Bell Aliant Regional Communications
Holdings, Limited Partnership

Consolidated financial statements and notes

December 31, 2008

Bell Aliant

Management's report

TO THE UNITHOLDERS

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

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

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

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

Karen H. Sheriff
President and chief executive officer
Bell Aliant Regional Communications
Holdings Inc., General Partner of
Bell Aliant Regional Communications
Holdings, Limited Partnership

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

March 10, 2009

Auditors' report

TO THE DIRECTORS OF BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS INC, GENERAL PARTNER OF BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP

We have audited the consolidated balance sheets of Bell Aliant Regional Communications Holdings, Limited Partnership (the "Partnership") as at December 31, 2008 and 2007, and the consolidated statements of earnings, comprehensive earnings, partners' equity and cash flows for the years then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants
Halifax, Nova Scotia
March 10, 2009

Statements

CONSOLIDATED BALANCE SHEETS

As at December 31

(millions of dollars)	Notes	2008	2007
			(as restated, note 6)
Assets			
Current assets			
Cash and cash equivalents		14.6	48.1
Accounts receivable	3, 24	348.4	353.8
Inventory	4	13.3	25.7
Prepayments	24	16.5	17.3
Future income tax asset	5	40.8	27.7
Income tax receivable	5	9.1	13.4
Current assets of discontinued operations	6	15.0	—
		457.7	486.0
Capital investments	7		
Property, plant and equipment		3,726.1	3,730.1
Finite-life intangibles		3,218.3	3,154.5
		6,944.4	6,884.6
Other assets			
Long-term receivables	11, 24	34.9	66.5
Deferred charges	8	15.9	27.5
Future income tax asset	5	7.1	7.1
Accrued benefit asset	9	398.9	363.9
Indefinite-life intangibles	10	125.2	82.8
Goodwill	11	2,766.6	2,554.5
Non-current assets of discontinued operations	6	2.3	—
		3,350.9	3,102.3
Total assets		10,753.0	10,472.9
Liabilities and partners' equity			
Current liabilities			
Notes payable to related party	24	6.2	1.9
Payables and accruals	12, 24	451.2	404.1
Distributions payable	24	55.4	52.0
Future income tax liability	5	0.5	0.3
Short-term debt	13	208.2	216.7
Long-term debt due within one year	14	114.7	59.8
Current liabilities of discontinued operations	6	7.6	—
		843.8	734.8
Future income tax liability	5	453.2	455.6
Long-term debt	14	2,454.0	2,513.8
Derivative liabilities	15	15.2	3.7
Accrued benefit liability	9	421.9	410.5
Deferred credits	24	19.5	18.1
		4,207.6	4,136.5
Non-controlling interest	16	1,662.5	1,829.6
Partners' equity		4,882.9	4,506.8
Total liabilities and partners' equity		10,753.0	10,472.9

See accompanying notes to the consolidated financial statements

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

Charles White
Director

Edward Reevey
Director

CONSOLIDATED STATEMENTS OF EARNINGS

For the years ended December 31

(millions of dollars, except earnings per unit)	Notes	2008	2007
			(as restated, note 6)
Operating revenues	18	3,282.0	3,253.3
Expenses			
Operating expenses		1,909.4	1,946.5
Depreciation and amortization	7, 8	716.1	775.4
Restructuring and other charges	12	60.7	27.4
		2,686.2	2,749.3
		595.8	504.0
Other expenses (income)			
Financial derivative gain	15	—	(6.4)
Other expenses (income)		(2.3)	6.6
		(2.3)	0.2
Interest charges			
Interest on long-term debt		138.0	142.1
Other interest expense		18.9	16.3
		156.9	158.4
Earnings before underlisted items		441.2	345.4
Income taxes	5		
Current tax recovery		(7.6)	(9.9)
Future tax recovery		(14.2)	(114.0)
		(21.8)	(123.9)
Earnings before non-controlling interest		463.0	469.3
Non-controlling interest		131.1	158.9
Net earnings from continuing operations		331.9	310.4
Net earnings (loss) from discontinued operations	6	(9.7)	264.3
Net earnings		322.2	574.7
Earnings per unit	19		
Basic from continuing operations		2.08	2.04
Basic from discontinued operations		(0.06)	1.73
Basic		2.02	3.77

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

For the years ended December 31

(millions of dollars)	Note	2008	2007
			(as restated, note 6)
Net earnings		322.2	574.7
Other comprehensive earnings (losses), net of tax	20	(5.5)	3.0
Comprehensive earnings		316.7	577.7

