

For the period ended June 30 (millions of dollars)	Three Months			Six Months		
	2006	2005	% change	2006	2005	% change
Expenses						
Operating expenses						
Cost of operating revenues	\$ 67.8	\$ 65.0	4.3	\$ 156.8	\$ 148.0	5.9
Pension and other post-employment benefit costs	24.3	24.9	(2.1)	49.1	50.2	(2.1)
Other operating expenses	241.7	227.6	6.2	477.3	457.5	4.3
	333.8	317.5	4.6	683.2	655.7	3.8
Depreciation and amortization	91.9	99.0	(7.1)	190.8	197.6	(3.4)
Restructuring and other charges	8.9	-	-	9.2	-	-
	\$ 434.6	\$ 416.5	4.3	\$ 883.2	\$ 853.3	3.5

Cost of operating revenues

The cost of operating revenues increased by 4.3 per cent for the second quarter when compared with the same period in the prior year, driven by the cost associated with increased telecommunication product sales. This was offset slightly by lower network settlement charges mandated by the CRTC.

Pension and other post-employment benefit costs

For the period ended June 30 (millions of dollars)	Three Months			Six Months		
	2006	2005	% change	2006	2005	% change
Defined benefit	\$ 19.7	\$ 18.3	7.7	\$ 39.9	\$ 36.6	9.0
Defined contribution	2.3	2.2	4.5	4.5	5.1	(11.8)
Other post-employment benefits	2.3	4.4	(47.7)	4.7	8.5	(44.7)
	\$ 24.3	\$ 24.9	(2.1)	\$ 49.1	\$ 50.2	(2.1)

Overall pension and other post-employment benefit costs declined 2.1 per cent in the second quarter of 2006, compared to the same period in 2005, reflecting the positive results of our efforts to bring a measure of stability to these costs over the last two years. While defined benefit (DB) pension costs have increased, the DB pension plans were closed to new entrants as a result of plan amendments in 2004. Also, amendments to our other post-employment benefit (OPEB) plans made in the first quarter of 2006 have resulted in immediate cost reductions and will also lower our exposure to future growth in these costs.

The increase in DB pension cost for the second quarter of 2006 over the same period in 2005 was primarily due to the amortization of a larger balance of prior years' net actuarial losses. Net actuarial losses have increased due to a rise in the accrued benefit obligation, resulting from a lower interest rate used to discount the future obligations at the end of 2005. In the second quarter of 2006, we amortized \$2.6 million more accumulated losses through pension cost compared to the same period in the prior year.

Defined contribution (DC) pension cost represents the current service expense associated with our contributions to employees' retirement savings accounts. DC pension costs for the second quarter of 2006 were in line with costs for the same period last year.

OPEB costs were lower for the second quarter of 2006 when compared with the same period in 2005. 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 of 2006 and is being amortized on a straight-line basis over the expected average remaining service lives of employees. In addition, the plan changes result in lower interest costs and current service costs.

Other operating expenses

Other operating expenses increased in the second quarter of 2006 by \$14.1 million, or 6.2 per cent, over the expenses incurred during the same period in the prior year. Customer growth of 13.6 per cent and 9.1 per cent in our wireless and Internet businesses, respectively, were the primary drivers of the increase. In addition, advances in mobile phones and BlackBerry devices resulted in higher hardware costs, as customers upgrade to newer technologies. Also reflected in the increased operating expenses for the quarter were wage increases for unionized and management employees and higher advertising costs related to our sponsorship of the 2010 Olympics and the introduction of a new competitive marketing campaign in May 2006. A strong focus on cost containment and productivity programs partially offset the expense growth for the quarter.

Depreciation and amortization

Depreciation and amortization expense for the second quarter of 2006 declined by 7.1 per cent compared to the same period in 2005. Effective April 1, 2006, we changed our estimate of the useful life of internally developed software to five years from three years. As a result, depreciation expense related to this software was reduced by \$7.7 million.

Restructuring and other charges

The planned restructuring of our operations to improve productivity and other restructuring activities resulted in charges of \$8.9 million in the second quarter of 2006, the majority of which are severance and related benefits.

Other expenses

Other expenses

Other expenses for the second quarter of 2006 were consistent with those incurred in the same period of 2005. \$1.8 million of income related to the fair value accounting and settlement of derivative instruments was largely offset by lower interest income and higher accounts receivable securitization fees.

