



Bell Aliant Regional Communications Holdings, Limited Partnership

Management's Discussion and Analysis

For the period ended September 30, 2006

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

On July 7, 2006, the Plan of Arrangement (the Arrangement) creating Bell Aliant Regional Communications Income Fund (the Fund) was completed in accordance with the Arrangement steps described in Aliant's Management Information Circular dated April 14, 2006 (the Circular). After giving effect to the Arrangement, and as discussed further in note 2 to our unaudited interim consolidated financial statements for the period ended September 30, 2006, the combined assets of the Fund are operated under Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), NorthernTel, Limited Partnership (NorthernTel), and Télébec, Limited Partnership (Télébec). Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP) consolidates these underlying partnerships which represent the operations of the Fund. The results of operations for the period ended September 30, 2006, have been accounted for on a continuity of interest basis and as such include the consolidated accounts of Aliant for the period from January 1, 2006 to July 6, 2006, and of Bell Aliant Holdings LP from July 7, 2006 to September 30, 2006. The comparative information for 2005 is for Aliant.

Throughout this MD&A unless otherwise specified or the context otherwise indicates, "we", "us", "our" and "Bell Aliant Holdings LP" refer to Bell Aliant Regional Communications Holdings, Limited Partnership and its subsidiaries. Throughout this MD&A, the term "Aliant" refers to the former Aliant Inc. and its subsidiaries.

Quarterly reports, annual reports and supplementary financial information, as well as annual information forms and information circulars, can be found under "financial reports" on the Fund's website at www.bell.aliant.ca. These and other continuous disclosure documents for the Fund and Bell Aliant Holdings LP are also available at www.sedar.com.

Forward-looking information

This MD&A is dated October 26, 2006, and is current to that date, unless otherwise stated. This MD&A contains forward-looking statements related to our future financial condition and results of operations. These statements are based on current expectations and estimates about the markets in which we operate and management's beliefs and assumptions regarding these markets. Unless otherwise indicated, forward-looking statements in this MD&A describe our expectations at October 26, 2006. In some cases, forward-looking statements may be identified by words such as "anticipate", "believe", "could", "expect", "plan", "seek", "may", "intend", "will" and similar expressions. These statements are subject to important risks and uncertainties, which are difficult to predict, and assumptions, which may prove to be inaccurate. Some of the factors which could cause results or events to differ materially from current expectations include but are not

limited to: general economic conditions; market or business conditions; pension plan funding issues; the changing competitive environment; changing regulatory conditions or requirements; reliance on IT systems; changing technology; our relationship with BCE Inc. and Bell Canada; liquidity risk and the lack of assurance that our credit ratings will not be lowered; our ability to achieve strategies and plans; and our success in implementing productivity initiatives. Some of these factors are largely beyond our control. In addition, a number of assumptions were made by us in making forward-looking statements in this MD&A, such as certain Canadian economic assumptions, market assumptions, operational and financial assumptions, and assumptions about transactions. Assumptions made in the preparation of forward-looking statements are discussed throughout this MD&A. Should any factor affect us in an unexpected manner, or should assumptions underlying the forward-looking statements prove incorrect, the actual results or events may differ materially from the results or events predicted. Unless otherwise indicated, forward-looking statements do not take into account the effect that transactions or non-recurring or other special items announced or occurring after the statements are made may have on our business. All of the forward-looking statements made in this document and the documents referred to within are qualified by these cautionary statements. There can be no assurance that the results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences for us. Readers should not place undue reliance on any forward-looking statements. See the "Risk and risk management" section for a further discussion of factors that may affect actual results.

CREATION OF INCOME TRUST

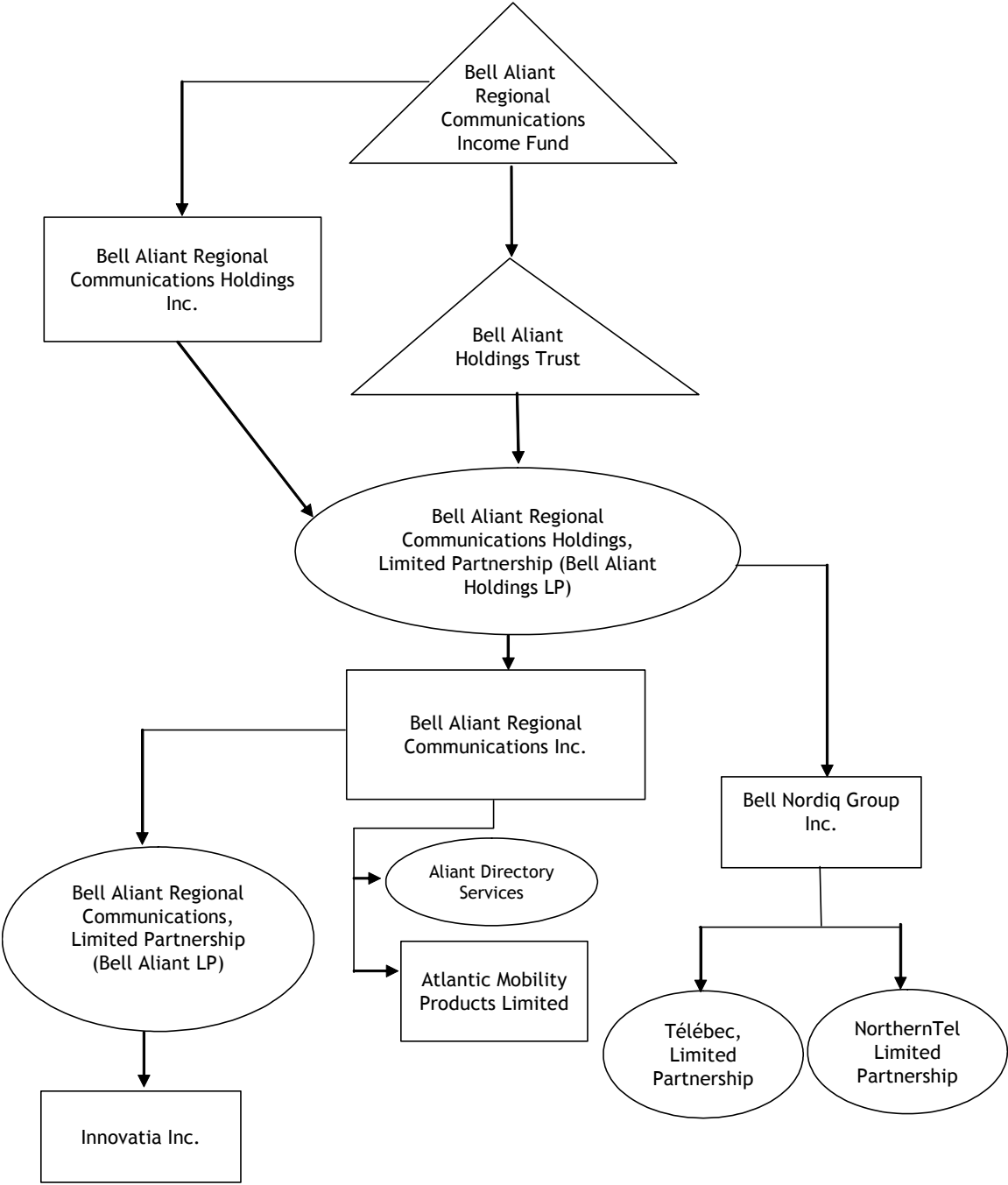
On July 7, 2006, the Arrangement creating one of the largest regionally-focused telecommunications service providers in North America was completed. Aliant's wireline telecommunications operation, information technology business, and other related operations were combined with Bell Canada's wireline telecommunications operation in certain of its regional territories in Ontario and Quebec, and its indirect 63.4 per cent interest in NorthernTel and Télébec. As part of the transaction, Bell Canada acquired Aliant's wireless telecommunications operation and ownership interest in DownEast Ltd. The Arrangement was completed in accordance with the arrangement steps described in the Circular.

As a result of the Arrangement, Aliant common shares held by the public and a certain number of Aliant common shares held by BCE Inc. (BCE) were exchanged for Fund units on a one-for-one basis, effective at the close of business on July 7, 2006. The remaining Aliant common shares and 100.0 per cent of Bell Nordiq Group Inc. common shares held by BCE were exchanged for limited partnership units of Bell Aliant Holdings LP, which are exchangeable into Fund units.

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

Further details on the Arrangement can be found in our unaudited interim consolidated financial statements for the period ended September 30, 2006.

The following organizational chart shows the Fund, Bell Aliant Holdings LP and other entities within the Fund group:



ABOUT OUR BUSINESS

We are a leading information and communications technology (ICT) provider, complementing the telecommunications business that we have operated for over 100 years with strengths in information technology (IT) to deliver complete customer solutions. We serve customers in several geographic markets, but principally in Canada, and across many different industries.

We operate in three reportable segments:

Bell Aliant

Our largest operating segment provides a wide range of innovative and traditional voice and data communications services and an array of consulting, infrastructure management and product fulfillment services to customers in the Atlantic provinces and parts of Ontario and Quebec. Communications services we provide include local telephone, long distance, data and Internet, television (TV), and other products and services. In addition, we provide IT services such as systems integration, application development, local and wide area network installations and management, data centre operations, computer hardware, package software and IT planning services.

Bell Nordiq Group

The Bell Nordiq Group segment provides local telephone, long distance, wireless, data and Internet, cable TV and other services to residential and business customers in regional areas of Quebec and Ontario, and represents the operations of Télébec and NorthernTel.

Other Subsidiaries

The Other Subsidiaries operating segment provides complementary services and includes the results of operations of the following businesses:

- Aliant Directory Services (formerly Aliant ActiMedia), which produces and distributes telephone directories in the Atlantic region;
- Atlantic Mobility Products Limited (AMP), a wholesale distributor of wireless handsets, accessories and other telecommunications products; and
- Innovatia Inc. (Innovatia), a knowledge management business that provides services in e-learning, technical documentation and tele-web sales and service.

Strategic direction and priorities

We operate in an ever increasingly competitive marketplace, with competition emerging from voice over Internet protocol (VoIP) providers and cable TV operators. The strengths of our brands, the range of services we can provide our customers and our involvement with the communities we serve are among the competitive advantages we will utilize to address the growing competition. Our priorities are to provide a superior customer experience, develop innovative marketing strategies, drive operational efficiency and deliver leading technology solutions. We will deliver these priorities with the support of our actively engaged, highly skilled workforce.

Customer experience is the cornerstone of our strategy. Our goal is to focus on serving the needs of regional customers, providing them with exceptional customer experience. We will accomplish this by offering a superior quality of service, delivering value through leading products and services, and executing a strong community focus. The range of services we are able to offer our customers allow us to create product and service solutions adapted to unique customer preferences. Our past experience shows that these marketing strategies have proven successful in reducing churn while increasing revenue per customer.

High speed Internet will be a key growth engine for us, driven by the continued expansion of our footprint, increased customer penetration and introduction of new applications. Extending our IT services capabilities to our small and medium-sized business customers and into Ontario and Quebec represents additional opportunities for growth.

While pursuing top-line revenue growth, we will also aggressively manage our cost structure to grow distributable cash and deliver value to Fund unitholders. Our significant scale, access to leading-edge technology and

increased collaboration with Bell Canada will all contribute to improving operational effectiveness and reducing costs.

We will also explore opportunities for further consolidation in our industry. The size of our revenue and fixed asset base, in addition to our proven ability to operate successfully in regional markets, provides us with a strong platform for future acquisitions of other regional and rural operations.

We have established broad financial targets for the short to medium-term. We plan to pursue growth opportunities such as Internet and IT while protecting our core local and long distance telephone revenues, to achieve one to two per cent growth in annual revenue. We expect that this revenue growth, combined with our focus on operational efficiencies and stable capital investments will allow us to achieve two to three per cent annual growth in distributable cash.

Proposed transaction

On October 11, 2006, the Fund announced a proposal to increase its 63.4 per cent interest and to take the Bell Nordiq Income Fund private. Under the proposal, Bell Nordiq Income Fund unitholders would receive \$4.75 in cash and 0.4113 of a Fund unit for each Bell Nordiq Income Fund unit held. This represents \$19.00 per Bell Nordiq Income Fund unit based on the closing price of Fund units on October 10, 2006. The proposal is conditional upon approval by the Bell Nordiq Income Fund unitholders, including by a majority of the votes cast by holders other than the Fund and its affiliates and other insiders. The transaction is also subject to applicable securities laws, including the Ontario and Quebec rules regarding business combination transactions of this nature.

NON-GAAP FINANCIAL MEASURES

Where indicated throughout this MD&A, operating revenue, operating income and EBITDA have been restated to include pro forma historical results as though Bell Aliant Holdings LP had been in existence since January 1, 2005. We believe that presenting these non-GAAP measures will allow for more meaningful year-over-year comparisons and analysis.

The terms pro forma operating revenues, pro forma operating income, EBITDA, pro forma EBITDA, and distributable cash do not have any standardized meanings prescribed by Canadian GAAP. They are therefore unlikely to be comparable to similar measures presented by other companies. Pro forma operating revenues, pro forma operating income, EBITDA, pro forma EBITDA, and distributable cash are presented on a consistent basis from period to period.

