

Bell Aliant Regional Communications
Holdings, Limited Partnership

Consolidated financial statements and notes



Management's report

TO THE UNITHOLDERS

The accompanying financial statements are the responsibility of management. The financial statements have been prepared according to Canadian generally accepted accounting principles and include amounts based on management's best estimates and judgments.

Management has established and maintains accounting and internal control systems that include written policies, procedures and a comprehensive internal audit program. These systems are designed to provide reasonable assurance that our financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements, and that our assets are properly safeguarded.

The board of directors oversees management's responsibilities for financial reporting primarily through the audit committee. The financial statements have been reviewed and approved by the board of directors on recommendation from the audit committee. The audit committee is also responsible for making recommendation with respect to the appointment of the independent auditors and for approving their remuneration and terms of engagement. Other responsibilities of the audit committee include meeting periodically with the independent auditors, management and the internal auditors to review accounting, auditing, internal controls, litigation, financial reporting and other matters. The internal auditors and the shareholders' external auditors have free access to the audit committee both with and without management present.

Our independent auditors, Deloitte & Touche LLP, have audited our financial statements. The accompanying auditors' report outlines the scope of their examination and their opinion.



Stephen Wetmore
President and chief executive officer
Bell Aliant Regional Communications
Holdings Inc., General Partner of
Bell Aliant Regional Communications
Holdings, Limited Partnership
March 2, 2007



Glen LeBlanc
Chief financial officer
Bell Aliant Regional Communications
Holdings Inc., General Partner of
Bell Aliant Regional Communications
Holdings, Limited Partnership

Auditors' report

TO THE DIRECTORS OF BELL ALIANT REGIONAL COMMUNICATIONS INC.

We have audited the consolidated balance sheet of Bell Aliant Regional Communications Holdings, Limited Partnership (the "Partnership") (formerly Aliant Inc.) as at December 31, 2006, and the consolidated statements of earnings, partners' equity and cash flows for the years ended December 31, 2006. These consolidated financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2006, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2005, and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated January 26, 2006.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants
Halifax, Canada
March 2, 2007

Statements

CONSOLIDATED BALANCE SHEETS

As at December 31

(millions of dollars)

	Notes	2006	2005
Assets			
Current assets			
Cash and cash equivalents		100.5	195.8
Note receivable from related party	21	38.9	—
Accounts receivable	3, 21	526.7	301.6
Inventory		27.6	29.3
Prepayments		20.3	21.4
Future income tax asset	4	3.4	5.5
Income tax receivable		8.0	15.0
		725.4	568.6
Capital investments			
Property, plant and equipment	5	3,745.0	1,783.8
Finite-life intangibles		174.5	121.2
		3,919.5	1,905.0
Other assets			
Long-term receivable	2, 21	40.2	—
Deferred charges	6	54.2	18.1
Future income tax asset	4	84.3	43.2
Accrued benefit asset	7	199.6	266.9
Indefinite-life intangibles	8	16.7	3.7
Goodwill	9	5,446.2	61.8
		5,841.2	393.7
Total assets		10,486.1	2,867.3
Liabilities and partners' equity			
Current liabilities			
Bank advances	10	8.5	11.2
Payables and accruals	11, 21	362.3	195.7
Distributions / dividends payable	21	54.5	37.6
Income tax payable		25.0	78.5
Future income tax liability	4	0.2	8.7
Long-term debt due within one year	12	109.2	6.6
		559.7	338.3
Future income tax liability	4	230.8	19.8
Long-term debt	12	2,702.0	897.9
Accrued benefit liability	7	221.3	182.0
Deferred credits		16.6	11.8
		3,730.4	1,449.8
Non-controlling interest	13	1,919.1	5.6
Partners' equity		4,836.6	1,411.9
Total liabilities and partners' equity		10,486.1	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



Charles White
Director



Edward Reevy
Director

CONSOLIDATED STATEMENTS OF EARNINGS

For the years ended December 31

(millions of dollars, except per share amounts)

	Notes	2006	2005
Operating revenues	17	2,741.3	2,081.0
Expenses			
Operating expenses		1,660.2	1,298.2
Depreciation and amortization		483.9	390.8
Restructuring and other charges	11	13.2	—
		2,157.3	1,689.0
		584.0	392.0
Other (income) expenses			
Financial derivative loss	18	31.0	—
Other income	19	(2,799.8)	—
		(2,768.8)	—
Interest charges			
Interest on long-term debt		101.8	72.7
Other interest expense		6.2	3.7
		108.0	76.4
Earnings before underlisted items		3,244.8	315.6
Income taxes	4		
Current tax expense		80.6	107.3
Future tax expense		167.6	7.8
		248.2	115.1
Earnings before non-controlling interest		2,996.6	200.5
Non-controlling interest		93.9	2.0
Net earnings from continuing operations		2,902.7	198.5
Net earnings (loss) from discontinued operations	16	(0.7)	0.9
Net earnings		2,902.0	199.4
Earnings per unit / common share	15		
Basic and diluted from continuing operations		20.88	1.45
Basic and diluted from discontinued operations		(0.01)	0.01
Basic and diluted		20.87	1.46

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF PARTNERS' EQUITY

<i>For the year ended December 31, 2006</i> <i>(millions of dollars)</i>	Notes	Partners' capital	Contri- buted surplus	Accu- mulated earnings	Distri- butions declared to unit- holders	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 January 1 to July 7, 2006		—	—	—	—	—	2,743.5	2,743.5
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)
Common shares purchased to accommodate employees' stock savings plan		—	(1.2)	—	—	—	—	(1.2)
Stock options expense	14	—	3.0	—	—	—	—	3.0
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		—	1.7	—	—	—	(0.3)	1.4
Balance prior to conversion to Income Fund		—	0.5	—	—	1,017.1	2,871.6	3,889.2
Conversion to the Limited Partnership	14	1,017.1	(0.5)	—	—	(1,017.1)	0.5	—
Net earnings for the period from July 8 to December 31, 2006		—	—	158.5	—	—	—	158.5
Issuance of units	2, 14	991.8	—	—	—	—	—	991.8
Distributions declared on:								
Class 1 exchangeable limited partnership units		—	—	—	(37.0)	—	—	(37.0)
Class 2 limited partnership units		—	—	—	(164.1)	—	—	(164.1)
Dividends paid by subsidiaries to non-controlling interest		—	—	—	—	—	(1.8)	(1.8)
Balance December 31, 2006		2,008.9	—	158.5	(201.1)	—	2,870.3	4,836.6

<i>For the year ended December 31, 2005</i> <i>(millions of dollars)</i>	Notes	Partners' capital	Contri- buted surplus	Accu- mulated earnings	Distri- butions declared to unit- holders	Capital stock	Retained earnings	Total share- holders' equity
Balance December 31, 2004		—	—	—	—	1,217.0	313.7	1,530.7
Net earnings for the period		—	—	—	—	—	199.4	199.4
Dividends declared on:								
Preferred shares		—	—	—	—	—	(9.5)	(9.5)
Common shares		—	—	—	—	4.6	(153.2)	(148.6)
Repurchase of common shares	14	—	—	—	—	(46.1)	(115.4)	(161.5)
Stock options expense	14	—	1.1	—	—	—	—	1.1
Xwave share purchase		—	(0.2)	—	—	—	—	(0.2)
Shares issued from Treasury for stock option plan		—	—	—	—	0.5	—	0.5
Balance December 31, 2005		—	0.9	—	—	1,176.0	235.0	1,411.9

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31

(millions of dollars)