During the first quarter of 2006, the exercise of an interest rate swaption derivative contract and the extinguishment of the associated unamortized premium income resulted in a financial derivative loss of \$13.1 million. Further details are discussed in the "Other financial arrangements" section.

Interest charges

Interest charges for the second quarter of 2006 declined 13.5 per cent over the second quarter 2005, due to a lower amount of long-term debt outstanding in the period compared to the prior year, combined with lower overall interest rates on long-term debt refinanced in recent years.

Income taxes

Income taxes for the second quarter of 2006 were consistent with the same period in 2005. Although income before tax has increased, income taxes were offset by a 1.5 percentage point reduction in the effective tax rate as a result of a revaluation of future tax assets and liabilities due to the recently enacted reduced federal and provincial income tax rates.

Financial and capital management

Summary of cash flows

<i>For the period ended June 30</i> <i>(millions of dollars)</i>	Three Months			Six Months		
	2006	2005	% change	2006	2005	% change
Cash from (used in):						
Operating activities						
Net income	\$ 53.2	\$ 49.8	6.9	\$ 93.4	\$ 93.4	-
Adjustments to reconcile net income to cash from operating activities						
Net benefit plans cost	22.1	22.6	(2.2)	44.7	45.0	(0.7)
Funding of DB pension and OPEB plans	(28.9)	(20.0)	44.5	(51.9)	(100.1)	(48.2)
Financial derivative loss (gain)	(1.2)	-	-	11.9	-	-
Future income taxes	(3.2)	(0.2)	-	(9.6)	0.2	-
Depreciation, amortization and other non-cash items	94.8	99.5	(4.7)	194.9	198.1	(1.6)
Change in operating assets and liabilities	(16.6)	16.8	-	(63.5)	(35.6)	78.4
	120.2	168.5	(28.7)	219.9	201.0	9.4
Repurchase of common shares	(19.8)	(46.3)	(57.2)	(19.8)	(79.5)	(75.1)
Issuance of common shares	10.0	0.3	-	14.2	0.8	-
Cash dividends paid on preferred and common shares	(40.7)	(39.6)	2.8	(117.6)	(79.7)	47.6
Proceeds of long-term debt	279.6	149.3	87.3	279.6	149.3	87.3
Repayment of long-term debt	(75.0)	-	-	(125.0)	(0.1)	-
Purchase of capital investments	(104.3)	(104.3)	-	(185.3)	(186.0)	(0.4)
Redemption of preferred shares	(175.0)	-	-	(175.0)	-	-
Other financing and investing activities	(4.7)	(6.4)	(26.6)	(14.4)	(9.6)	50.0
Net use of cash	\$ (9.7)	\$ 121.5	-	\$ (123.4)	\$ (3.8)	-

Operating activities

During the second quarter of 2006, we generated \$120.2 million in cash from operating activities, a decrease of \$48.3 million over the same period in 2005. Funding of DB pension plans and changes in operating assets and liabilities were the main contributors to the decline.

Funding of DB pension and OPEB plans

In the second quarter of 2006, we received actuarial valuations of our DB pension plans as at December 31, 2005. These valuations resulted in a solvency deficit of \$209.8 million which is to be funded over the next five years and a going concern deficit of \$165.6 million which is to be funded over the next fifteen years. This is in addition to the annual funding of solvency deficits identified in previous years. Total funding of \$103.5 million is required for our DB pension plans in 2006, which is net of reallocations of prior years' voluntary contributions. Of the total, approximately \$68 million is required to pay down funding deficiencies and the remainder represents the annual

funding of the current service cost. During the quarter, we contributed \$27.3 million to our DB pension plans to bring our year to date funding up to the required amount per the valuations.

We expect 2006 funding requirements of our OPEB plans to be in the range of \$5 million to \$7 million. These plans required \$1.6 million of cash funding in the second quarter of 2006.

Financial derivative loss (gain)

During the first quarter of 2006, the exercise of an interest rate swaption derivative contract and the extinguishment of the associated unamortized premium resulted in a non-cash financial derivative loss of \$13.1 million. As discussed in the "Other financial arrangements" section, we were placed into a fixed-floating interest rate swap, for which changes in fair value are charged to other income and recorded as a non-cash financial derivative gain or loss. The decline in fair value of this swap during the second quarter of 2006 was \$1.2 million.