Pro forma operating revenues and pro forma operating income

Pro forma operating revenues and pro forma operating income represent operating revenues and operating income adjusted to reflect the pro forma historical results of the operations related to the net assets bought and sold under the Arrangement had it occurred on January 1, 2005. Therefore, pro forma operating revenues and pro forma operating income represent operating revenues and operating income of the predecessor company, Aliant, excluding operating revenues and operating income related to Aliant's wireless operation and DownEast Ltd. and including operating revenues and operating income related to Bell Canada's regional wireline operation, Télébec and NorthernTel.

We use pro forma operating revenues and pro forma operating income, among other measures, to assess the operating performance of Bell Aliant Holdings LP had it been in existence since January 1, 2005, which allows us to compare our operating performance on a consistent basis. We believe that certain investors and analysts use pro forma operating revenues and pro forma operating income to measure Bell Aliant Holdings LP and other companies' abilities to generate growth, or as a common valuation measurement in the telecommunications industry.

Pro forma operating revenues and pro forma operating income should not be confused with operating revenues or operating income which are the most comparable Canadian GAAP financial measures.

The table below reconciles operating revenue to pro forma operating revenue and operating income to pro forma operating income on a consolidated basis.

For the period ended September 30

(millions of dollars)

	Three Months		Nine Months	
	2006	2005	2006	2005
Operating revenues	\$ 817.6	\$ 514.7	\$ 1,889.1	\$ 1,550.9
Add (less):				
Aliant Wireless Operations and DownEast Ltd.	(7.4)	(91.9)	(194.3)	(254.6)
Bell Canada Regional Wireline Operation	22.8	311.6	623.4	915.2
Bell Nordiq Group Inc.	7.0	92.3	189.3	265.0
Intercompany eliminations	(0.1)	(1.6)	(3.5)	(4.9)
Pro forma operating revenues	\$ 839.9	\$ 825.1	\$ 2,504.0	\$ 2,471.6
Operating income	\$ 193.0	\$ 103.2	\$ 389.0	\$ 287.3
Add (less):				
Aliant Wireless Operations and DownEast Ltd.	(4.7)	(47.3)	(94.7)	(122.7)
Bell Canada Regional Wireline Operation	12.4	107.4	215.3	312.1
Bell Nordiq Group Inc.	2.2	29.4	61.2	88.4
Pro forma operating income	\$ 202.9	\$ 192.7	\$ 570.8	\$ 565.1

EBITDA and pro forma EBITDA

We define EBITDA as operating revenues less operating expenses, which means it represents operating income before depreciation and amortization expense, net benefit plans cost, and restructuring and other charges. Pro forma EBITDA represents EBITDA adjusted to reflect the pro forma historical results of the operations related to the net assets bought and sold under the Arrangement had it occurred on January 1, 2005. Therefore, pro forma EBITDA represents EBITDA of the predecessor company, Aliant, excluding EBITDA related to Aliant's wireless operation and DownEast Ltd. and including EBITDA related to Bell Canada's regional wireline operation, Télébec and NorthernTel.

We use EBITDA, among other measures, to assess the operating performance of our ongoing businesses without the effects of depreciation and amortization expense, net benefit plans cost, and restructuring and other charges. We exclude depreciation and amortization expense and net benefit plans cost because they largely depend on the accounting methods and assumptions a company uses, as well as non-operating factors, such as the historical cost of capital investments and the fund performance of a company's pension plans. We exclude these items because they affect the comparability of our financial results and could potentially distort the analysis of trends in business performance. Excluding restructuring and other charges does not imply they are necessarily non-recurring.

We use pro forma EBITDA, among other measures, to assess the operating performance of Bell Aliant Holdings LP had it been in existence since January 1, 2005. EBITDA and pro forma EBITDA allow us to compare our operating performance on a consistent basis. We believe that certain investors and analysts use these measures to assess Bell Aliant Holdings LP and other companies' abilities to service debt, make capital distributions to unitholders or shareholders and to meet other payment obligations, or as a common valuation measurement in the telecommunications industry.

EBITDA and pro forma EBITDA should not be confused with operating income which is the most comparable Canadian GAAP financial measure.

The following table is a reconciliation of operating income to EBITDA on a consolidated basis.

For the period ended September 30

(millions of dollars)

	Three Months		Nine Months	
	2006	2005	2006	2005
Operating income	\$ 193.0	\$ 103.2	\$ 389.0	\$ 287.3
Add:				
Net benefit plans cost	26.1	22.8	74.1	71.7
Depreciation and amortization	141.5	98.1	332.0	295.5
Restructuring and other charges	3.8	-	13.0	-
EBITDA	364.4	224.1	808.1	654.5
Add (less):				
Aliant Wireless Operations and DownEast Ltd.	(4.7)	(59.3)	(120.5)	(160.5)
Bell Canada Regional Wireline Operation	12.4	162.5	327.1	474.1
Bell Nordiq Group Inc.	3.4	44.4	92.6	131.6
Pro forma EBITDA	\$ 375.5	\$ 371.7	\$ 1,107.3	\$ 1,099.7

Distributable cash

According to the limited partnership agreements for Bell Aliant Holdings LP and Bell Aliant LP, distributable cash is generally defined as EBITDA less (i) interest expense and payment obligations on the principal amount of debt facilities; (ii) capital expenditures; (iii) cash payments for pension current service costs and other incentive compensation to the extent not deducted in determining EBITDA; (iv) other costs that may be incurred to the extent not deducted in determining EBITDA; and (v) plus or minus amounts that the general partner may reasonably consider to be necessary to provide for reasonable reserves, including working capital reserves for contingencies, maintenance capital expenditure reserves, other capital expenditure reserves and other reserves, including reserves established by the general partner for the purpose of stabilizing distributions to partners.

We use distributable cash, among other measures, to assess the financial performance of our ongoing business. It should not be seen as a measure of liquidity or as a substitute for comparable metrics prepared in accordance with Canadian GAAP. We believe that certain investors and analysts use distributable cash to measure the abilities of Bell Aliant Holdings LP and the Fund, as well as other open-ended trusts, to generate sustainable returns for unitholders. Distributable cash should not be confused with cash from operating activities which is the most comparable Canadian GAAP financial measure.

For purposes of illustrating the distributable cash generated in any one period such as a quarter or a year, we are ignoring the addition or subtraction of reasonable reserves as allowed for in our limited partnership agreements. This provides a clearer link between our actual cash generated in a period and the amount we determine is distributable cash. Each quarter, in addition to showing distributable cash calculated from EBITDA, we will show its reconciliation to actual reported cash from operating activities.

Since it is our intention to distribute to our unitholders approximately 90 per cent of distributable cash, there will be 10 per cent of distributable cash that will be available to fund other cash requirements, such as funding pension deficits, or making debt repayments or small acquisitions. In any single period, due to such items as working capital fluctuations, actual cash flow may differ from what we have determined to be distributable cash. These fluctuations in cash flow may also be funded through this 10 per cent cash reserve or through temporary borrowing. See the Liquidity section for a discussion of available borrowing sources for liquidity.

Therefore, distributable cash can similarly be defined as cash from operating activities plus operating items that are funded through cash reserves or borrowings, such as operating asset and liability (working capital) fluctuations and pension deficit funding,; less capital expenditures, cash taxes in excess of normalized levels, and the portion of distributable cash attributable to minority holders in controlled subsidiaries. For the third quarter of 2006, our distributable cash reconciled to cash from operating activities is as follows:

For the three months ended September 30, 2006

(millions of dollars)

Distributable cash	
<i>Reconciled to cash from operating activities</i>	
Cash from operating activities	\$ 117.8
Add:	
1 EBITDA adjustments for July 1 - 7	11.1
Operating items funded through cash reserves or borrowing:	
Debt prepayment premiums	147.8
Change in operating assets and liabilities (working capital)	30.3
2 Pension deficit funding	14.0
Restructuring costs	3.8
3 Cash taxes in excess of normalized levels	3.0
Deduct:	
Capital expenditure and interest adjustments for July 1 - 7	(1.9)
Current tax recovery for Aliant before conversion	(1.8)
Capital expenditures	(128.6)
4 Non-controlling interest in distributable cash	(9.6)
	\$ 185.9

In order to discuss and analyze this level of distributable cash in reference to prior periods, we have produced the following calculations from pro forma EBITDA:

For the period ended September 30 (millions of dollars)	Three Months			Nine Months		
	2006	2005 ⁸	% change	2006	2005 ⁸	% change
Distributable cash						
<i>Reconciled to pro forma EBITDA</i>						
Pro forma EBITDA	\$ 375.5	\$ 371.7	1.0	\$ 1,107.3	\$ 1,099.7	0.7
2 Cash funding of current service cost for net benefit plans	(15.9)	(13.8)	15.2	(45.6)	(41.4)	10.1
Pro forma adjustments not reflected in EBITDA prior to Q3 2006	-	1.4	-	2.8	4.2	(33.3)
3 Cash taxes included in EBITDA	4.7	0.3	-	5.3	0.9	-
One-time items	-	5.0	-	-	7.0	-
5 Non-controlling interest	(14.9)	(17.4)	(14.4)	(49.8)	(50.5)	(1.5)
	349.4	347.2	0.6	1,020.0	1,019.9	-
Add (less):						
Other income	(0.4)	(0.4)	-	(1.9)	(1.4)	35.7
6 Interest expense	(34.6)	(38.4)	(9.9)	(106.2)	(110.1)	(3.5)
3 Normalized cash taxes	(1.7)	(1.7)	-	(5.1)	(5.2)	(1.9)
7 Capital expenditures	(126.4)	(136.0)	(7.1)	(370.4)	(382.7)	(3.2)
Distributable cash of discontinued operations	(0.4)	0.4	-	(0.3)	1.2	-
	\$ 185.9	\$ 171.1	8.6	\$ 536.1	\$ 521.7	2.8

1. The cash from operating activities reflects the start date for Bell Aliant Holdings LP of July 7, 2006, prior to which it reflects only Aliant's operations. Distributable cash, on the other hand, is presented as if Bell Aliant Holdings LP operated in its current state for the entire quarter. Therefore, we add EBITDA and subtract capital expenditures and interest costs for the period July 1 to 7, 2006.
2. The cash funding requirement related to current service costs for net benefit plans for the period. The portion of cash funding required for net benefit plans cost that exceeds current service cost will be funded through cash reserves or borrowing.
3. Pro forma EBITDA is net of expenses for certain capital taxes. These are added back in the distributable cash reconciliation because only a normalized level of these cash taxes (to reflect future announced rate reductions) is deducted in determining our distributable cash. The remainder of these taxes actually paid will be funded through cash reserves or borrowing.
4. Non-controlling interest in distributable cash is that proportionate share of distributable cash generated by Télébec, NorthernTel and AMP attributable to their respective minority holders. For Q3 2006 this was \$10.6 million for Télébec and NorthernTel and \$(1.0) million for AMP.

5. The non-controlling interest in the EBITDA and one time items of Télébec, NorthernTel and AMP is not available to the Fund in order to determine distributable cash and therefore is removed.
6. Represents management's estimate of interest expense, assuming total drawn debt of \$2.6 billion for Bell Aliant LP at an estimated interest rate of 5.5 per cent. Interest expense also includes Bell Aliant Holdings LP's proportionate share of interest expense for Télébec and NorthernTel. Interest expense for the third quarter of 2006 represents the actual interest expense, net of that portion attributable to the minority holders of the Bell Nordiq Income Fund.
7. Represents management's estimate of pro forma annual capital expenditures for Bell Aliant Holdings LP had it been in operation since January 1, 2005. It excludes the non-controlling interest proportionate share of capital expenditures made by Télébec, NorthernTel and AMP. For the third quarter of 2006, the non-controlling interest portion of capital expenditures was \$4.0 million. For purposes of the reconciliation to cash from operating activities, the full amount of capital expenditures is deducted from the cash flow statement and the non-controlling interest portion of distributable cash is deducted separately.
8. It should be noted that distributable cash for the periods in 2005 is presented on the same basis and with the same pro forma adjustments as illustrated in the Circular, with the exception of approximately \$26 million in annual interest expense related to notional borrowing to fully fund Bell Aliant LP's pension deficits. Given this funding is likely to occur over time, and in amounts that can be funded through cash reserves, this borrowing has not and may not ever be necessary.

