BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP

CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)

September 30, 2006

BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP
Consolidated balance sheets
(Unaudited)

(millions of dollars)	**Notes**	**As at September 30, 2006**	As at December 31, 2005
Assets			
Current assets			
Cash and cash equivalents		**$ 262.3**	$ 195.8
Note receivable from related party	21	**37.5**	-
Accounts receivable	3, 21	**443.6**	301.6
Inventory		**21.5**	29.3
Prepayments		**31.2**	21.4
Future income tax asset	4	**3.2**	5.5
Income tax receivable		**37.7**	15.0
		837.0	568.6
Capital investments	5		
Property, plant and equipment		**3,710.4**	1,783.8
Finite-life intangibles		**158.1**	121.2
		3,868.5	1,905.0
Other assets			
Long-term receivable	2, 21	**40.3**	-
Deferred charges	6	**52.0**	18.1
Future income tax asset	4	**82.8**	43.2
Accrued benefit asset	7	**236.3**	266.9
Indefinite-life intangibles	8	**16.7**	3.7
Goodwill	9	**5,491.4**	61.8
		5,919.5	393.7
Total assets		**$ 10,625.0**	$ 2,867.3
Liabilities and partners' equity			
Current liabilities			
Notes payable and bank advances	10	**$ 151.0**	$ 11.2
Payables and accruals	11, 21	**358.7**	195.7
Distributions / dividends payable	21	**54.8**	37.6
Income tax payable		**6.7**	78.5
Future income tax liability	4	**1.5**	8.7
Long-term debt due within one year	12	**10.6**	6.6
		583.3	338.3
Future income tax liability	4	**14.4**	19.8
Long-term debt	12	**2,799.2**	897.9
Accrued benefit liability	7	**212.8**	182.0
Deferred credits		**17.4**	11.8
		3,627.1	1,449.8
Non-controlling interest	13	**1,929.5**	5.6
Partners' equity		**5,068.4**	1,411.9
Total liabilities and partners' equity		**$ 10,625.0**	$ 2,867.3

See accompanying notes to the consolidated financial statements

Approved on behalf of the board of directors of Bell Aliant Regional Communications Holdings Inc., general partner of Bell Aliant Regional Communications Holdings, Limited Partnership

Director: *Director:*

BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP

Consolidated statements of earnings

(Unaudited)

For the period ended September 30

(millions of dollars, except per share amounts)	Notes	Three months **2006**	Three months 2005	Nine months **2006**	Nine months 2005
Operating revenues	17	**$ 817.6**	$ 514.7	**$ 1,889.1**	$ 1,550.9
Expenses					
Operating expenses		**479.3**	313.4	**1,155.1**	968.1
Depreciation and amortization		**141.5**	98.1	**332.0**	295.5
Restructuring and other charges	11	**3.8**	-	**13.0**	-
		624.6	411.5	**1,500.1**	1,263.6
Operating income		**193.0**	103.2	**389.0**	287.3
Other (income) expenses					
Financial derivative loss	18	**19.3**	-	**30.5**	-
Other income	19	**(2,799.6)**	(0.3)	**(2,797.2)**	0.8
		(2,780.3)	(0.3)	**(2,766.7)**	0.8
Interest charges					
Interest on long-term debt		**35.6**	19.2	**68.5**	54.6
Other interest expense		**1.5**	0.1	**2.4**	1.7
		37.1	19.3	**70.9**	56.3
Earnings before underlisted items		**2,936.2**	84.2	**3,084.8**	230.2
Income taxes	4				
Current tax expense (recovery)		**(1.8)**	30.1	**61.8**	83.0
Future tax expense (recovery)		**(41.5)**	2.9	**(51.1)**	2.5
		(43.3)	33.0	**10.7**	85.5
Earnings before non-controlling interest		**2,979.5**	51.2	**3,074.1**	144.7
Non-controlling interest		**43.6**	0.8	**44.8**	1.8
Net earnings from continuing operations		**2,935.9**	50.4	**3,029.3**	142.9
Net earnings (loss) from discontinued operations	16	**(0.3)**	0.4	**(0.3)**	1.3
Net earnings		**$ 2,935.6**	$ 50.8	**$ 3,029.0**	$ 144.2
Earnings per unit / common share	15				
Basic and diluted from continuing operations		**$ 20.11**	$ 0.37	**$ 22.43**	$ 1.04
Basic and diluted from discontinued operations		**-**	-	-	0.01
Basic and diluted		**$ 20.11**	$ 0.37	**$ 22.43**	$ 1.05

See accompanying notes to the consolidated financial statements

BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP

Consolidated statements of partners' equity

(Unaudited)

For the nine months ended September 30, 2006 *(millions of dollars)*	Notes	Unitholders' capital	Contributed surplus	Accumulated earnings	Distributions declared to unitholders	Capital stock	Retained earnings	Total partners' equity
Balance December 31, 2005		$ -	$ 0.9	$ -	$ -	$ 1,176.0	$ 235.0	$ 1,411.9
Net earnings for the period		-	-	-	-	-	93.4	93.4
Dividends declared on:								
Preferred shares		-	-	-	-	-	(4.8)	(4.8)
Common shares	14	-	-	-	-	4.2	(79.0)	(74.8)
Common shares issued	14	-	-	-	-	13.7	-	13.7
Redemption of preferred shares	14	-	-	-	-	(172.2)	(2.8)	(175.0)
Repurchase of common shares	14	-	-	-	-	(4.5)	(15.3)	(19.8)
ESSP share buy gain		-	1.7	-	-	-	-	1.7
Common shares purchased to accommodate employees' stock savings plan		-	(1.2)	-	-	-	-	(1.2)
Stock options expense	14	-	1.0	-	-	-	-	1.0
Balance June 30, 2006		**$ -**	**$ 2.4**	**$ -**	**$ -**	**$ 1,017.2**	**$ 226.5**	**$ 1,246.1**
Net earnings for the period from July 1 to 7, 2006		-	-	-	-	-	2,875.2	2,875.2
Stock option expense	14	-	2.0	-	-	-	-	2.0
Cash settlement of stock options	14	-	(3.9)	-	-	-	(4.2)	(8.1)
Repurchase of common shares from dissenting shareholders	14	-	-	-	-	(0.1)	(0.5)	(0.6)
Other		-	-	-	-	-	(0.3)	(0.3)
Balance prior to conversion to Income Fund		**$ -**	**$ 0.5**	**$ -**	**$ -**	**$ 1,017.1**	**$ 3,096.7**	**$ 4,114.3**
Conversion to the Income Fund	14	1,017.1	(0.5)	-	-	(1,017.1)	0.5	-
Net earnings for the period from July 8 to September 30, 2006		-	-	60.4	-	-	-	60.4
Issuance of units	2, 14	991.8	-	-	-	-	-	991.8
Distributions declared on:								
Class 1 exchangeable limited partnership units		-	-	-	(17.7)	-	-	(17.7)
Class 2 limited partnership units		-	-	-	(78.6)	-	-	(78.6)
Dividends paid by subsidiaries to non-controlling interest		-	-	-	(1.8)	-	-	(1.8)
Balance September 30, 2006		**$ 2,008.9**	**$ 0.0**	**$ 60.4**	**$ (98.1)**	**$ -**	**$ 3,097.2**	**$ 5,068.4**

For the nine months ended September 30, 2005 *(millions of dollars)*	Notes	Unitholders' capital	Contributed surplus	Accumulated earnings	Distributions declared to unitholders	Capital stock	Retained earnings	Total Shareholders' equity
Balance December 31, 2004		$ -	$ -	$ -	$ -	$ 1,217.0	$ 313.7	$ 1,530.7
Net earnings for the period		-	-	-	-	-	144.2	144.2
Dividends declared on:								
Preferred shares		-	-	-	-	-	(7.2)	(7.2)
Common shares		-	-	-	-	4.6	(115.6)	(111.0)
Repurchase of common shares	14	-	-	-	-	(35.9)	(89.7)	(125.6)
Stock options expense	14	-	0.8	-	-	-	-	0.8
Xwave share purchase		-	(0.2)	-	-	-	-	(0.2)
Shares issued from Treasury for stock option plan		-	-	-	-	0.4	-	0.4
Balance September 30, 2005		**$ -**	**$ 0.6**	**$ -**	**$ -**	**$ 1,186.1**	**$ 245.4**	**$ 1,432.1**

See accompanying notes to the consolidated financial statements

BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP
Consolidated statements of cash flows
(Unaudited)
For the period ended September 30

(millions of dollars)	Notes	Three months 2006	Three months 2005	Nine months 2006	Nine months 2005
Cash from (used in) operating activities					
Net earnings		**$ 2,935.9**	$ 50.4	**$ 3,029.3**	$ 142.9
Adjustments to reconcile net earnings to cash from operating activities					
Depreciation and amortization		**141.5**	98.1	**332.0**	295.5
Future income taxes	4	**(41.5)**	2.9	**(51.1)**	2.5
Net benefit plans cost	7	**24.4**	22.5	**69.1**	67.6
Funding of defined benefit pension and other post-employment benefit plans	7	**(28.8)**	(20.5)	**(80.7)**	(120.5)
Non-controlling interest		**43.6**	0.8	**44.8**	1.8
Financial derivative loss	18	**16.0**	-	**28.0**	-
Gain on disposal of business units	2, 19	**(1,950.3)**	-	**(1,950.3)**	-
Dilution gain	19	**(1,000.3)**	-	**(1,000.3)**	-
Other non-cash items		**7.6**	(0.2)	**10.2**	(0.6)
Change in operating assets and liabilities		**(30.3)**	83.5	**(93.8)**	48.4
		117.8	237.5	**337.2**	437.6
Cash from (used in) financing activities					
Repurchase of accounts receivable	3	**-**	-	**-**	(5.0)
Collection of long-term receivable		**-**	-	**-**	4.8
Net proceeds (repayments) of notes payable and bank advances		**151.0**	1.3	**139.8**	(5.9)
Proceeds of long-term debt	12	**4,028.2**	-	**4,307.8**	149.3
Repayments of long-term debt	12	**(2,501.6)**	(0.4)	**(2,626.6)**	(0.1)
Repayments of capital lease obligations		**(1.4)**	-	**(3.7)**	(1.2)
Settlement of financial derivatives	18	**(58.1)**	-	**(58.1)**	-
Dividends paid by subsidiaries to non-controlling interest		**(1.8)**	(2.2)	**(1.8)**	(3.6)
Distributions paid by subsidiaries to non-controlling interest		**(38.6)**	-	**(38.6)**	-
Cash settlement of stock options	14	**(8.1)**	-	**(8.1)**	-
Issuance of common shares	14	**-**	-	**13.0**	1.0
Redemption of preferred shares	14	**-**	-	**(175.0)**	-
Repurchase of common shares	14	**(0.6)**	(45.9)	**(20.4)**	(125.6)
Dividends paid on preferred shares		**-**	(2.4)	**(4.8)**	(7.2)
Dividends paid on common shares		**-**	(36.7)	**(112.8)**	(111.6)
Distributions paid		**(61.4)**	-	**(61.4)**	-
		1,507.6	(86.3)	**1,349.3**	(105.1)
Cash from (used in) investing activities					
Purchase of capital investments		**(128.6)**	(99.2)	**(313.9)**	(285.2)
Proceeds on sale of capital investments		**0.2**	-	**0.5**	-
Business acquisitions, net of cash	2	**(1,268.8)**	-	**(1,268.8)**	-
Increase in contributed surplus		**-**	(0.1)	**-**	(0.2)
		(1,397.2)	(99.3)	**(1,582.2)**	(285.4)
Net increase in cash from continuing operations		**228.2**	51.9	**104.3**	47.1
Net increase (decrease) in cash from discontinued operations		**(0.3)**	0.4	**(0.3)**	1.3
Cash, beginning of period		**71.9**	319.4	**195.8**	323.3
Cash, end of period		**$ 299.8**	371.7	**$ 299.8**	371.7
Cash consists of:					
Cash and cash equivalents		**262.3**	71.7	**262.3**	71.7
Note receivable from related party		**37.5**	300.0	**37.5**	300.0
		$ 299.8	$ 371.7	**$ 299.8**	$ 371.7
Supplementary disclosure					
Interest paid		**$ 70.9**	$ 13.0	**$ 105.3**	$ 48.8
Income taxes paid, net		**$ 29.6**	$ (34.4)	**$ 133.5**	$ 3.5

See accompanying notes to the consolidated financial statements

On July 7, 2006, the Plan of Arrangement (the Arrangement) creating Bell Aliant Regional Communications Income Fund (the Fund) was completed in accordance with the arrangement steps described in the Management Information Circular of Aliant Inc. (Aliant), dated April 14, 2006. The Arrangement included the formation of Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP) a limited partnership established under the laws of the Province of Quebec, to hold the operating businesses of the Fund. After giving effect to the Arrangement, as discussed further in note 2, Bell Aliant Holdings LP holds the wireline operation in Atlantic Canada, information technology and other operations formerly owned by Aliant and the wireline operation in regional territories in Ontario and Quebec formerly owned by Bell Canada as well as an indirect 63.4 per cent interest in Télébec, Limited Partnership (Télébec) and NorthernTel, Limited Partnership (NorthernTel), the operating partnerships of the Bell Nordiq Income Fund, held by Bell Nordiq Group Inc. (Bell Nordiq Group).