	Notes	2006	2005
Cash from (used in) operating activities			
Net earnings from continuing operations		2,902.7	198.5
Adjustments to reconcile net earnings to cash from operating activities			
Depreciation and amortization		483.9	390.8
Gain on disposal of assets		(0.4)	(2.1)
Future income taxes	4	167.6	7.8
Net benefit plans cost	7	94.6	90.1
Funding of defined benefit pension and other post-employment benefit plans	7	(111.5)	(172.6)
Non-controlling interest		93.9	2.0
Financial derivative loss	18	28.5	—
Gain on disposal of business units	2, 19	(1,950.3)	—
Dilution gain	19	(1,000.3)	—
Other non-cash items		14.0	3.3
Change in operating assets and liabilities		(108.0)	6.5
		614.7	524.3
Cash from (used in) financing activities			
Repurchase of accounts receivable	3	—	(5.0)
Collection of long-term receivable		—	4.8
Net proceeds (repayments) of bank advances		(3.1)	2.1
Proceeds of long-term debt	12	4,306.1	149.1
Repayments of long-term debt	12	(2,630.2)	(151.3)
Repayments (proceeds) of capital lease obligations		0.5	(2.5)
Settlement of financial derivatives	18	(58.1)	—
Dividends paid by subsidiaries to non-controlling interest		(1.8)	(3.6)
Distributions paid by subsidiaries to non-controlling interest	13	(97.9)	—
Cash settlement of stock options	14	(8.1)	—
Issuance of common shares	14	13.0	1.0
Redemption of preferred shares	14	(175.0)	—
Repurchase of common shares	14	(20.4)	(161.3)
Dividends paid on preferred shares		(4.8)	(9.5)
Dividends paid on common shares		(112.8)	(111.7)
Distributions paid		(166.2)	—
		1,041.2	(287.9)
Cash from (used in) investing activities			
Purchase of capital investments		(445.0)	(363.2)
Proceeds on sale of capital investments		1.1	—
Purchase of indefinite-life intangibles		—	(0.8)
Business combinations, net of cash	2	(1,250.2)	—
Business acquisitions, net of cash	2	(17.5)	(0.6)
Increase in contributed surplus		—	(0.2)
		(1,711.6)	(364.8)
Net decrease in cash from continuing operations		(55.7)	(128.4)
Net increase (decrease) in cash from discontinued operations		(0.7)	0.9
Cash, beginning of year		195.8	323.3
Cash, end of year		139.4	195.8
Cash consists of:			
Cash and cash equivalents		100.5	195.8
Note receivable from related party		38.9	—
		139.4	195.8
Supplementary disclosure			
Interest paid		99.7	73.2
Income taxes paid, net		106.2	20.6

See accompanying notes to the consolidated financial statements

Notes

On July 7, 2006, the Plan of Arrangement (the Arrangement) creating Bell Aliant Regional Communications Income Fund (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 held 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 consolidated financial statements for the prior year may not be directly comparable. For purposes of these consolidated financial statements, the share capital of Aliant is reported under Partners' capital (note 14).

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 December 31, 2006, our principal subsidiaries include Bell Aliant Regional Communications Inc., Bell Aliant LP, Innovatia Inc., Atlantic Mobility Products, 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.

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, intangible assets 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 included in capital investments 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 \$21.3 million for the year ended December 31, 2006.

On July 7, 2006, upon completion of the Arrangement, we modified the useful life of a number of capital investments 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 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 \$2.9 million for year ended December 31, 2006, which is broken down by capital investment class as follows: an increase to buildings depreciation of \$2.4 million; an increase to telecommunications equipment depreciation of \$0.9 million; and a decrease to other equipment depreciation of \$0.4 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

We also have purchase and sale agreements to purchase wireless trade accounts receivable (Wireless receivables) from Bell Canada and sell our Ontario and Quebec wireline trade accounts receivable to Bell Canada. We transfer these receivables at their billed amount, less a deduction for defaulted amounts. Our normal provisions for bad debts are made against the wireless receivables purchased.

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 to be realized for tax purposes. 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.

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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 cost	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.

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 conducted in the fourth quarter of 2006, with no impairment. The goodwill created on acquisition of Bell Canada's wireline operation in Ontario and Quebec and Bell Nordiq Group, as discussed in note 2, was not tested for impairment during the fourth quarter as the purchase price allocation had not been finalized.

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.

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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

We 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.

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 remeasurement occurred on July 7, 2006, for most of 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 for funding purposes. Valuations for most of our plans were performed as of July 7, 2006, and will be filed in early 2007. The next required actuarial valuations for funding purposes will be as of December 31, 2006, and will be completed in 2007.

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 that 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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, 11 years and 24 years, respectively, at December 31, 2006 (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.

Unit-based compensation plans

Certain executive and senior management are eligible to participate in an employees' unit purchase plan, a performance share unit plan and a deferred unit plan, all of which are described in note 14. Compensation expense is recorded for our contributions to the employees' unit purchase plan and as units vest under our performance share unit plan and deferred unit plans.

Comparative figures

Certain comparative financial information has been reclassified to conform to the presentation adopted for 2006.

Regulation of the telecommunications industry

Certain of our subsidiaries, including Bell Aliant LP, Télébec and NorthernTel, are regulated by the Canadian Radio-television and Telecommunications Commission (CRTC) pursuant to the Telecommunications Act and the Broadcasting Act. The CRTC ensures that Canadians have access to reliable telephone and other telecommunications services at affordable prices, and licences and regulates the activities of broadcasting distribution undertakings. Our business is affected by CRTC decisions over the prices we charge for specific services, primarily local and access 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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Future changes in accounting policies

The Accounting Standards Board of the Canadian Institute of Chartered Accountants (CICA) continually amends and improves certain standards or guidelines contained in the CICA Handbook. We monitor these changes as they are proposed and will make changes to our accounting policies and disclosures as necessary.

Comprehensive income

The CICA issued section 1530 of the CICA Handbook, Comprehensive Income, which describes how to report and disclose comprehensive income and its components. These changes come into effect for fiscal years beginning on or after October 1, 2006.

Comprehensive income is the change in a company's net assets that results from transactions, events and circumstances from sources other than the company's owners. It includes items that would not normally be included in net earnings, such as:

- Changes in the currency translation adjustment relating to self-sustaining foreign operations; and
- Unrealized gains or losses on available-for-sale investments.

The CICA also made changes to section 3250 of the CICA Handbook, Surplus, and reissued it as section 3251, Equity. The section is also effective for fiscal years beginning on or after October 1, 2006. The changes in how to report and disclose equity and changes in equity are consistent with the new requirements of section 1530, Comprehensive Income.

When we adopt these sections on January 1, 2007, we will report the following items in the consolidated financial statements:

- Comprehensive income and its components; and
- Accumulated other comprehensive income and its components.

As a result of the new standards, we will record accumulated other comprehensive income of \$40.2 million to reflect the accumulated portion of the loss on the hedging item on our effective cash flow hedges. Future impacts cannot be estimated at this time as the impact will be dependent on the fair value of the hedges in the future.

Foreign currency translation

The CICA issued section 1651, Foreign Currency Translation to replace section 1650. The new section represents amendments to conform to the new Financial Instruments sections, specifically sections 1530 and 3855. These changes come into effect for fiscal years beginning on or after October 1, 2006. We do not anticipate that this section will have a material impact on our financial results.

Financial instruments

The CICA issued section 3855 of the CICA Handbook, Financial Instruments – Recognition and Measurement, which describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. These changes come into effect for fiscal years beginning on or after October 1, 2006.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

This section requires that:

- All financial assets be measured at fair value, with some exceptions for loans and investments that are classified as held to maturity;
- All financial liabilities be measured at fair value if they are derivatives or classified as held for trading purposes and that other financial liabilities be measured at their carrying value; and
- All derivative financial instruments be measured at fair value, even when they are part of a hedging relationship.

As a result of the new standard, we will be transitioning to the effective interest method to calculate the amortized cost of financial assets and financial liabilities. We will amortize the costs over the relevant period. We currently amortize these costs using straight-line amortization over the life of the debt. The difference arising from the change to the effective interest method is not material.

As at December 31, 2006, our debt issue costs of \$16.6 million are included in deferred charges. Beginning January 1, 2007, these costs will be reclassified and applied against the financial asset or liability with which they are associated. Debt issue cost related to long-term debt facilities that have not been drawn upon will continue to be classified as deferred charges and will be amortized on a straight-line basis over the life of the facility.

Financial instruments – disclosures and presentations

The CICA has also reissued section 3860 of the CICA Handbook as section 3861, Financial Instruments – Disclosure and Presentation, which establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. These revisions come into effect for fiscal years beginning on or after October 1, 2006.