QUARTER AT A GLANCE

Consolidated financial results

For the period ended September 30 (millions of dollars)	Three Months			Nine Months		
	2006	2005	% change	2006	2005	% change
Operating revenues	\$ 817.6	\$ 514.7	58.8	\$ 1,889.1	\$ 1,550.9	21.8
Pro forma operating revenues	\$ 839.9	\$ 825.1	1.8	\$ 2,504.0	\$ 2,471.6	1.3
EBITDA	\$ 364.4	\$ 224.1	62.6	\$ 808.1	\$ 654.5	23.5
Pro forma EBITDA	\$ 375.5	\$ 371.7	1.0	\$ 1,107.3	\$ 1,099.7	0.7
Operating income	\$ 193.0	\$ 103.2	87.0	\$ 389.0	\$ 287.3	35.4
Pro forma operating income	\$ 202.9	\$ 192.7	5.3	\$ 570.8	\$ 565.1	1.0
Other (income) expenses	(2,780.3)	(0.3)	-	(2,766.7)	0.8	-
Interest charges	37.1	19.3	92.2	70.9	56.3	25.9
Income taxes (recovery)	(43.3)	33.0	-	10.7	85.5	(87.5)
Non-controlling interest	43.6	0.8	-	44.8	1.8	-
Net earnings from continuing operations	\$ 2,935.9	\$ 50.4	-	\$ 3,029.3	\$ 142.9	-
Net earnings (loss) from discontinued operations	(0.3)	0.4	-	(0.3)	1.3	-
Net earnings	\$ 2,935.6	\$ 50.8	-	\$ 3,029.0	\$ 144.2	-
Distributable cash	\$ 185.9	n.a.	-	\$ 185.9	n.a.	-
Cash distributions declared	\$ 141.5	n.a.	-	\$ 141.5	n.a.	-

n.a. - not applicable

As a result of the Arrangement, we have combined businesses to create a much larger organization with a customer base that has expanded from serving Atlantic Canada to now include certain regions in Ontario and Quebec. As a result, our revenue and cost structure has changed significantly. In order to assess the underlying growth, we have restated our results to reflect year-over-year comparable operations. This comparison illustrates growth rates are in line with our expectations.

Pro forma operating revenues for the third quarter of 2006 increased by 1.8 per cent over the same period in 2005, as Internet and data revenue growth of 9.6% and external IT services revenue growth of 12.4%, as well as increased telecommunications product sales have more than offset declining revenues from local and long distance services.

Pro forma operating income increased by 5.3 per cent compared to the third quarter of 2005 as a result of higher EBITDA and lower depreciation and amortization, partially offset by \$3.8 million restructuring and other charges incurred in the quarter.

Other income and net earnings for the quarter reflect a \$1.95 billion gain on the sale of Aliant's wireless operation and shares of DownEast Ltd. that occurred as part of the Arrangement. A dilution gain of \$1.0 billion was also recorded on the Arrangement when net assets received by Bell Aliant LP were of greater value than Bell Canada's 32.16 per cent fully diluted non-controlling interest in Bell Aliant LP that was exchanged. This is because the net assets received were recorded at fair market value, while the net assets of Aliant, recorded at historical book values, formed part of the non-controlling interest. Partially offsetting these gains were debt prepayment premiums of \$147.8 million and financial derivative losses of \$19.3 million that were recorded during the quarter.

Interest charges for the third quarter of 2006 reflect the increase in long-term debt financing arising as a result of the Arrangement. During the third quarter of 2006, we refinanced virtually all of Aliant's long-term debt, arranged for new credit facilities and issued new debt under those facilities. Our financing activities for the quarter are discussed in detail in the "Financing activities" section.

A portion of our income is earned through partnerships. Therefore, that portion of our income is not subject to tax at the partnership level as the taxable income is allocated directly to our partners. The tax provision reported is that of our corporate subsidiaries that are subject to tax on their taxable income. Our effective tax rate recovery for the third quarter of 2006 was 1.47 per cent, a significant reduction from the effective tax rate of 39.19 per cent for the same period in the prior year. The \$1.95 billion gain on sale and the dilution gain that were recognized as part of the Arrangement, \$45.1 million of inter-company interest income earned in non-taxable entities and \$23.5 million of income allocated to non-controlling interest all contributed to the significant reduction in our effective tax rate. Further reducing our tax provision for the third quarter of 2006 was the future tax recovery of \$43.0 million associated with debt prepayment premiums expensed during the quarter.

The increase in our non-controlling interest in the third quarter is mainly due to the 32.16 per cent fully diluted interest in Bell Aliant LP held by Bell Canada and a 36.6 per cent interest in Télébec and NorthernTel held by Bell Nordiq Income Fund unitholders.

We generated operating cash of \$117.8 million and pro forma available distributable cash of \$185.9 million for the three month period ended September 30, 2006. Distributions declared to our partners in the third quarter were \$141.5 million, which includes distributions of \$45.2 million declared by Bell Aliant LP. The Fund declared distributions of \$77.9 million during the quarter, which represents \$0.6279 per Fund unit. On a pro forma basis, as if the Arrangement had occurred on January 1, 2005, we experienced growth in distributable cash of 8.4 per cent in the third quarter of 2006 compared to the same period in 2005. This level of growth in a single quarter is mostly attributable to the timing of capital expenditures throughout the year. Over the longer, nine month period, we believe that distributable cash has shown a more normal growth rate of 2.8 per cent from \$521.7 million in the 2005 period to \$535.1 million in 2006. Year-to-date distributable cash growth has come principally from a combination of lower interest rates on debt and a 3.2 per cent decline in capital expenditures.

We have stated a mid-term expectation that we can generate two to three per cent growth in distributable cash. We are pleased that our year-to-date pro forma performance illustrates that this level of growth is achievable, and we expect growth in the future will come from improvements in operating margins and growth in revenue as we further implement our growth strategies for IT and Internet revenues and further work to protect our traditional revenues from competitive erosion. Our revenue growth, combined with synergies from the Arrangement, as well as our productivity initiatives, will allow us to deliver two to three per cent growth in distributable cash. We will be making capital expenditures to support our growth strategies, while at the same time looking at ways to make these investments more efficiently.

Our business environment

Competitive landscape

We face a number of different competitors in each of our operating segments and across the geographies we serve. These competitors include long distance carriers, competitive data network providers, equipment manufacturers and retailers, systems integrators, and cable TV providers. Competition from cable TV providers continues to be our fastest growing and most pervasive form of competition, particularly in the residential customer base. We compete with cable providers across our product lines for local service, long distance, Internet, TV, data and wireless services.

In the residential market, competition for most product lines is very mature. Competition for local telephone service is most mature in Nova Scotia and Prince Edward Island, where it has existed in the residential market since 1999. In 2006, the competitive local service market has expanded, with the introduction of local service competition in New Brunswick, Ontario, and Quebec. In this increasingly competitive residential local service market we differentiate ourselves by offering innovative customer solutions, investing in advanced networks, focusing on our customer experience, and building our brand through involvement in the communities we serve.

In our business customer base we are experiencing competition from new sources, most notably IT consulting companies that are increasingly acting as sellers of Internet protocol (IP) telephony and data solutions for business customers. Our strength is in the integration of information and communications technology solutions, and building deep expertise in selected industry verticals.

Regulatory developments

Our telecommunications business is affected by decisions made by the Canadian Radio-television and Telecommunications Commission (CRTC or the Commission). Many of these decisions could have a financial impact on our results. To date in 2006, key decisions included:

- Our application for forbearance from price regulation of local residential services in certain areas or exchanges in Nova Scotia and Prince Edward Island was denied (the local forbearance decision);
- The Commission determined that only 50 per cent of the effect of the 2004 work stoppage in the Atlantic region could be excluded from the Quality of Service (QoS) customer rebate plan; and
- On September 1, 2006, the Commission reaffirmed VoIP as a telephone service, declining to deregulate.

We have filed an appeal of the local forbearance decision to both the Federal Court of Appeal and via a petition to the Governor in Council. As well, we filed an application with the Commission to review and vary their decision to exclude only 50 per cent of the impact of the 2004 work stoppage from the QoS rebate plan. The outcome of these appeals could positively affect our ability to compete effectively and our future revenues and costs.

Another important initiative that will affect our industry is the Federal Industry Minister's announcement on June 12, 2006, of a proposed policy to direct the CRTC to rely on market forces to the maximum extent feasible within the scope of the current *Telecommunications Act*. There can be no guarantee that the Federal Cabinet will issue the direction, or that it will not be amended prior to the issuance date.

SEGMENTED ANALYSIS

Bell Aliant segment

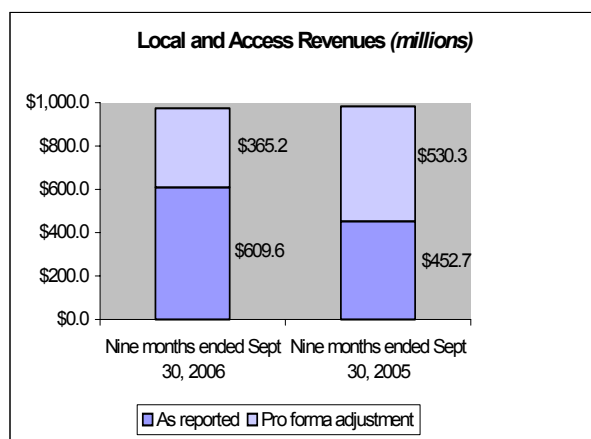
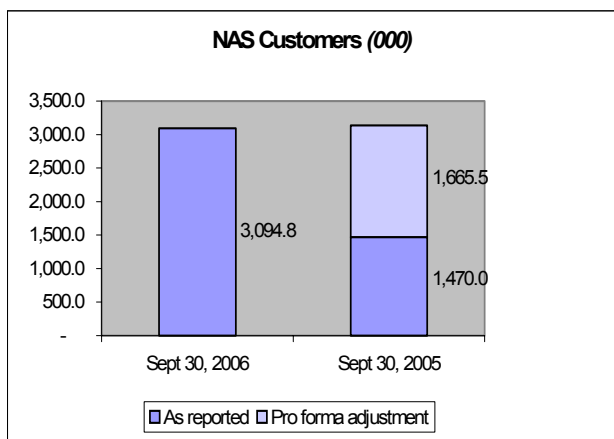
For the period ended September 30

(millions of dollars)	Three Months						Nine Months					
	2006	2005	%	Pro forma		%	2006	2005	%	Pro forma		%
				2006	2005					2006	2005	
Bell Aliant												
Local and access	\$ 314.3	\$ 151.0	108.1	\$ 327.9	\$ 331.1	(1.0)	\$ 609.6	\$ 452.7	34.7	\$ 974.8	\$ 983.0	(0.8)
Long distance	114.8	58.4	96.6	119.4	125.7	(5.0)	223.3	179.5	24.4	343.6	371.6	(7.5)
Data	146.2	79.5	83.9	150.6	136.8	10.1	315.9	236.4	33.6	440.0	407.6	7.9
IT services and fulfillment	60.8	53.4	13.9	60.8	54.0	12.6	206.1	194.1	6.2	206.5	195.9	5.4
Wireless	9.6	113.8	(91.6)	-	-	-	240.4	315.3	(23.8)	-	-	-
Other revenues	42.5	18.2	133.5	44.8	46.3	(3.2)	81.1	55.3	46.7	140.5	135.8	3.5
Operating revenues	\$ 688.2	\$ 474.3	45.1	\$ 703.5	\$ 693.9	1.4	\$ 1,676.4	\$ 1,433.3	17.0	\$ 2,105.4	\$ 2,093.9	0.5
Expenses	378.7	261.1	45.0	386.4	377.6	2.3	942.2	807.4	16.7	1,164.7	1,154.4	0.9
EBITDA	\$ 309.5	\$ 213.2	45.2	\$ 317.1	\$ 316.3	0.3	\$ 734.2	\$ 625.9	17.3	\$ 940.7	\$ 939.5	0.1
Net benefit plans cost	22.6	22.8	(0.9)	22.6	24.7	(8.5)	70.4	71.6	(1.7)	75.7	77.6	(2.4)
Depreciation & amortization	128.0	96.4	32.8	127.9	137.6	(7.0)	314.9	290.4	8.4	395.5	412.2	(4.1)
Restructuring and other charges	3.6	-	-	3.6	-	-	12.7	-	-	12.7	(3.5)	-
Operating income	\$ 155.3	\$ 94.0	65.2	\$ 163.0	\$ 154.0	5.8	\$ 336.2	\$ 263.9	27.4	\$ 456.8	\$ 453.2	0.8

Operating revenues

Local and access

Local and access revenue is earned through the provision of network access service (NAS), enhanced service features, contribution payments and competitor network access payments.



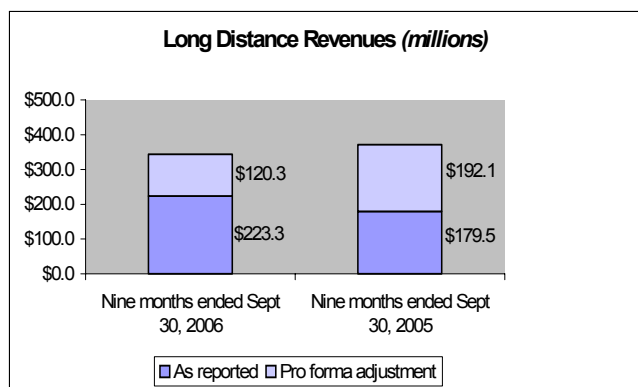
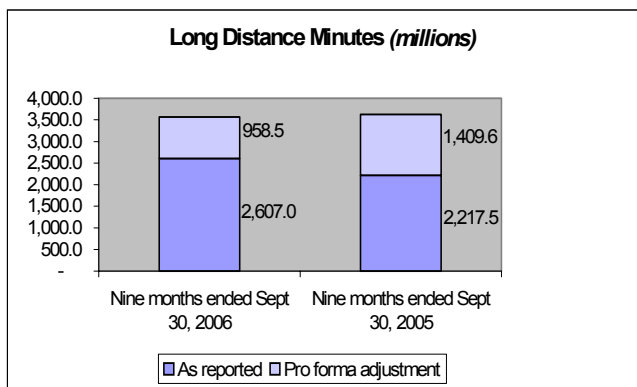
Local and access revenue for the third quarter of 2006 increased by 108.1 per cent compared to the same period in 2005, as the Arrangement resulted in a 110.5 per cent increase in our NAS customers. Revenue growth has also been affected by recent local service area expansion by competitors, technology substitution and regulatory constraints. On a pro forma basis, these factors are reflected in the local and access revenue decline of 1.0 per cent in the third quarter of 2006 compared to the same period in 2005.