Future income taxes

The \$3.0 million decrease in future tax expense compared to the second quarter of 2005 is further discussed in the "Other expenses" section.

Depreciation, amortization and other non-cash items

A decrease in depreciation and amortization expense contributed to the decline in this cash flow item for the second quarter of 2006, and is discussed in the "Expenses" section.

Change in operating assets and liabilities

<i>For the period ended June 30</i> <i>(millions of dollars)</i>	Three Months			Six Months		
	2006	2005	% change	2006	2005	% change
Accounts receivable	\$ 16.8	\$ 27.7	(39.4)	\$ 19.4	\$ 30.1	(35.5)
Prepayments	(15.0)	(15.3)	(2.0)	(17.4)	(22.2)	(21.6)
Inventory	2.8	4.2	(33.3)	6.2	4.4	40.9
Deferred charges and credits	(43.8)	(2.8)	-	(50.1)	(2.2)	-
Payables and accruals	27.3	(12.7)	-	31.5	(61.2)	-
Income taxes receivable and payable	(4.7)	15.7	-	(53.1)	15.5	-
Change in operating assets and liabilities	\$ (16.6)	\$ 16.8	-	\$ (63.5)	\$ (35.6)	78.4

During the second quarter of 2006, the change in operating assets and liabilities used cash of \$16.6 million, \$33.4 million more than the second quarter of 2005. A decrease in accounts receivable generated \$16.8 million in operating cash for the second quarter, \$10.9 million less than was generated in the same three month period last year. This was mainly a result of the collection of receivables related to IT fulfillment sales after a very busy first quarter, offset slightly by an increase related to cost recovery on a shared capital project. Also, we experienced an improvement in days' accounts receivable outstanding during the second quarter of 2005, which has stabilized in 2006. Deferred charges for the second quarter of 2006 include \$39.9 million in long-term debt redemption charges, of which \$10.1 million are included in accounts payable, and of which \$29.8 million was paid in late June 2006. Also contributing to the increase in cash generated by accounts payable was \$8.2 million of restructuring and other charges incurred in June 2006. In addition, \$9.4 million in payments were made in the second quarter of 2005 relating to our 2004 early retirement incentive program (ERIP). Income taxes paid in the second quarter of 2006 were greater than those paid in the second quarter of 2005 as a result of higher installments required compared to the prior year. In addition, \$6.7 million of income taxes receivable were recorded in the second quarter of 2006 related to a claim for scientific research and experimental development credits.

Repurchase of common shares

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 issued and outstanding common shares at market price through the facilities of the

TSX. The NCIB expired on July 7, 2006. We had commenced a similar NCIB on February 4, 2005, under which we were permitted to acquire 6,637,200 common shares prior to its expiry on February 3, 2006. For the three and six months ended June 30, 2006, we purchased for cancellation 562,216 shares for an aggregate price of \$19.8 million. For the three and six months ended June 30, 2005, we purchased for cancellation 1,697,691 and 2,848,879 shares, respectively, for an aggregate price of \$46.3 million and \$79.5 million, respectively.

Further details about the NCIB are provided in note 8 to our unaudited interim consolidated financial statements for the period ended June 30, 2006.

Issuance of common shares

During the second quarter of 2006, 329,112 common shares were issued for proceeds of \$10.0 million, as a result of the exercise of options pursuant to our stock option plan.

Preferred and common share dividends

Cash dividends paid in the second quarter of 2006 increased 2.8 per cent over the same period in 2005. The increase reflects the 5.1 per cent increase in the quarterly dividend rate approved during the first quarter of 2006, offset by fewer shares outstanding as a result of the NCIBs that were active throughout most of 2005 and part of 2006.

Proceeds of long-term debt

During the second quarter of 2006, we arranged for a bridge demand credit facility with two Canadian chartered banks in an aggregate maximum amount of up to \$1.0 billion. As at June 30, 2006, \$280.0 million had been drawn, net of \$0.4 million in issue discount and expenses. The purpose of this bridge facility was to temporarily fund pre-closing transactions incurred prior to the creation of the income trust with the proceeds being used to redeem preferred shares and long-term debt. This facility was repaid on July 7, 2006, and replaced with bank credit facilities as described in the "Liquidity" section.