As a result of the Arrangement, Aliant common shares held by the public and a certain number of Aliant common shares held by BCE Inc. (BCE) were automatically exchanged for Fund units. The remaining Aliant common shares held by BCE and Bell Nordiq Group common shares held by BCE were exchanged for limited partnership units of Bell Aliant Holdings LP and Bell Canada's wireline operation in its regional territories in Ontario and Quebec were exchanged for limited partnership units of Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), which are all exchangeable into Fund units. As the original shareholders of Aliant have an interest in essentially the same underlying assets and liabilities but through a different legal vehicle, Bell Aliant Holdings LP, the reorganization to a limited partnership has been accounted for on a continuity of interest basis. Accordingly, the consolidated financial statements of Bell Aliant Holdings LP reflect the financial position, results of operations and cash flows as if the limited partnership had carried on the business of Aliant. Due to the reorganization to a limited partnership, certain information included in the unaudited interim consolidated financial statements for prior periods may not be directly comparable. For purposes of these unaudited interim consolidated financial statements, the share capital of Aliant is reported under Unitholders' capital (note 14). These unaudited interim consolidated financial statements should be read in conjunction with Aliant's audited consolidated financial statements for the year ended December 31, 2005.

The distributions per unit paid by Bell Aliant Holdings LP to holders of exchangeable LP units are equal to the distributions per unit paid to the holders of Fund units. All distributions are made to unitholders of record on the last business day of each calendar month, and paid on approximately the 15th day of the following month.

1. SIGNIFICANT ACCOUNTING POLICIES

Consolidated financial statements

We have prepared the consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP).

We consolidate the financial statements of all the entities we control and proportionately consolidate our share of the financial statements of our joint venture interest. At September 30, 2006, our principal subsidiaries include Bell Aliant Regional Communications Inc., Bell Aliant LP, Innovatia Inc., Atlantic Mobility Products Limited, and Bell Nordiq Group. Our joint venture interest is in Aliant Directory Services (formerly Aliant ActiMedia). All transactions and balances between these entities have been eliminated on consolidation.

Our non-controlling interest mainly consists of equity of our subsidiaries, Bell Aliant LP and Bell Nordiq Group, held by Bell Canada and unitholders of Bell Nordiq Income Fund, respectively.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of accounting estimates

Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from estimates used in these financial statements. We use estimates for certain items such as revenues, allowances for doubtful accounts, useful lives of capital investments, asset impairments, legal and tax contingencies, employee benefits plans, income taxes and goodwill. We also use estimates when recording the fair values of assets acquired and liabilities assumed in a business combination.

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 in depreciation and amortization expense of $6.9 million for the third quarter of 2006 and $14.6 million year to date.

On July 7, 2006, upon completion of the Arrangement, we modified the useful life of a number of asset groups to ensure that similar assets were being amortized consistently across the entire organization. If there were inconsistencies for similar assets, we considered actual useful lives of the assets and the advancement of associated technologies to determine the most reasonable and accurate economic useful life. We have aligned the depreciation expense associated with these assets to their future economic benefit. As a result, some useful lives were extended while others were shortened. All changes in estimated useful lives were within our existing accounting policies and therefore represent changes in accounting estimates which have been applied prospectively. The changes in estimates resulted in an increase in depreciation and amortization expense of $2.2 million for the third quarter of 2006 which is broken down by asset class as follows: an increase to Buildings depreciation of $1.8 million; an increase to Telecommunications equipment depreciation of $0.7 million; and a decrease to Other equipment depreciation of $0.3 million.

Revenue recognition

We recognize operating revenues when they are earned, specifically, when services are provided, products are delivered to customers, persuasive evidence of an arrangement exists, amounts are fixed or determinable, and collectability is reasonably assured.

For arrangements where sub-contractors perform services for our customers, we recognize revenue based on the amounts billed to the customers when we act as the principal in the arrangement. When we act as the sub-contractor, we recognize the net amount as revenue when we perform the service.

We defer revenue recognition for payments received in advance until we provide the service or deliver the product to customers.

For fixed-price contracts, we recognize revenue using the percentage of completion method, based on performance as services are provided or contract milestones are met. If it is determined during the performance of the contract that a loss will result, a provision for the estimated loss is immediately recognized.

Directory advertising revenues are billed, in accordance with the contractual terms with advertisers, and recognized on a monthly basis over the estimated life of the print directory or electronic directory advertising, not exceeding 12 months, commencing with the delivery or display date, respectively. Amounts billed up front for the directories are deferred and recognized over the billing period for which the corresponding directories are in circulation, not exceeding 12 months.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (continued)

For transactions involving multiple products or services, we determine the separate units of accounting and allocate revenue to each based on their relative fair values, being the value it can be sold for on a stand-alone basis or other reliable evidence. Our relevant revenue recognition policies are then applied to the separate units of accounting.

We record sales revenue on sales-type leases of equipment at the inception of the lease. Finance income is recognized over the term of the lease.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and investments in money market instruments with a maturity of less than 90 days, all of which are readily convertible to cash and subject to an insignificant risk of change in fair value.

Note receivable from related party

The note receivable is from Bell Canada and represents a revolving loan, as described in note 21.

Transfer of receivables

Under a purchase and sale agreement, we sell certain accounts receivable to a securitization trust. We record the sale when we transfer the accounts receivable and receive proceeds from the trust. The gains or losses that result from these transactions and program administration fees are recognized as other (income) expenses. The gain or loss calculated is partly dependent on the carrying amount of the accounts receivable transferred, which is allocated between the accounts receivable sold and the retained interest based on their relative fair value at the date of the transfer. We determine fair value of the accounts receivable transferred based on the present value of future expected cash flows using management's best estimates of key assumptions, such as discount rates, weighted average life of accounts receivable and credit loss ratios.

Inventory

Inventory represents products or equipment purchased for resale. We value inventory at the lower of cost and net realizable value, with cost being the weighted average laid-down cost using the first-in, first-out method.

Income taxes

A portion of our income is earned through partnerships and as such is not subject to tax as the taxable income is allocated directly to the partners.

The income that is earned through corporate subsidiaries is subject to tax. Income taxes are accounted for using the asset and liability method. Under this method, income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities for financial reporting purposes and their corresponding tax values, as well as the benefit of losses that will more likely than not be realized and carried forward to future years to reduce income taxes. Accordingly, a future income tax asset or liability is determined for each temporary difference based on the tax rates enacted by tax law, or substantively enacted, that are expected to be in effect when the underlying items of income and expense are expected to be realized. The effect of a change in tax rates on future income tax assets and liabilities is included in earnings in the period that the change is substantively enacted. A valuation allowance is recorded, when necessary, to reduce future income tax assets to the amount more likely than not to be realized.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital investments

Capital investments are carried at cost, less accumulated depreciation and amortization. Most of our property, plant and equipment assets are amortized using the group depreciation method. When we retire assets in the ordinary course of business, we charge their original cost to accumulated depreciation and amortization. We review our estimates of the useful lives of the assets periodically and adjust them if needed. We calculate depreciation and amortization over the useful lives of the capital investments as follows:

Capital investments	Method	Estimated useful life
Property, plant and equipment		
Buildings and towers	Straight-line	10-40 years
Telecommunications facilities and equipment	Straight-line	3-45 years
Other equipment	Straight-line	2-20 years
Finite-life intangibles		
Software	Straight-line	2-7 years
Customer relationships	Straight-line	2-9 years
Residual commissions	Declining balance	6 years

Costs capitalized on our self-constructed assets classified as plant under construction include contracted costs, labour and overhead. We do not capitalize interest costs. Depreciation commences when our plant under construction or software under development becomes operational.

We assess capital investments for impairment when events or changes in circumstances indicate that we may not be able to recover their carrying value. An impairment loss is recognized when the carrying value of the capital investment exceeds the total undiscounted cash flows expected from its use and disposition. The amount of the loss is determined by deducting the asset's fair value from its carrying value.

Deferred charges and credits

Deferred charges and credits mainly include the following and are being amortized or recognized as noted:

	Amortization or recognition period	Income statement impact
Deferred charges:		
Long-term customer contract costs, such as bid pursuit and other up-front costs	Length of the customer contract	Operating expenses
Debt issue costs and interest rate swaps	Period to maturity of the underlying long-term debt obligation	Interest charges
Deferred credits:		
Deferred revenue	Length of the customer contract	Operating revenues

Goodwill and indefinite-life intangibles

Goodwill represents the excess, at the date of acquisition, of the cost of an acquired business over the fair value of the net amount assigned to individual assets acquired and liabilities assumed. Indefinite-life intangibles consist of spectrum licenses and cable licenses, which are not being amortized.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill and indefinite-life intangibles (continued)

We annually assess our goodwill and indefinite-life intangibles for impairment and when events or changes in circumstances indicate that an asset might be impaired. Any impairment in value is charged to other expense in the period that the review is performed. An impairment test was last conducted in the second quarter of 2005, with no impairment. The impairment test was not required to be performed during the second quarter of 2006 as there was no significant change in the carrying value of the reporting units and fair value of goodwill from the 2005 impairment test. We have changed the impairment testing date to be in the fourth quarter and as such will be reassessing goodwill and indefinite-life intangible assets at that time.

Leases

Leases are classified as capital or operating depending on the terms of the contracts. Capital investments acquired under capital leases are amortized consistent with their nature. Obligations under capital leases are reduced by lease payments net of imputed interest.

Derivative financial instruments

We use derivative financial instruments, periodically, in the management of our foreign currency and interest rate exposures. We do not use derivative financial instruments for trading or speculative purposes.

We document all relationships between derivatives and the items they hedge, as well as the risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet, specific firm commitments or anticipated transactions. We assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items. If a hedge becomes ineffective, we stop using hedge accounting.

We currently use interest rate swap agreements as part of a plan to manage the fixed and floating interest rate mix of our total debt portfolio and related overall cost of borrowing and to hedge the interest rate exposure on future refinancing of existing debt. We designate these agreements as hedges of the underlying long-term debt. Interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based, and are recorded as an adjustment of interest charges on the hedged long-term debt instrument. The related amount payable to or receivable from counterparties is included as an adjustment to accrued interest.

Realized and unrealized gains or losses associated with derivative financial instruments, which have been terminated or cease to be effective as a hedge prior to their maturity, are deferred under other current, or non-current, assets or liabilities on the balance sheet and recognized in other (income) expense in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative financial instrument, any realized or unrealized gain or loss on such derivative financial instrument and any unamortized long-term debt premium income is recognized in other (income) expense. Derivatives that are economic hedges but do not qualify for hedge accounting are recognized at fair value. We record the change in fair value in other (income) expense.

Post-employment benefits

We provide pension plans and non-pension post-employment benefits to qualified employees. These include defined benefit (DB) pension plans, defined contribution (DC) pension plans, retirement savings plans and other post-employment benefit (OPEB) plans such as life insurance and health care plans.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Post-employment benefits (continued)

We accrue our obligations under these plans. In the case of DB pension plans, we present the liability and any deferred actuarial gains and losses in the plans net of the fair value of plan assets, which are invested to fund that liability.

December 31 is the measurement date of our employee benefit plans, however a re-measurement occurred on July 7, 2006, for our DB and OPEB pension plans as a result of the Arrangement. A valuation of each plan is performed at least every three years to determine the actuarial present value of the accrued pension and other non-pension post-employment benefits. The latest valuations are dated June 2006, and were performed as of December 31, 2005. The next required actuarial valuations for funding purposes will be as of July 7, 2006, and will be completed in the fourth quarter of 2006.

We have adopted the following policies for our DB pension plans and OPEB plans:

The cost of pensions and other post-employment benefits earned by employees is actuarially determined using:

- The projected benefit method, prorated on years of service, which takes into account future salary levels;
- Management's best estimate of expected plan investment performance, salary increases, retirement ages of employees and expected health care costs; and
- Discount rates for the employee benefit plans are based on current interest rates on the long-term debt of high-quality corporate issuers. The expected long-term rate of return on plan assets is based on long-term forecasts of capital market returns, given our policy asset mix.

For the purpose of calculating the expected return on plan assets, equity securities are valued at market-related value, where investment returns (gains and losses) in excess of expected returns are recognized in the asset value over a period of three years. Fixed income securities are valued at their fair values.

We amortize past service costs from plan amendments on a straight-line basis over the average remaining service period of employees who were active at the date of amendment. Transitional assets or obligations that arose upon implementation of new accounting standards for employee future benefits are amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits under the plan.

We use the corridor approach to calculate actuarial gains and losses that are reflected in earnings. This involves deducting the greater of 10 per cent of the benefit obligation or 10 per cent of the market-related value of the plan assets from the unamortized net actuarial gains or losses. The excess amount calculated is then amortized over the average remaining service period of active employees, or the average remaining lifetime of retired employees, 13 years and 24 years, respectively, at September 30, 2006 (December 31, 2005 – 13 years and not applicable, respectively).

When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, we account for the curtailment prior to the settlement.