The CICA subsequently issued section 3862, Financial Instruments – Disclosures and section 3863, Financial Instruments – Presentations. Together, sections 3862 and 3863 will be adopted in place of section 3861, Financial Instruments – Disclosure and Presentation. These revisions come into effect for fiscal years beginning on or after October 1, 2007, but must be adopted earlier if adopting in place of section 3861. Section 3862 is consistent with the requirements of section 3861 but places an increased emphasis on disclosures about risks associated with both recognized and unrecognized financial instruments and how these risks are managed. It also simplifies the disclosures about concentrations of risk, credit risk, liquidity risk and price risk currently found in section 3861. Section 3863 carries forward unchanged, the presentation requirements of section 3861. As the standards relate only to unchanged disclosure and presentation requirements, we do not anticipate that this section will have any impact on our financial results.

Hedges

The CICA issued section 3865 of the CICA Handbook, Hedges, which describes how and when hedge accounting can be used. These changes come into effect for fiscal years beginning on or after October 1, 2006.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Hedging is an activity used by a company to change an exposure to one or more risks by creating an offset between:

- Changes in the fair value of a hedged item and a hedging item; or
- Changes in the cash flows attributable to a hedged item and a hedging item; or
- Changes resulting from a risk exposure related to a hedged item and a hedging item.

Hedge accounting ensures that all gains, losses, revenues and expenses from the derivative and the item it hedges are recorded in the statement of earnings in the same period. As at January 1, 2007, net adjustments of \$40.2 million will be made to accumulated other comprehensive income and \$0.9 million to opening retained earnings on the balance sheet to reflect the fair value of the effective and ineffective portions of our cash flow hedges, respectively. Future impacts cannot be estimated at this time as the impact will be dependent on the fair value of the hedges in the future.

Accounting changes

The CICA issued section 1506, Accounting Changes, which establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and correction of errors. As a result, changes in accounting policies are only permitted when required by a primary source of GAAP or when the change will result in reliable and more relevant information. These changes come into effect for fiscal years beginning on or after January 1, 2007. At this time, we are not aware of any pending accounting changes other than those mandated by the CICA and as such we do not anticipate any material impacts as a result of this change.

Capital disclosures

The CICA issued section 1535, Capital Disclosures, which establishes standards for disclosing information about an entity's capital as well as how the entity manages it. These changes come into effect for fiscal years beginning on or after October 1, 2007. As the standards relate only to disclosure requirements, this section will not have any impact on our financial results.

2 BUSINESS COMBINATIONS AND ACQUISITIONS

Bell Canada's wireline operation in Ontario and Quebec and Bell Nordiq Group

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 owned 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.

2 BUSINESS COMBINATIONS AND ACQUISITIONS *(continued)*

The aggregate consideration for the Arrangement is as follows:

<i>(millions of dollars)</i>	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 <i>(note 14)</i>	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	—
Information technology services commitment	(29.0)
Long-term receivable	(44.0)
	7,293.8
Direct acquisition costs	39.4
Total	7,333.2

Dispositions included 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. A gain on disposal of \$1,950.3 million was recorded (note 19). A future tax liability and provision of \$225.1 million was recorded as a result of the gain on disposal (note 4).

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.

In connection with the Arrangement, we entered into an Information Technology service (IS/IT) agreement with Bell Canada, as discussed in note 21. Under this agreement, Bell Canada will fund \$29.0 million of IS/IT efficiency projects for our benefit. This has reduced the purchase price and been recorded as a receivable.

We are continuing negotiations with Bell Canada on contingent consideration to be paid to us with regards to the impact of 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 amount to be \$44.0 million and have reduced the purchase price and set up a long-term receivable. The final resolution of this matter may result in us receiving an amount that is materially different from this estimate.

We incurred approximately \$39.4 million of direct acquisition costs mainly relating to investment banking and consulting fees, which are in addition to the total purchase price (note 9).

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.

2 BUSINESS COMBINATIONS AND ACQUISITIONS *(continued)*

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 December 31, 2006, \$1,932.1 million of the purchase price was allocated to net tangible assets and \$5,401.1 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 finalized our valuations and completed our purchase equation by July 6, 2007. 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.

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.

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, which was held by third parties. The acquisition was accounted for using the purchase method, which resulted in eliminating the non-controlling interest previously reported.

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.

2 BUSINESS COMBINATIONS AND ACQUISITIONS *(continued)*

The estimated values of the assets acquired and the liabilities assumed for this acquisition are as follows:

<i>(millions of dollars)</i>	Atlantic Mobility Products Limited
Assets acquired and liabilities assumed	
Cash and cash equivalents	1.0
Other current assets	9.0
Property, plant and equipment	0.4
Finite-life intangibles	2.1
Goodwill <i>(note 9)</i>	11.2
Current liabilities	(7.1)
Future tax liability	(0.6)
Net assets acquired	16.0
Cash consideration	16.0
Contingent consideration	—
Total consideration	16.0

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 wireless receivables purchased from Bell Canada. This pool of wireless receivables amounts to approximately \$47.2 million at December 31, 2006, or approximately 18.4 per cent of the total pool of accounts receivable. As at December 31, 2006, we had received cash proceeds of \$120.0 million (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 \$48.7 million at December 31, 2006 (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.

3 TRANSFER OF RECEIVABLES *(continued)*

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

During the year ended December 31, 2006, we recognized a pre-tax loss and administration fees of \$5.2 million, (2005 – \$3.5 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 in the amount of receivables is not material.

<i>(millions of dollars, except as otherwise noted)</i>	Range 2006	2006	2005
As at December 31:			
Securitized interest in accounts receivable		168.7	159.5
Cash proceeds		120.0	120.0
Retained interest		48.7	39.5
Servicing liability		0.4	0.4
Average trade accounts receivable managed		227.7	227.7
For the years ended December 31:			
Collections reinvested in revolving sales		1,904.3	1,867.5
Decrease in sales proceeds		—	5.0
Assumptions:			
Average cost of funds	3.46% – 4.61%	4.28%	2.98%
Average delinquency ratio	19.76% – 21.62%	20.77%	20.72%
Average net credit loss ratio	0.14% – 1.36%	0.93%	1.04%
Weighted average life in days	42 – 46	44	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. The future tax liability related to goodwill will only reverse if the carrying value of the associated goodwill is reduced as a result of, among other things, a goodwill impairment or sale of the goodwill and the business to which the goodwill relates.

4 INCOME TAXES *(continued)*

As at December 31

(millions of dollars)

	2006	2005
Capital investments	(28.3)	27.8
Goodwill	(225.1)	—
Pension and post-employment benefits	(32.1)	(27.6)
Deferred charges	51.1	(1.0)
Loss carryforwards	97.0	7.9
Long-term debt expense and premium	(9.1)	1.9
Severance and benefits	1.5	5.4
Other	1.7	5.8
Total future income taxes	(143.3)	20.2

The total future income taxes are composed of the following:

As at December 31

(millions of dollars)

	2006	2005
Future income tax assets:		
Current portion	3.4	5.5
Long-term portion	84.3	43.2
Future income tax liabilities:		
Current portion	(0.2)	(8.7)
Long-term portion	(230.8)	(19.8)
Total future income taxes	(143.3)	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.

Our portion of these temporary differences is as follows:

As at December 31

(millions of dollars)

	2006
Deductible temporary differences:	
Pension and other post-employment benefits	78.4
Long-term debt and premium	31.2
Severance and benefits	0.8
Other	1.1
	111.5
Taxable temporary differences:	
Capital investments	(79.5)
Goodwill	(225.1)
Deferred charges	(4.2)
	(308.8)

4 INCOME TAXES *(continued)*

Significant components of income tax expense are as follows:

For the years ended December 31
(millions of dollars)

	2006	2005
Current tax expense	80.6	107.3
Future tax expense (recovery):		
Change in temporary differences	196.3	8.3
Settlement of prior year tax issues	(4.3)	—
Change in statutory rate	(24.4)	(0.5)
Income tax expense	248.2	115.1

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

For the years ended December 31

	2006	2005
Combined statutory income tax rate (including surtax)	36.10 %	35.95 %
Inter-company interest income earned in non-taxable entities	(1.37)	—
Income allocated to non-controlling interest	(4.10)	—
Federal large corporation tax	—	0.47
Settlement of prior years tax issues	(0.14)	—
Effect of enacted future tax rates on temporary differences	(0.76)	(0.18)
Non-taxable gain	(22.32)	—
Non-deductible goodwill	0.01	0.14
Benefit of non-capital losses not recognized	—	0.48
Other permanent differences	0.23	(0.39)
Effective income tax rate	7.65 %	36.47 %

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 \$24.4 million. The elimination of the large corporation tax has resulted in a current tax recovery of \$0.4 million.