Repayments of long-term debt

On March 1, 2006, we redeemed, prior to maturity, \$50.0 million of outstanding 10.45 per cent first mortgage bonds, Series AD, due March 1, 2013.

On June 30, 2006, we redeemed, prior to maturity, \$75.0 million of outstanding 10.75 per cent first mortgage bonds, Series T, due June 12, 2014. A premium of \$29.8 million was paid to redeem these bonds and has been recorded as a deferred charge at June 30, 2006, as the redemption relates to the creation and recapitalization of Bell Aliant.

Redemption of preferred shares

On June 30, 2006, we redeemed all 7,000,000 issued and outstanding preferred shares. The redemption price was at par, or \$25.00 per share, for a total redemption cost of \$175.0 million.

Liquidity

The creation of Bell Aliant has required us to significantly alter our current capital structure. To assist in financing the Arrangement and re-financing existing long-term debt, to provide for ongoing liquidity requirements, and to fund required special deficit payments of our DB pension plans, bank credit facilities totalling \$3.5 billion have been obtained through a syndicate of financial institutions co-led by two Canadian chartered banks. The components and terms of the facilities are described in note 11 to our unaudited interim consolidated financial statements for the period ended June 30, 2006.

Significant costs are being incurred to complete the Bell Aliant transaction and the conversion to an income trust structure affects how we manage our cash requirements, as the emphasis is on generating maximum possible stable, distributable cash flows for Fund unit holders.

Cash requirements

Our cash requirements for the remainder of 2006 will consist of transaction and integration costs, unit holder distributions, investments in capital, required pension plan contributions and payments of other commitments. In particular, it is anticipated that these requirements will result in the use of cash as follows:

- The creation of Bell Aliant requires significant cash outlays, as the consideration includes a \$1.256 billion demand promissory note issued to Bell Canada that was settled shortly following the completion of the Arrangement. As well, we will pay for costs to complete the transaction which include debt redemption premiums, financing fees, investment banking and consulting fees, restructuring and other charges.
- The majority of our remaining long-term debt will be redeemed or repaid and refinanced through capital market issuances, as described in the "Debt" section.
- Distributions to holders of Fund units are anticipated to be approximately \$0.23 per unit per month, subject to approval by the trustees of the Fund;
- Total funding of our DB pension plans for 2006 is anticipated to be in the range of \$100 million to \$110 million. This compares favourably to the estimates made earlier in the year and is based on final actuarial valuations for our DB pension plans as of December 31, 2005. These payments include approximately \$68 million in special payments that may be funded through the dedicated credit facility established for that purpose. New actuarial valuations as at July 7, 2006, will also be required as part of the creation of Bell Aliant and these will be completed in the fourth quarter of 2006. We will adjust our DB pension plan contributions, if necessary, based on the outcome of these valuations. In addition, we will be assessing the solvency funding measures introduced in the federal government's 2006 budget. Adoption of a funding relief measure could reduce our required pension contributions for 2006 by up to 30 per cent from the above levels.

Funding of our OPEB plans for 2006 is expected to be \$5 million to \$7 million.

- Capital investments will be made as required to support our existing infrastructure and to advance our strategic initiatives.
- Our accounts receivable securitization program expires in December 2006. The transfer of receivables has not changed as a result of the creation of Bell Aliant and net cash proceeds remain at \$120.0 million. The securitization program is being renegotiated and it is our intention to continue the program.
- Other commitments, such as operating leases and purchase commitments for equipment and other network infrastructure, and contingencies are disclosed in note 10 to our unaudited interim consolidated financial statements for the period ended June 30, 2006, and notes 19 and 22 to our audited consolidated financial statements for the year ended December 31, 2005.

Sources of liquidity

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

Capital structure

<i>(millions of dollars, except as otherwise noted)</i>	June 30, 2006		December 31, 2005			
Common equity	\$	1,246.1	53.8%	\$	1,239.6	53.1%
Preferred equity		-	-		172.3	7.4%
Non-controlling interest		6.7	0.3%		5.6	0.2%
Long-term debt, including amount due within one year		1,062.6	45.9%		904.5	38.8%
Notes payable and bank advances		-	-		11.2	0.5%
Total capital	\$	2,315.4	100.0%	\$	2,333.2	100.0%
Debt as a percentage of total capital		45.9%			39.3%	

Common equity

On July 5, 2006, the employee stock option plan was terminated and all of the outstanding stock options were deemed to be fully vested. Options could be exercised or eligible for cash settlement if so elected by the option holder. On the same date, there were 2,451,260 options outstanding, of which 1,947,733 were exercised or cash settled, resulting in a charge of \$8.5 million, the amount by which the volume weighted average common share price for the final ten trading days exceeded the exercise price of the options.