Earnings per unit / common share

Earnings per unit / common share is based on the weighted average number of units or common shares outstanding for the period.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unit-based compensation plans

We maintain an employees' unit purchase plan and a performance share unit plan, both of which are described in note 14. Compensation expense is recorded for our contributions to the employees' unit savings plan and as units vest under our performance share unit plan.

Comparative figures

Certain comparative financial information has been reclassified to conform to the presentation adopted for 2006. We have restated financial information for 2005 to reflect:

- An adjustment between goodwill and deferred costs related to the accounting for warranty revenue in DownEast Ltd. (DownEast) prior to their acquisition on October 1, 2004;
- The change in classification to discontinued operations for a planned business windup; and
- Reclassification of certain expenses to better reflect their nature.

Regulation of the telecommunications industry

Certain of our subsidiaries, including Bell Aliant LP and the operating partnerships of Bell Nordiq Group, are regulated by the Canadian Radio-television and Telecommunications Commission (CRTC) pursuant to the Telecommunications Act. The CRTC ensures that Canadians have access to reliable telephone and other telecommunications services at affordable prices. Our business is affected by CRTC decisions over the prices we charge for specific services, primarily local telephone service, and other operating requirements. Refer to note 20 for further information on the deferral account, a mechanism introduced under the CRTC's Price Cap Decision of 2002.

2. BUSINESS COMBINATIONS

On July 7, 2006, the Arrangement creating the Fund was completed in accordance with the arrangement steps described in the Management Information Circular of Aliant dated April 14, 2006. Under the Arrangement Bell Aliant Holdings LP, which was created to hold the operations of the Fund, acquired Bell Canada's wireline operation in its regional territories in Ontario and Quebec and 100.0 per cent of the common shares of Bell Nordiq Group, which owns a 63.4 per cent interest in Télébec and NorthernTel. As part of the transaction, the net assets of the Aliant wireless operation and 100.0 per cent of the common shares of DownEast were disposed of.

The aggregate consideration paid for the Arrangement is as follows:

(millions of dollars)		**Aggregate consideration**
Cash settlement of non-interest bearing demand promissory note	$	1,256.0
Fair value of the net assets of Aliant's wireless operations and shares of DownEast		2,271.0
72,205,024 Class B exchangeable limited partnership units of Bell Aliant LP		2,848.0
72,205,024 special voting units of the Fund in connection with the Class B exchangeable limited partnership units of Bell Aliant LP		-
25,143,687 Class 1 exchangeable limited partnership units of Bell Aliant Holdings LP (note 14)		991.8
25,143,687 special voting units of the Fund in connection with the Class 1 exchangeable limited partnership units of Bell Aliant Holdings LP		-
Contingent consideration		(44.0)
Total	**$**	**7,322.8**

2. BUSINESS COMBINATIONS (Continued)

Current assets of $81.3 million, long-term assets of $248.3 million, current liabilities of $8.9 million and goodwill of $1,950.3 million related to Aliant's wireless operation and DownEast, which were disposed of. A gain on disposal of $1,950.3 million was recorded (note 19).

The value of the newly issued Bell Aliant LP and Bell Aliant Holdings LP exchangeable limited partnership units were calculated using the five day volume weighted average trading price of Aliant common shares on the Toronto Stock Exchange (TSX) for the five days immediately preceding July 5, 2006, the effective date of the Arrangement.

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 requires the total consideration paid to be allocated to the assets acquired and liabilities assumed, based on their respective fair values on July 7, 2006, with the remainder being allocated to goodwill.

The allocation process requires an analysis of customer relationships, acquired contractual rights and assumed contractual commitments and legal contingencies to identify and record the fair value of all assets acquired and liabilities assumed. In valuing acquired assets and assumed liabilities, fair values are based on, but are not limited to: quoted market prices, where available; expected future cash flows; current replacement cost for similar capacity for certain fixed assets; market rate assumptions for contractual obligations; and appropriate discount rates and growth rates.

The approach to the estimation of the fair values of the acquired intangible assets will be primarily based on the income approach valuation technique and will involve the following:

- preparation of discounted cash flow analyses;
- determination of the fair value of identified significant intangible assets;
- reconciliation of the individual assets' returns with the weighted average cost of capital; and
- allocation of the excess purchase price over the fair value of the identifiable assets and liabilities acquired to goodwill.

We are in the process of finalizing internal studies and third-party valuations of assets, including investments, property, plant and equipment, intangible assets, and certain liabilities. As at September 30, 2006, $1,917.6 million of the purchase price was allocated to tangible assets and $5,405.2 million (note 9) was allocated to goodwill. These values are based on preliminary valuations and are subject to adjustment as additional information is obtained. Such additional information includes, but may not be limited to, the following: valuations and physical counts of property, plant and equipment, plans relative to the disposition of certain assets acquired, and exit from certain contractual obligations. We will have 12 months from the closing of the acquisition to finalize our valuations. Changes to the valuation of property, plant and equipment may result in adjustments to the fair value of certain identifiable intangible assets acquired. These intangible assets may be subject to amortization and thus affect net earnings by a material amount. When finalized, material adjustments to goodwill may result.

We are continuing negotiations with Bell Canada on contingent consideration to be paid to us with regards to the impact from a recent CRTC decision which required Bell Canada to reduce prices to be charged for services in certain regions, some of which relates to customer accounts that we acquired. Based on the information available at this time, we have estimated the contingent consideration to be $44.0 million and have reduced goodwill and set up a long-term receivable. The final resolution of this matter may result in us receiving contingent consideration that is materially different from this estimate.

This purchase price is also subject to changes related to the final determination of future income tax assets or liabilities associated with the assets acquired and liabilities assumed.

2. BUSINESS COMBINATIONS (Continued)

We incurred approximately $41.9 million of direct acquisition costs mainly relating to investment banking and consulting fees, which have been included in the total purchase price and recorded in goodwill (note 9).

Atlantic Mobility Products Limited

On August 31, 2006, we purchased the remaining 54.96 per cent of the common shares of Atlantic Mobility Products Limited, a wholesale distributor of communications hardware, that was held by third parties. The acquisition eliminated the non-controlling interest previously reported.

The following table shows the purchase price allocation.

(millions of dollars)		
Assets and liabilities acquired		
Cash and cash equivalents	$	1.0
Other current assets		9.0
Capital investments		0.4
Finite-life intangibles		2.1
Goodwill		11.2
Current liabilities		(7.1)
Future tax liability		(0.6)
Net assets acquired	$	16.0
Cash consideration	$	16.0

The finite-life intangibles relate to customer relationships in place at the time of acquisition and are subject to amortization. Goodwill recognized in this business acquisition is not deductible for tax purposes.

3. TRANSFER OF RECEIVABLES

On July 6, 2006, we renewed our revolving purchase and sale agreement with a securitization trust to sell up to $125.0 million of interest in a pool of trade accounts receivable owned by our subsidiary, Bell Aliant LP. The pool of accounts receivable includes Atlantic Canada wireless trade accounts receivable (Wireless receivables) purchased from Bell Canada through a separate purchase and sale agreement. This pool of Wireless receivables amounts to approximately $42.6 million at September 30, 2006, or approximately 18 per cent of the total pool of accounts receivable. As at September 30, 2006, we had received cash proceeds of $120.0 million (December 31, 2005 - $120.0 million) on the sale of the pool of accounts receivable to the securitization trust.

As part of the securitization agreement, we are required to provide security, currently in the form of additional accounts receivable over and above the cash proceeds received, which is held and owned by the trust. This security, or retained interest, is transferred back to us upon the expiry of the agreement in December 2011. The retained interest is recorded in accounts receivable and amounted to $48.2 million at September 30, 2006 (December 31, 2005 - $39.5 million).

We continue to service these accounts receivable and collect the amounts owing, but the trust's interest in the collection of these accounts receivable, including accounts receivable that make up the retained interest, ranks ahead of our interest. The trust and its investors have no recourse to our other assets for failure of the customer to pay the amounts when due.

Under the securitization agreement the trust reinvests the amounts collected by buying additional interest in our accounts receivable until the agreement expires. During the term of the securitization agreement, we

3. TRANSFER OF RECEIVABLES (Continued)

remain subject to certain risks of default which, should they occur, could cause the securitization agreement to end early.

During the nine months ended September 30, 2006, we recognized a pre-tax loss and administration fees of $3.8 million, (nine months ended September 30, 2005 - $2.6 million) on the transfer of receivables. These costs are recorded in other (income) expenses.

The following table shows the securitization, certain cash flows received from and paid to the trust during the period, and the assumptions that were used in determining the fair value on the date of transfer. The sensitivity of these assumptions to an immediate 10 to 20 per cent change is not material.

(millions of dollars, except as otherwise noted)	**Range 2006**	**September 30, 2006**	December 31, 2005
As at:			
Securitized interest in accounts receivable		**$ 168.2**	$ 159.5
Cash proceeds		**$ 120.0**	$ 120.0
Retained interest		**$ 48.2**	$ 39.5
Servicing liability		**$ 0.4**	$ 0.4
Average trade accounts receivable managed		**$ 226.5**	$ 227.7
For the period ended :			
Collections reinvested in revolving sales		**$ 1,420.4**	$ 1,867.5
Decrease in sales proceeds		**$ -**	$ 5.0
Assumptions:			
Cost of funds	3.46% - 4.61%	**4.24%**	2.98%
Average delinquency ratio	19.76% - 21.28%	**21.21%**	20.72%
Average net credit loss ratio	0.14% - 1.36%	**0.96%**	1.04%
Weighted average life in days	42 - 46	**43**	45

4. INCOME TAXES

A provision for income taxes is recognized for our corporate subsidiaries that are subject to tax. Future income taxes reflect the net tax effects of temporary differences between the carrying value and income tax basis of assets and liabilities as well as the benefit of losses that will more likely than not be realized and carried forward to future years to reduce income taxes.

The income tax effects of temporary differences in our corporate subsidiaries that give rise to significant portions of the future tax assets and future tax liabilities are presented in the following table:

(millions of dollars)	**As at September 30, 2006**	As at December 31, 2005
Capital investments	**$ 38.1**	$ 27.8
Pension and post-employment benefits	**(34.7)**	(27.6)
Deferred charges	**4.5**	(1.0)
Loss carryforwards	**21.6**	7.9
Long-term debt expense and premium	**49.2**	1.9
Severance and benefits	**1.8**	5.4
Other	**(10.4)**	5.8
Total future income tax assets	**$ 70.1**	$ 20.2

4. INCOME TAXES (Continued)

The total future income taxes are composed of the following:

(millions of dollars)	**As at September 30, 2006**	As at December 31, 2005
Future income tax assets:		
Current portion	**$ 3.2**	$ 5.5
Long-term portion	**82.8**	43.2
Future income tax liabilities:		
Current portion	**(1.5)**	(8.7)
Long-term portion	**(14.4)**	(19.8)
Total future income tax assets	**$ 70.1**	$ 20.2

A portion of our income is earned through partnerships. Therefore, that portion of our income is not subject to tax at the partnership level and the taxable income is allocated directly to their respective partners. These partnerships have temporary differences between the carrying value and income tax basis of assets and liabilities which flow to the partners and that would result in future tax assets and liabilities if the partnerships were subject to income tax.

These temporary differences are as follows:

(millions of dollars)	**As at September 30, 2006**
Deductible temporary differences:	
Capital investments	**$ 3.2**
Pension and post-employment benefits	**3.6**
Long-term debt expense and premium	**25.9**
Severance and benefits	**0.3**
Other	**3.0**
	$ 36.0
Taxable temporary differences:	
Capital investments	**$ (0.8)**
Severance and benefits	**(0.1)**
Other	**(1.6)**
	$ (2.5)

Significant components of income tax expense (recovery) are as follows:

For the period ended September 30	**Three months**		**Nine months**	
(millions of dollars)	**2006**	2005	**2006**	2005
Current tax expense (recovery)	**$ (1.8)**	$ 30.1	**$ 61.8**	$ 83.0
Future tax expense (recovery):				
Change in temporary differences	**(41.9)**	3.2	**(47.9)**	3.0
Change in statutory rate	**0.4**	(0.3)	**(3.2)**	(0.5)
Income tax expense (recovery)	**$ (43.3)**	$ 33.0	**$ 10.7**	$ 85.5

4. INCOME TAXES (Continued)

A reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

For the period ended September 30	Three months				Nine months			
	2006		2005		**2006**		2005	
Combined statutory income tax rate (including surtax)	**35.83**	**%**	35.55	%	**35.83**	**%**	36.00	%
Inter-company interest income earned in non-taxable entities	**(0.57)**		-		**(0.57)**		-	
Income allocated to non-controlling interest	**(0.30)**		-		**(0.30)**		-	
Federal large corporation tax	**-**		0.13		**-**		0.47	
Effect of enacted future tax rates on temporary differences	**2.93**		(0.10)		**(0.12)**		(0.27)	
Non-taxable gain	**(32.73)**		-		**(32.98)**		-	
Non-deductible goodwill	**(0.14)**		(0.01)		**0.01**		0.14	
Other permanent differences	**(6.49)**		3.62		**(1.52)**		0.80	
Effective income tax rate	**(1.47)**	**%**	39.19	%	**0.35**	**%**	37.14	%

The May 2, 2006, Canadian federal budget announced several general corporate income tax rate reductions and the acceleration of the elimination of the large corporation 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 $3.2 million. The elimination of the large corporation tax has resulted in a current tax recovery of $0.4 million.