Tax losses

At December 31, 2006, our corporate subsidiaries had \$303.0 million (2005 – \$52.3 million) in non-capital tax losses that are available to reduce taxable income in future years. The transfer of depreciable capital assets from Aliant to Bell Aliant LP as part of the Arrangement contributed \$201.5 million to these non-capital losses. The tax benefit associated with \$270.4 million of these losses (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 \$32.6 million (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 \$38.5 million at July 6, 2006, (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 \$4.9 million of this increase in asset cost base has been recognized as part of the future tax asset (2005 – \$1.5 million). No tax benefit has been recognized on the balance.

5 CAPITAL INVESTMENTS

As at December 31, 2006
(millions of dollars)

	Cost	Accumulated depreciation and amortization	Net book value
Property, plant and equipment			
Land	24.6	—	24.6
Buildings and towers	552.8	217.5	335.3
Telecommunications facilities and equipment	6,710.1	3,588.7	3,121.4
Other equipment	335.8	215.7	120.1
Plant under construction	138.1	—	138.1
Materials and supplies	5.5	—	5.5
	7,766.9	4,021.9	3,745.0
Finite-life intangibles			
Software	376.5	207.1	169.4
Customer relationships	9.0	3.9	5.1
	385.5	211.0	174.5
	8,152.4	4,232.9	3,919.5

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 totalling \$20.6 million (2005 – \$19.4 million), net of accumulated amortization of \$8.6 million (2005 – \$2.7 million).

We recorded aggregate amortization expenses on property, plant and equipment and finite-life intangibles for the period ended December 31, 2006, of \$416.8 and \$67.1 million, respectively (2005 – \$318.8 and \$72.0 million, respectively).

6 DEFERRED CHARGES

As at December 31
(millions of dollars)

	2006	2005
Customer contract costs, net of amortization	2.7	4.9
Debt issue costs, net of amortization	16.6	3.6
Interest rate swap (note 18)	21.3	—
Customer instalments	8.6	5.8
Other	5.0	3.8
	54.2	18.1

We recorded aggregate amortization expense on deferred charges for the year ended December 31, 2006, of \$5.3 million (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 \$6.5 million for the year ended December 31, 2006 (2005 – \$7.3 million).

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. Most 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 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. We are awaiting regulatory approval for the plan amendments and corresponding asset transfers.

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.

Effective December 31, 2006, we reduced our assumed discount rate used to discount the obligations from 5.60 per cent to 5.30 per cent.

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 that 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.

As a result of the remeasurement, 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. Effective December 31, 2006, we reduced our assumed discount rate used to discount the obligations from 5.60 per cent to 5.30 per cent.

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 for the years ended December 31. Effective July 7, 2006, as a result of the Arrangement, we created a new DB pension plan for approximately 900 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 the transfer of assets has not yet received regulatory approval. In addition, the pension obligations and assets reflected at December 31, 2006, include the consolidation of two DB pension plans sponsored by Télébec and NorthernTel.

<i>(millions of dollars)</i>	DB pension plans		OPEB plans	
	2006	2005	2006	2005
Plan obligations:				
Accrued benefit obligation, beginning of year	2,374.3	1,794.1	224.7	184.6
Increase in accrued benefit obligation from Arrangement	437.6	—	38.5	—
Employee current service contributions	4.0	4.0	—	—
Transfers from DC pension plans	—	220.9	—	—
Current service cost	53.8	30.4	2.7	5.2
Interest on the obligation	138.6	110.1	10.5	11.5
Past service costs relating to plan amendments	—	—	(44.9)	(14.2)
Actuarial (gains) losses	53.3	320.5	(2.8)	42.9
Special termination costs	2.4	—	—	—
Benefits paid out of the plan	(113.9)	(105.7)	(6.4)	(5.3)
Accrued benefit obligation, end of year	2,950.1	2,374.3	222.3	224.7
Plan assets:				
Fair value of plan assets, beginning of year	1,864.6	1,355.9	—	—
Increase in fair value of plan assets from Arrangement	321.8	—	—	—
Actual return on plan assets, excluding impact of foreign currency gains (losses)	242.1	252.3	—	—
Foreign currency gains (losses)	25.8	(30.1)	—	—
Benefits paid out of the plans	(113.9)	(105.7)	(6.4)	(5.3)
Employee current service contributions	4.0	4.0	—	—
Transfers from DC pension plans	—	220.9	—	—
Employer cash contributions to the plans	105.1	167.3	6.4	5.3
Fair value of plan assets, end of year	2,449.5	1,864.6	—	—
Plan deficit, end of year	(500.6)	(509.7)	(222.3)	(224.7)
Unamortized actuarial losses	640.2	707.3	52.8	56.9
Unamortized past service costs	63.8	69.3	(53.1)	(14.2)
Unamortized transitional asset (obligation)	(3.8)	—	1.3	—
Accrued benefit asset (liability), end of year	199.6	266.9	(221.3)	(182.0)

7 ACCRUED BENEFIT ASSET (LIABILITY) *(continued)*

The individual DB pension plans that have deficits where the accrued benefit obligation exceeds the fair value of plan assets are aggregated in the following table.

<i>(millions of dollars)</i>	2006
Aggregate accrued benefit obligation of the individual plans	2,563.9
Aggregate fair value of plan assets of the individual plans	2,060.0

Components of net benefit plans cost

The following table shows the components of the net benefit plans cost.

<i>For the years ended December 31</i> <i>(millions of dollars)</i>	DB pension plans		OPEB plans	
	2006	2005	2006	2005
Current service cost	53.8	30.4	2.7	5.2
Interest on the accrued benefit obligation	138.6	110.1	10.5	11.5
Actual gain on plan assets	(267.9)	(222.2)	—	—
Actuarial (gains) losses	53.3	320.5	(2.8)	42.9
Special termination costs	2.4	—	—	—
Past service costs relating to plan amendments	—	—	(44.9)	(14.2)
Elements of employee future benefit plans cost, before recognizing its long-term nature	(19.8)	238.8	(34.5)	45.4
Excess of actual return over expected return	117.7	119.8	—	—
Deferral of amounts arising during the year:				
Actuarial gains (losses) on accrued benefit obligation	(53.3)	(320.5)	2.8	(42.9)
Past service costs relating to plan amendments	—	—	44.9	14.2
Amortization of deferred amounts:				
Past service costs	5.5	5.5	(5.9)	—
Net actuarial losses	34.2	29.5	3.2	0.3
Transitional asset	(0.3)	—	0.1	—
Adjustments to recognize long-term nature of employee future benefit plans cost	103.8	(165.7)	45.1	(28.4)
Net benefit plans cost	84.0	73.1	10.6	17.0

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:

	2006	2005
Discount rate	5.30%	5.25%
Expected rate of return on plan assets	7.50	7.50
Rate of compensation increase	3.00	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%

7 ACCRUED BENEFIT ASSET (LIABILITY) *(continued)*

Sensitivity to changes in assumptions

The value of the accrued benefit obligation and the amount of net benefit plans cost for the DB pension plans and the OPEB plans that we record are sensitive to the assumptions we make and utilize in our calculations. The following table outlines the estimated impact on the value of the accrued benefit obligation and the annual amount of net benefit plans' cost for a 0.25 percentage point change in the discount rate, the expected rate of return on plan assets and rate of compensation increase. The table also shows the sensitivity of a 1.0 percentage point change in the assumed growth in per capita health care costs.