On July 7, 2006, under the terms of the Arrangement, all outstanding Aliant common shares held by the public and a certain number of Aliant shares held by BCE were exchanged on a one-for-one basis for Fund units. The remaining Aliant Inc. common shares held by BCE were exchanged for limited partnership units of Fund subsidiaries.

At July 24, 2006, Bell Aliant Regional Communications Income Fund had the following outstanding units:

Issued

(millions of dollars, except as otherwise noted)

	July 24, 2006	
	Number of fund units	Value
Fund units	124,121,175	\$ 4,141.0

Debt

On July 7, 2006, syndicated credit facilities with Canadian chartered banks were finalized in an aggregate maximum amount of \$3.5 billion. As at July 27, 2006, approximately \$1.7 billion was drawn on these facilities. Funds were used to repay the \$280.0 million demand credit facility outstanding at June 30, 2006, to redeem bonds and debentures for \$351.8 million, including debt redemption premiums, to settle a \$1.256 billion demand promissory note payable to Bell Canada related to the transaction to create Bell Aliant, and to pay transaction costs. We intend to refinance the \$1.7 billion of bank debt with more permanent long-term debt through capital market issuances in the next 12 to 36 months. In addition, \$400.0 million of Aliant redeemable medium term notes remain outstanding, and it is our intention to redeem and refinance these notes. The final piece of Aliant's existing long-term debt, a \$100.0 million medium-term note, will mature in January 2007.

On July 13, 2006, Bell Aliant Regional Communications, Limited Partnership launched a \$400.0 million commercial paper program. As at July 27, 2006, \$200.0 million of notes were issued under this facility. Proceeds from the issuance of commercial paper will be used to repay existing bank indebtedness and for general operating purposes. We will ensure at all times that sufficient undrawn capacity exists on our revolving bank credit to support issuances of commercial paper.

Ratings

On July 10, 2006, Standard and Poors (S&P) and Dominion Bond Rating Service (DBRS) confirmed the ratings for Bell Aliant Regional Communications, Limited Partnership and the Fund.

	S&P	DBRS
Bell Aliant Regional Communications, Limited Partnership senior unsecured debt	BBB, stable trend	BBB (high) stable trend
Bell Aliant Regional Communications, Limited Partnership commercial paper	Not rated	R-1 (low) stable trend
Bell Aliant Regional Communications Income Fund stability ratings	SR-2, negative outlook	STA-2 (high)

Stability ratings are unique to income funds.

The S&P Canadian income fund stability ratings scale conveys opinions about the relative stability of the cash distribution stream across various income funds. A stability rating, ranging from "SR-1" to "SR-7", reflects S&P's

assessment of the underlying business model, its sustainability, and the variability in distributable cash flow generation in the medium to long term. Income funds rated "SR-2" have a very high level of distributable cash flow generation stability relative to other income funds in the Canadian market place. The negative outlook from S&P primarily reflects their concerns with the expected funding of the pension deficit, the potential variability of this deficit, and the possibility of greater-than-expected debt financing to address pension funding shortfalls. Other risks cited include the potential for greater-than-expected revenue erosion from local or long-distance services, or slower-than expected growth in Internet revenues.

DBRS' stability rating categories range from "STA-1" to "STA-7", with "STA-1" being the highest. DBRS further separates the ratings into "high", "middle" and "low" to indicate where within the ratings category they fall. Ratings take into account the seven main factors of operating and industry characteristics: asset quality, financial flexibility, diversification, size and market position, sponsorship/governance, and growth. A stability rating of "STA-2" is an indication of very good stability and sustainability, and income funds with this rating typically show above-average strength in areas of consideration, and possess levels of distributable income per unit which are not likely to be significantly affected by foreseeable events.

Other financial arrangements

Contractual obligations

We have various operating leases and purchase commitments for equipment and other network infrastructure. The amounts of estimated future payments under such arrangements are detailed in note 10 to our unaudited interim consolidated financial statements for the period ended June 30, 2006, and described in our MD&A for the year ended December 31, 2005.