Tax losses

At September 30, 2006, our corporate subsidiaries had $94.8 million (December 31, 2005 - $52.3 million) in non-capital tax losses that are available to reduce taxable income in future years. The tax benefit of $62.5 million (December 31, 2005 - $20.2 million) has been recognized as part of the future tax asset. These losses expire in varying annual amounts from 2011 to 2025. No tax benefit has been recognized for $32.3 million (December 31, 2005 - $32.1 million) of these losses. The losses for which no tax benefit has been recognized expire in varying annual amounts from 2011 to 2025.

Our corporate subsidiaries had capital losses of approximately $38.9 million at June 30, 2006, (December 31, 2005 - $37.4 million) the benefit of which would have otherwise expired on July 7, 2006 as a result of the Arrangement. The benefit of these losses has been transferred to the adjusted cost base of certain assets. The tax benefit of $5.3 million of these capital losses has been recognized as part of the future tax asset (December 31, 2005 – $1.5 million). No tax benefit has been recognized on the balance.

5. CAPITAL INVESTMENTS

As at September 30, 2006 *(millions of dollars)*	**Cost**	**Accumulated depreciation and amortization**	**Net book value**
Property, plant and equipment			
Land	**$ 24.7**	**$ -**	**$ 24.7**
Buildings and towers	**535.4**	**212.9**	**322.5**
Telecommunications facilities and equipment	**6,564.3**	**3,496.4**	**3,067.9**
Other equipment	**336.4**	**218.2**	**118.2**
Plant under construction	**171.6**	**-**	**171.6**
Materials and supplies	**5.5**	**-**	**5.5**
	7,637.9	**3,927.5**	**3,710.4**
Finite-life intangibles			
Software	**340.7**	**196.8**	**143.9**
Customer relationships	**8.4**	**3.4**	**5.0**
Other	**9.9**	**0.7**	**9.2**
	359.0	**200.9**	**158.1**
	$ 7,996.9	**$ 4,128.4**	**$ 3,868.5**

As at December 31, 2005 *(millions of dollars)*	Cost	Accumulated depreciation and amortization	Net book value
Property, plant and equipment			
Land	$ 12.8	$ -	$ 12.8
Buildings and towers	372.3	170.3	202.0
Telecommunications facilities and equipment	4,326.7	2,870.9	1,455.8
Other equipment	235.6	149.9	85.7
Plant under construction	22.0	-	22.0
Materials and supplies	5.5	-	5.5
	4,974.9	3,191.1	1,783.8
Finite-life intangibles			
Software	256.1	143.0	113.1
Customer relationships	6.3	2.7	3.6
Residual commissions	7.6	3.1	4.5
	270.0	148.8	121.2
	$ 5,244.9	$ 3,339.9	$ 1,905.0

Capital investments include assets acquired under capital leases totaling $19.4 million (2005 - $19.4 million), net of accumulated amortization of $4.9 million (2005 - $2.7 million).

We recorded aggregate amortization expenses on finite-life intangibles for the period ended September 30, 2006, of $52.1 million (December 31, 2005 - $72.0 million).

6. DEFERRED CHARGES

(millions of dollars)		**As at September 30, 2006**		As at December 31, 2005
Customer contract costs, net of amortization		**1.2**		4.9
Debt issue costs, net of amortization		**17.2**		3.6
Interest rate swap (note 18)		**21.3**		-
Customer instalments		**8.2**		5.8
Other		**4.1**		3.8
	$	**52.0**	$	18.1

We recorded aggregate amortization expense on deferred charges for the period ended September 30, 2006, of $1.3 million (December 31, 2005 - $1.5 million).

7. ACCRUED BENEFIT ASSET (LIABILITY)

We provide pension and non-pension post-employment benefits to most of our employees. These include DC pension plans, DB pension plans, retirement savings plans and OPEB plans.

DC pension plans and other retirement savings plans

For most member-employees, our DC pension plans and other retirement savings plans require employer contributions and employee contributions of between nil and 6 per cent of pensionable earnings, depending on the plan. For some executives, there is a DC pension plan that requires employer contributions of up to 15 per cent of the executive's earnings. The total cost of these DC pension plans is equal to our required contributions and was $1.6 million and $4.8 million for the three and nine months ended September 30, 2006, respectively ($0.8 million and $6.0 million for the three and nine months ended September 30, 2005, respectively).

DC pension plan costs are recognized and funded as employees render services during the year.

DB pension plans

Our DB pension plans provide pensions to employees who retire after meeting certain age and service conditions. Pensions are based on specified pension rates applied to the employees' years of service and five-year average earnings. Our pension plans are contributory for certain members and non-contributory for others, depending on which plan the employee participates in and whether or not the employee is a bargaining unit employee. Pensions are integrated with the Canada Pension Plan and include limited indexing to help protect retired employees' income from inflation.

As of January 1, 2005, certain management and unionized employees had transferred membership and their past service benefits from the DC to the DB pension plans. We have reflected the DC assets of these employees and the corresponding obligation as Transfers from DC pension plans. At September 30, 2006, we are awaiting regulatory approval for the plan amendments and corresponding asset transfer.

As a result of the Arrangement, a new measurement period began on July 7, 2006. Effective July 7, 2006, we increased our assumed discount rate used to discount the obligations from 5.25 per cent to 5.60 per cent, which resulted in an actuarial gain of approximately $76.2 million.

7. ACCRUED BENEFIT ASSET (LIABILITY) (Continued)

OPEB plans

The OPEB plans we provide to eligible retiring employees include health care coverage, life insurance and certain other benefits. We do not maintain a trust fund to pay for OPEBs, rather we pay the benefits directly to the plan carrier or to the retired employee.

In January 2006, we made changes to certain of our OPEB plans which will limit future benefits for retirees. These changes resulted in a reduction in past service costs of $44.9 million which is being amortized on a straight-line basis over the expected average remaining service lives of employees.

Effective July 7, 2006, we increased our assumed discount rate used to discount the obligations from 5.25 per cent to 5.60 per cent, which resulted in an actuarial gain of approximately $11.7 million.

Components of accrued benefit asset (liability)

The following table shows the change in the obligations and assets related to the DB pension plans and the OPEB plans during the nine months ended September 30, 2006, and the year ended December 31, 2005. Effective July 7, 2006, as a result of the Arrangement, we created a new DB pension plan for approximately 880 employees who transferred employment to us from Bell Canada. The accrued benefit obligation and the fair value of the plan assets relating to the prior service earned while participating in Bell Canada's pension plan is included in the table below. Asset transfer values have been calculated per the terms of the Arrangement, but have not yet received regulatory approval. In addition, the pension obligations and assets reflected at September 30, 2006, include the consolidation of two DB pension plans sponsored by Télébec and Northern Tel.

7. ACCRUED BENEFIT ASSET (LIABILITY) (Continued)

	DB pension plans		OPEB plans	
(millions of dollars)	**2006**	2005	**2006**	2005
Plan obligations:				
Accrued benefit obligation, beginning of period	**$ 2,374.3**	$ 1,794.1	**$ 224.7**	$ 184.6
Increase in accrued benefit obligation from Arrangement	**422.7**	-	**35.4**	-
Employee current service contributions	**2.8**	4.0	**-**	-
Transfers from DC pension plans	**-**	220.9	**-**	-
Current service cost	**38.2**	30.4	**1.8**	5.2
Interest on the obligation	**99.8**	110.1	**7.5**	11.5
Past service costs relating to plan amendments	**-**	-	**(44.9)**	(14.2)
Actuarial (gains) losses	**(55.8)**	320.5	**(11.6)**	42.9
Special termination costs	**0.9**	-	**-**	-
Benefits paid out of the plan	**(79.1)**	(105.7)	**(4.9)**	(5.3)
Accrued benefit obligation, end of period	**$ 2,803.8**	$ 2,374.3	**$ 208.0**	$ 224.7
Plan assets:				
Fair value of plan assets, beginning of period	**$ 1,864.5**	$ 1,355.9	**$ -**	$ -
Increase in fair value of plan assets from Arrangement	**309.9**	-	**-**	-
Actual return on plan assets	**102.7**	222.1	**-**	-
Benefits paid out of the plans	**(79.1)**	(105.7)	**(4.9)**	(5.3)
Employee current service contributions	**2.8**	4.0	**-**	-
Transfers from DC pension plans	**-**	220.9	**-**	-
Employer cash contributions to the plans	**76.0**	167.3	**4.9**	5.3
Fair value of plan assets, end of period	**$ 2,276.8**	$ 1,864.5	**$ -**	$ -
Plan deficit, end of period	**$ (527.0)**	$ (509.8)	**$ (208.0)**	$ (224.7)
Unamortized actuarial losses	**709.6**	707.4	**46.9**	56.9
Unamortized past service costs	**65.2**	69.3	**(54.7)**	(14.2)
Unamortized transitional asset (obligation)	**(11.5)**	-	**3.0**	-
Accrued benefit asset (liability), end of period	**$ 236.3**	$ 266.9	**$ (212.8)**	$ (182.0)

Each of the individual DB pension plans that make up the totals included in the previous table have deficits where the accrued benefit obligation exceeds the fair value of plan assets.

7. ACCRUED BENEFIT ASSET (LIABILITY) (Continued)

Components of net benefit plans cost

The following tables show the components of the net benefit plan cost.

	DB pension plans			
For the period ended September 30	Three months		Nine months	
(millions of dollars)	**2006**	2005	**2006**	2005
Current service cost	**$ 14.8**	$ 7.6	**$ 38.2**	$ 22.8
Interest on the accrued benefit obligation	**38.2**	27.5	**99.8**	82.5
Actual gain on plan assets	**(105.8)**	(62.1)	**(102.7)**	(142.2)
Actuarial gains	**(76.2)**	-	**(55.8)**	-
Special termination costs	**0.9**	-	**0.9**	-
Elements of employee future benefit plans cost, before recognizing its long-term nature	**$ (128.1)**	$ (27.0)	**$ (19.6)**	$ (36.9)
Excess (shortfall) of actual return over expected return	**$ 64.8**	$ 36.5	**$ (6.0)**	$ 65.5
Deferral of actuarial gains arising during the period	**76.2**	-	**55.8**	-
Amortization of deferred amounts:				
Past service costs	**1.4**	1.4	**4.1**	4.1
Net actuarial losses	**7.9**	7.4	**27.9**	22.1
Transitional asset	**(0.4)**	-	**(0.4)**	-
Adjustments to recognize long-term nature of employee future benefit plans cost	**$ 149.9**	$ 45.3	**$ 81.4**	$ 91.7
Net benefit plans cost	**$ 21.8**	$ 18.3	**$ 61.8**	$ 54.8

	OPEB plans			
For the period ended September 30	Three months		Nine months	
(millions of dollars)	**2006**	2005	**2006**	2005
Current service cost	**$ 0.7**	$ 1.3	**$ 1.8**	$ 3.9
Interest on the accrued benefit obligation	**2.8**	2.9	**7.5**	8.7
Net actuarial gains arising during the period	**(11.6)**	-	**(11.6)**	-
Past service costs relating to plan amendments	**-**	-	**(44.9)**	-
Elements of employee future benefit plans cost, before recognizing its long-term nature	**$ (8.1)**	$ 4.2	**$ (47.2)**	$ 12.6
Deferral of net actuarial gains arising during the period	**$ 11.6**	$ -	**$ 11.6**	$ -
Deferral of past service costs relating to plan amendments arising during the year	**-**	-	**44.9**	-
Amortization of deferred amounts:				
Past service costs	**(1.5)**	-	**(4.5)**	-
Net actuarial losses	**0.5**	-	**2.4**	0.2
Transitional obligation	**0.1**	-	**0.1**	-
Adjustments to recognize long-term nature of employee future benefit plans cost	**$ 10.7**	$ -	**$ 54.5**	$ 0.2
Net benefit plans cost	**$ 2.6**	$ 4.2	**$ 7.3**	$ 12.8

7. ACCRUED BENEFIT ASSET (LIABILITY) (Continued)

Assumptions

The measurement of the accrued benefit obligation and the annual net benefit plans cost for the DB pension plans and OPEB plans requires an actuary to perform the calculations. We make several assumptions, which are used as inputs to the actuarial calculations. The key assumptions are:

	July 7, 2006		December 31, 2005	
Discount rate	**5.60**	**%**	5.25	**%**
Expected rate of return on plan assets	**7.50**		7.50	
Rate of compensation increase	**3.20**		3.00	
Growth rate of per capita health care costs, first five years	**8.00**		8.00	
Growth rate of per capita health care costs, thereafter	**4.50**	**%**	4.50	**%**

Pension plan contributions

We are responsible for adequately funding our DB pension plans that are registered under the Income Tax Act and regulated by the Office of the Superintendent of Financial Institutions. The required contributions to the registered plans are made to a trust fund that is used to pay benefits under the plans. These contributions are determined by actuarial valuations and reflect actuarial assumptions about future investment returns, salary projections and future service benefits. We are funding the registered DB pension plans through contributions that meet or exceed the applicable statutory funding rules and regulations governing the particular plans.