<i>(millions of dollars, except as otherwise noted)</i>	Assumption	Rate change	DB pension plans		OPEB plans	
			Obligation	Cost	Obligation	Cost
Discount rate	5.30 %	+/- 0.25 %	104.0	1.0	8.0	—
Expected rate of return on plan assets	7.50	+/- 0.25	—	6.0	—	—
Rate of compensation increase	3.00	+/- 0.25	19.0	2.0	—	—
Growth rate of per capita health care costs	4.50 – 8.00 %	+ 1.00 - 1.00 %	— —	— —	27.0 (23.0)	1.0 (1.0)

The indicated impact of a 0.25 percentage point change in the discount rate on annual net benefit plans' cost includes the impact on the interest and current service cost components of pension cost. In addition to these effects, the amount of amortization of net actuarial losses would also change, but this change would depend on whether the 0.25 percentage point change was an increase in the discount rate or a decrease in the discount rate and would not extrapolate to other assumed changes in the discount rate. For reference, the amount of amortization of net actuarial losses would increase by approximately \$7.0 million if the discount rate were to be reduced by 0.25 per cent to 5.05 per cent.

Investment of DB pension plans assets

Our investment strategy is to maintain a diversified portfolio of assets, invested in a prudent manner to maintain the security of the funds while maximizing returns within our guidelines. The asset policy includes the following asset mix as at December 31.

Asset category	Target weight	Percentage of plan assets	
		2006	2005
Domestic bonds / fixed income securities	40%	39%	40%
Canadian equity securities	25	24	26
Non-Canadian equity securities	35	37	34
Total	100%	100%	100%

The asset mix policy is established through consideration of many factors, including tolerance for fluctuations in market value, portfolio diversification and the targeted long-term rate of return for the assets. Foreign exchange risk is inherent in the asset mix policy and foreign currency fluctuations may significantly affect the Canadian dollar returns on the portfolio, especially over short time periods (e.g. 1 – 5 years).

Over the past 10 years, our weighted average rate of return for our DB pension plans was 8.4 per cent per annum.

7 ACCRUED BENEFIT ASSET (LIABILITY) *(continued)*

Our portfolios are not permitted to directly hold units of the Fund or debt instruments of Bell Aliant LP. Our portfolios do hold units of index funds that may hold units of the Fund or debt instruments of Bell Aliant LP by virtue of the fact that these securities are included in the indices.

The total value of our securities and those of our related issuers held directly or indirectly in our portfolios as at December 31 was as follows:

<i>As at December 31</i> <i>(millions of dollars, except as otherwise noted)</i>	2006		2005	
	Approximate value	Approximate per cent of total plan assets	Approximate value	Approximate per cent of total plan assets
Plan assets held				
Common shares of BCE Inc.	18.3	0.80%	3.9	0.20%
Debentures of BCE Inc. and Bell Canada	9.2	0.40	10.6	0.60
Securities of the Fund or Bell Aliant LP (2005 – Aliant), held indirectly	1.5	—	1.1	—
	29.0	1.20%	15.6	0.80%

Pension plan contributions

We are responsible for adequately funding our DB pension plans. 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:

<i>For years ended December 31</i> <i>(millions of dollars)</i>	2006	2005
DB pension plans		
Required contributions	105.1	124.7
Additional voluntary funding	—	42.6
OPEB plans contributions	6.4	5.3
Funding of DB pension and OPEB plans	111.5	172.6
DC pension plans contributions	6.5	7.3
Total contributions	118.0	179.9

8 INDEFINITE-LIFE INTANGIBLES

As at December 31

(millions of dollars)

	2006	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)

	Bell Aliant	Bell Nordiq Group	Other subsidiaries	Total
Goodwill, beginning of year	61.2	—	—	61.2
Acquisition of:				
DownEast	0.1	—	—	0.1
Innuvations Partnership Assets	0.5	—	—	0.5
Goodwill, December 31, 2005	61.8	—	—	61.8
Acquisition of (note 2):				
Bell Canada's wireline operation in Ontario and Quebec and Bell Nordiq Group	4,563.9	837.2	—	5,401.1
Atlantic Mobility Products Limited	—	—	11.2	11.2
Other	—	0.8	—	0.8
	4,563.9	838.0	11.2	5,413.1
Disposition of (note 2):				
DownEast	(28.7)	—	—	(28.7)
Goodwill, December 31, 2006	4,597.0	838.0	11.2	5,446.2

10 BANK ADVANCES

We have the following operating facilities available to us:

As at December 31

(millions of dollars)

	2006	2005
Committed lines of credit:		
Revolving operating facilities	550.0	350.0
Dedicated letter of credit facility	137.7	127.9
Uncommitted operating lines of credit:		
Demand operating facilities	44.3	210.0
Total operating facilities	732.0	687.9

10 BANK ADVANCES (continued)

The status of our operating facilities is as follows:

As at December 31
(millions of dollars)

	2006	2005
Letters of credit and guarantee issued:		
Letters of credit	115.2	98.3
Letters of guarantee	2.0	2.0
	117.2	100.3
Bank advances drawn:		
Uncommitted lines of credit	7.7	10.2
Other	0.8	1.0
	8.5	11.2
Unused available credit facilities	606.3	576.4
Total operating facilities	732.0	687.9

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 \$13.2 million charge against earnings, the majority of which is severance and related benefits.

At December 31, 2006, payables and accruals included a restructuring and other charge balance of \$4.0 million (2005 – \$12.5 million). Approximately \$1.1 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

As at December 31

(millions of dollars)

	Interest rate	Maturity	2006	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	5.34% to 5.85%	2008-2020	150.0	—
NorthernTel	6.00% to 11.00%	2009-2020	48.8	—
			198.8	200.0
Total – notes, bonds and debentures			1,548.8	885.0
Non-revolving term	floating	2009	1,234.7	—
Obligations under capital leases	2.68% to 10.05%	various dates to 2010	15.6	14.0
Note payable	6.70%	2009	4.2	5.5
Mortgage – Télébec	12.50%	2011	3.3	—
Other		2009	4.6	—
Total long-term debt			2,811.2	904.5
Less: portion due within one year			109.2	6.6
			2,702.0	897.9

Interest rates on the non-revolving, long-term debt 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.

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:

(millions of dollars)	Available as at July 7, 2006	Term
Credit facility		
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	

12 LONG-TERM DEBT (continued)

During the year ended December 31, 2006, we used our credit facilities as follows:

- Redeemed, prior to maturity, Aliant Telecom Inc. 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, Maritime Tel & Tel, Island Telecom and Newtel Communications 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, Maritime Tel & Tel and NBTel 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 required or available;
- Drew \$1,234.7 million of the non-revolving term facility by means of Bankers' Acceptances which currently 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.

In addition to the use of our credit facilities, during the year ended December 31, 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;
- Entered into several capital lease obligations totalling \$5.8 million for telecommunications and other equipment, bearing interest at rates ranging from 4.63 per cent to 5.68 per cent;
- 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, note payable, mortgage and other long-term debt totalling \$7.9 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.

12 LONG-TERM DEBT (continued)

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:

<i>(millions of dollars)</i>	2007	2008	2009	2010	2011	Thereafter
Long-term debt	103.8	54.9	1,243.5	3.4	754.4	635.6
Capital leases	5.4	4.2	3.0	2.4	0.6	—
	109.2	59.1	1,246.5	5.8	755.0	635.6

Subsequent to year end, the \$100.0 million Aliant Telecom Inc. notes were repaid at maturity and as such have been classified as long-term debt due within one year.

13 NON-CONTROLLING INTEREST

As at December 31

(millions of dollars)

	2006	2005
Bell Aliant LP	1,825.6	—
Bell Nordiq	92.3	—
SalesBridge Canada Corp.	1.2	1.7
Atlantic Mobility Products Limited <i>(note 2)</i>	—	3.9
	1,919.1	5.6

Distributions paid by subsidiaries to non-controlling interest were as follows:

For the year ended December 31

(millions of dollars)

	2006	2005
Bell Aliant LP	78.3	—
Bell Nordiq	19.6	—
	97.9	—

14 PARTNERS' 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.

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. Both classes of 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. Both classes of 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,

14 PARTNERS' CAPITAL (continued)

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, both classes of limited partnership units rank among themselves equally and ratably without preference or priority. Both classes of 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.