Accounts receivable securitization

Under a purchase and sale agreement, we sell certain accounts receivable to a securitization trust. Further details of this arrangement are described in notes 1 and 2 to our audited consolidated financial statements for the year ended December 31, 2005. Net cash proceeds in our securitization trust total \$120.0 million. Although accounts receivable associated with our former wireless business will be generated by Bell Canada, they have agreed to sell the receivables back to us to maintain our program at \$120.0 million until it is renegotiated. Following completion of the Arrangement, we will generate accounts receivable related to rural wireline customers in Ontario and Quebec, and similarly have agreed to sell them back to Bell Canada so as to maintain their securitization program.

Use of derivative financial instruments

We use derivative financial instruments periodically in the management of interest rate and foreign currency exposures associated with our long-term debt or specific firm commitments. Details of our use of derivative financial instruments and the accounting policies we follow are provided in notes 1 and 18 to our audited consolidated financial statements for the year ended December 31, 2005.

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 rate on a notional principal amount of \$50.0 million. On March 2, 2006, the fair value of the swap was \$17.9 million in favour of the counterparty, and was recorded as a deferred derivative liability. An unamortized premium amount of \$4.7 million related to the swaption was also extinguished and the resulting net charge to other expense was \$13.2 million. The fair value of the swap at June 30, 2006, was \$16.6 million, and the decline in fair value was charged to other income.

In advance of the creation of Bell Aliant, and in anticipation of having to refinance a significant amount of long-term debt as a result, we initiated a large program for hedging the interest rate risk related to this refinancing. Implementing this strategy, 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. These instruments are being accounted for as cash flow hedges. The fair value at June 30, 2006, \$31.1 million in our favour, is not recorded in our financial statements due to the application of hedge accounting.

During the second quarter of 2006, we settled an outstanding interest rate swap with a notional amount of \$100.0 million for net cash proceeds of \$0.7 million.

On July 19, 2006, an outstanding interest rate swaption related to the call option on our NBTel Series AA debentures 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 11.125 per cent and receive the three-month Bankers' Acceptance floating rate on a notional principal amount of \$40.0 million. On July 19, 2006, the fair value of the swap was \$14.9 million in favour of the counterparty, and was recorded as a deferred derivative liability. An unamortized premium amount of \$2.4 million related to the swaption was also extinguished and the resulting net charge to other expense was \$12.5 million.

Related party transactions

Our only significant related party continues to be Bell Canada, which is owned 100.0 per cent by BCE Inc. For greater detail on our related party transactions refer to note 20 of our audited consolidated financial statements for the year ended December 31, 2005.

The creation of the Bell Aliant income trust structure has changed BCE and Bell Canada's percentage ownership. Immediately following completion of the Arrangement, BCE and Bell Canada owned 73.5 per cent of the Fund units on a fully diluted basis. On July 10, 2006, BCE distributed some of its Fund units to BCE shareholders. As at July 24, 2006, BCE and Bell Canada owned approximately 44.7 per cent of the Fund (on a fully diluted basis). In addition, the nature and extent of our related party transactions have changed as new commercial and other operating agreements have been developed which govern certain operations between us and Bell Canada.

Significant accounting policies and critical accounting estimates

Our unaudited interim consolidated financial statements as at June 30, 2006, have been prepared in accordance with Canadian GAAP. Our accounting policies and methods and critical accounting estimates and assumptions are consistent with those as described in note 1 to our audited consolidated financial statements for the year ended December 31, 2005, except for a change in estimate related to the useful life of internally developed software, as disclosed in note 1 to our unaudited interim consolidated financial statements for the period ended June 30, 2006.

The creation of the income trust may require the adoption of new or changes to existing significant accounting policies and critical accounting estimates to ensure consistency among the combined businesses. The estimated effects on significant accounting policies and critical accounting estimates have not yet been determined.

Accounting policy developments

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

Changes in accounting standards or guidelines issued to date have not resulted in changes to our accounting in the first six months of 2006.

Risk and risk management

Management is confident about our long-term prospects, but we recognize that we are exposed to a number of risks in the normal course of business that could have a negative effect on our financial condition or results of operations. We identified significant risks that we were aware of for the year ended December 31, 2005, as presented in our MD&A for the year ended December 31, 2005.