The DB and DC pension arrangements for executives and OPEB plans are not registered pension plans. We fund payments under these plans directly when the benefits are paid.

Our required and voluntary contributions to DB pension plans as well as our contributions made to OPEBs and DC pension plans are as follows:

For the period ended September 30	Three months				Nine months			
(millions of dollars)		**2006**		2005		**2006**		2005
DB pension plans								
Required contributions	**$**	**27.3**	$	19.0	**$**	**76.0**	$	56.5
Additional voluntary funding		**-**		-		**-**		60.0
OPEB plans contributions		**1.5**		1.5		**4.7**		4.0
Funding of DB pension and OPEB plans	**$**	**28.8**	$	20.5	**$**	**80.7**	$	120.5
DC pension plan contributions		**1.6**		0.8		**4.8**		6.0
Total contributions	**$**	**30.4**	$	21.3	**$**	**85.5**	$	126.5

8. INDEFINITE-LIFE INTANGIBLES

(millions of dollars)		**As at September 30, 2006**		As at December 31, 2005
Spectrum licenses	**$**	**1.0**	$	3.7
Cable licenses		**15.7**		-
	$	**16.7**	$	3.7

As a result of the Arrangement we acquired cable licenses of $15.7 million and disposed of spectrum licenses of $2.7 million.

9. GOODWILL

(millions of dollars)	**As at September 30, 2006**	As at December 31, 2005
Goodwill, beginning of period	**$ 61.8**	$ 61.8
Acquisition (disposal) of (note 2):		
Bell Canada's wireline operation in regional territories in Ontario and Quebec	**4,556.0**	-
Common shares of Bell Nordiq	**849.2**	-
Atlantic Mobility Products Limited	**11.2**	-
DownEast	**(28.7)**	-
Acquisition costs	**41.9**	-
Goodwill, end of period	**$ 5,491.4**	$ 61.8
Goodwill relates to the following reportable segments:		
Bell Aliant	**$ 4,631.0**	$ 61.8
Bell Nordiq Group	**849.2**	-
Other subsidiaries	**11.2**	-
	$ 5,491.4	$ 61.8

10. NOTES PAYABLE AND BANK ADVANCES

We have the following operating facilities available to us:

(millions of dollars)	**As at September 30, 2006**	As at December 31, 2005
Committed lines of credit:		
Revolving operating facilities	**$ 413.0**	$ 350.0
Dedicated letter of credit facility	**123.5**	123.5
Uncommitted operating lines of credit:		
Demand operating facilities	**188.0**	210.0
Total operating facilities	**$ 724.5**	$ 683.5

The status of our operating facilities is as follows:

(millions of dollars)	**As at September 30, 2006**	As at December 31, 2005
Letters of credit and guarantee issued:		
Letters of credit	**$ 127.6**	$ 122.0
Letters of guarantee	**2.0**	2.0
	129.6	124.0
Notes payable and bank advances drawn:		
Commercial paper outstanding	**150.0**	-
Uncommitted lines of credit	**-**	10.2
Other	**1.0**	1.0
	151.0	11.2
Unused available credit facilities	**443.9**	548.3
Total operating facilities	**$ 724.5**	$ 683.5

11. 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.

During 2006, we commenced a planned restructuring of our operations to improve productivity and incurred other restructuring charges. These activities resulted in a $13.0 million charge against earnings, the majority of which is severance and related benefits.

At September 30, 2006, payables and accruals included a restructuring and other charge balance of $2.9 million (December 31, 2005 - $12.5 million). Approximately $1.8 million of this balance represents amounts payable to the 2004 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. The remaining restructuring and other charge balance relates to the 2006 activities.

12. LONG-TERM DEBT

(millions of dollars)	Interest rate	Maturity		**As at September 30, 2006**		As at December 31, 2005
Notes						
Aliant Telecom Inc.	4.52% to 6.80%	2007-2012	**$**	**100.0**	$	500.0
Bell Aliant LP	4.72% to 5.41%	2011-2016		**1,250.0**		-
			$	**1,350.0**	$	500.0
Bonds						
Maritime Tel & Tel	10.45%	2013	**$**	**-**	$	50.0
Island Telecom	8.76% to 11.15%	2009-2019		**-**		20.0
NewTel Communications	10.75% to 11.40%	2010-2014		**-**		115.0
			$	**-**	$	185.0
Debentures						
Maritime Tel & Tel	8.30% to 9.70%	2019-2025	**$**	**-**	$	160.0
NBTel	11.13%	2013		**-**		40.0
Télébec	5.70%	2008-2020		**150.0**		-
NorthernTel	8.15%	2009-2020		**49.2**		-
			$	**199.2**	$	200.0
Total - notes, bonds and debentures			**$**	**1,549.2**	$	885.0
Non-revolving term	floating	2009		**1,234.9**		-
Obligations under capital leases	2.68% to 10.05%	various dates to 2010		**11.4**		14.0
Note payable	6.70%	2009		**5.5**		5.5
Mortgage - Télébec	12.50%	2011		**3.4**		-
Other		2009		**5.4**		-
Total long-term debt			**$**	**2,809.8**	$	904.5
Less: portion due within one year				**10.6**		6.6
			$	**2,799.2**	$	897.9

Interest rates on the non-revolving term depend upon the form of borrowing selected and our credit 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 cent per annum. These rates may vary based on the credit ratings of our long-term debt.

12. LONG-TERM DEBT (Continued)

The long-term credit facilities outstanding at December 31, 2005, were renegotiated and new ones were established on July 7, 2006, to accommodate the financing requirements of the Arrangement, refinance existing long-term debt and for general working capital purposes.

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

Credit facility *(millions of dollars)*	Available	Term
Non-revolving term	$ 1,250.0	3 years
Non-revolving pension reserve	450.0	5 years
Non-revolving bond bridge	1,250.0	18 months
	$ 2,950.0	

During the nine months ended September 30, 2006, we used our credit facilities as follows:

- redeemed, prior to maturity, medium-term notes for a total principal amount of $400.0 million. In connection with the early redemption of these notes, $25.8 million in prepayment premiums have been recorded as other expense;
- redeemed, prior to maturity, first mortgage bonds for a total principal amount of $185.0 million. In connection with the early redemption of these first mortgage bonds, $45.8 million in prepayment premiums have been recorded as other expense;
- redeemed, prior to maturity, debentures for a total principal amount of $200.0 million. In connection with the early redemption of these debentures, $76.2 million of prepayment premiums have been recorded as other expense;
- drew $591.6 million on a non-revolving bridge facility used to redeem first mortgage bonds and preferred shares prior to the Arrangement; and subsequently repaid this in full;
- drew $1,250.0 million of the non-revolving bond bridge facility and subsequently repaid this in full, as such, this facility has been cancelled and is no longer available;
- drew $1,234.9 million of the non-revolving term facility by means of Bankers' Acceptances which bear interest at 4.33 per cent;
- issued $750.0 million of unsecured medium-term notes, bearing interest at 4.72 per cent per annum, maturing in September 2011; and
- issued $500.0 million of unsecured medium-term notes, bearing interest at 5.41 per cent per annum, maturing in September 2016.

Debt issue costs of $18.7 million were incurred and have been included in deferred charges.

12. LONG-TERM DEBT (Continued)

In addition to the use of our credit facilities, during the nine months ended September 30, 2006, we:

- 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;
- recorded $203.7 million additional long-term debt and capital leases of Télébec and NorthernTel as a result of the Arrangement; and
- repaid principal amounts as they came due for obligations under capital leases totalling $3.7 million**.**

All notes are issued in series and certain series are redeemable at our option prior to maturity at the prices, times and conditions specified in each series. The notes are issued under trust indentures and are unsecured. Télébec's debentures are secured by a mortgage on an immovable property located in Val D'Or, as well as outbuildings on this immovable property. The NorthernTel debentures and the non-revolving term debt are unsecured.

The aggregate amount of payments required in each of the next five years to meet principal repayments and maturities of our long-term debt and the future minimum lease payments under capital leases presently outstanding are as follows:

(millions of dollars)	**Remainder of 2006**	**2007**	**2008**	**2009**	**2010**	**Thereafter**
Long-term debt	$ 1.7	$ 103.7	$ 53.8	$ 1,246.9	$ 2.3	$ 1,390.0
Capital leases	1.4	4.3	2.8	1.6	1.3	-
	$ 3.1	$ 108.0	$ 56.6	$ 1,248.5	$ 3.6	$ 1,390.0

As at September 30, 2006, the term to maturity on the remaining $100.0 million Aliant Telecom Inc. notes 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 first quarter of 2007.

13. NON-CONTROLLING INTEREST

(millions of dollars)	**As at September 30, 2006**	As at December 31, 2005
Bell Nordiq	**$ 92.1**	$ -
Bell Aliant LP	**1,836.0**	-
Atlantic Mobility Products Limited	**-**	3.9
SalesBridge Canada Corp.	**1.4**	1.7
	$ 1,929.5	$ 5.6

14. UNITHOLDERS' CAPITAL

Authorized

An unlimited number authorized of each of three classes of units:

- Class 1 exchangeable limited partnership units;
- Class 2 limited partnership units; and,
- General partnership units.

14. UNITHOLDERS' CAPITAL (Continued)

The Class 1 exchangeable limited partnership units, held by BCE and Bell Canada, are intended to be, to the greatest extent practicable, the economic equivalent of Fund units. All limited partnership units are voting and share equally in all distributions from the partnership whether of net earnings (losses), taxable income (losses),
net realized capital gains or other amounts; provided that, for so long as Fund units are outstanding, holders of Class 1 exchangeable limited partnership units are entitled to receive distributions on a per-unit basis from the partnership equal, to the greatest extent practicable, to distributions on a per-unit basis paid by the Fund to holders of Fund units. The limited partnership units are also entitled to share equally in the net assets of the partnership in the event of its termination or winding-up; provided that, for so long as Fund units are outstanding, holders of Class 1 exchangeable limited partnership units are entitled to a liquidation entitlement, on a per-unit basis, equivalent to that of a Fund unit. Except as otherwise specified in the partnership agreement, the limited partnership units rank among themselves equally and ratably without preference or priority. Limited partnership units are transferable, subject to certain restrictions. In addition, each Class 1 exchangeable limited partnership unit is exchangeable for a Fund unit on a one-for-one basis.

Issued and outstanding

(millions of dollars, except as otherwise noted)	**As at September 30 2006**		As at December 31 2005	
	Number of units	**Stated capital**	Number of shares	Stated capital
Preference shares, Series 2	**-**	**$ -**	7,000,000	$ 172.2
Common shares	**-**	**-**	127,137,554	1,003.8
Class 1 exchangeable limited partnership units	**28,168,803**	**1,017.1**	-	-
Class 2 limited partnership units	**124,121,177**	**991.8**	-	-
General partnership units	**54,000**	**-**	-	-
		$ 2,008.9		$ 1,176.0

Preferred shares:

On June 30, 2006, Aliant 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 $2.8 million excess of the redemption cost over their stated capital value was charged to retained earnings.

Common shares:

On July 7, 2006, shareholders received one Fund unit or one Class 1 exchangeable limited partnership unit or a combination thereof, for previously held Aliant common shares. Aliant common shares held by shareholders who dissented to the Arrangement were repurchased and cancelled on the effective date.

14. UNITHOLDERS' CAPITAL (Continued)

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

(millions of dollars, except as otherwise noted)	**As at September 30, 2006**		As at December 31, 2005	
	Number of shares	**Stated capital**	Number of shares	Stated capital
Common shares, beginning of period	**127,137,554**	**$ 1,003.8**	132,744,009	$ 1,044.7
Common shares purchased for cancellation	**(562,216)**	**(4.5)**	(5,797,715)	(46.0)
Fractional share adjustment	**(13,410)**	**-**	-	-
Shares issued under:				
Dividend reinvestments	**128,138**	**4.2**	163,360	4.6
Stock option plan	**471,684**	**13.7**	27,900	0.5
Common shares purchased from dissenting shareholders	**(15,458)**	**(0.1)**	-	-
Trust conversion	**(124,121,176)**	**(991.8)**	-	-
Common shares converted to exchangeable limited partnership units	**(3,025,116)**	**(25.3)**	-	-
Common shares, end of period	**-**	**$ -**	127,137,554	$ 1,003.8

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 Aliant common shares at the market price with cash through the facilities of the TSX. Purchases of common shares were made up to June 28, 2006, and the NCIB expired on July 7, 2006. In 2005, we acquired common shares under a similar NCIB, which ended on February 3, 2006. Bell Canada, our majority shareholder, sold common shares into this NCIB on a *pro rata* basis. For the nine months ended September 30, 2006, we purchased for cancellation 562,216 common shares (September 30, 2005 – 4,524,522 common shares) for an aggregate price of $19.8 million (September 30, 2005 - $125.6 million), which reduced capital stock by $4.5 million (September 30, 2005 - $35.9 million) and retained earnings by $15.3 million (September 30, 2005 - $89.7 million).

For the nine months ended September 30, 2006, no shares were purchased from Bell Canada. Included in the common share purchases for the nine months ended September 30, 2005, were 2,336,226 common shares purchased at market value from Bell Canada for an aggregate price of $64.8 million.