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF PARTNERS' EQUITY

For the year ended December 31, 2008 (millions of dollars)	Notes	Partners' capital	Contributed surplus	Accumulated earnings	Distributions declared to unitholders	Retained earnings	Accumulated other comprehensive earnings (losses)	Total partners' equity
Balance December 31, 2007, as restated		1,548.0	0.2	734.0	(611.4)	2,873.2	(37.2)	4,506.8
Net earnings		—	—	322.2	—	—	—	322.2
Issuance of class 2 limited partnership units on business combination	2, 17	513.5	—	—	—	—	—	513.5
Distributions declared on:								
Class 1 exchangeable limited partnership units		—	—	—	(81.5)	—	—	(81.5)
Class 2 limited partnership units		—	—	—	(372.8)	—	—	(372.8)
Stock options expense		—	0.2	—	—	—	—	0.2
Other comprehensive earnings (losses), net of tax	20	—	—	—	—	—	(5.5)	(5.5)
Balance December 31, 2008		2,061.5	0.4	1,056.2	(1,065.7)	2,873.2	(42.7)	4,882.9

For the year ended December 31, 2007 (millions of dollars)	Notes	Partners' capital	Contributed surplus	Accumulated earnings	Distributions declared to unitholders	Retained earnings	Accumulated other comprehensive earnings (losses)	Total partners' equity
Balance December 31, 2006		2,008.9	—	158.5	(201.1)	2,870.3	—	4,836.6
Net earnings		—	—	584.3	—	—	—	584.3
Distributions declared on:								
Class 1 exchangeable limited partnership units		—	—	—	(79.1)	—	—	(79.1)
Class 2 limited partnership units		—	—	—	(331.2)	—	—	(331.2)
Stock options expense		—	0.2	—	—	2.9	—	3.1
Repayment of partners' capital	17	(460.9)	—	—	—	—	—	(460.9)
Reclassification adjustment for gains (losses) on derivatives designated as cash flow hedges		—	—	0.8	—	—	(40.2)	(39.4)
Other comprehensive earnings, net of tax	20	—	—	—	—	—	3.0	3.0
Balance December 31, 2007, as reported		1,548.0	0.2	743.6	(611.4)	2,873.2	(37.2)	4,516.4
Correction of an error	6	—	—	(9.6)	—	—	—	(9.6)
Balance December 31, 2007, as restated		1,548.0	0.2	734.0	(611.4)	2,873.2	(37.2)	4,506.8

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31

(millions of dollars)	Notes	2008	2007
			(as restated, note 6)
Cash from (used in) operating activities			
Net earnings from continuing operations		331.9	310.4
Adjustments to reconcile net earnings			
to cash from operating activities			
Depreciation and amortization		716.1	775.4
Gain on disposal of assets		(2.5)	—
Future income tax recovery		(14.2)	(114.0)
Net cost of benefit plans	9	70.5	124.3
Funding of defined benefit pension			
and other post-employment benefit plans	9	(111.8)	(97.4)
Non-controlling interest		131.1	158.9
Other		(5.5)	(2.3)
Change in operating assets and liabilities		139.9	47.4
		1,255.5	1,202.7
Cash from (used in) financing activities			
Repurchase of accounts receivable	3	(55.0)	—
Net proceeds on sale of accounts receivable	3	—	100.0
Net proceeds (repayments) of short-term debt	13	(8.5)	208.2
Net proceeds of notes payable to related party	24	4.3	1.9
Proceeds of long-term debt	14	50.0	994.5
Repayment of long-term debt	14	(53.8)	(1,238.5)
Repayment of capital lease obligations	14	(6.8)	(7.5)
Payment to non-controlling interest	16	(0.4)	(4.1)
Net settlement of financial derivatives	15	—	(24.1)
Repayment of partners' capital	17	—	(460.9)
Distributions paid by subsidiaries to non-controlling interest	16	(213.0)	(242.7)
Distributions paid		(446.9)	(414.6)
		(730.1)	(1,087.8)
Cash from (used in) investing activities			
Purchase of capital investments		(528.8)	(541.6)
Proceeds on sale of capital investments		3.4	1.7
Business acquisition, net of cash received	2	(28.2)	—
		(553.6)	(539.9)
Net decrease in cash from continuing operations		(28.2)	(425.0)
Net increase (decrease) in cash from discontinued operations		(5.3)	333.7
Cash and cash equivalents, beginning of year		48.1	139.4
Cash and cash equivalents, end of year		14.6	48.1
Supplementary disclosure			
Interest paid		149.3	163.8
Income taxes recovered, net		(7.1)	(4.6)

See accompanying notes to the consolidated financial statements

Notes

Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP) was established in 2006 under the laws of the Province of Quebec, and holds the principal operations of Bell Aliant Regional Communications Income Fund (the Fund). All references to "we", "us" or "our" refer to Bell Aliant Holdings LP and its subsidiaries.