The GP units, as a class, are entitled to a distribution of 0.001 per cent of distributable cash for any distribution period in priority to the Class 1 exchangeable and Class 2 limited partnership units, and are entitled to 0.001 per cent of the net assets of the partnership in the event of its termination or winding up in priority to the Class 1 exchangeable and Class 2 limited partnership units.

Issued and outstanding

<i>As at December 31</i> <i>(millions of dollars, except as otherwise noted)</i>	2006		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.

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

<i>As at December 31</i> <i>(millions of dollars, except as otherwise noted)</i>	2006		2005	
	Number of shares	Stated capital	Number of shares	Stated capital
Common shares, beginning of year	127,137,554	1,003.8	132,744,009	1,044.8
Common shares purchased for cancellation	(562,216)	(4.5)	(5,797,715)	(46.1)
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
Trust conversion	(124,121,176)	(991.8)	—	—
Common shares converted to				
exchangeable limited partnership units	(3,025,116)	(25.3)	—	—
Common shares purchased from dissenting shareholders	(15,458)	(0.1)	—	—
Common shares, end of year	—	—	127,137,554	1,003.8

14 PARTNERS' CAPITAL *(continued)*

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 year ended, December 31, 2006, we purchased for cancellation 562,216 common shares (2005 – 5,797,715 common shares) for an aggregate price of \$19.8 million (2005 – \$161.5 million), which reduced capital stock by \$4.5 million (2005 – \$46.1 million) and retained earnings by \$15.3 million (2005 – \$115.4 million).

For the year ended December 31, 2006, no shares were purchased from Bell Canada. Included in the common share purchases for the year ended December 31, 2005, were 2,988,215 common shares purchased at market value from Bell Canada for an aggregate price of \$83.1 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 (December 31, 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.

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, for \$8.1 million, which reduced contributed surplus by \$3.9 million and retained earnings by \$4.2 million. 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.

14 PARTNERS' CAPITAL *(continued)*

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

<i>As at December 31</i>	2006		2005	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of year	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 year	—	—	2,892,493	30.26
Options exercisable, end of year	—	—	2,084,481	30.35

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

For the year ended December 31, 2006, compensation expense of \$3.0 million (2005 – \$2.0 million) related to vested stock options was recorded. In addition, a \$2.0 million restructuring and other charge was recorded in relation to the cash settlement.

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 ended 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, which reduced capital stock by \$0.1 million and retained earnings by \$0.5 million.

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., general partner of Bell Aliant LP.

14 PARTNERS' CAPITAL (continued)

Limited partnership units

As at December 31, 2006

(millions of dollars, except as otherwise noted)

	Number of units	Stated capital
Class 1 exchangeable limited partnership units issued:		
Business acquisition <i>(note 2)</i>	25,143,687	991.8
Common shares converted	3,025,116	25.3
	<u>28,168,803</u>	<u>1,017.1</u>
Class 2 limited partnership units issued:		
Issued on formation of partnership	1	—
Trust conversion	124,121,176	991.8
	<u>124,121,177</u>	<u>991.8</u>

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 PPSU and PSU plans are similar except that the PPSU plans 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 is 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 PPSU plans were no longer relevant. Accordingly, on July 5, 2006, all outstanding PPSUs granted 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 PSU 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:

- 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; and
- Securities will be Fund units rather than Aliant common shares.

Summaries of the status of our PSU and PPSU plans as at December 31, and changes during the years ended on those dates, are as follows:

As at December 31

(number of share units)

	2006	2005
Share units outstanding, beginning of year	173,750	109,322
Granted	12,165	144,889
Forfeited	—	(16,463)
Exercised	—	(63,998)
Cash settled	(161,371)	—
Share units outstanding, end of year	<u>24,544</u>	<u>173,750</u>

14 PARTNERS' CAPITAL (continued)

For the year ended December 31, 2006, compensation expense of \$2.0 million (2005 – \$2.1 million) 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 or 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 employee's 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 year ended December 31, 2006, of \$6.6 million (2005 – \$3.3 million). 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 980,737 for the year ended December 31, 2006 (2005 – 1,310,700).

For the year ended December 31, 2006, compensation expense related to the employees' unit savings plan of \$7.9 million (2005 – \$7.5 million) was recorded.

Deferred unit plan (DUP)

We are currently finalizing a DUP for certain executives and senior management to further align their long-term incentive compensation with total unitholder returns. The framework for this new plan has been approved by the Fund board of trustees and communicated to the executive. The plan text is expected to be finalized in early 2007 when an initial grant will be issued relating to a service period from 2006 to 2008.

Under this DUP, we may grant deferred units to eligible plan members in such number and at such times as we determine as a bonus or in respect of services rendered by the plan member in the year of the grant. On the grant date, plan members will be credited with the deferred units granted to them on that date. Grantees are also entitled to receive additional deferred units based on cash distributions that would have been received had the vested deferred unit been converted to a unit. The plan member may hold the deferred units in an account until the end of the second year following their termination or retirement from the company.

For the year ended December 31, 2006, compensation expense of \$2.8 million (2005 – nil) related to the future DUP grant was recorded.

15 EARNINGS PER UNIT / COMMON SHARE

For the years ended December 31

(millions of dollars, except per share amounts)

	2006	2005
Net earnings from continuing operations	2,902.7	198.5
Preferred share dividends	(4.8)	(9.5)
Net earnings applicable to units / common shares from continuing operations	2,897.9	189.0
Net earnings (loss) from discontinued operations	(0.7)	0.9
Net earnings applicable to units / common shares	2,897.2	189.9
Basic and diluted:		
Weighted average number of units / shares outstanding	138,820,594	130,047,828
Basic and diluted from continuing operations	20.88	1.45
Basic and diluted from discontinued operations	(0.01)	0.01
Basic and diluted earnings per unit / common share	20.87	1.46

There was no impact on diluted earnings per common share from common shares issuable under our stock option plan that have an exercise price that is lower than the average market value 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 dependent on a single contract, which was 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 years ended December 31

(millions of dollars)

	2006	2005
Operating revenues	11.3	15.7
Expenses	13.1	13.4
Income taxes (recovery)	(0.6)	0.8
Non-controlling interest	(0.5)	0.6
Net earnings (loss) from discontinued operations	(0.7)	0.9

17 SEGMENTED INFORMATION

Our reportable segments are organized to 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, including local telephone, long distance, Internet, TV, information technology services and other products and services, to residential and business customers in the Atlantic Provinces, Ontario and Quebec. 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 (2005 – 45.04 per cent) owned interest in Atlantic Mobility Products.

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 63.3 per cent owned by Bell Nordiq Group.

Other and eliminations – This operating segment mainly includes the operations of Bell Aliant Holdings LP as a corporate entity. This segment does not carry on any significant operations and has no major sources of income or assets of its own, other than the interest it holds in its subsidiaries and joint venture. These are accounted for using the equity method and eliminated on consolidation.

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

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

17 SEGMENTED INFORMATION (continued)

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.