Fractional share adjustment

An adjustment totalling 13,410 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.

Dividend reinvestments

Under the provisions of our common shareholder dividend reinvestment and stock purchase plan, shareholders could elect to purchase additional Aliant common shares in lieu of receiving corporate dividends in the form of cash. For the period ended July 7, 2006, we issued Aliant common shares in lieu of paying cash dividends of $4.2 million (September 30, 2005 - $4.6 million). Subsequent to July 7, 2006, the plan was discontinued and a substantially similar distribution reinvestment and optional trust unit purchase plan was implemented by the Fund for cash distributions. All Fund units issued on reinvestment under this plan have been acquired through open market purchases.

14. UNITHOLDERS' CAPITAL (Continued)

Stock option plan

Prior to July 5, 2006, we had a stock option plan for executives and certain senior managers. Under this stock option plan, we could grant stock options to plan members for up to 6,777,363 Aliant common shares of which

2,892,493 options for the same number of Aliant common shares were outstanding as at December 31, 2005. The exercise price of each option equalled the opening market price of the Aliant common shares on the date of grant. The right to exercise the options vested evenly over three years from the date of grant and could be exercised for a period of up to 10 years from the date of the grant.

On July 5, 2006, the 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 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 $2.0 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.

Stock option plan (continued)

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

	As at September 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	**121,563**	**$**	**33.37**	481,520	$	29.24
Forfeited	**(595,521)**	**$**	**34.95**	(57,904)	$	31.82
Exercised	**(471,684)**	**$**	**28.99**	(27,900)	$	19.30
Cash settled	**(1,946,851)**	**$**	**29.32**	-	$	-
Options outstanding, end of period	**-**	**$**	**-**	2,892,493	$	30.26
Options exercisable, end of period	**-**	**$**	**-**	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 nine months ended September 30, 2006, compensation expense of $2.0 million and $3.0 million, respectively (September 30, 2005 - $0.5 million and $1.5 million, respectively) related to vested stock options was recorded.

Common shares purchased from dissenting shareholders

Pursuant to the Arrangement, any shareholder could dissent and be paid the fair value of their Aliant common shares, being the weighted average trading price for the 10-day period ending at the close of business on May 16, 2006, the last business day prior to the Special Meeting of Aliant shareholders on May 17, 2006. As a result, we repurchased for cancellation a total of 15,458 shares at a cost of $0.6 million.

14. UNITHOLDERS' CAPITAL (Continued)

Trust conversion and common shares converted to exchangeable limited partnership units

As a result of the Arrangement, the Fund acquired Aliant common shares held by the public and a certain number of Aliant common shares held by BCE in exchange for one newly issued Fund unit for each Aliant share held. The Fund indirectly exchanged the Aliant common shares for 124,121,176 Class 2 limited partnership units. As well, the remaining Aliant common shares held by BCE, were contributed to us in exchange for 3,025,116 Class 1 exchangeable limited partnership units on a one-for-one basis.

We then contributed all of the Aliant common shares to 6591710 Canada Inc. in return for debt, preference shares and common shares. The Aliant common shares were then cancelled when Aliant and 6591710 Canada Inc. amalgamated to form Bell Aliant Regional Communications Inc.

Limited partnership units

	As at September 30, 2006		
(millions of dollars, except as otherwise noted)	**Number units**		**Stated capital**
Class 1 exchangeable limited partnership units issued:			
Business acquisition (note 2)	**25,143,687**	**$**	**991.8**
Common shares converted	**3,025,116**		**25.3**
	28,168,803	**$**	**1,017.1**
Class 2 limited partnership units issued:			
Issued on formation of partnership	**1**		**-**
Trust conversion	**124,121,176**		**991.8**
	124,121,177	**$**	**991.8**

Other unit-based compensation plans

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

We have PSU and PPSU plans for certain executives and senior management to further align their long-term incentive compensation with total shareholder returns. The PPSUs and PSUs are similar except that the PPSUs have performance-based criteria for vesting of share unit grants, which are based on the achievement of personal objectives supporting specific key corporate objectives rather than overall corporate performance. Share units granted are subject to both time-based, over three years, and performance-based vesting. Upon vesting, each share unit was convertible to one Aliant common share acquired on the open market or a cash payment equal to the fair market value of those common shares, subject to adjustment depending on the achievement of performance criteria. The performance criteria are relative to total shareholder return (share price appreciation plus dividends) compared to the total shareholder return for comparative groups of companies. Grantees were also entitled to receive additional share units based on dividends paid on Aliant's common shares.

As the Arrangement resulted in a fundamental change in our strategy and operations, the performance measures of the PPSUs were no longer relevant. Accordingly, on July 5, 2006, all outstanding PPSUs were cash settled on a prorated basis for the completed months of this fiscal year prior to the Arrangement, for a total aggregate cost of $3.7 million. The PSUs, granted in 2005, had performance measures relating to maximizing and preserving shareholder value, objectives which remain consistent after the Arrangement. Therefore, these grants remain and will continue to vest over the period to November 2007. The terms and conditions of this PSU grant remain in effect with the following exceptions:

14. UNITHOLDERS' CAPITAL (Continued)

Other unit-based compensation plans (continued)

- units will be credited to the participant's accounts on a monthly basis to align with the timing of Fund distributions rather than quarterly as aligned with the timing of Aliant's dividend payments.
- securities will be Fund units rather than Aliant common shares.

Summaries of the status of our PSU and PPSU plans as at September 30, 2006, and December 31, 2005, and changes during the periods ended on those dates is as follows:

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

	As at September 30, 2006	As at December 31, 2005
	Number of share units	Number of share units
Share units outstanding, beginning of period	**173,750**	109,322
Granted	**11,331**	144,889
Forfeited	**-**	(16,463)
Exercised	**-**	(63,998)
Cash settled	**(141,471)**	-
Share units outstanding, end of period	**43,610**	173,750

For the three and nine months ended September 30, 2006, compensation expense of $0.3 million and $2.6 million, respectively (September 30, 2005 - $0.5 million and $1.5 million, respectively) related to the PSUs and PPSUs outstanding, and cash settlement of the PPSUs was recorded.

Employees' stock savings plan / unit purchase plan

Prior to June 30, 2006, we had an employees' stock savings plan for our eligible, full-time employees, over 80 per cent of whom participated in the plan. To satisfy the employees' purchases of Aliant common shares under this plan, we could issue up to 2,079,527 additional Aliant common shares out of treasury or purchase Aliant common shares on the open market.

Upon completion of the Arrangement, the employees stock savings plan was replaced by two unit purchase plans having similar plan terms. Under the terms of the new plans, our employees can choose each year to have up to 10 to 12 per cent of their annual base earnings withheld to purchase Fund units. We will also contribute to the plan on behalf of participants based upon the employees' contributions using a prescribed formula. The purchase price of the Fund units, depending on which plan the employee participates in, is the arithmetic average of the closing price of the Fund units traded on the TSX on the last five days up to, and including, the distribution payment date, or the value paid by the trustee to purchase the units on the open market. Participants in the plan purchase additional Fund units in lieu of receiving cash distributions.

Under the provisions of our employees' stock savings plan and subsequent employees' unit purchase plans, dividends or distributions are automatically reinvested in additional Aliant common shares or Fund units. In relation to these plans, we issued common shares or Fund units in lieu of paying cash dividends or distributions during the three and nine months ended September 30, 2006, of $1.3 million and $3.3 million respectively (September 30, 2005 - $1.0 million and $3.3 million respectively). Fund units and Aliant common shares are purchased on the open market for participants in these plans.

The total number of Aliant common shares and Fund units bought on the open market for employees was 216,720 and 735,534 respectively, for the three and nine months ended September 30, 2006 (September 30, 2005 – 299,800 and 1,010,827, respectively).

14. UNITHOLDERS' CAPITAL (Continued)

Employees' stock savings plan / unit purchase plan (continued)

For the three and nine months ended September 30, 2006, compensation expense related to the employees' unit savings plan of $1.8 million and $5.7 million, respectively (September 30, 2005 - $2.0 million and $5.4 million, respectively) was recorded.

15. EARNINGS PER UNIT / COMMON SHARE

The weighted average number of units outstanding is shown below:

For the period ended September 30	Three months		Nine months	
(millions of dollars, except per share amounts)	**2006**	2005	**2006**	2005
Net earnings applicable to units / common shares				
Net earnings from continuing operations	**$ 2,935.9**	$ 50.4	**$ 3,029.3**	$ 142.9
Preferred share dividends	**-**	(2.4)	**(4.8)**	(7.2)
Net earnings applicable to units / common shares from continuing operations	**$ 2,935.9**	$ 48.0	**$ 3,024.5**	$ 135.7
Net earnings (loss) from discontinued operations	**(0.3)**	0.4	**(0.3)**	1.3
Net earnings applicable to units / common shares	**$ 2,935.6**	$ 48.4	**$ 3,024.2**	$ 137.0
Basic and diluted:				
Weighted average number of units / shares outstanding	**146,007,701**	129,221,333	**134,779,779**	130,826,302
Basic and diluted from continuing operations	**$ 20.11**	$ 0.37	**$ 22.43**	$ 1.04
Basic and diluted from discontinued operations	**-**	-	**-**	0.01
Basic and diluted earnings per unit / common share	**$ 20.11**	$ 0.37	**$ 22.43**	$ 1.05

The impact of outstanding stock options represents common shares issuable under our stock option plan that have an exercise price that is lower than the average market value during the period. There was no impact on diluted earnings per common share in 2005. The stock option plan was terminated on July 5, 2006, as discussed in note 14.

16. DISCONTINUED OPERATIONS

For reporting purposes, the results of operations of SalesBridge Canada Corp. (Salesbridge), a subsidiary, in which we hold an indirect 51 per cent interest, has been presented as discontinued operations. SalesBridge is economically dependant on a single contract, which has been terminated effective September 30, 2006, and as such it is the intention of the shareholders that the company be wound up. Accordingly, prior period financial statements, including segmented information as disclosed in note 17, have been reclassified to reflect this change.

The summarized statements of earnings for the discontinued operations are as follows:

For the period ended September 30	Three months		Nine months	
(millions of dollars)	**2006**	2005	**2006**	2005
Operating revenues	**$ 3.6**	$ 5.4	**$ 11.3**	$ 10.9
Expenses	**4.5**	4.8	**12.2**	8.9
Income taxes (recovery)	**(0.3)**	0.2	**(0.3)**	0.7
Non-controlling interest	**(0.3)**	-	**(0.3)**	-
Net earnings (loss)from discontinued operations	**$ (0.3)**	$ 0.4	**$ (0.3)**	$ 1.3

17. SEGMENTED INFORMATION

Our reportable segments are organized by products and services, and reflect how we manage our business and classify our operations for planning and measuring performance. We operate through the following reportable segments:

Bell Aliant – This operating segment provides a full range of information and communication technology services to residential and business customers in the Atlantic Provinces, Ontario and Quebec including local telephone, long distance, Internet, information technology services and other products and services. The information technology services include systems integration, application development, local area network installation, wide area network management, data centre operations, computer hardware, package software and information technology planning services.

Other Subsidiaries – This operating segment provides complementary telecommunication services in knowledge management, offered through our wholly-owned subsidiary Innovatia Inc., directory advertising and distribution, operated by our 87.1 per cent owned joint venture Aliant Directory Services, and wholesale distribution of wireless handsets, accessories and other telecommunications products, through our 100.0 per cent (September 30, 2005 – 45.04 per cent) owned interest in Atlantic Mobility Products Limited.

Bell Nordiq Group - This operating segment provides local telephone, long distance, wireless, data, Internet, cable television, and other services to residential and business customers in northern Ontario and Quebec, and represents the operations of Télébec and NorthenTel, which are 63.4 per cent owned by Bell Nordiq Group.

We evaluate performance of our segments based on a number of financial and non-financial indicators including operating income, return on equity and revenue growth.

The prior year's reportable segments have been restated to be comparable with the current year's presentation.

Our operations, including most of our revenue, assets and goodwill, are located in Canada. The accounting policies of the segments are the same as those described in note 1. We account for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices.

The subtotal of Bell Aliant, Other Subsidiaries and Eliminations as reported in the segmented information tables below correspond to the consolidated financial results of Bell Aliant Regional Communications Inc., general partner of Bell Aliant LP.