Our operations are principally focused on regional telecommunications services primarily in Atlantic Canada, Quebec and Ontario. We provide a wide range of innovative and traditional voice and data communications services and an array of information technology (IT) consulting, infrastructure management, product fulfillment and advanced technology solutions.

1 SIGNIFICANT ACCOUNTING POLICIES

Consolidated financial statements

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

We consolidate the financial statements of all the entities we control. At December 31, 2008, our principal subsidiaries include Bell Aliant Regional Communications Inc., Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Innovatia Inc., Télébec, Limited Partnership (Télébec) and NorthernTel, Limited Partnership (NorthernTel). All transactions and balances between these entities have been eliminated on consolidation.

Our non-controlling interest consists of equity of our subsidiary Bell Aliant LP, held by Bell Canada.

Comparative figures

Certain comparative financial information has been reclassified to be consistent with the presentation adopted for 2008, including the discontinued operations as discussed in note 6.

Use of accounting estimates

Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. By their nature, these estimates and assumptions are subject to measurement uncertainty and as such, actual results could differ from estimates used in these financial statements. We use estimates for certain items such as revenues, allowance for doubtful accounts, useful life of capital investments, asset impairments, legal and tax contingencies, employee benefit plans, income taxes, restructuring and other charges, intangible assets and goodwill. We also use estimates when recording the fair value of assets acquired and liabilities assumed in a business combination.

1. Significant accounting policies (continued)

During 2008, we performed asset life studies on some of our telecommunications equipment and as a result, we shortened their estimated useful lives from a range of seven to sixteen years to a range of three to fourteen years. This change in estimate was applied prospectively and resulted in an increase in depreciation and amortization expense of $12.0 million in 2008. On an annual basis, the estimated impact of this change is a $16.9 million increase in depreciation and amortization expense.

In the third quarter of 2008, we decreased the estimated long-term receivable associated with the acquisition of Bell Canada's wireline operation in Ontario and Quebec from $44.0 million to $22.3 million. The revised estimate of the long-term receivable is based on current information available but the final resolution of this matter may result in us receiving an amount that is materially different from this estimate. Refer to note 11 for further discussion.

In the third quarter of 2008, we reduced the estimate of the restructuring and other charge liability recorded in 2007 related to productivity initiatives by $5.6 million. As departing employees had options that affected their severance, the final cost of the restructuring initiatives was materially different from our estimate. Refer to note 12 for further discussion.

Cash and cash equivalents

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

Transfer of receivables

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

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

Inventory

Commencing January 1, 2008, we adopted Section 3031, Inventories, which was issued by the CICA, and establishes new standards for the measurement, recognition and disclosure of inventories. There were no material effects as a result of this change. Refer to note 4 for further information on inventory.

Inventory represents products or equipment purchased for resale. We measure inventory at the lower of cost and net realizable value, with cost being determined by using the specific identification method for major equipment or items that are not normally interchangeable, and the weighted average cost formula for all other inventory items. Net realizable value represents the estimated selling price for inventories less all estimated costs to sell.

1. Significant accounting policies (continued)

Income taxes

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

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

Capital investments

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

Capital investments	Method	Estimated useful life
Property, plant and equipment		
Buildings and towers	Straight-line	10 – 40 years
Telecommunications facilities and equipment	Straight-line	3 – 40 years
Other equipment	Straight-line	3 – 20 years
Finite-life intangibles		
Software	Straight-line	2 – 7 years
Customer relationships	Straight-line	9 – 30 years
Bilateral license agreement	Straight-line	40 years
Roaming agreements	Straight-line	4.5 years

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

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

1. Significant accounting policies (continued)

Deferred charges and credits

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

	Recognition period	Income statement account
Deferred charges:		
Long-term customer contract costs, such as bid pursuit and other upfront costs	Length of the customer contract	Operating expenses
Costs related to short-term and long-term debt facilities	Period to maturity of the debt facilities	Other interest expense
Deferred credits:		
Deferred revenue	Length of the customer contract	Operating revenues

Post-employment benefits

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

DC pension and other retirement savings plans

DC pension plan and other retirement savings plan costs are recognized and funded as employees provide services to us during the year.