The majority of our local and access revenue is earned through the provision of NAS. Pro forma NAS revenues for the third quarter of 2006 declined 1.1 per cent compared to the third quarter of 2005, a direct result of a 1.3 per cent decline in our restated NAS customer base. Residential NAS customers declined 1.8 per cent and business NAS customers were 0.3 per cent lower, which reflects competitive losses, the reduction of second lines as dial Internet customers migrate to high-speed and the reduction in primary lines as customers adopt wireless and VoIP technologies.

Pro forma revenue from sources other than NAS decreased 0.7 per cent compared to the third quarter of 2005. Competitor access payments decreased 1.9 per cent due to CRTC mandated rate reductions, and enhanced service features decreased 0.3 per cent, reflecting a lower number of NAS customers offset by growth of feature penetration in the customer base.

Long distance

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

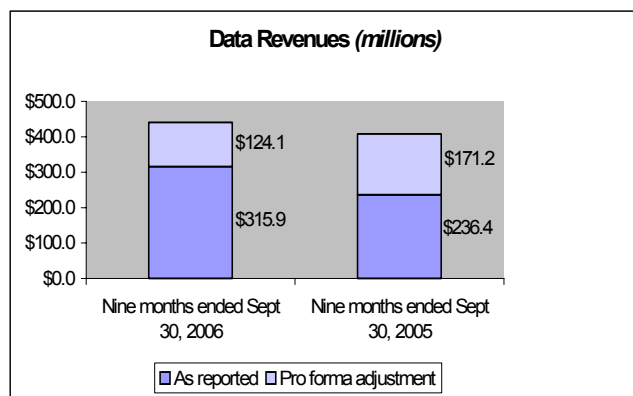
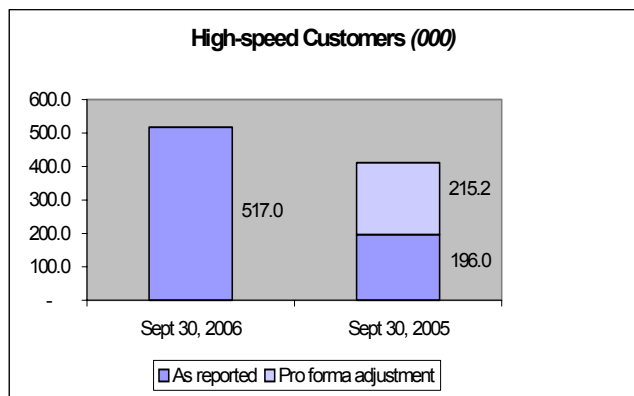


Long distance revenue for the third quarter of 2006 increased by 96.6 per cent over the same period in 2005, as long distance minutes increased by 60.8 per cent due to the significant increase in our customer base attributed to the Arrangement. On a pro forma basis, long distance revenue declined by 5.0 per cent compared to the third quarter of 2005, mainly as a result of lower per-minute toll prices in the residential market, and lower overall minutes, which declined by 2.6 per cent in the third quarter and 1.7 per cent for the nine months ended September 30, 2006. This decline was offset by customers adopting higher priced plans, and selected pricing action such as increased network access charges.

Overall, the average restated price per minute during the third quarter has remained consistent with the same period in the prior year, although there was a shift between the residential and business market. In the residential market, the average restated price per minute decreased 10.2 per cent in the third quarter compared to the same period in 2005 due to a significant increase in the number of customers taking unlimited long distance plans in our value packages, which causes lower pricing allocations. Our success in marketing value packages has resulted in increased customer retention, and has enabled us to stabilize our customer base and secure future revenues. For the third quarter of 2006, the average restated revenue per minute for our business long distance customers increased by 4.0 per cent, mainly due to pricing adjustments. Restated business long distance minutes, however, were 10.2 per cent lower in the third quarter of 2006 compared to the same period in the prior year, reflecting the ongoing impact of technology change at contact centres, which causes shorter call durations.

Data

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



Data revenue for the third quarter of 2006 grew by 83.9 per cent over the same period in 2005, again due to the much larger geographic area and customer base created by the Arrangement. Included in the customer base at September 30, 2006, was a 163.8 per cent increase in high-speed Internet customers.

On a pro forma basis, data revenue for the third quarter grew by 10.1 per cent over the same period in 2005, led by a 30.5 per cent increase in high-speed Internet revenue. Internet revenue growth was driven by an increase in high-speed customers, lower use of promotional pricing in the residential Internet segment and increased adoption of enhanced services. Our restated high-speed customer base grew by 25.7 per cent over the third quarter of 2005, largely due to competitive marketing offers, proactive management of dial migration, expansion of our service area and success in marketing our small and home-based business Internet service.

Our restated residential high-speed average revenue per customer (ARPC) for the third quarter of 2006 was \$36.12, a 5.9 per cent increase over the third quarter of 2005, due to a move away from promotional pricing and increased penetration of ultra high-speed and value added services.

IT services and fulfillment revenue

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

Pro forma IT services and fulfillment revenue increased by \$6.8 million in the third quarter of 2006, compared to the same period in the prior year. Approximately \$4 million of the increase is attributed to sizeable new contracts for systems integration, application services and managed outsourcing, as well as expansion of existing contracts resulting from our focus on key industry verticals in the enterprise market.

Wireless

Wireless revenues were earned through the provision of cellular, paging and mobile services over our analog and digital wireless network.

Wireless revenue decreased by 91.6 per cent in the third quarter of 2006 compared to the same period in 2005, as Aliant's wireless operation was sold as part of the Arrangement.

Other revenues

Other revenues consist of terminal rentals and sales, PC sales, professional services, pole and building rental revenue, and revenue generated by our outsourcing arrangement with Bell Mobility.

As a result of our increased size and scale and the new wireless commercial agreement with Bell Canada, which provides Bell Canada with the telecommunication and support services required for Bell Canada to operate its wireless operation in our regions and to operate Aliant's wireless operation that Bell Canada acquired as part of the Arrangement, other revenues for the third quarter of 2006 increased by 133.5 per cent compared to the third quarter of 2005. On a pro forma basis for the same period, other revenues decreased by 3.2 per cent due to lower terminal sales and set rentals.

Operating income

Operating income for the third quarter increased by 65.2 per cent resulting from our expanded operations. Pro forma operating income increased by 5.8 per cent. Although pro forma EBITDA was relatively flat year over year, net benefit plans costs and depreciation and amortization were lower compared to the prior year.

Expenses

Expenses in the third quarter of 2006 increased by 45.0 per cent compared to the prior year, reflecting the higher costs of our expanded operations. Pro forma operating expenses increased by 2.3 per cent, which led to relatively flat EBITDA compared to the third quarter of 2005. Higher expenses were mainly as a result of the Arrangement and included increased large corporations tax and increased IT expenses year-over-year. Although at this early stage, we have not yet recognized synergies from the Arrangement, we expect to begin realizing efficiencies in 2007.

Net benefit plans costs

Defined benefit (DB) plan pension costs were \$18.9 million in the third quarter of 2006, an increase of \$0.6 million compared to the same period in 2005. Incremental DB pension costs resulting from new employees and their pension plans acquired through the Arrangement were \$2.0 million, however an accounting re-measurement of our plan assets and obligation at July 7, 2006 mitigated some of the effect of the increase.

Other post-employment benefit (OPEB) plan costs of \$2.3 million were lower for the third quarter of 2006 when compared to the same period in 2005. Although the Arrangement contributed \$0.5 million in additional OPEB plan costs for the quarter, the plan changes we made in January of 2006 resulted in reduced current service costs as well as a \$44.9 million gain that is being amortized against OPEB costs over approximately 10 years.

Depreciation and amortization

Depreciation and amortization for the third quarter increased as a result of the larger asset base created by the Arrangement. On a pro forma basis, there was a decrease of 7.0 per cent in the third quarter as a result of changes in estimates of the useful life of certain asset categories that were made in the second and third quarters of 2006.

Restructuring and other charges

Restructuring and other charges include a \$2.0 million charge resulting from the accelerated vesting of Aliant stock options. The remaining amount relates to planned restructuring activities to improve productivity.

Bell Nordiq Group segment

For the period ended September 30

(millions of dollars)	Three Months						Nine Months					
	2006	2005	% change	Pro forma		% change	2006	2005	% change	Pro forma		% change
				2006	2005					2006	2005	
Operating revenues	\$ 87.8	\$ -	-	\$ 94.9	\$ 92.4	2.7	\$ 87.8	\$ -	-	\$ 277.2	\$ 265.1	4.6
Expenses	44.4	-	-	48.0	47.9	0.2	44.4	-	-	141.1	133.5	5.7
EBITDA	\$ 43.4	\$ -	-	\$ 46.9	\$ 44.5	5.4	\$ 43.4	\$ -	-	\$ 136.1	\$ 131.6	3.4
Net benefit plans cost	3.4	-	-	3.6	1.8	100.0	3.4	-	-	9.0	5.4	66.7
Depreciation & amortization	11.7	-	-	12.8	13.2	(3.0)	11.7	-	-	37.6	37.7	(0.3)
Restructuring and other charges	0.2	-	-	0.2	-	-	0.2	-	-	0.2	-	-
Operating income	\$ 28.1	\$ -	-	\$ 30.3	\$ 29.5	2.7	\$ 28.1	\$ -	-	\$ 89.3	\$ 88.5	0.9

Financial information for the Bell Nordiq Group segment as reported in our unaudited interim consolidated results for the period ended September 30, 2006, includes the results of operations for the period from July 7, 2006, to September 30, 2006, only. Restated figures shown in the table above reflect the pro forma financial results of Bell Nordiq Group Inc. had the Arrangement occurred on January 1, 2005.

Pro forma operating revenues of the Bell Nordiq Group segment increased by 2.7 per cent in the third quarter of 2006 when compared to the same period in 2005. Revenue growth was driven by an 8.6 per cent increase in data and cable revenues, which reflected a 35.8 per cent increase in high-speed Internet customers. Growth in wireless revenues, which increased by 1.1 per cent for the quarter, was dampened by the recognition, in the third quarter of 2005, of \$2.2 million in settlement revenues relating to prior periods. Excluding the settlement adjustment, wireless revenues grew by 17.8 per cent for the quarter, reflecting a 22.9 per cent increase in customers compared to the number of customers at September 30, 2005. Local and access revenues remained relatively stable, decreasing 0.9 per cent, and total NAS customers also remained fairly stable, declining 0.6 per cent. NAS customer losses stemmed largely from competitive pressures and were concentrated on the residential side, as business NAS customers grew 2.5 per cent in the third quarter. Long distance revenues for the third quarter of 2006 declined 4.5 per cent compared to the same period in 2005 due to continued pricing pressures.

Pro forma operating income of the Bell Nordiq Group segment increased by 2.7 per cent in the third quarter of 2006 compared to the third quarter of 2005. Prudent expense management helped to contain expenses during the quarter, the effect of which was slightly offset by higher net benefit plans costs.

Other Subsidiaries segment

<i>(millions of dollars)</i>	Three Months			Nine Months		
	2006	2005	% change	2006	2005	% change
Other						
Atlantic Mobility Products	\$ 22.7	\$ 21.5	5.6	\$ 66.1	\$ 60.0	10.2
Aliant Directory Services	14.5	13.4	8.2	41.3	38.8	6.4
Innovatia	7.1	6.1	16.4	21.2	20.1	5.5
	\$ 44.3	\$ 41.0	8.0	\$ 128.6	\$ 118.9	8.2
Expenses	32.9	30.1	9.3	98.5	90.4	9.0
EBITDA	\$ 11.4	\$ 10.9	4.6	\$ 30.1	\$ 28.5	5.6
Depreciation & amortization	1.8	1.7	5.9	5.5	5.1	7.8
Operating income	\$ 9.6	\$ 9.2	4.3	\$ 24.6	\$ 23.4	5.1

The operations of AMP, Aliant Directory Services and Innovatia were not affected by the Arrangement, and therefore all operating results for this segment are the same on both an 'as reported' and 'pro forma' basis. Revenues for the Other Subsidiaries segment increased by 8.0 per cent in the third quarter of 2006 compared to the same period in 2005. The growth in the quarter is attributed primarily to AMP's higher cellular and accessory set sales and to higher directory revenues generated by Aliant Directory Services in larger centres.