17. SEGMENTED INFORMATION (Continued)

For the three months ended September 30, 2006 *(millions of dollars)*	Bell Aliant	Other Subsidiaries	Eliminations	Subtotal	Bell Nordiq Group	Other & eliminations	Consolidated
Revenue from external customers	$ 687.3	$ 44.0	$ -	$ 731.3	$ 86.3	$ -	$ 817.6
Intersegment revenue	0.9	0.3	(1.2)	-	1.5	(1.5)	-
Operating revenues	688.2	44.3	(1.2)	731.3	87.8	(1.5)	817.6
Operating expenses	404.9	32.9	(1.2)	436.6	48.0	(1.5)	483.1
Depreciation and amortization	128.0	1.8	-	129.8	11.7	-	141.5
Operating income	155.3	9.6	-	164.9	28.1	-	193.0
Other (income) expenses	(2,783.5)	-	3.2	(2,780.3)	(12.1)	12.1	(2,780.3)
Interest charges	92.7	0.1	(0.1)	92.7	15.2	(70.8)	37.1
Income taxes (recovery)	(45.8)	0.3	-	(45.5)	2.2	-	(43.3)
Non-controlling interest	33.6	0.4	-	34.0	9.6	-	43.6
Net earnings from continuing operations	$ 2,858.3	$ 8.8	$ (3.1)	$ 2,864.0	$ 13.2	$ 58.7	$ 2,935.9
Net loss from discontinued operations	-	(0.3)	-	(0.3)	-	-	(0.3)
Net earnings	$ 2,858.3	$ 8.5	$ (3.1)	$ 2,863.7	$ 13.2	$ 58.7	$ 2,935.6
Purchase of capital investments	$ 116.8	$ 0.5	$ -	$ 117.3	$ 11.3	$ -	$ 128.6
Goodwill acquired	$ 4,569.2	$ 11.2	$ -	$ 4,580.4	$ 849.2	$ -	$ 5,429.6
Total assets	$ 9,215.4	$ 77.5	$ (30.8)	$ 9,262.1	$ 1,996.5	$ (633.6)	$ 10,625.0

For the three months ended September 30, 2005 *(millions of dollars)*	Bell Aliant	Other Subsidiaries	Eliminations	Subtotal	Bell Nordiq Group	Other & eliminations	Consolidated
Revenue from external customers	$ 473.9	$ 40.8	$ -	$ 514.7	$ -	$ -	$ 514.7
Intersegment revenue	0.4	0.2	(0.6)	-	-	-	0.0
Operating revenues	474.3	41.0	(0.6)	514.7	-	-	514.7
Operating expenses	283.9	30.1	(0.6)	313.4	-	-	313.4
Depreciation and amortization	96.4	1.7	-	98.1	-	-	98.1
Operating income	94.0	9.2	-	103.2	-	-	103.2
Other (income) expenses	(8.5)	8.2	-	(0.3)	-	-	(0.3)
Interest charges	19.3	-	-	19.3	-	-	19.3
Income taxes	32.8	0.2	-	33.0	-	-	33.0
Non-controlling interest	-	0.8	-	0.8	-	-	0.8
Net earnings from continuing operations	$ 50.4	$	$ -	$ 50.4	$ -	$ -	$ 50.4
Net earnings from discontinued operations	-	0.4	-	0.4	-	-	0.4
Net earnings	$ 50.4	$ 0.4	$ -	$ 50.8	$ -	$ -	$ 50.8
Purchase of capital investments	$ 97.9	$ 1.3	$ -	$ 99.2	$ -	$ -	$ 99.2
Total assets	$ 2,972.1	$ 58.9	$ -	$ 3,031.0	$ -	$ (47.0)	$ 2,984.0

For the nine months ended September 30, 2006 *(millions of dollars)*	Bell Aliant	Other Subsidiaries	Eliminations	Subtotal	Bell Nordiq Group	Other & eliminations	Consolidated
Revenue from external customers	$ 1,674.7	$ 128.1	$ -	$ 1,802.8	$ 86.3	$ -	$ 1,889.1
Intersegment revenue	1.7	0.5	(2.2)	-	1.5	(1.5)	-
Operating revenues	1,676.4	128.6	(2.2)	1,802.8	87.8	(1.5)	1,889.1
Operating expenses	1,025.3	98.5	(2.2)	1,121.6	48.0	(1.5)	1,168.1
Depreciation and amortization	314.8	5.5	-	320.3	11.7	-	332.0
Operating income	336.3	24.6	-	360.9	28.1	-	389.0
Other (income) expenses	(2,784.3)	14.4	3.2	(2,766.7)	(12.1)	12.1	(2,766.7)
Interest charges	125.8	0.9	(0.2)	126.5	15.2	(70.8)	70.9
Income taxes	8.4	0.1	-	8.5	2.2	-	10.7
Non-controlling interest	33.6	1.6	-	35.2	9.6	-	44.8
Net earnings from continuing operations	$ 2,952.8	$ 7.6	$ (3.0)	$ 2,957.4	$ 13.2	$ 58.7	$ 3,029.3
Net loss from discontinued operations	-	(0.3)	-	(0.3)	-	-	(0.3)
Net earnings	$ 2,952.8	$ 7.3	$ (3.0)	$ 2,957.1	$ 13.2	$ 58.7	$ 3,029.0
Purchase of capital investments	$ 301.4	$ 1.2	$ -	$ 302.6	$ 11.3		$ 313.9
Goodwill acquired	$ 4,569.2	$ 11.2	$ -	$ 4,580.4	$ 849.2	$ -	$ 5,429.6
Total assets	$ 9,215.4	$ 77.5	$ (30.8)	$ 9,262.1	$ 1,996.5	$ (633.6)	$ 10,625.0

17. SEGMENTED INFORMATION (Continued)

For the nine months ended September 30, 2005 *(millions of dollars)*	Bell Aliant	Other Subsidiaries	Eliminations	Subtotal	Bell Nordiq Group	Other & eliminations	Consolidated
Revenue from external customers	$ 1,432.2	$ 118.7	$ -	$ 1,550.9	$ -	$ -	$ 1,550.9
Intersegment revenue	1.1	0.2	(1.3)	-	-	-	-
Operating revenues	1,433.3	118.9	(1.3)	1,550.9	-	-	1,550.9
Operating expenses	879.0	90.4	(1.3)	968.1	-	-	968.1
Depreciation and amortization	290.4	5.1	-	295.5	-	-	295.5
Operating income	263.9	23.4	-	287.3	-	-	287.3
Other (income) expenses	(21.0)	21.8	-	0.8	-	-	0.8
Interest charges	55.8	0.5	-	56.3	-	-	56.3
Income taxes (recovery)	86.6	(1.1)	-	85.5	-	-	85.5
Non-controlling interest	-	1.8	-	1.8	-	-	1.8
Net earnings from continuing operations	$ 142.5	$ 0.4	$ -	$ 142.9	$ -	$ -	$ 142.9
Net earnings from discontinued operations	-	1.3	-	1.3	-	-	1.3
Net earnings	$ 142.5	$ 1.7	$ -	$ 144.2	$ -	$ -	$ 144.2
Purchase of capital investments	$ 280.9	$ 4.3	$ -	$ 285.2	$ -	$ -	$ 285.2
Total assets	$ 2,972.1	$ 58.9	$ -	$ 3,031.0	$ -	$ (47.0)	$ 2,984.0

Revenue from external customers by product and service:

For the periods ended September 30	**Three months**		**Nine months**	
(millions of dollars)	**2006**	2005	**2006**	2005
Bell Aliant				
Local and access	**$ 314.3**	$ 151.0	**$ 609.6**	$ 452.7
Long distance	**114.8**	58.4	**223.3**	179.5
Data	**146.2**	79.5	**315.9**	236.4
Information technology	**60.8**	53.4	**206.1**	194.1
Wireless	**9.6**	113.8	**240.4**	315.3
Product	**9.5**	7.9	**28.4**	20.5
Terminals	**11.1**	10.2	**33.2**	34.5
Service agreements	**10.9**	-	**10.9**	-
Other revenues	**10.1**	(0.3)	**6.9**	(0.8)
	687.3	473.9	**1,674.7**	1,432.2
Other subsidiaries	**44.0**	40.8	**128.1**	118.7
Bell Nordiq Group	**86.3**	-	**86.3**	-
	$ 817.6	$ 514.7	**$ 1,889.1**	$ 1,550.9

The following table represents select financial information of Bell Aliant Regional Communications Inc., general partner of Bell Aliant LP.

(millions of dollars)	**As at September 30, 2006**
Current asssets	**$ 714.8**
Non-current assets	**8,547.3**
	$ 9,262.1
Current liabilities	**4,070.0**
Non-current liabilities	**4,990.5**
	$ 9,060.5

18. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives

We use derivative instruments to manage our exposure to interest rate risk. We do not use derivative instruments for speculative purposes. Since we do not trade actively in derivative instruments, we are not exposed to any significant liquidity risks relating to them.

Credit risk

We are exposed to credit risks if counterparties to our derivative instruments are unable to meet their obligations. We expect that they will be able to meet their obligations, as we deal with institutions that have strong credit ratings and we regularly monitor our credit risk and credit exposure. There was minimal credit risk relating to derivative instruments at September 30, 2006.

We are also exposed to credit risk from our customers, but the concentration of this risk is minimal because we have a large and diverse customer base.

Interest rate exposures

We use interest rate swaps to manage the mix of fixed and floating interest on long-term debt, or to hedge the interest rate exposure on future refinancing of existing debt.

During the second quarter of 2006, we entered into forward fixed-floating interest rate swaps with notional amounts totalling $1.765 billion in order to hedge the interest rate exposure related to future fixed-rate long-term debt that we anticipate will be issued. Upon issuing new long-term debt with fixed rates of interest during the third quarter of 2006, swaps with notional amounts totalling $1.015 billion were settled for cash as discussed below. We also entered into a new forward fixed-floating interest rate swap in the third quarter with a notional amount of $500.0 million to hedge more future fixed-rate debt financing. At September 30, 2006, we had forward fixed-floating interest rate swaps outstanding with notional amounts totalling $1.25 billion, and with effective dates ranging from December 15, 2006, to February 28, 2007. These instruments are being accounted for as cash flow hedges related to the anticipated future debt refinancing, and the fair value at September 30, 2006, totaling $33.3 million in favour of the counterparties, is not currently recorded in our financial statements due to the application of hedge accounting.

During the third quarter, the $1.105 billion in notional amounts of interest rate swaps that were settled had terms as follows:

- On March 1, 2006, and July 19, 2006, Aliant's Series AD, 10.45 per cent, first mortgage bonds and Aliant's Series AA, 11.125 per cent debentures, respectively, were redeemed prior to maturity. Immediately thereafter, outstanding interest rate swaptions related to the call options on these debt securities were exercised by the counterparty. As a result, we were placed into fixed-floating interest rate swap agreements, whereby we agreed to pay the fixed interest rates of the underlying debt securities and receive the three-month Bankers' Acceptance floating interest rate on notional amounts of $50.0 million and $40.0 million, respectively. Upon exercise of the swaptions, we recorded the fair value of the swaps as derivative liabilities and any unamortized premiums related to the swaptions were reversed. The resulting interest rate swaps did not qualify for hedge accounting treatment, but nevertheless served a similar purpose towards hedging future refinancing interest rates risk as the swaps discussed below. Without hedge accounting treatment, the resulting net charges to other expenses were $13.2 million and $12.4 million, respectively. Changes in the fair value of the swaps totalling $4.5 million have been recorded in other income (expense) since the effective dates were earlier in 2006. In September 2006, these two swaps were cash settled for $34.3 million.

18. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Interest rate exposures (continued)

- In September 2006, interest rate swaps totaling $1.015 billion were cash settled for $23.8 million. These swaps were put in place in the second quarter of 2006 to hedge our anticipated debt financing that occurred as planned in September 2006. $21.3 million has qualified for hedge accounting and has been recorded as a deferred charge and will be amortized as interest payments are made over the term of the related long-term debt. The remaining $2.5 million has been charged to other expenses.

Fair value

Fair value is the amount that willing parties would accept to exchange a financial instrument based on the current market for instruments with the same risk, principal and remaining maturity. We base fair values on estimates using present value and other valuation methods. These estimates are affected significantly by assumptions we make about the amount and timing of estimated future cash flows and discount rates, which all reflect varying degrees of risk. Potential income taxes and other expenses that would be incurred on disposition of these financial instruments are not reflected in the fair values. As a result, the fair values are not necessarily the net amounts that would be realized if these instruments were actually settled.

The carrying value of all financial instruments approximates fair value with the exception of the following:

	As at September 30, 2006		As at December 31, 2005	
(millions of dollars)	**Carrying value**	**Fair value**	Carrying value	Fair value
Long-term debt	**$ 2,809.8**	**$ 2,838.4**	$ 904.5	$ 1,096.5
Interest rate derivative financial instruments, net position	**$ -**	**$ (33.3)**	$ 7.4	$ (31.8)

19. OTHER (INCOME) EXPENSES

For the period ended September 30	**Three months**		**Nine months**	
(millions of dollars)	**2006**	2005	**2006**	2005
Gain on disposal of business units (note 2)	**$ (1,950.3)**	$ -	**$ (1,950.3)**	$ -
Dilution gain	**(1,000.3)**	-	**(1,000.3)**	-
Debt prepayment premiums (note 12)	**147.8**	-	**147.8**	-
Interest income	**(1.3)**	(3.3)	**(3.3)**	(6.0)
Accounts receivable securitization (note 3)	**1.4**	0.9	**3.8**	2.6
Other	**3.1**	2.1	**5.1**	4.2
	$ (2,799.6)	$ (0.3)	**$ (2,797.2)**	$ 0.8

The dilution gain represents the excess value of the assets contributed into Bell Aliant LP in exchange for the 32.16 per cent economic non-controlling interest in Bell Aliant LP.