DB pension and OPEB plans

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

December 31 is the measurement date for our employee benefit plans. Our actuaries perform a valuation of each plan at least every three years to determine the actuarial present value of the accrued pension and other non-pension post-employment benefits for funding purposes. The most recent actuarial valuations were performed as of December 31, 2007. The next required actuarial valuations for funding purposes will be as of December 31, 2008, and will be completed during 2009.

The cost of DB pensions and OPEBs earned by employees are actuarially determined using:

- The projected benefit method, prorated on years of service, which takes into account future salary levels;
- Management's best estimate of expected plan investment performance, salary increases, retirement age of employees and expected health care costs; and
- Discount rates that are based on current interest rates on the long-term debt of high-quality corporate issuers or, in case of certain closed plans consisting primarily of retired members, on current annuity rates.

For the purpose of calculating the expected return on plan assets, equity securities are valued at market-related value, where investment returns (gains and losses) in excess of expected returns are recognized in the asset value over a period of three years. Fixed income securities are valued at their fair value. The expected rate of return on plan assets is based on long-term forecasts of capital market returns, given our policy asset mix.

1. Significant accounting policies (continued)

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

We use the corridor approach to calculate actuarial gains and losses that are reflected in earnings. This involves deducting the greater of 10 per cent of the benefit obligation or 10 per cent of the market-related value of the plan assets from the unamortized net actuarial gains or losses. The excess amount calculated is then amortized over the average remaining service period of active employees, or the average remaining lifetime of retired employees, 10 years and 23 years, respectively, at December 31, 2008 (2007 – 10 years and 23 years, respectively).

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

Goodwill and indefinite-life intangibles

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

We annually assess our goodwill and indefinite-life intangibles for impairment and when events or changes in circumstances indicate that an asset might be impaired. We assess impairment by comparing the asset's fair value to its carrying value. If the fair value is less than the carrying value, the asset is deemed to be impaired and the difference is charged to other expenses in the period that the assessment is performed.

Fair value is based on estimates of discounted cash flows, external factors, or a combination of both. The determination of fair value requires management to make estimates and assumptions at the date of the assessment, which are by their nature subject to measurement uncertainty. As such, actual results could differ from the estimates used. Significant assumptions used in determining the fair value of our goodwill and indefinite-life intangibles could include the weighting of external and internal information, the weighted average cost of capital and anticipated future growth rates, pension funding, capital investments and savings from productivity initiatives.

We assess goodwill in two steps. The first step involves the identification of any potential impairment by comparing the fair value of a reporting unit to its carrying value. If the fair value is greater than the carrying amount, no impairment is deemed to exist and the second step is not required to be performed. If the fair value of a reporting unit is less than its carrying value, we perform the second step which involves determining the fair value for all of the reporting unit's identifiable assets and liabilities to determine the fair value of goodwill. If the fair value of the goodwill is less than its carrying value, the goodwill is deemed to be impaired by the excess of its carrying value over its fair value.

The goodwill and indefinite-life intangibles impairment test conducted as at October 31, 2008, revealed no impairment.

1. Significant accounting policies (continued)

Leases

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

Financial instruments

Financial assets and financial liabilities, including derivatives, are recognized when we become a party to the contractual provisions of a financial instrument or derivative contract. All financial instruments are measured at fair value on initial recognition.

Non-derivative financial assets and financial liabilities

For purposes of ongoing measurement, we classify financial assets and liabilities according to their characteristics and management's choices and intentions related thereto. Subsequent measurement for these financial assets and financial liabilities is based on either fair value or amortized cost using the effective interest method, depending upon their classification.

Our non-derivative financial assets and liabilities are generally classified and measured as follows:

Balance sheet account	Classification	Subsequent measurement
Cash and cash equivalents	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Long-term receivables	Loans and receivables	Amortized cost
Notes payable to related party	Other liabilities	Amortized cost
Payables and accruals	Other liabilities	Amortized cost
Distributions payable	Other liabilities	Amortized cost
Short-term debt	Other liabilities	Amortized cost
Long-term debt, including amount due within one year	Other liabilities	Amortized cost

Held for trading

Held for trading financial assets are typically acquired with the objective to generate revenue from short-term fluctuations in price. Interest earned, gains and losses realized on disposal and unrealized gains and losses from changes in fair value are recorded in net earnings as incurred.