Operating income for the Other Subsidiaries segment increased by 4.3 per cent in the third quarter of 2006, as operating cost increases were generally in line with revenue growth.

FINANCIAL AND CAPITAL MANAGEMENT

Summary of cash flows

<i>(millions of dollars)</i>	Three Months			Nine Months		
	2006	2005	% change	2006	2005	% change
Cash from (used in):						
Operating activities	\$ 117.8	\$ 237.5	(50.4)	\$ 337.2	\$ 437.6	(22.9)
Financing activities	1,507.6	(86.3)	-	1,349.3	(105.1)	-
Investing activities	(1,397.2)	(99.3)	-	(1,582.2)	(285.4)	-
Net source of cash	\$ 228.2	\$ 51.9	-	\$ 104.3	\$ 47.1	121.4

We generated net cash of \$228.2 million during the third quarter. Net cash from operating activities decreased by 50.4 per cent in the third quarter compared to the same period in 2005. Despite our larger operations, there were certain cash requirements of the Arrangement, namely \$147.8 million in debt prepayment premiums, incurred and expensed through operations in the third quarter of 2006. Also, net financing activities generated more cash than was used in the third quarter of 2006, however debt was repaid subsequent to the quarter to reduce the temporarily high cash balance at September 30, 2006. Key components of our \$228.2 million net source of cash during the third quarter of 2006 were as follows:

DB pension and OPEB plans

Total funding of our DB plans for the third quarter of 2006 was \$27.3 million, comprised of \$25.3 million for the Bell Aliant segment and \$2.0 million for the Bell Nordiq Group segment. Actuarial valuations of our pension plans, excluding the plans of Télébec and NorthernTel, are being performed as of July 7, 2006. While these

valuations will be finalized in the fourth quarter of 2006, we do know that they will reflect funding deficits as measured on both a solvency and going concern basis. We estimate the present value of the special deficit payments required to fund these deficits over the next 5 to 15 years to be approximately \$355 million. We also estimate special payments required for 2007 to be in the range of \$55 to \$65 million, net of the application of prior years' voluntary contributions. These estimates will be confirmed upon finalization of our funding valuations and could change upon subsequent required funding valuations being completed.

Actuarial valuations of the Télébec and NorthernTel DB pension plans were performed as of December 31, 2005, and reflected funding deficiencies resulting in required special payments for 2006 of approximately \$4 million.

We expect 2006 funding requirements of our OPEB plans to be in the range of \$6 million to \$8 million. These plans required \$1.5 million of cash funding in the third quarter of 2006.

Gain on disposal and dilution of businesses

The sale of Aliant's wireless operation and shares of DownEast Ltd. as part of the Arrangement resulted in a gain on disposal of \$1.95 billion. A dilution gain of \$1.0 billion was also recorded on the Arrangement when net recorded assets received were of greater value than a 32.16 per cent fully diluted non-controlling interest in Bell Aliant LP acquired by Bell Canada.

Future income taxes

There was a \$41.5 million increase in future tax assets during the quarter, due to lower deductions or higher additions to income calculated for tax purposes compared to income calculated for financial statement reporting purposes. The increase in future tax assets during the quarter was driven primarily by debt prepayment premiums deducted for reported income purposes but not for tax purposes. Also, we recognized for tax purposes, income that had been previously deferred, but this was offset by higher pension and capital investment related deductions taken for tax purposes than for reported income purposes.

Change in operating assets and liabilities

The change in operating assets and liabilities used cash of \$30.3 million in the third quarter of 2006, and provided cash of \$83.5 million during the third quarter of 2005. Although accounts receivable increased substantially as a result of our larger operations since the Arrangement, this increase was largely offset by increased accounts payable. Contributing to the higher use of cash in 2006 was \$43.2 million in tax refunds received in 2005 that were not received in 2006, coupled with \$86.8 million in higher tax payments made during 2006. The higher tax payments resulted from an acceleration in payments of cash taxes in 2006 due to various tax years triggered as a result of the Arrangement.

Long-term debt

During the third quarter of 2006, in connection with the Arrangement, we refinanced virtually all of Aliant's long-term debt, put in place new credit facilities and issued new long-term debt under those credit facilities. In converting to an income trust, we believed that increased leverage through the use of long-term debt financing would add to the overall value for Fund unitholders as it would allow distributable cash per unit to be increased. It is believed that long-term debt in the range of two times (2x) EBITDA is appropriate given our anticipated cash flow stability and our desire to maintain investment grade credit ratings.

Also, as a result of the decision to convert to an income trust and as part of the overall Arrangement, it was determined that most of Aliant's long-term debt and preferred shares had to be repaid or redeemed, as they could not be transferred to the new legal entity. The remaining long-term debt, except for a \$100.0 million medium-term note issue maturing in January 2007, was also repaid in order to treat all bondholders equally, and to lower the overall coupon interest rate on our outstanding long-term debt.

It is our intention, over the ensuing 12 to 24 months after the Arrangement, to refinance the debt incurred as part of the Arrangement at fixed rates of interest through accessing capital market facilities.

As at September 30, 2006, we had the following net debt outstanding under various short and long-term facilities:

(millions of dollars)

	Aliant Debt	\$1.0 billion transaction bridge	\$3.5 billion Bell Aliant Facility	Commercial Paper	Bell Aliant MTNs	Bell Nordiq	Cash	Net Debt
Balance December 31, 2005	\$ 915.0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (195.8)	\$ 719.2
Activity for first six months of 2006	(131.8)	280.0	-	-	-	-	124.2	272.4
Balance June 30, 2006	\$ 783.2	\$ 280.0	\$ -	\$ -	\$ -	\$ -	\$ (71.6)	\$ 991.6
Issuance / draws	-	311.6	2,484.9	200.0	1,250.0	-	-	4,246.5
Redemptions / repayments	(661.0)	(591.6)	(1,250.0)	(50.0)	-	-	-	(2,552.6)
Assumed in Arrangement	-	-	-	-	-	203.7	-	203.7
Increase in cash	-	-	-	-	-	-	(228.2)	(228.2)
Balance September 30, 2006	\$ 122.2	\$ -	\$ 1,234.9	\$ 150.0	\$ 1,250.0	\$ 203.7	\$ (299.8)	\$ 2,661.0

The financing activities of the Arrangement and other related activities that have led to the \$1.9 billion increase in the net debt balance during 2006 are as follows:

- \$1.256 billion cash payment to Bell Canada;
- \$147.8 million in debt prepayment premiums;
- \$175.0 million to redeem Aliant's preferred shares;
- \$203.7 million in Télébec and NorthernTel debt, which is now consolidated on our balance sheet;
- \$58.1 million to settle interest rate derivative contracts (see "Interest rate derivatives" section below);
- \$41.9 million in Arrangement transaction costs paid;
- \$8.1 million for cash settlements to employees and former employees to eliminate the stock option plan (see "Issuance and repurchase of Aliant common shares" below);
- \$19.8 million to repurchase Aliant shares under a normal course issuer bid to offset stock options exercised after the Arrangement announcement (see "Issuance and repurchase of Aliant common shares" below); and
- \$18.7 million in new debt issue costs, including \$13.6 million related to the syndicated bank facility and \$5.1 million related to the medium term notes issued.

As discussed above, most of Aliant's long-term debt was redeemed or repaid at maturity, prior to or since the Arrangement. A total of \$147.8 million in premiums were incurred in the second and third quarters of 2006 to repay, prior to maturity, debt having a total principal amount of \$735.0 million. This premium cost was included in other expenses in the third quarter of 2006. Of the \$735.0 million repaid, \$75.0 million was repaid in the second quarter and \$660.0 million repaid in the third quarter of 2006.

In order to finance these debt repayments and the redemption of Aliant's \$175.0 million in outstanding preferred shares, \$591.6 million was drawn under a temporary \$1.0 billion demand credit facility prior to the time of the Arrangement. As discussed below in the Liquidity section, our new syndicated credit facilities were finalized on July 7, 2006, in an aggregate maximum amount of \$3.5 billion. During the third quarter, a total of \$2.485 billion was drawn under this facility to repay the \$591.6 million demand credit facility, to repay the additional Aliant bonds and debentures, to repay the \$1.256 billion demand promissory note to Bell Canada resulting from the Arrangement, to pay transaction costs and to settle interest rate derivative transactions.

The \$2.485 billion that was drawn under our syndicated bank facilities during the third quarter was drawn from a \$1.25 billion bridge facility with an 18 month term and the remainder from a \$1.25 billion non-revolving term facility with a 3 year term. It is our intention to refinance the full amount of these facilities by issuing long-term debt at fixed rates of interest. As discussed below under the Liquidity section, we have also launched a \$400.0

million commercial paper program to enable us to provide a cost effective source of funds for short-term financing needs. During the third quarter, \$200.0 million in commercial paper was issued and used to repay a portion of the 18 month bridge facility in order to lower our overall borrowing costs. On September 25, 2006, we issued \$750.0 million in 5 year notes, maturing September 26, 2011, and \$500.0 million in 10 year notes, maturing September 26, 2016, pursuant to a \$3.0 billion medium-term note shelf prospectus filed with the Canadian securities commissions on September 14, 2006. Net proceeds received were \$1.245 billion, of which \$1.05 billion was used to repay and extinguish the 18-month bank bridge facility, \$50.0 million was used to repay maturing commercial paper and the balance remained in cash on hand at September 30, but was used to repay the balance of maturing commercial paper during October 2006.

Interest rate derivatives

During the second quarter of 2006, in anticipation of the Arrangement and the ultimate need to refinance the bank debt to be incurred, we entered into a series of forward interest rate swaps with notional principal values totalling \$1.765 billion to hedge the interest rate risk related to the future debt refinancing. These derivative contracts were designated as hedges of future cash flows and so changes in the value of these instruments are accounted for using hedge accounting. Should interest rates rise, the value of the contract will increase in our favour, offsetting the future higher cost of interest associated with the future refinancing. Similarly, as interest rates fall, the value of the contract in favour of the counterparties (Canadian chartered banks) will increase and offset the future lower cost of interest on the refinancing.

We also continued to have in place two existing interest rate swap contracts with notional principal values totalling \$90.0 million, which also served a similar purpose although had not been designated as hedges and so were not being accounted for as such. These swap contracts combined to provide us with a \$1.855 billion hedge against fluctuating interest rates associated with the long-term debt that had to be refinanced.

With the refinancing of \$1.25 billion of our long-term debt in September 2006 through the issuance of medium-term notes, we unwound or settled related interest rate swap contracts with notional principal amounts totalling \$1.105 billion. Interest rates had generally declined since the hedging contracts were put in place, therefore we were obligated to pay cash to the counterparty on settlement of the contracts. This cost is offset by the lower coupon rate on the notes issued on refinancing. The cash settlement cost and related accounting treatment is shown in the table below:

<i>(millions of dollars)</i>	Accounting treatment			
Notional principal	Cash payment	Other expense	Defer and amortize over debt term	Reduced balance sheet liability
\$1,015.0	\$23.8	\$2.5	\$21.3	-
\$ 90.0	\$34.3	\$16.8	-	\$17.5
Total	\$ 58.1	\$19.3	\$21.3	\$17.5

Since we still have future debt refinancing for which we are exposed to the risk of fluctuating interest rates, we entered into an additional interest rate swap contract with a notional principal amount of \$500.0 million in the third quarter, to bring the total value of notional interest rate hedges outstanding to \$1.25 billion. With the general decline in interest rates since the start of the contracts, these contracts have a market value in favour of the counterparties of \$33.3 million which is not recorded in our financial statements due to the application of hedge accounting.

Issuance and repurchase of Aliant common shares

As a result of the exercise of options pursuant to Aliant's stock option plan, for the three and nine months ended September 30, 2006, 882 and 471,684 Aliant common shares, respectively, were issued for proceeds of less than \$0.1 million and \$13.7 million, respectively. On July 5, 2006, just prior to the Arrangement, Aliant terminated

the stock option plan with cash payments for all remaining options outstanding at their in-the-money value. This resulted in a cash payment of \$8.1 million for 1,947,733 options. The remaining 503,527 options were out-of-the-money at the time of the Arrangement and were forfeited.

Aliant commenced a normal course issuer bid (NCIB) on May 3, 2006, which allowed the purchase, from time to time, of up to 3,000,000 of issued and outstanding common shares at market price through the facilities of the TSX. The limited purpose of this NCIB was to offset the dilutive impact of share issuances under the stock option plan prior to the Arrangement. Purchases of Aliant common shares were made up to June 28, 2006, and the NCIB expired on July 7, 2006. For the nine months ended September 30, 2006, Aliant purchased for cancellation 562,216 shares for an aggregate price of \$19.8 million. Further details about the NCIB are provided in note 14 to our unaudited interim consolidated financial statements for the period ended September 30, 2006.

During the third quarter, we paid \$0.6 million to repurchase for cancellation 15,458 Aliant shares from those shareholders formally dissenting to the Arrangement.