For the year ended December 31, 2006
(millions of dollars)

	Bell Aliant	Bell Nordiq Group	Other subsidiaries	Other & eliminations	Consolidated
Revenue from external customers	2,389.1	182.6	169.6	—	2,741.3
Intersegment revenue	2.0	1.7	4.3	(8.0)	—
Operating revenues	2,391.1	184.3	173.9	(8.0)	2,741.3
Operating expenses	1,436.0	100.1	131.7	(7.6)	1,660.2
Depreciation and amortization	445.5	31.0	7.4	—	483.9
Restructuring and other charges	13.1	—	0.1	—	13.2
	496.5	53.2	34.7	(0.4)	584.0
Other income (expenses)	2,780.5	23.4	(14.2)	(20.9)	2,768.8
Interest charges	224.0	31.7	1.0	(148.7)	108.0
Income taxes (recovery)	251.6	(3.2)	(0.2)	—	248.2
Non-controlling interest	72.8	19.5	1.6	—	93.9
Net earnings from continuing operations	2,728.6	28.6	18.1	127.4	2,902.7
Net losses from discontinued operations	—	—	(0.6)	(0.1)	(0.7)
Net earnings	2,728.6	28.6	17.5	127.3	2,902.0
Purchase of capital investments	419.3	23.9	1.8	—	445.0
Goodwill acquired	4,563.9	838.0	11.2	—	5,413.1
Total assets	11,885.7	2,032.3	87.3	(3,519.2)	10,486.1

For the year ended December 31, 2005
(millions of dollars)

	Bell Aliant	Bell Nordiq Group	Other subsidiaries	Other & eliminations	Consolidated
Revenue from external customers	1,919.3	—	161.7	—	2,081.0
Intersegment revenue	1.9	—	0.4	(2.3)	—
Operating revenues	1,921.2	—	162.1	(2.3)	2,081.0
Operating expenses	1,175.9	—	124.6	(2.3)	1,298.2
Depreciation and amortization	384.0	—	6.8	—	390.8
	361.3	—	30.7	—	392.0
Other income (expenses)	29.6	—	(29.6)	—	—
Interest charges	75.8	—	0.6	—	76.4
Income taxes (recovery)	115.8	—	(0.7)	—	115.1
Non-controlling interest	—	—	2.0	—	2.0
Net earnings (loss) from continuing operations	199.3	—	(0.8)	—	198.5
Net earnings from discontinued operations	—	—	0.9	—	0.9
Net earnings	199.3	—	0.1	—	199.4
Purchase of capital investments	358.5	—	4.7	—	363.2
Goodwill acquired	0.6	—	—	—	0.6
Total assets	2,815.6	—	70.9	(19.2)	2,867.3

17 SEGMENTED INFORMATION (continued)

Revenue from external customers by product and service

For the years ended December 31

(millions of dollars)

	2006	2005
Local and access	1,009.2	602.9
Long distance	350.8	238.0
Data	501.0	320.3
Information technology	278.6	250.6
Wireless	269.3	428.0
Product	43.4	33.9
Terminals	43.4	45.6
Service agreements	22.8	—
Other revenues	53.2	—
Innovatia Inc.	27.3	25.9
Aliant Directory Services	56.3	52.3
Atlantic Mobility Products	86.0	83.5
	2,741.3	2,081.0

18 FINANCIAL INSTRUMENTS

Cash, cash equivalents and notes receivable

We hold highly liquid money market instruments as short-term, cash equivalent investments. We follow a policy for making these investments that ensures they are highly diversified by issuer and face minimal credit exposure, as they are required to be placed with issuers that have strong short-term credit ratings. Interest rate exposure is limited as all instruments have terms less than 90 days.

Accounts receivable

We are exposed to credit risk from customer accounts receivable, but the concentration of this risk is minimized because we have a large and diverse customer base. We have credit evaluation, approval and monitoring processes intended to mitigate potential credit risks, and maintain provisions for potential credit losses that are assessed on an ongoing basis. Refer to notes 1 and 3 for details on the transfer of receivables.

Derivative financial instruments

We use derivative financial 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.

We are exposed to credit risks if counterparties to our derivative financial instruments are unable to meet their obligations. We expect that they will be able to meet their obligations, as we deal only with Canadian Chartered Banks and their subsidiaries. There was minimal credit risk relating to derivative financial instruments at December 31, 2006.

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

18 FINANCIAL INSTRUMENTS *(continued)*

At December 31, 2005, we had interest rate swaps and swaptions outstanding with notional amounts totalling \$0.19 billion. During 2006, we entered into several forward fixed-floating interest rate swaps with notional amounts totalling \$2.265 billion in order to hedge the interest rate exposure related to future fixed-rate long-term debt that we anticipated to be issued. Interest rate swaps with notional amounts totalling \$1.205 billion were settled for cash, as discussed below. At December 31, 2006, we had forward fixed-floating interest rate swaps outstanding with notional amounts totalling \$1.25 billion, and with effective dates ranging from February 28 to August 31, 2007. These instruments are being accounted for as cash flow hedges related to anticipated future debt refinancing. The fair value at December 31, 2006, totalling \$32.3 million in favour of the counterparties, is not currently recorded in our financial statements due to the application of hedge accounting.

During the year ended December 31, 2006, interest rate swaps totaling \$1.205 billion were settled and had the following terms:

- 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 and the resulting charges, net of unamortized premiums, were recorded in financial derivative loss for \$13.2 million and \$12.4 million, respectively. Changes in the fair value of the swaps totalling \$4.5 million have been recorded in financial derivative loss from the effective dates until September 2006, when these two swaps were cash settled for \$34.3 million.
- Upon the issuance of fixed-rate long-term debt, interest rate swaps totalling \$1.015 billion were cash settled for \$23.8 million. Of this total, \$21.3 million has qualified for hedge accounting and was recorded as a deferred charge to be amortized as interest payments are made over the term of the related long-term debt. The remaining \$2.5 million was charged to financial derivative loss.
- Other net charges to financial derivative loss related to the settlement of swaps with a notional amount of \$100.0 million and hedge ineffectiveness totalled \$1.6 million.

Long-term debt

Long-term debt is normally issued at fixed rates of interest and remains outstanding until maturity. Therefore, both liquidity and interest rate risk is considered minimal once issued. Refer to note 12 for details of our long-term debt.

Fair value of financial instruments

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.

18 FINANCIAL INSTRUMENTS (continued)

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

As at December 31 <i>(millions of dollars)</i>	2006		2005	
	Carrying value	Fair value	Carrying value	Fair value
Long-term debt	2,811.2	2,826.8	904.5	1,096.5
Interest rate derivative financial instruments, net position	—	32.3	7.4	31.8

19 OTHER (INCOME) EXPENSES

For the years ended December 31
(millions of dollars)

	2006	2005
Gain on disposal of Aliant's wireless operation and Downeast <i>(note 2)</i>	(1,950.3)	—
Dilution gain	(1,000.3)	—
Debt prepayment premiums <i>(note 12)</i>	147.8	—
Interest income	(7.6)	(8.2)
Accounts receivable securitization <i>(note 3)</i>	5.2	3.5
Other	5.4	4.7
	(2,799.8)	—

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:

<i>(millions of dollars)</i>	2007	2008	2009	2010	2011	Thereafter
Operating leases	42.0	38.7	35.4	32.6	30.1	303.8
Purchase commitments	415.4	377.4	345.5	324.7	320.1	2,894.1
	457.4	416.1	380.9	357.3	350.2	3,197.9

Purchase commitments primarily relate to various information systems and technology agreements and obligations under service agreements, including those with a related party as described in note 21.

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.

20 COMMITMENTS (continued)

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 an overcontribution of \$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 overcontribution and did not include any broadband investment. Our updated deferral account balances have been re-filed showing an accumulated balance as of May 31, 2006, of \$8.3 million, and an annual recurring overcontribution amount as of June 1, 2006, of \$3.2 million in Bell Aliant LP'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 toward the associated costs of such initiatives if it is economically justified by us and appropriate to do so.

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

BCE and Bell Canada

BCE and Bell Canada beneficially own and control 44.71 per cent of our outstanding limited partnership units as at December 31, 2006 (2005 – 53.21 per cent of Aliant common shares).

Under a Securityholders' Agreement, BCE has certain rights in respect of the Board of Bell Aliant Holdings GP including:

- The right to nominate up to a majority of directors for so long as BCE and Bell Canada, directly or indirectly, holds not less than 30 per cent of Fund units (on a fully diluted basis) and certain commercial agreements are in place; and,
- The right to require written consent from BCE, along with the majority vote from the board, prior to undertaking certain matters or transactions for so long as BCE and Bell Canada, directly or indirectly, holds not less than 20 per cent of Fund units (on a fully diluted basis).

As a result of these rights, BCE controls the board of Bell Aliant Holdings GP, and thus Bell Aliant Holdings LP.

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 trademarks in our territory and a license to use Bell Canada's promotional materials. Bell Canada agreed to promote the use and sale of technology and intellectual property developed by us. We agreed to provide each other with support services, including 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 entered into pursuant to the Arrangement continue to apply. The commercial agreements also provide Bell Canada with the telecommunications and support services required 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

21 RELATED PARTY TRANSACTIONS (continued)

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 five 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 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 trademark licence agreements with Bell Canada whereby each party and its affiliates are permitted to use the trademarks 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 telecommunications 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.