Loans and receivables

Loans and receivables result from the delivery of cash or other assets by us to counterparties in return for a promise to repay on demand or on a specified date(s). Gains and losses are recognized in net earnings in the period that the asset is derecognized or impaired. Accounts receivable are assessed for impairment at each balance sheet date and a provision for doubtful accounts is recorded based on individual account circumstances, aging of accounts receivable, historical trends and general economic conditions. Long-term receivables are periodically assessed for impairment. Where there is objective evidence that an impairment of these assets has occurred, the carrying amount of these assets is reduced with the loss being recognized in net earnings in the period of assessment. The impairment loss is measured as the difference between the carrying amount of the assets and the present value of the estimated cash flows discounted at the original effective interest rate of the assets.

Other liabilities

Other liabilities include all financial liabilities other than derivatives or liabilities that have been classified as held for trading.

1. Significant accounting policies (continued)

Transaction costs

Transaction costs that are incremental and directly attributable to the acquisition or issue of a financial asset or financial liability are recorded as follows:

- Held for trading – expensed as incurred; and
- Loans and receivables, and other liabilities – included in the carrying value of the financial asset or financial liability and amortized over the expected life of the financial instrument using the effective interest method.

As it is impracticable to use the effective interest method for transaction costs directly attributable to short-term and long-term debt facilities, which are drawn on or repaid frequently, these transaction costs are deferred and amortized on a straight-line basis over the period to maturity of the debt facilities.

Derivative financial instruments

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

For each derivative, a determination is made whether hedge accounting can apply. Where hedge accounting can be applied, a hedge relationship is designated and documented at the inception of the derivative contracts to detail the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the specific asset, liability or anticipated cash flows being hedged, the risk that is being hedged, the type of hedging instrument used and how effectiveness will be assessed. The hedging instrument must be highly effective in achieving its objective of offsetting either changes in the fair value or anticipated cash flows attributable to the risk being hedged both at inception and throughout the life of the hedge. Hedge accounting is discontinued prospectively when the hedging instrument is no longer effective as a hedge, the hedging instrument is terminated or sold, or upon the sale or early termination of the hedged item.

Currently, our derivative financial instruments consist of cash flow hedges for interest rate exposure. We do not currently use fair value or foreign currency hedges.

Cash flow hedges

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

For cash flow hedges, the changes in the fair value of the effective portion of the hedging derivative, net of taxes, is recognized in other comprehensive income (loss), while the ineffective portion is recognized in interest charges. When hedge accounting is discontinued, the amounts previously recognized in accumulated other comprehensive income (loss) are reclassified to interest charges during the periods when the variability in the cash flows of the hedged item affects net earnings. Gains and losses on derivatives are reclassified immediately to other expenses (income) when the hedged item is sold or terminated early.

1. Significant accounting policies (continued)

Economic hedges

Derivatives that are economic hedges but do not qualify for hedge accounting are recognized at fair value with the change in fair value recorded in other expenses (income).

Embedded derivatives

Embedded derivatives (elements of contracts whose cash flows move independently from the host contract) are separated out of the non-derivative host contract and accounted for as a derivative unless certain criteria are met. We do not currently have any significant embedded derivatives in our contracts that require separate accounting and disclosure.

Revenue recognition

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

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

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

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

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

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

Earnings per unit

Earnings per unit is based on the weighted average number of units outstanding during the period.

Unit-based compensation plans

Certain employees are eligible to participate in employee unit purchase plans and a deferred unit plan, which are described in note 17. Compensation expense is recorded for our contributions to the employee unit purchase plans and as units vest under our deferred unit plan.

1. Significant accounting policies (continued)

Distributions

The distributions per unit paid by Bell Aliant Holdings LP to holders of exchangeable LP units are equal to the distributions per unit paid to the holders of Fund units. Distributions payable to our unitholders are recorded when declared.

Regulation of the telecommunications industry

Certain of our subsidiaries, including Bell Aliant LP, Télébec and NorthernTel, are regulated by the Canadian Radio-television and Telecommunications Commission (CRTC) pursuant to the Telecommunications Act and the Broadcasting Act. The CRTC ensures that Canadians have access to reliable telephone and other telecommunications services at affordable prices, and licenses and regulates the activities of broadcasting distribution undertakings. Our business is affected by CRTC decisions over the prices we charge for specific services, primarily local and access telephone service, and other operating requirements. Refer to note 21 for further information on the deferral account, a mechanism introduced under the CRTC's Price Cap Decision of 2002.

Future changes in accounting policies

The Accounting Standards Board of the CICA continually amends 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.