All activity in Aliant common shares ended upon the Arrangement on July 7, 2006. At that time, all outstanding Aliant common shares were exchanged one-for-one for units of the Fund, or in the case of a certain percentage of BCE's holdings, for exchangeable limited partnership units.

Non-controlling interest

As a result of the Arrangement, our non-controlling interest has increased, as Bell Canada owns a 32.16 per cent fully diluted interest in Bell Aliant LP and the Bell Nordiq Income Fund owns a 36.6 per cent interest in Télébec and NorthernTel. Bell Canada, through its ownership interest, is entitled to receive distributions from Bell Aliant LP equal, to the greatest extent practicable, to per-unit distributions paid by the Fund to holders of Fund units. As well, Télébec and NorthernTel pay distributions to the Bell Nordiq Income Fund. During the third quarter of 2006, we recorded non-controlling interest in our earnings of \$43.6 million, of which \$43.1 million relates to the above. Distributions declared by our subsidiaries to our non-controlling interest in the third quarter were \$57.0 million, of which \$45.3 million was to Bell Canada from Bell Aliant LP, \$9.9 million was by Bell Nordiq Income Fund, and \$1.8 million was by AMP to its former shareholders.

Business acquisitions

A promissory note of \$1.256 billion payable to Bell Canada was settled shortly following completion of the Arrangement. For details of the total consideration paid under the Arrangement, refer to note 2 of our unaudited interim consolidated financial statements for the period ended September 30, 2006.

Capital expenditures

Capital expenditures in the third quarter of 2006 totalled \$128.6 million, or 15.7 per cent of revenues. Although expenditures have declined year-over-year on a pro forma basis, the decline is due to timing of expenditures, and we have not altered our strategy. We continue to invest in our traditional wireline to sustain our existing business and the reliability of our network, and we have invested in expanding and augmenting our high-speed Internet footprint, increasing our investment in fibre to the node, increasing the Aliant TV footprint and transforming our network to support next-generation IP applications.

Liquidity

Cash requirements

We require a significant amount of cash to execute our business strategy. Our cash requirements for the remainder of 2006 will consist of unitholder distributions, investments in capital, required pension plan contributions, transaction and integration costs, and payments of other commitments, including our proposal to increase our ownership interest in and take private the Bell Nordiq Income Fund. In particular, it is anticipated that these requirements will result in the use of cash as follows:

- Distributions to holders of Fund units are anticipated to be approximately \$0.2283 per unit per month, subject to approval by the trustees of the Fund. The Fund is entirely dependent upon distributions from us to make its distributions. Distributions to our unitholders are estimated to be \$51 million per month.

- Total funding of our DB pension plans for the fourth quarter of 2006 is anticipated to be in the range of \$28 million to \$30 million. These payments include approximately \$13 million in deficit funding that could be funded through the \$450.0 million dedicated credit facility established for that purpose. We anticipate total required funding for 2007 to be in the range of \$110 to \$120 million, net of application of prior years' voluntary contributions, and inclusive of \$60 to \$70 million in deficit funding for Bell Aliant LP and Bell Nordiq Group pension plans. Required funding for 2006 and 2007 may be reduced if pending legislation is enacted allowing solvency deficit funding over a 10 year period, along with letters of credit supporting the funding.

Funding of our OPEB plans for the fourth quarter of 2006 is expected to be approximately \$2 million.

- Should our proposal to increase our ownership interest in the Bell Nordiq Income Fund be approved, a cash payment of \$4.75 per unit could amount to approximately \$160 million.
- \$100.0 million of medium-term notes mature in January 2007 and will be repaid and refinanced at that time.
- Capital expenditures will be made as required to support our existing infrastructure and to advance our strategic initiatives.
- Other commitments, such as operating leases and purchase commitments for equipment and other network infrastructure, and contingencies are disclosed in notes 20 and 23 to our unaudited interim consolidated financial statements for the period ended September 30, 2006.

Sources of liquidity

We derive most of our liquidity from the strength of our recurring cash from operating activities, as well as bank credit facilities, a \$3.0 billion medium-term note shelf prospectus and a \$400.0 million commercial paper program. We anticipate generating enough cash from our operating activities in 2006 to pay for capital expenditures and distributions.

Capital structure

<i>(millions of dollars, except as otherwise noted)</i>	September 30, 2006		December 31, 2005	
Unitholders' / Shareholders' equity	\$ 5,068.4	52.5%	\$ 1,411.9	66.0%
Non-controlling interest	1,929.5	20.0%	5.6	0.3%
Debt	2,661.0	27.5%	719.9	33.7%
Total capital	\$ 9,658.9	100.0%	\$ 2,137.4	100.0%

Debt

To assist in financing the Arrangement and re-financing Aliant's long-term debt, to provide for ongoing liquidity requirements, and to fund required special deficit payments of our DB pension plans, on July 7, 2006, syndicated credit facilities with Canadian banks were finalized in an aggregate maximum amount of \$3.5 billion. As at October 26, 2006, approximately \$1.235 billion was drawn on these facilities. We intend to refinance our remaining bank debt with further capital market issuances in the next 12 to 24 months.

On July 13, 2006, we launched a \$400.0 million commercial paper program. As at October 26, 2006, no notes were issued under this facility. Proceeds from the issuance of commercial paper are used to repay existing bank indebtedness and for general operating purposes. We will ensure at all times that sufficient undrawn capacity exists on our \$550.0 million revolving bank credit line to support issuances of commercial paper.

We filed a shelf prospectus on September 14, 2006, that allows us to issue medium-term notes from time to time during its 25 month life, for an aggregate principal amount of up to \$3.0 billion. Pursuant to the prospectus, on September 25, 2006, we issued \$750.0 million in 5 year notes, maturing September 26, 2011, and \$500.0 million in 10 year notes, maturing September 26, 2016. The notes were issued at a discount for yields to maturity of 4.72 per cent and 5.41 per cent, respectively, and net proceeds received were \$747.3 million and \$497.8 million,

respectively. Proceeds were used to repay amounts owing under our credit facility and commercial paper issuances, as discussed previously in the “long-term debt” section.

Ratings

On July 10, 2006, Standard and Poors (S&P) and Dominion Bond Rating Service (DBRS) confirmed the ratings for our subsidiary, Bell Aliant LP.

	S&P	DBRS
Bell Aliant LP senior unsecured debt	BBB, stable trend	BBB (high) stable trend
Bell Aliant LP commercial paper	Not rated	R-1 (low) stable trend

A rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn at any time.

Partners’ equity

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

Units of Bell Aliant Holdings LP are not publicly traded, and there has been no change in ownership since September 30, 2006. Further details of our unitholders’ equity are contained in note 14 to our unaudited consolidated interim financial statements for the period ended September 30, 2006.

Other financial arrangements

Contractual obligations

We have various operating leases for equipment and other network infrastructure, and purchase commitments under various service and commercial agreements. The amounts of estimated future payments under such arrangements are detailed in note 20 to our unaudited interim consolidated financial statements for the period ended September 30, 2006.

Accounts receivable securitization

Under a purchase and sale agreement, we sell certain accounts receivable to a securitization trust. Further details of this arrangement are described in note 3 to our unaudited interim consolidated financial statements for the period ended September 30, 2006. Net cash proceeds in our securitization trust total \$120.0 million. On July 6, 2006, we renewed our securitization program for up to \$125.0 million, and extended our current agreement to a new expiry date of December 31, 2011. Although accounts receivable associated with Aliant’s

former wireless business are owned by Bell Canada, we have entered into agreements whereby these receivables are sold back to us to maintain our program at \$120.0 million until appropriate modifications can be made in our billing systems. A similar agreement allows us to sell our Ontario and Quebec receivables to Bell Canada to maintain their securitization program.

Use of derivative financial instruments

We use derivative financial instruments periodically in the management of interest rate and foreign currency exposures associated with our long-term debt or specific firm commitments. Details of our use of derivative financial instruments and the accounting policies we follow are provided in notes 1 and 18 to our unaudited interim consolidated financial statements for the period ended September 30, 2006.

Related party transactions

Our only significant related party continues to be Bell Canada, which is owned 100.0 per cent by BCE. We have entered into a series of commercial agreements which govern our relationship with Bell Canada. The agreements provide us with the telecommunications and support services required to operate our wireline and Internet access operations in territories previously covered by Bell Canada. The agreements also provide Bell Canada with the telecommunications and support services required for Bell Canada to operate its wireless business within Atlantic Canada. In addition, we have an extensive commercial relationship management agreement that governs our relationship with respect to non-competition, priveship, branding and term and termination.

As at October 26, 2006, BCE and Bell Canada owned 44.71 per cent of the Fund (on a fully diluted basis). For greater detail on our related party transactions and our relationship with Bell Canada refer to note 21 of our unaudited interim consolidated financial statements for the period ended September 30, 2006.

Significant accounting policies

Our consolidated interim financial statements have been prepared in accordance with Canadian GAAP. Greater detail on our significant accounting policies is provided in note 1 to our unaudited interim consolidated financial statements for the period ended September 30, 2006. The accounting policies and methods used are consistent with those in effect in 2005.

Future changes in accounting policies

The Accounting Standards Board (AcSB) 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 shareholders. 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.

The effect of implementing these new standards on our consolidated financial statements is not yet determinable as it will be dependent on our financial position at the time of transition.

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. 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. Other financial liabilities are measured at their carrying value, and
- all derivative financial instruments be measured at fair value, even when they are part of a hedging relationship.

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. Management is currently evaluating the potential effect that the adoption of this standard will have on our financial position and result of operations.

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.

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 operations in the same period. Management is currently evaluating the potential effect that the adoption of this standard will have on our financial position and results of operations.

Critical accounting estimates and assumptions

Under Canadian GAAP, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosures of contingent assets and liabilities in the financial statements.

We base our estimates and assumptions on past experience and other factors that we believe are reasonable under the circumstances. This involves varying degrees of judgment about matters that may be inherently uncertain. The amounts currently reported in the financial statements could prove to be inaccurate or are subject to change under different conditions or using different assumptions. We periodically evaluate the reasonability of these estimates and assumptions.

Our senior management have reviewed with the audit committee of the board of directors the development, selection and application of our key accounting policies and the critical accounting estimates and assumptions they involve. We consider the critical accounting estimates and assumptions described in this section to be an important part of understanding our significant accounting policies and consolidated financial statements.

Post-employment benefits

We perform a valuation of our DB pension plans at least every three years to determine the actuarial present value of the accrued pension and other non-pension post-employment benefits. The amounts reported in the financial statements in relation to the DB pension plans and OPEB plans are determined using the results of these valuations and several key assumptions determined by management. These key assumptions include the rate used to discount obligations, the expected rate of return on plan assets, the rate of compensation increase and the growth rate of per capita health care costs.

Our two most significant assumptions are the discount rate and the rate of return on plan assets. The rates are developed as follows:

- The discount rate is used to determine the present value of future cash flows that we expect will be required to pay employee benefit obligations. Management's assumptions of the discount rate are based on current interest rates on long-term debt of high quality corporate issuers. We determine the appropriate discount rate at the beginning of each measurement period. As a result of the Arrangement, a re-measurement of most of our pension plans occurred at July 7, 2006. Given the rise in long-term bond yields during the first half of 2006, we have increased our assumed discount rate from 5.25 per cent to 5.60 per cent, effective July 7, 2006. This change in assumption decreased our DB pension plan and OPEB plan obligations by \$76.2 million and \$11.7 million, respectively, at July 7, 2006.
- The expected rate of return on plan assets is based on the long-term return expectation for capital markets and active investment management, given our plans' policy asset mix. We review the expected rate of return at the beginning of each measurement period and have determined our assumption for the remainder of 2006 to be consistent with the assumption set at the beginning of 2006.

Our accounting policies with respect to the recognition of amortization on net actuarial losses follow Canadian GAAP and recognize that future investment returns on plan assets and actuarial changes in the plans can influence the amount of the loss and can reverse it over time. Specifically, the amortization occurs when the size of the actuarial loss (or gain) exceeds a 'corridor', which is the greater of 10 per cent of the accrued benefit obligation or 10 per cent of the market-related value of the plan assets. Using the market-related value of assets smoothes the affect of actual gains and losses in certain of the plans' assets over a three or four year period. The effect of these accounting policies is to limit the amount of amortization of both gains and losses recognized in our earnings, except in situations when they become exceedingly large. We have unamortized actuarial losses totalling \$709.5 million in our DB pension plans at September 30, 2006. This balance reflects the amortization of \$7.9 million of the losses through pension expense in the third quarter of 2006. The impact of prior year unamortized actuarial losses on future pension expense cannot be determined with certainty because it will be influenced by experience in future years.

Additional information regarding our accounting for post-employment benefits is included in note 7 to our interim consolidated financial statements for the period ended September 30, 2006 and in note 6 to Aliant's consolidated financial statements for the year ended December 31, 2005.

Long-lived assets

Our long-lived assets consist of capital investments, goodwill and indefinite-life intangibles. We make certain estimates relating to the values recorded for these assets, including determinations of useful life, assessments of asset recoverability through impairment testing and the allocation of acquisition purchase prices between goodwill and finite-life intangible assets.