To date in 2006, we have not identified significant changes to the nature of the risks that we are exposed to in our current business. We have provided updates to our regulatory and competitive environments in the "Environmental update" section.

The creation of an income trust has caused us to be exposed to a new set of specific risks relating to the new, combined businesses and the income trust structure. These risks are highlighted in the "Risk Factors" section of the Circular.

Legal and other contingencies

We described certain legal proceedings and other contingencies that involved us in note 22 to our audited consolidated financial statements for the year ended December 31, 2005.

On February 16, 2006, the CRTC issued its decision regarding application of the deferral account balances and allowable cost mitigation features, and on May 15, 2006, we filed with the CRTC our updated deferral account balances and proposal to clear the accumulated balance from our deferral account. Further details are discussed in the "Environmental update" section. Our deferral account balance has decreased from the original estimate of \$21.8 million to \$8.2 million.

There have been no significant changes in the legal proceedings involving us that would affect our financial position.

Supplementary financial information

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

Quarterly financial information (unaudited)

For the eight quarters ended June 30, 2006

<i>(millions of dollars, except for per share amounts)</i>	2004		2005				2006	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Total operating revenues	\$ 499.3	\$ 509.9	\$ 524.4	\$ 517.3	\$ 520.1	\$ 534.9	\$ 544.9	\$ 534.3
Net income	\$ 37.0	\$ 7.5	\$ 43.6	\$ 49.8	\$ 50.8	\$ 55.2	\$ 40.2	\$ 53.2
Preferred share dividends	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Common share dividends	\$ 36.3	\$ 36.9	\$ 39.0	\$ 38.5	\$ 38.1	\$ 37.6	\$ 39.5	\$ 39.5
Basic and diluted earnings per common share	\$ 0.26	\$ 0.04	\$ 0.31	\$ 0.36	\$ 0.37	\$ 0.41	\$ 0.30	\$ 0.40

Our 2004 results were affected by a labour disruption, which commenced on April 23 and concluded on September 20, and by the provision of an ERIP in October. The ERIP reduced net income in the fourth quarter of 2004 by \$42.3 million. In 2005, our business returned to normal following the labour disruption. Net income for the first quarter of 2006 was negatively affected by a \$13.1 million financial derivative loss related to the exercise of an interest rate swaption contract and the extinguishment of the associated unamortized premium, \$8.3 million after income taxes. During the second quarter of 2006, the change in fair value of the financial derivative and the settlement of another financial instrument created a gain of \$1.8 million, \$1.2 million after income taxes. Further details are discussed in the "Other financial arrangements" section.

The comparability of our operating results is also affected by the timing of telecommunications product sales and IT fulfillment sales that can be large and sporadic in nature.

Forward-looking statements

This MD&A contains forward-looking statements related to our future financial condition and results of operations. These statements are based on current expectations. Unless otherwise indicated, such forward-looking statements describe our expectations and estimates about the markets in which we operate and management's beliefs and assumptions regarding these markets at July 27, 2006. In some cases, forward-looking statements may be identified by words such as "anticipate", "believe", "could", "expect", "plan", "seek", "may", "intend", "will" and similar expressions. These statements are subject to important risks and uncertainties, which are difficult to predict, and assumptions, which may prove to be inaccurate. Some of the factors that could cause results or events to differ materially from current expectations include but are not limited to: general economic conditions; stock market volatility; market or business conditions; 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; our

success in integrating the businesses that combined to form Bell Aliant; and unforeseen changes in relationships with important stakeholders. Some of these factors are largely beyond our control. Should any factor affect us in an unexpected manner, or should assumptions underlying the forward-looking statements prove incorrect, the actual results or events may differ materially from the results or events predicted. For more information concerning these risk factors and assumptions, please refer to our MD&A for the year ended December 31, 2005, including those sections entitled "Critical accounting estimates and assumptions" and "Risk and risk management", as well as our Circular, including those sections entitled "Forward-Looking Information" and "Risk Factors". All of the forward-looking statements made in this document and the documents referred to within are qualified by these cautionary statements, and there can be no assurance that the results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences for us. Except as may be required by applicable law, we disclaim any intention and assume no obligation to update or revise any forward-looking statement even if new information becomes available, as a result of future events or for any other reason. Readers should not place undue reliance on any forward-looking statements.