Goodwill and intangible assets

The CICA issued Section 3064, Goodwill and Intangible Assets, which replaced Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. The new standard provides guidance on the measurement, recognition, presentation and disclosure of goodwill and intangible assets. The standard applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2008. We do not expect any material effects on our operations and financial reporting due to the adoption of this new standard.

International Financial Reporting Standards

Effective January 1, 2011, International Financial Reporting Standards will replace Canadian GAAP. The Accounting Standards Board has released an exposure draft that outlines the standards. We are currently assessing the effect that this transition will have on our operations and financial reporting.

2 BUSINESS COMBINATION AND ACQUISITION

Télébec and NorthernTel

On January 1, 2008, the Fund transferred its 36.7 per cent interest in Télébec and NorthernTel to us, in exchange for 8,246,429 class 2 limited partnership units (note 17), resulting in us recording 100 per cent of their net earnings and eliminating the non-controlling interest previously reported as of that date. The value of our units issued was determined using a combination of discounted cash flow methodology and comparable public company earnings multiple analysis.

2. Business combination and acquisition (continued)

As there was no substantive change in ownership of the 36.7 per cent interest in Télébec and NorthernTel, the transfer was accounted for at its carrying value on January 1, 2008. The Fund retains a nominal one unit ownership interest in each of Télébec and NorthernTel. As the Fund had accounted for its investment in Télébec and NorthernTel on an equity basis, the carrying value of the assets transferred and liabilities assumed was determined based on their respective estimated fair values on January 30, 2007, the date that the Fund acquired the remaining 36.7 per cent interest in Télébec and NorthernTel from Bell Nordiq Income Fund. The fair values of the assets transferred were adjusted for the depreciation and amortization of such assets for the period February 1, 2007, to December 31, 2007. The remainder of the consideration paid has been allocated to goodwill. This resulted in an adjustment to the carrying values of the assets and liabilities as follows:

(millions of dollars)

Assets acquired and liabilities assumed	
Property, plant and equipment (note 7)	30.2
Finite-life intangibles (note 7)	181.9
Indefinite-life intangibles (note 10)	40.6
Goodwill (note 11)	191.8
Long-term debt (note 14)	(2.3)
Non-controlling interest (note 16)	89.0
Other long-term liabilities	(17.7)
Net assets acquired	513.5

Property, plant and equipment mainly represent telecommunications facilities and equipment, and buildings. Finite-life intangibles include $178.4 million related to customer relationships and $3.2 million related to roaming agreements. These assets will be depreciated and amortized using the same methods and over the same useful lives as our existing capital investments of Télébec and NorthernTel. Indefinite-life intangibles include $26.6 million related to the Télébec and NorthernTel brands and $14.0 million related to telecommunications licenses.

Goodwill recognized in this business combination is not deductible for tax purposes.

Kenora Municipal Telephone System (KMTS)

On February 1, 2008, we purchased the assets and operations of KMTS for total cash consideration of $27.1 million in addition to paying direct acquisition costs of $1.1 million. The results of operations have been included in our consolidated financial statements since that date.

The total consideration paid has been allocated to the assets acquired and liabilities assumed based on their respective fair values on February 1, 2008. The allocation process requires an analysis of the value of customer relationships, acquired contractual rights, assumed contractual commitments and legal contingencies to identify and record the fair value of all assets acquired and liabilities assumed. In valuing acquired assets and assumed liabilities, fair values are based on, but are not limited to: quoted market prices, where available; expected future cash flows and growth rates; current replacement cost for similar capacity for certain capital assets; market rate assumptions for contractual obligations; and appropriate discount rates. The purchase price allocation also requires the calculation of future income tax assets or liabilities associated with the assets acquired and liabilities assumed. The excess purchase price over the fair value of the identifiable assets and liabilities has been allocated to goodwill.

2. Business combination and acquisition (continued)

The purchase price allocation was finalized in the fourth quarter of 2008 and resulted in assets acquired and liabilities assumed as follows:

(millions of dollars)

Assets acquired and liabilities assumed	
Current assets	1.2
Property, plant and equipment (note 7)	10.2
Finite-life intangibles (note 7)	5.9
Indefinite-life intangibles (note 10)	1.8
Goodwill (note 11)	9.8
Liabilities	(0.7)
Net assets acquired	28.2

Finite-life intangibles relate to customer relationships and will be amortized on a straight-line basis over 9 to 25 years. Indefinite-life intangibles include $1.2 million related to the KMTS brand and $0.6 million related to telecommunications licenses.