Estimations of useful lives

We depreciate and amortize our capital investments, finite-life intangibles and certain deferred charges based on their estimated useful lives. We estimate the useful life when an asset is acquired, based on past experience with similar assets and our expectations of technological changes or other circumstances that may affect the usefulness of the asset. We review our estimates of useful life on an ongoing basis. When events or changes in circumstances indicate that asset lives do not reflect the expected remaining period of benefit, we make prospective changes to their depreciable useful lives. This could result in a change in the depreciation and amortization expense in future periods.

Effective April 1, 2006, we extended the estimated useful life of some of our internally developed software from three to five years, which remains consistent with our accounting policies. This change in estimate, which has been applied prospectively, resulted in a reduction of depreciation expense of \$6.9 million for the third quarter of 2006.

On July 7, 2006, upon completion of the Arrangement, we modified the useful life of a number of asset groups to ensure that similar assets were being amortized consistently across the entire organization. If there were inconsistencies for similar assets, we considered actual useful lives of the assets and the advancement of associated technologies to determine the most reasonable and accurate economic useful life. We have aligned the depreciation expense associated with these assets with their future economic benefit. As a result, some useful lives were increased while others were decreased. All changes in estimated useful lives were within our existing accounting policies and therefore represent a change in accounting estimate which will be applied prospectively. The changes in estimates resulted in an increase in depreciation expense of \$2.2 million for the third quarter of 2006.

Recoverability

The value associated with our goodwill is assessed at our business segment level on an annual basis or sooner if events or changes in circumstances indicate that the carrying amounts could exceed fair value. Potential impairment is identified when the carrying value of our business segments, including the allocated goodwill, exceeds their fair value. Goodwill impairment is measured as the excess of the carrying amount of the business segment's allocated goodwill over the implied fair value of the goodwill, based on the fair value of the assets and liabilities of the business segment. Any impairment indicated is charged to earnings in the period it is identified. In the second quarter of 2006, and in accordance with the criteria in the CICA handbook section 3062.39, Aliant determined that a goodwill impairment test was not required to be performed as there was no significant change in the carrying value of the business segments and fair value of goodwill from the 2005 impairment test.

We have elected to conduct another impairment test in the fourth quarter of 2006 to align the goodwill impairment testing across our segments. On a go forward basis, we will complete goodwill impairment testing in the fourth quarter or when deemed necessary as a result of specific events or changes in circumstances that could have an impact on the value of our goodwill.

The value associated with our indefinite-life intangibles is assessed on an annual basis or sooner if events or changes in circumstances indicate that the carrying amounts could exceed fair value. The value associated with our other long-lived assets is reviewed whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. Recoverability is based on our estimate of projected discounted cash flows resulting from the use of the asset and its eventual disposition. These reviews could result in a current year impairment charge to reflect the writedown in value of the capital investment or long-lived asset. Reviews triggered by events or changes in circumstances throughout the first nine months of 2006 and during 2005 have not resulted in any writedowns for impairment of our other long-lived assets.

We use the projected discounted cash flow method to measure fair value and determine recoverability of assets, which we believe is a reasonable and appropriate approach. The assumptions and estimated cash flows are based on internal planning and reflect our best estimates. These assumptions are subject to inherent uncertainties that are beyond management's control; hence the results of the impairment test could be different if there is a change in assumptions or conditions. We are unable to predict whether an event that triggers impairment will occur, when it will occur or how it will affect the asset values that have been reported.

Purchase price allocation for a business acquisition

Goodwill represents the excess, at the date of acquisition, of the costs of an acquired business over the fair values of the net amounts assigned to the individual assets acquired and liabilities assumed, regardless of whether or not these items were recognized in the financial statements of the acquired business. Intangible assets other than goodwill are recognized at their estimated or appraised values when they arise from contractual or other legal rights or are capable of being individually sold, transferred, licensed, rented or exchanged. The identification and valuation of intangible assets of an acquired business involves the evaluation

of all significant terms of the purchase that explicitly or implicitly suggest the presence of intangible assets apart from goodwill.

Income taxes

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

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

The future tax consequences of the temporary differences, which impact the classification and calculation of our tax assets and liabilities, are based on assumptions and estimates related to expectations of future results of operations, the timing of the reversal of temporary differences and our interpretation of applicable income tax legislation and regulations. The composition of our future income tax assets and liabilities are likely to change from period to period because of the significance of these assumptions.

The calculation of our income taxes also requires significant judgment and interpretation of tax regulations and legislation, which are continually changing, to ensure liabilities are complete and to ensure assets, net of valuation allowances, are realizable. As our tax filings are subject to audit by the Canada Revenue Agency, such audits could materially change the amount of current and future income tax assets and liabilities if different interpretations are used. Any change would be recorded as a charge or credit to income tax expense. Any cash payment or receipt would be included in cash from operating activities.

We use judgments and estimates when calculating income taxes. If these prove to be inaccurate, or if certain tax rates or laws change, our results of operations and financial position could be materially impacted in future periods. We believe that we have adequately provided for income taxes based on all information currently available.

Restructuring charges

As circumstances require, we engage in restructuring activities to streamline our operations and improve productivity and profitability. The development of formal plans to execute these activities requires us to estimate costs related to post-employment benefits, severance and other employee related benefits, premise rationalization, technology lease cancellation penalties and other exit costs. We make these estimates based on the terms of any contracts involved, the number of employees, their pension eligibility and other related factors. Restructuring is a complex process that can take several months or longer to complete, requiring a periodic reassessment of original estimates. In addition, we constantly evaluate whether the estimates of the remaining liabilities under our restructuring program are appropriate. As a result, we may have to change previously reported estimates when the payments are made or activities completed. There may also be additional charges for new restructuring initiatives.

Legal and regulatory contingencies

We may become involved in various litigation and regulatory proceedings in the normal course of our business. Pending litigation, regulatory initiatives or regulatory proceedings represent potential financial loss. We accrue potential losses if we believe the loss is probable and can be reasonably estimated. Estimates of loss are based on consultation with legal counsel and involve analyzing potential outcomes and assuming various litigation and settlement strategies. Note 23 to our interim consolidated financial statements for the period ended September 30, 2006, presents a discussion of significant contingencies outstanding at that date.

None of our operating segments had any significant provisions relating to pending litigation or regulatory initiatives and proceedings at September 30, 2006.

Risk and risk management

General

There are trends and factors beyond our control that affect our operations and business. Such trends and factors include adverse changes in the conditions in the specific markets for our products and services, the conditions in the broader market for communications services and the conditions in the domestic or global economy generally.

Our performance, and the degree to which our expectations regarding future events are realized, is affected by the general condition of the economy, with demand for services and the amount of use tending to decline when economic growth and retail activity decline. Any slowdown in global economic activity could make the overall economic environment more uncertain and could have an important impact on the performance of the Canadian economy, and the realization of our expectations. In making forward-looking statements regarding future performance, we generally assume that Atlantic Canadian GDP growth and growth in the overall Canadian telecommunications market will be slightly higher than the Canadian average GDP growth of 3 per cent for 2006 as estimated by the Atlantic Provinces Economic Council. We also assume that the general level of interest rates and the inflation rate will remain fairly stable, but will rise slightly (no more than one percentage point) from current levels. However, it is not possible to accurately predict economic fluctuations and the impact of such fluctuations on our performance. Where forward-looking statements are made in this MD&A based on specific assumptions made by us, we have stated those assumptions.

It should be noted that local and long distance revenues are generally linked to fairly stable economic factors such as population changes, housing starts and general economic activity levels. Internet service revenues are typically related to more variable factors such as consumer discretionary spending on entertainment, the adoption of e-commerce and other on-line activities.

Risks relating to regulation, competition and technology may also affect our ability to increase certain revenues and/or earnings, such as those from local and long distance services. We may therefore have to place increased emphasis on developing and realizing revenues through the provision of new and enhanced services with higher growth potential such as Internet and information technology services. We have developed strategies and plans that rely on these sources of revenue to deliver overall revenue growth, and that rely on achieving productivity initiatives, in part by integrating the businesses that have been combined under the Arrangement, to deliver growth in earnings and cash flows. There is a risk that these revenue sources, as well as our cost savings and integration efforts, will not grow or develop at a fast enough pace to offset the slowing growth in other areas of our operations.

We are confident about our long-term prospects, but we recognize that we are exposed to a number of risks in the normal course of business that could have a negative effect on our financial condition or results of operations. The risks noted may not be exhaustive as there may be other risks that we are currently unaware of or that we presently consider insignificant to our consolidated operations.

Pension plan funding

We maintain DB pension plans that have solvency funding deficiencies. The plans are exposed to general future valuation risk and required funding levels for 2006 and beyond may change as required actuarial valuations are completed. If the return on plan assets, interest on the obligation, or actual experience of the plans are better or worse than anticipated, valuations can result in either lower or higher minimum required contributions.

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

Reliance on systems

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

To mitigate the impact of this risk, we have developed disaster recovery plans, including redundancies that have been built into the network to reduce network downtime arising from natural and other disasters; however, there can be no assurance that these plans will be effective.

In addition, many aspects of our business depend to a large extent on various IT systems and software, which must be improved and upgraded regularly and replaced from time to time. Implementing system and software upgrades and conversions is a very complex process, which may have several adverse consequences including billing errors and delays in customer service. Should adverse consequences occur, these events could significantly damage our customer relationships and business and have a material and negative effect on our results of operations.

Changing technology

The telecommunications industry is impacted by rapidly evolving technology and the related changes in customer demands, products and service capabilities, and prices. Technological developments are also shortening product life cycles and facilitating convergence of different segments of the increasingly global information industry. Our future success will be impacted by our ability to anticipate, invest in, and implement new technologies with the service level and prices that customers demand. Technological advances may also affect our cash flow by shortening the useful life of some of our assets. There can be no assurance that our existing technologies will satisfy future customer needs, that our existing technologies will not become obsolete in light of future technological developments, or that we will not have to make additional capital expenditures to upgrade or replace our technology. In addition, technological advances may well emerge that could reduce the costs of plant and equipment, thereby facilitating entry by potential competitors.

We periodically assess the useful lives of our capital investments in light of our expectations of technological advances and make changes as required.

Increasing competition

In a series of decisions beginning in the late 1970s and ending in 1998, the CRTC opened up competition in all product and services segments in which we operate. The CRTC has also imposed a number of competitor safeguards and marketing restrictions on the operations of our Bell Aliant and Bell Nordinq Group segments. We therefore face competition for most of the services we provide, with Atlantic Canada having among the most competitive telecommunications markets in North America for local residential service.

Our focus is on building trust-based relationships with customers. Our strategy includes enhancing services and packages to create compelling value, innovating with customers to provide complete integrated ICT solutions, improving our cost structure to enable greater price competitiveness, and expanding our IP network and capabilities to provide broader access and innovative solutions. Competition, and particularly changes in the competitive landscape, can place these strategies at risk. Technology advances, and VoIP in particular, have opened competition to companies that can rapidly launch new products and services and gain market share with far lower investments. In addition, in the future, foreign ownership restrictions on telecommunications carriers and cable companies could be relaxed, allowing foreign companies with substantial financial, marketing, personnel and technological resources to enter the Canadian market, including our territories.

Although we generally assume that our market share of the consumer voice telecommunications market will continue to decrease, we cannot predict what impact increased competition and the introduction of new services

by competitors will have on the expected growth of our segments or on the pricing of our current services. In recognition of this, we constantly monitor the marketplace and respond accordingly to ensure we maintain our leadership position.

Local and long distance

In 2006, new competitors began offering local telephone service in a large portion of our marketplace. These competitors have the ability to offer four-services bundles, consisting of telephone, Internet, wireless and TV. Cable competitors are free from telecom regulation and are able to offer local service in unregulated bundles priced to gain market share. We are vigilant and passionate about our customers and continue to pursue their business by offering value, simplicity and competitive pricing. However, there is no assurance that this will mitigate churn and market share erosion resulting from new competitive entrants to our marketplace.

In addition to cable competitors in our local service market, a threat to our customer base continues to be the slow and gradual replacement of local landline service with wireless-only service by certain customers. This puts pressure on revenues for local service and also leads to declining revenues for services and features that are carried on the local network, including Internet and long distance. Also, the December 2005 decision by the CRTC to allow the porting of telephone numbers between wireless carriers in Canada and between wireline and wireless services may further affect our local and long distance revenues.

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

Internet

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

Changing regulations

Our business and operations are affected by decisions made by the CRTC. Our profitability is often negatively influenced by regulatory changes concerning the rates charged and the terms and conditions offered for price-regulated services. The outcome of future regulatory reviews could have an impact on our ability to compete effectively and our future revenues and costs.

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

The CRTC is currently reviewing a number of items that directly affect us. Recent significant regulatory developments that affected our telecommunications business up to and including October 26, 2006, are:

- On February 16, 2006, the CRTC issued its decision regarding the disposition of funds in the deferral accounts.

The Commission directed each incumbent local exchange carrier to allocate a minimum of five per cent of the accumulated balance in its deferral account to improve access to telecommunications services for persons with disabilities. The remaining 95 per cent of the funds in the deferral account could be spent on providing broadband to unserved remote areas and subscriber rebates.