20. COMMITMENTS

Operating leases and purchase commitments

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

(millions of dollars)	*Remainder of* 2006	2007	2008	2009	2010	**Thereafter**
Operating leases	$ 9.5	$ 36.8	$ 33.7	$ 31.8	$ 29.6	**$ 121.4**
Purchase commitments	146.1	427.9	395.4	376.1	369.4	**5,498.4**
	$ 155.6	$ 464.7	$ 429.1	$ 407.9	$ 399.0	**$ 5,619.8**

Purchase commitments primarily relate to various information systems and technology agreements and obligations under service agreements.

Deferral account

On February 16, 2006, the 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 obligation basis. The CRTC estimated our balance at May 31, 2006, to be $21.8 million with an estimated annualized future obligation of $2.2 million.

The CRTC's decision requires a minimum of 5 per cent of the accumulated deferral account balance be reduced through improvements to telecommunications services access for persons with disabilities. As to the remaining 95 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 were required to file a proposal with the CRTC by September 1, 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. 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 our updated deferral account balances and included a proposal to clear the accumulated balances in our deferral account. The 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. We filed a proposal on September 1, 2006, to clear the accumulated balance in our deferral account by partially off-setting the annual recurring shortfall and did not include any broadband investment. The numbers will be re-filed imminently as an accumulated balance as of May 31, 2006, of $8.4 million, and an annual recurring shortfall amount as of June 1, 2006, of $(3.2) million in Bell Aliant's deferral account, as it applies only to the operating territory of the former Aliant Telecom Inc., as revised in October 2006 as a result of Telecom Decision CRTC 2006-64.

Bell Canada's proposal to spend the funds in its deferral account included investment initiatives to expand broadband services to communities within the operating territory in Ontario and Quebec that we recently acquired, as discussed in note 2. We will cooperate with Bell Canada to determine how to effectively complete any such initiatives that may be approved by the CRTC. We have agreed to contribute towards the associated costs of such initiatives if it is economically justified by us and appropriate to do so.

20. COMMITMENTS (Continued)

Deferral account (continued)

Télébec has limited accumulated funds in its deferral account and no annual recurring deferral account obligations. Its deferral account is expected to reach a shortfall in 2006 and on July 5, 2006, Télébec filed an application with the CRTC proposing ways to recover this shortfall. Similarly, on October 4, 2006, we filed a further application with the CRTC to recover the shortfall in the recurring obligation in our deferral account, in the territory of the former Aliant Telecom Inc.

Due to the nature and number of uncertainties which remain concerning the disposition of the accumulated balance in the deferral accounts, we are unable to estimate the impact of the CRTC's decision on our financial results at this time.

21. RELATED PARTY TRANSACTIONS

Bell Canada, which is owned 100 per cent by BCE, beneficially owns and controls 44.71 per cent of our outstanding limited partnership units as at September 30, 2006 (December 31, 2005 – 53.21 per cent of Aliant common shares).

In 1999, we entered into a Memorandum of Agreement (MOA) with BCE and Bell Canada. This long-term strategic alliance agreement describes the understanding between us, BCE and Bell Canada with respect to the offering, marketing and provisioning of certain telecommunications services on a cooperative basis. Through this MOA, we gained access to Bell Canada's technology, the exclusive right to use specified Bell Canada trade-marks in our territory, and a license to use Bell Canada's promotional materials. Bell Canada agreed to promote the use and sale of technology and intellectual property developed by us. We agreed to provide each other with support services, including operational, technical, marketing, training and other support services. The MOA continues to apply to our operations in Atlantic Canada subject to certain amendments that were made to the MOA in connection with the Arrangement.

In connection with the Arrangement, we have entered into a series of long-term commercial agreements with Bell Canada which provide us with a broad range of technical, operational and human resource support services required for us to operate the wireline and Internet access operations previously operated by Bell Canada in the Ontario and Quebec regional territory (the Bell Partnership Territory). These agreements permit us to continue to receive the commercial and telecommunications services that Bell Canada was providing to us in Atlantic Canada prior to the Arrangement. Any pre-existing commercial agreements between us and Bell Canada, which were not amended or replaced by those commercial agreements which were entered into pursuant to the Arrangement, continue to apply. The commercial agreements also provide Bell Canada with the telecommunication and support services required for Bell Canada to operate its wireless operation in the Bell Partnership Territory and Atlantic Canada and to operate the Aliant wireless operation that Bell Canada acquired as part of the Arrangement.

As part of the Arrangement, we also entered into the Commercial Relationship Management Agreement with Bell Canada which governs our general commercial relationship and addresses matters such as non-competition and customer primeship. This agreement, together with certain agreements referred to therein, also amend certain provisions of the MOA and extends the term of the MOA to that of this agreement. The Commercial Relationship Management Agreement will automatically terminate upon termination or expiration of the Connecting and Operating Agreement which we entered into with Bell Canada as part of the Arrangement. Pursuant to the Connecting and Operating Agreement, the parties have agreed to interconnect their respective telecommunications systems for the exchange of telecommunications traffic. This agreement has an original term of 15 years from July 7, 2006, with automatic renewals for consecutive 5 year periods, unless notice of non-renewal is provided. The Connecting and Operating Agreement may be terminated for material breach at any time by a party, if the parties mutually agree, or a court or arbitrator makes a final and

21. RELATED PARTY TRANSACTIONS (Continued)

unappealable determination, that the other party has materially breached the agreement and has not cured the breach within 60 days.

The commercial agreements and the Commercial Relationship Management Agreement may also be terminated by Bell Canada in the event that without Bell Canada's prior consent, a competitor of Bell Canada acquires, directly or indirectly, more than 30 per cent of Bell Aliant LP or *de facto* control of it or its business. In addition, Bell Canada is entitled to terminate, at its sole discretion, its provision of services to us in circumstances where Bell Canada is ceasing to offer the corresponding services to its customers. Further, Bell Canada is entitled to terminate at its discretion many of the commercial agreements by giving two years prior notice of its intention to terminate the relevant commercial agreement, provided that such notice is not given prior to a fixed date, which is generally July 7, 2011.

We also have an agreement with Bell Canada that provides access to certain of each other's intellectual property, in addition to providing us with access to Bell Canada's engineering and network intellectual property. As part of the Arrangement, we entered into trade-mark licence agreements with Bell Canada whereby each party and its affiliates are permitted to use the trade-marks of the other party in accordance with the terms of the licence for 30 years (subject to an additional 10 year renewal on request by licensee, at licensor’s discretion).

As part of the Arrangement, we entered into a distribution agreement with Bell Distribution Inc. (BDI) under which BDI acts as our agent for sales and distribution of our wireline and Internet access telecommunication services and related products in Atlantic Canada and the Bell Partnership Territory. We also entered into a corresponding distribution agreement with BDI under which we act as BDI's agent for the distribution of Bell Canada's wireless and satellite telecommunications services and related products and services in the same territory.

In the normal course of business, we enter into agreements with Bell Canada and its controlled investees to provide and purchase telecommunications and other support services, and purchase capital investments. All related party transactions are at the exchange amounts as follows:

For the period ended September 30	**Three months**		**Nine months**	
(millions of dollars)	**2006**	2005	**2006**	2005
Operating revenues	**$ 77.7**	$ 38.5	**$ 146.2**	$ 108.5
Operating expenses	**$ 141.9**	$ 35.3	**$ 211.6**	$ 103.5
Other income	**$ -**	$ 1.4	**$ -**	$ 3.5
Capital investments	**$ 9.2**	$ 1.3	**$ 15.4**	$ 4.0

Aliant common shares purchased at market value from Bell Canada under a normal course issuer bid, as described in note 14, were as follows:

(millions of dollars, except as otherwise noted)	**As at September 30, 2006**	As at December 31, 2005
Number of Aliant common shares purchased	**-**	2,988,215
Value	**$ -**	$ 83.1

21. RELATED PARTY TRANSACTIONS (Continued)

Balances with Bell Canada and its controlled investees are as follows:

(millions of dollars)	**As at September 30, 2006**	As at December 31, 2005
Note receivable from related party	**$ 37.5**	$ -
Accounts receivable	**$ 154.2**	$ 31.2
Long-term receivable, including current portion in accounts receivable	**$ 44.0**	$ -
Payables and accruals	**$ 126.3**	$ 14.3
Distributions / dividends payable	**$ 26.8**	$ 19.7

The accounts receivable from, and payables and accruals to controlled investees of Bell Canada are non-interest bearing and under normal credit terms and have arisen from the sales of products and provision of services referred to above.

As at September 30, 2006, we had notes receivable with Bell Canada in the form of a revolving loan that matures on the first day of each month and can be recalled at any time, bearing interest of 4.3 per cent per annum.

The long-term receivable from Bell Canada relates to contingent consideration on the Arrangement as discussed in note 2. The balance bears interest at 9.75 per cent per annum and is due over a period of 10 years.

Estimated future minimum payments under our contractual obligations with Bell Canada, which are included in commitments in note 20, are $120.0 million in 2006 and approximately $350.0 million of annual commitment, spanning the next twenty years, reduced annually for productivity gains.

22. JOINT VENTURE

We hold an 87.14 per cent partnership interest in the joint venture Aliant Directory Services.

The effect of proportionate consolidation of the joint venture on our consolidated financial statements is summarized as follows:

For the period ended September 30	Three months		Nine months	
(millions of dollars)	**2006**	2005	**2006**	2005
Consolidated statements of income				
Operating revenues	**$ 14.8**	$ 13.7	**$ 42.1**	$ 39.6
Expenses	**6.0**	4.9	**17.7**	16.2
Operating income	**$ 8.8**	$ 8.8	**$ 24.4**	$ 23.4
Consolidated balance sheets				
Current assets	**$ 26.6**	$ 19.2	**$ 26.6**	$ 19.2
Long-term assets	**0.2**	0.2	**0.2**	0.2
Current liabilities	**8.8**	6.2	**8.8**	6.2
Long-term liabilities	**1.7**	1.5	**1.7**	1.5
Net investment	**$ 16.3**	$ 11.7	**$ 16.3**	$ 11.7
Consolidated statements of cash flows				
Operating activities	**$ 3.2**	$ 1.0	**$ 4.2**	$ (0.4)

Included in cash flow from operating activities are cash distributions received by us from Aliant Directory Services of $6.5 million and $19.6 million for the three and nine months ended September 30, 2006, respectively (September 30, 2005 - $7.0 million and $22.6 million, respectively).

23. CONTINGENCIES

Litigation

(a) On August 9, 2004, a lawsuit was filed in Saskatchewan by several alleged customers or former customers of the defendants, against several Canadian wireless and cellular service providers, including one of our predecessor companies, Aliant Telecom Inc. In the claim, the plaintiffs allege, among other things, breach of contract, misrepresentation, negligence, collusion and breach of statutory obligations under the Competition Act (Canada) in relation to certain system access fees that the defendants charge to their customers, and seek unspecified punitive and exemplary damage. On July 18, 2006, the court refused to certify the matter as a class action, but granted leave to the plaintiffs to address certain deficiencies in their claim, and to try again to obtain class action certification, based solely on the claim of unjust enrichment. We have defenses to this claim, but the outcome of this matter is not determinable at this time.

23. CONTINGENCIES (continued)

Litigation (continued)

(b) We have been negotiating compensation for Nova Scotia Power Holdings Inc. ("Nova Scotia Power") relating to a services contract that we terminated early. The parties initially agreed in principle on the compensation to be paid, but since May 2006, Nova Scotia Power indicated that it was seeking additional compensation and other relief. The matter has now been referred to arbitration, and on September 8, 2006, Nova Scotia Power served its arbitration claim. Our reply was filed on October 10, 2006. We have defenses to this claim, but the outcome of the matter is not determinable at this time

(c) On November 28, 2005, a lawsuit was filed against us in the Supreme Court of Nova Scotia by Ellph.com Solutions Inc. and Ellph.com Technologies Inc. seeking approximately $9.0 million for alleged breach of a software license contract. The contract had been terminated by one of our predecessor companies, Aliant Telecom Inc., due to perceived technical defects in the software. We have defenses to this claim, but the outcome of the matter is not determinable at this time.

We become involved in various other claims and litigation as a regular part of our business. While we cannot predict the final outcome of claims and litigation that were pending at September 30, 2006, management believes that the resolution of these claims and litigation will not have a material effect on our consolidated financial position or results of operations.

24. SUBSEQUENT EVENT

On October 11, 2006, Bell Aliant Regional Communications Income Fund announced that it had made a proposal to take Bell Nordiq Income Fund private. We hold a 63.4 per cent voting interest in Bell Nordiq Income Fund.

Under our proposal, Bell Nordiq Income Fund unitholders would receive $4.75 in cash and 0.4113 of a Fund unit for each Bell Nordiq unit held. This represents $19.00 per Bell Nordiq unit based on the closing price of Fund units on October 10, 2006, which is an approximate 8 per cent premium over the volume weighted average price for the last five trading days of Bell Nordiq units ending October 10, 2006.

The proposal is conditional upon approval by the Bell Nordiq Income Fund unitholders, including by a majority of the votes cast by holders other than us and our affiliates and other insiders. The transaction is also subject to applicable securities laws, including the Ontario and Quebec rules regarding business combination transactions of this nature.