We also have an IS/IT agreement with Bell Canada under which Bell Canada will provide information technology (IT) services in the Bell Partnership Territory. As part of this agreement, the two parties will jointly develop a plan to transition IT services to us. The total capital investments anticipated to be expended on this plan amounts to \$90.0 million. Bell Canada has agreed to fund the first \$32.0 million with the remaining \$58.0 million being equally funded by Bell Canada and us.

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 years ended December 31
(millions of dollars)*

	2006	2005
Operating revenues	252.9	138.7
Operating expenses	369.0	140.9
Other income	2.7	5.3
Capital investments	68.0	9.8

21 RELATED PARTY TRANSACTIONS (continued)

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

As at December 31

(millions of dollars, except as otherwise noted)

	2006	2005
Number of Aliant common shares purchased	—	2,988,215
Value	—	83.1

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

As at December 31

(millions of dollars)

	2006	2005
Note receivable from related party	38.9	—
Accounts receivable	208.8	31.2
Long-term receivable, including current portion in accounts receivable	44.0	—
Payables and accruals	129.2	14.3
Distributions / dividends payable	22.9	19.7

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

The notes receivable from Bell Canada are 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.

The distribution payable to BCE and Bell Canada relate to their interest in exchangeable limited partnership units of Bell Aliant LP and Bell Aliant Holdings LP.

Estimated future minimum payments under our contractual obligations with Bell Canada, which are included in commitments in note 20, are as follows:

<i>(millions of dollars)</i>	2007	2008	2009	2010	2011	Thereafter
Contractual obligations	352.6	332.0	320.9	310.1	303.4	2,883.6

The Fund

In the normal course of business, we have an administrative agreement with the Fund for the provision of administrative and support services, such as corporate reporting, governance, investor relations, communications, treasury and all other services as may be necessary or requested by the Fund trustees, for the administration of the Fund. The agreement has an initial term of 10 years, and will be automatically extended for additional five year periods unless notice of termination is given. These services are recorded at their exchange amount of \$1.0 million. Included in accounts receivable is an amount due from the Fund of \$0.9 million which relates to these expenses.

Several of our stock-based compensation plans, as discussed in note 14, are based on Fund units. All compensation expense for these plans is recorded in Holdings LP.

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 years ended December 31

(millions of dollars)

	2006	2005
Consolidated statements of earnings		
Operating revenues	57.1	53.3
Expenses	23.5	22.4
Operating income	33.6	30.9
Consolidated balance sheets		
Current assets	29.0	20.4
Long-term assets	0.2	0.2
Current liabilities	8.3	7.1
Long-term liabilities	1.9	1.8
Net investment	19.0	11.7
Consolidated statements of cash flows		
Operating activities	6.9	1.2
Investing activities	(0.1)	—
Net cash flow	6.8	1.2

Included in cash flow from operating activities are cash distributions received by us from Aliant Directory Services of \$26.1 million for the year ended December 31, 2006 (2005 – \$29.2 million).

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. On December 18, 2006, the court directed that the plaintiffs must prepare their revised certification application and be ready to proceed on April 4, 2007, failing which the court will entertain a motion to dismiss the claim for want of prosecution. We have defences to this claim, but the outcome of this matter is not determinable at this time.
- (b) We have a dispute with Emera Incorporated (formerly Nova Scotia Power Holdings Inc.) (“Emera”) 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, Emera has indicated that it is seeking additional compensation and other relief. The matter has now been referred to arbitration, and on September 8, 2006, Emera served its arbitration claim. Our reply was filed on October 10, 2006. The arbitration is scheduled to proceed in October 2007. We have defences to this claim, but the outcome of the matter is not determinable at this time.

23 CONTINGENCIES *(continued)*

- (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.
- (d) On April 28, 2006, Aliant Telecom Inc. filed a claim against Voice Mobility Inc. in the New Brunswick Court of Queen's Bench seeking payment of approximately \$3.7 million under a promissory note. On November 14, 2006, Voice Mobility Inc. filed a defence and counterclaim which alleges, among other things, breach of contract and misrepresentation in connection with certain contracts that had existed between the parties, and seeks various relief, including damages of approximately \$6.2 million. We have defences to the counterclaim, but the outcome 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 December 31, 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 EVENTS

Bell Nordiq Income Fund

On October 11, 2006, the Fund announced that it had made a proposal to take Bell Nordiq Income Fund private. At December 31, 2006, we held 63.3 per cent voting interest in each of the Bell Nordiq partnerships.

On January 16, 2007, at a special meeting of Bell Nordiq Income Fund unitholders, the unitholders voted in favour of the proposal. All conditions precedent to the transaction were satisfied or waived by January 22, 2007. Bell Nordiq Income Fund unitholders of record at the close of business on January 26, 2007, were paid a special distribution of \$4.00 in cash by Bell Nordiq Income Fund on January 29, 2007, and all unitholders received 0.4113 of a Fund unit in exchange for each of their Bell Nordiq Income Fund units on January 30, 2007. Bell Nordiq Income Fund units ceased to trade on the TSX at the close of business on January 29, 2007, and were redeemed in exchange of Fund units and delisted at the close of business on January 30, 2007.

On January 26, 2006, we loaned Bell Nordiq Income Fund the necessary funds to enable them to make the special distribution to their unitholders.

As a result of this transaction there is no change in our ownership of Bell Nordiq Group and the underlying partnerships.

Amtelecom Income Fund

On February 28, 2007, the Fund made an offer to acquire all of the outstanding units of Amtelecom Income Fund (Amtelecom) at a price of \$13.00 cash per unit. The total acquisition cost, including assumed debt of Amtelecom, will be approximately \$119 million. The offer is conditional on and subject to certain specified conditions.

24 SUBSEQUENT EVENTS (continued)

Aliant Directory Services

On February 19, 2007, the Fund and Yellow Pages Group (YPG) through Yellow Pages Income Fund, announced that they have entered into a memorandum of understanding for YPG to acquire the assets of Aliant Directory Services, a partnership currently held 87.14 per cent by us and the balance by YPG. The \$330 million purchase price consideration for our interest in the business is payable in cash at closing. This transaction is subject to the satisfaction of certain conditions and regulatory requirements.

Medium-term notes

On February 26, 2007, Bell Aliant LP sold, on an agency basis, an aggregate \$1.0 billion principal amount of medium-term notes (the "notes") in three tranches: \$400.0 million principal amount of seven year notes to mature February 26, 2014; \$300.0 million principal amount of 12 year notes to mature February 26, 2019; and \$300.0 million principal amount of 30 year notes to mature February 26, 2037. The notes were issued at a discount for yields to maturity of 4.95 per cent, 5.52 per cent and 6.17 per cent, respectively.

Derivative financial instruments

With the issuance of medium-term notes, on February 26, 2007, we unwound or settled interest rate swaps with notional principal amounts totalling \$1.0 billion and paid cash of \$30.5 million to the counterparties on the settlement of the contracts.

Normal course issuer bid

The Fund announced its intention to commence an NCIB on February 28, 2007. The NCIB will allow the Fund to purchase, from time to time, up to 13,738,000 of its outstanding units, representing approximately 10.0 per cent of the issued and outstanding public Fund units on February 26, 2007, at market prices with cash through the facilities of the TSX. The NCIB will expire on February 27, 2008. We will loan the Fund the necessary funds to enable them to make the purchases under the NCIB.

25 SUPPLEMENTARY FINANCIAL INFORMATION

The following tables provide supplementary financial information related to Bell Aliant LP, which are included in our consolidated results.

For the year ended December 31, 2006
(millions of dollars)

	2006
Operating revenues	2,386.4
Net earnings from continuing operations	2,064.9
Net earnings	2,064.2

As at December 31
(millions of dollars)

	2006
Current assets	3,320.0
Non-current assets	11,040.7
	14,360.7
Current liabilities	3,010.6
Non-current liabilities	2,987.5
	5,998.1