On May 15, 2006, Aliant filed with the Commission its updated deferral account balances and included a proposal to clear the accumulated balances in its deferral account. The filing indicated that Aliant's accumulated balance has decreased from the CRTC's earlier estimate of \$21.8 million to \$8.4 million, and the annual recurring deferral account obligation has decreased from \$2.2 million to \$(3.2) million. As Aliant proposed to clear the accumulated balance in its deferral account by partially offsetting the annual recurring shortfall, we did not include broadband investment as part of our September 1, 2006 proposal.

Bell Canada's proposal to spend the funds in its deferral account included investment initiatives to expand broadband services to communities within our operating territory in Ontario and Quebec. We will cooperate with Bell Canada to determine how to effectively complete any such initiatives that may be approved by the Commission. We have agreed to contribute towards the associated costs of such initiatives if it is economically justified 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 Commission 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.

Bell Canada and the Consumers Association of Canada and National Anti-Poverty Organization filed leave to appeal applications with the Federal Court of Appeal with regards to the use of funds in the deferral account. On September 22, 2006, the Federal Court granted leave to both applications.

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

- On May 9, 2006, the CRTC began a proceeding to establish the price cap framework to replace the existing framework that ends May 31, 2007, in the operating territories of Bell Aliant Holdings LP, Bell Canada, MTS Allstream Inc., Saskatchewan Telecommunications, and Telus Communications Company.

We filed a joint proposal with Bell Canada and Saskatchewan Telecommunications reflecting the dramatic changes in our industry. A public hearing commenced on October 10, 2006, and the Commission intends to issue a decision on this proceeding by April 30, 2007.

There is a risk that the Commission may not accept our proposals to rely on market forces to the maximum extent possible and may continue with limitations on our marketing flexibility, impeding our ability to respond to market forces.

Télébec has not been made party to this ongoing proceeding. Coincident with the issuance of a decision following the proceeding, Télébec will submit to the Commission a show cause why the regime set out in the decision should not be applicable to Télébec.

On March 29, 2006, the Commission rendered its decision with regards to the review of the price-based regime for Small Incumbent Telephone Companies (SILECs), such as NorthernTel. Before NorthernTel's new regime, which ends in 2009, local competition was not permitted in its operating territory. Under the new regime, facilities-based local competition will be allowed on a case by case basis. On June 23, 2006, following a request by a competitor, NorthernTel has filed with the Commission its Local Competition Implementation Plan asking that competition be allowed as of July 1, 2007.

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

We filed a leave to appeal application with the Federal Court of Appeal and on September 22, 2006, the Federal Court granted leave. We, together with Bell Canada and others, have also filed a joint appeal to the Governor in Council. Nevertheless, we intend to work within the regulatory rules provided to meet the tests for forbearance and provide choice and flexibility to our customers.

- On May 4, 2006, the Governor in Council referred the VoIP decision back to the Commission for reconsideration.

On September 1, 2006, the Commission re-affirmed VoIP as a telephone service declining to deregulate.

- On May 16, 2006, the Commission ruled that only 50 per cent of the impact of the former Aliant Telecom Inc. 2004 work stoppage could be excluded from the QoS Rate Adjustment Plan. Rebates totalling \$3.6 million have been issued to customers.

On August 4, 2006, we filed an application with the Commission asking them to review and vary their decision on the basis that 50 per cent was an arbitrary level, the decision found fault by the former Aliant Telecom Inc. where no evidence supported fault, and that the Commission has no mandate to determine labour relations matters.

Legal contingencies and changes in laws

We review all legal proceedings and make an assessment of the likelihood of a negative outcome and the estimated impact. Losses are accrued for when a potential loss is deemed probable and its impact can be reasonably estimated. However, pending or future litigation could still have a material and negative effect on results of operations, cash flows and financial position in the period in which the judgment or settlement occurs. Significant legal contingencies are described in note 23 to our interim consolidated financial statements for the period ended September 30, 2006.

In addition, the adoption of new laws, changes in laws or changes in their interpretation, including changes in tax laws or rates, could materially or negatively affect our results of operations, cash flows and financial position. A Telecommunications Policy Review Panel appointed by the Minister of Industry issued its report on March 22, 2006, proposing significant changes in the way that telecommunications services are regulated. If some or all of these recommendations are implemented, they may have a positive impact on our ability to compete effectively and on future telecommunications costs and revenues.

Labour relations and reliance on key personnel

Our labour relations have historically been good, aside from temporary labour disruptions. There can be no assurance that a productive and efficient labour environment will be maintained. Skilled and experienced telecommunications personnel are in high demand as a result of the strong growth and competitiveness of the telecommunications market. We may find it increasingly difficult to attract and to retain the necessary resources to meet our needs. It is possible that additional incentives may be required and that some initiatives may be jeopardized if skill shortages occur.

On July 6, 2006, Télébec announced that it had reached an agreement in principle with the Teamsters Quebec 1999, the union representing 181 Télébec technicians. The members of Teamsters Quebec 1999 ratified this agreement on October 5, 2006. Most of our other collective agreements expire on December 31, 2007.

Expenditures, capital and demand for services

As we update our networks, products and services to remain competitive, we may be exposed to incremental financial risks associated with newer technologies that are subject to accelerated obsolescence. To the extent that we fail to make the expenditures on new and existing capital programs, we may cease to be competitive. However, if such capital expenditures are made, we may risk incurring substantial expenditures to acquire assets with little commercial or economic value.

An increasingly important driver for network and infrastructure investments is the growth of Internet traffic. This traffic is driven by residential and business Internet usage and has overtaken the volume of voice telephony traffic on many routes. It is uncertain to what extent this traffic will continue to exhibit high growth rates as high-speed Internet services are deployed and bandwidth intensive applications, such as video, are increasingly

downloaded by users. Significant upgrades to network capacity will be required to sustain service levels if Internet data traffic growth rates remain as high as they are today.

Liquidity risk

If actual results differ from our expectations or if the assumptions in our business plan change, we may have to raise more funds than expected by issuing debt, raising equity capital, or selling or otherwise disposing of assets. Financing through equity offerings would dilute the holdings of existing equity investors. An increased level of debt financing could lower our credit ratings, increase our borrowing costs and give us less flexibility to take advantage of business opportunities.

Our ability to raise financing depends on our ability to access the capital markets and the commercial loan market. The cost of funding depends largely on market conditions, and the outlook for our business and credit ratings at the time capital is raised. If our credit ratings are downgraded, our cost of funding could significantly increase. In addition, participants in the capital and commercial loan markets have internal policies limiting their ability to invest in, or extend credit to, any single borrower or group of borrowers or to a particular industry.

If we cannot raise the capital we need, we may have to limit our ongoing capital expenditures, limit our investment in new businesses, or sell or otherwise dispose of assets. Any of these possibilities could have a material and negative effect on our cash flow from operations and growth prospects.

Leverage and restrictive covenants

We have debt service obligations in connection with the trust indentures for the issuance of debt for Bell Aliant LP, Télébec and NorthernTel and in their respective lines of credit. The degree to which we are leveraged could have important consequences including:

- our ability to make distributions may be limited if we are unable to meet the financial tests provided in these indentures and lines of credit;
- our ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future is limited by the restrictive covenants of these indentures and lines of credit;
- a substantial portion of our cash flow from operations may be dedicated to the payment of the principal and interest on indebtedness, thereby reducing funds available for future operations;
- certain of our borrowings are at variable rates of interest, which exposes us to the risk of increased interest rates; and
- we may be more vulnerable to economic downturns and be limited in our ability to withstand competitive pressures.

These trust indentures and lines of credit also contain restrictive covenants that limit management's discretion with respect to certain business matters. Although we are currently in compliance with our restrictive covenants, failure to comply with the obligations in the trust indentures and lines of credit could result in a default that may require Bell Aliant LP, Télébec or NorthernTel, respectively, to repay its debt in full.

Relationship with Bell Canada; allocation of business opportunities

Bell Canada and certain of its affiliates and associates have substantial global operations and greater financial, technical and operational resources than us. As described in the "Related party transactions" section, we have entered into a series of long term commercial agreements with Bell Canada. In the event that the commercial relationship management agreement were to be terminated, we, Bell Canada, and respective affiliates, associates or operating companies could thereafter compete with each other.

In addition, we have access to technical, operational and human resources from Bell Canada and its affiliates under formal arrangements. Access to those resources is not exclusive and there is no guarantee that current arrangements will continue to be available indefinitely in their present form or that the conditions under which these have been secured will not change.

BCE has governance rights

In connection with the Arrangement, we entered into a security holders' agreement with, among others, Bell Aliant LP, the Fund, BCE, and Bell Canada. Pursuant to the terms of the security holders' agreement, for so long

as BCE, directly or indirectly, holds not less than 20 per cent of the units of the Fund on a fully diluted basis, the Fund and its operating entities must obtain BCE's consent prior to entering into various transactions such as, among other things, certain mergers, joint ventures, asset sales and other material transactions. In addition, BCE and its affiliates have certain rights with respect to the nomination of trustees of the Fund and the appointment of the directors of the Fund's material operating subsidiaries. BCE and its affiliates are entitled to appoint up to a majority of the directors of the Fund's material operating subsidiaries and nominate a majority of the trustees of the Fund for so long as BCE, directly or indirectly, holds not less than 30 per cent of the units of the Fund on a fully diluted basis and our significant commercial agreements are in place. If such commercial agreements are terminated by any of the parties thereto in accordance with their terms or if BCE and its affiliates, directly or indirectly, hold less than 30 per cent of the units of the Fund on a fully diluted basis, then BCE will be entitled to appoint its proportionate share of the directors of the Fund's material operating subsidiaries and the trustees of the Fund based on its fully diluted direct and indirect ownership units of the Fund. In any event, BCE will be entitled to nominate two directors to the Board of Bell Aliant Regional Communications Holdings Inc., Bell Aliant Holdings LP's general partner, for as long as such commercial agreements are in place, irrespective of its ownership interested in the Fund (on a fully diluted basis) or its subsidiaries. BCE has complete discretion with respect to the exercise of these rights. As a result of this, the Fund and its operating entities may be restricted from entering into or carrying out transactions or activities that they may otherwise wish to do.

Supplementary financial information

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

For the eight quarters ended September 30, 2006

(millions of dollars, except for per unit / share amounts)	2004	2005				2006		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Operating revenues	\$ 509.9	\$ 524.4	\$ 511.8	\$ 514.7	\$ 530.1	\$ 541.1	\$ 530.4	\$ 817.6
Pro forma operating revenues	n.a.	\$ 827.4	\$ 819.1	\$ 825.1	\$ 835.8	\$ 835.3	\$ 828.8	\$ 839.9
EBITDA	\$ 125.1	\$ 210.0	\$ 220.4	\$ 224.1	\$ 223.8	\$ 219.5	\$ 224.2	\$ 364.4
Pro forma EBITDA	n.a.	\$ 467.3	\$ 451.2	\$ 453.4	\$ 460.5	\$ 360.4	\$ 371.4	\$ 375.5
Operating income	\$ 25.8	\$ 86.7	\$ 97.4	\$ 103.2	\$ 104.7	\$ 96.2	\$ 99.8	\$ 193.0
Pro forma operating income	n.a.	\$ 183.6	\$ 188.8	\$ 192.7	\$ 195.4	\$ 179.0	\$ 188.9	\$ 202.9
Net earnings	\$ 7.5	\$ 43.6	\$ 49.8	\$ 50.8	\$ 55.2	\$ 40.2	\$ 53.2	\$ 2,935.6
Basic and diluted earnings per unit / share	\$ 0.04	\$ 0.31	\$ 0.36	\$ 0.37	\$ 0.41	\$ 0.30	\$ 0.40	\$20.11
Distributable cash								\$ 185.9
Cash distributions								\$ 141.5
Preferred share dividends	\$ 2.4	\$ 2.4	\$ 2.4	\$ 2.4	\$ 2.4	\$ 2.4	\$ 2.4	\$ -
Common share dividends declared	\$ 36.9	\$ 39.0	\$ 38.5	\$ 38.1	\$ 37.6	\$ 39.5	\$ 39.0	\$ 1.8

n.a. not available

Our 2004 results were affected by a labour disruption, which commenced on April 23 and concluded on September 20, and by the provision of an early retirement incentive program (ERIP) in October. The ERIP reduced net income in the fourth quarter of 2004 by \$42.3 million. By 2005, our business had returned to normal following the labour disruption. Net income for the first quarter of 2006 was negatively affected by a \$13.1

million financial derivative loss related to the exercise of an interest rate swaption contract and the extinguishment of the associated unamortized premium, \$8.3 million after income taxes. During the second quarter of 2006, the change in fair value of the financial derivative and the settlement of another financial instrument created a gain of \$1.8 million, \$1.2 million after income taxes. The third quarter of 2006 represents the first reported results following completion of the Arrangement and earnings for the period reflect a \$1.95 billion gain on the sale of Aliant's wireless operation and shares of DownEast Ltd., as well as a \$1.0 billion dilution gain that resulted from the reorganization.