Upon finalizing the purchase price allocation in the fourth quarter of 2008, we recorded a $1.2 million adjustment relating to periods from February 1, 2008, to December 31, 2008, for depreciation and amortization on the property, plant and equipment and finite-life intangibles.

Goodwill recognized in this business combination is not deductible for tax purposes.

3 TRANSFER OF RECEIVABLES

We have a revolving accounts receivable purchase and sale agreement with a securitization trust to sell an interest in a pool of trade accounts receivable owned by our subsidiary Bell Aliant LP. The pool of accounts receivable also includes wireless receivables purchased from Bell Canada of approximately $11.4 million at December 31, 2008 (2007 – $46.5 million) or approximately 3.2 per cent (2007 – 12.6 per cent) of the total pool of accounts receivable. In June 2007, we amended the agreement to increase the maximum amount of trade accounts receivable we can sell to the trust from $125.0 million to $220.0 million, which continued to be in effect throughout 2008.

As part of the securitization agreement, we are required to provide security, currently in the form of additional accounts receivable over and above the net cash proceeds received, which is held and owned by the trust. This security, or retained interest, is transferred back to us upon the expiry of the agreement in July 2011. The retained interest is recorded in accounts receivable.

We continue to service these accounts receivable and collect the amounts owing, but the trust's interest in the collection of these accounts receivable, including accounts receivable that make up the retained interest, ranks ahead of our interest. We do not recognize a servicing asset or liability separate from the accounts receivable sold. The trust and its investors have no recourse to our other assets for failure of the customer to pay the amounts when due.

3. Transfer of receivables (continued)

Under the securitization agreement, the trust reinvests the amounts collected by buying additional interest in our accounts receivable until the agreement expires. During the term of the securitization agreement, we remain subject to certain risks of default which, should they occur, could cause the securitization agreement to end early.

The details of our trade accounts receivable sold, certain cash flows received from and paid to the trust during the year and the assumptions that were used in determining the fair value on the date of transfer are as follows:

(millions of dollars, except as otherwise noted)	Range 2008	2008	2007
As at December 31:			
Securitized interest in trade accounts receivable		209.3	281.0
Net cash proceeds		165.0	220.0
Retained interest		44.3	61.0
Servicing liability		0.5	0.7
For the years ended December 31:			
Collections reinvested in revolving sales		2,109.0	2,207.9
Increase (decrease) in net cash proceeds		(55.0)	100.0
Average trade accounts receivable managed		343.5	291.9
Pre-tax loss and administration fees		7.6	8.0
Assumptions:			
Average cost of funds	3.40% – 5.49%	4.24%	4.74%
Average delinquency ratio	13.67% – 19.53%	15.65%	20.79%
Average net credit loss ratio	0.30% – 0.95%	0.48%	0.87%
Weighted average life in days	40 – 50	43	46

The sensitivity of these assumptions to an immediate 10 to 20 per cent change in the amount of trade receivables is not material.

4 INVENTORY

For the year ended December 31, 2008, the cost of inventory recognized as an operating expense, in respect of continuing operations, was $27.9 million (December 31, 2007 – $30.8 million). This includes an immaterial amount of inventory write-downs (December 31, 2007 – immaterial amount). There were no material reversals of inventory write-downs in the period. A portion of the inventory of our discontinued operations is pledged as security for certain uncommitted lines of credit, which had an outstanding balance of nil at December 31, 2008 (December 31, 2007 – $5.7 million) (note 13).

5 INCOME TAXES

A provision for income taxes is recognized for our corporate subsidiaries that are subject to tax. Future income taxes reflect the net tax effects of temporary differences between the carrying value and income tax basis of assets and liabilities reported on the balance sheets of our subsidiaries as well as the benefit of our subsidiaries' losses that will more likely than not be realized and carried forward to future years to reduce income taxes. The income tax effects of temporary differences in our corporate subsidiaries that give rise to significant portions of the future tax assets (liabilities) are as follows:

As at December 31 (millions of dollars)	2008	2007
Capital investments	(17.8)	(7.7)
Goodwill and other intangible assets	(456.6)	(477.0)
Pension and other post-employment benefits	(18.1)	(12.3)
Deferred charges	22.6	42.3
Loss carryforwards	167.5	203.8
Partnership income deferral	(116.8)	(182.8)
Derivative liabilities and debt issue costs	3.1	0.8
Severance and benefits	1.9	5.0
Other	8.4	6.8
Total future income taxes	(405.8)	(421.1)

The total future income taxes are composed of the following:

As at December 31 (millions of dollars)	2008	2007
Future income tax assets:		
Current portion	40.8	27.7
Long-term portion	7.1	7.1
Future income tax liabilities:		
Current portion	(0.5)	(0.3)
Long-term portion	(453.2)	(455.6)
Total future income taxes	(405.8)	(421.1)

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

5.Income taxes (continued)

Our portion of these temporary differences is as follows:

As at December 31 (millions of dollars)	2008	2007
Deductible temporary differences:		
Pension and other post-employment benefits	138.0	141.2
Derivative liabilities and debt issue costs	47.3	52.6
Severance and benefits	6.3	12.1
Other	11.4	1.8
	203.0	207.7
Taxable temporary differences:		
Capital investments	(1,280.6)	(1,301.0)
Deferred charges	(17.7)	(4.3)
	(1,298.3)	(1,305.3)

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

For the years ended December 31 (millions of dollars)	2008	2007
Current tax recovery	(7.6)	(9.9)
Future tax expense (recovery):		
Change in temporary differences	(21.0)	(19.3)
Change in statutory rate	6.8	(94.7)
Income tax recovery	(21.8)	(123.9)

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

For the years ended December 31	2008	2007
Combined statutory income tax rate (including surtax)	33.49 %	35.74 %
Inter-company interest income earned in non-taxable entities	(29.82)	(37.25)
Income allocated to non-controlling interest	(13.24)	(15.92)
Effect of enacted future tax rates on temporary differences	1.54	(26.55)
Non-taxable gain	0.84	—
Non-deductible goodwill, amortization of intangible assets	2.77	4.72
Other permanent differences	(0.52)	3.39
Effective income tax rate	(4.94)%	(35.87)%

Tax losses

At December 31, 2008, our corporate subsidiaries had $546.9 million (2007 – $640.9 million) in non-capital tax losses that are available to reduce taxable income in future years. The tax benefit associated with $510.5 million of these losses (2007 – $605.0 million) has been recognized as part of the future tax asset. These losses expire in varying annual amounts from 2011 to 2028. No tax benefit has been recognized for $36.4 million (2007 – $35.9 million) of these losses. The losses for which no tax benefit has been recognized expire in varying annual amounts from 2011 to 2026.

At December 31, 2008, our corporate subsidiaries have no capital losses available to be carried forward to reduce capital gains in future years (2007 – nil).

6 DISCONTINUED OPERATIONS

Defence, security and aerospace business (DSA)

On August 5, 2008, Bell Aliant Holdings LP and CAE Professional Services (Canada) Inc. (CAE) announced that they entered into an asset purchase agreement for CAE to acquire our DSA business unit, which currently operates under the xwave brand. The proceeds on closing will be in the range of $13.0 million to $13.8 million, subject to the actual date of closing, with an additional $11.0 million of proceeds contingent upon the occurrence of certain events, for potential total proceeds in the range of $24.0 million to $24.8 million. The transaction is subject to the satisfaction of certain conditions and is anticipated to close in the second quarter of 2009. As a result, we reclassified the results of DSA's operations as discontinued operations. Accordingly, prior period consolidated statements of earnings and cash flows have been reclassified to reflect this change.

On the consolidated balance sheet as at December 31, 2008, the net assets of the DSA business unit were presented as assets and liabilities of the discontinued operations at their carrying amounts. The following table shows the major categories of the assets and liabilities of the discontinued operations:

As at December 31, 2008	
Current assets of discontinued operations	
Accounts receivable	14.9
Prepayments	0.1
	15.0
Non-current assets of discontinued operations	
Property, plant and equipment	0.7
Finite-life intangibles	0.1
Deferred charges	1.5
	2.3
Current liabilities of discontinued operations	
Payables and accruals	7.6
	7.6

Atlantic Mobility Products Limited Partnership (AMP)

AMP had an arrangement with Bell Canada to be their exclusive distributor of mobility products in Atlantic Canada, which Bell Canada discontinued effective July 4, 2008. The loss of the exclusive arrangement has resulted in the elimination of our wholesale distribution of mobility hardware and accessories business. Accordingly, the results of operations of AMP have been presented as discontinued operations. In 2008, AMP sold $3.7 million of inventory to Bell Canada at cost as part of the winding down activities.

SalesBridge Canada Corp. (SalesBridge) and Aliant Directory Services (ADS)

In 2007, the results of operations of SalesBridge and ADS were reported as discontinued operations. SalesBridge is being wound up and had no operating activity during 2008, and the net assets and operations of ADS were sold in April 2007.

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

For the years ended December 31 (millions of dollars)	2008 DSA	2008 AMP	2008 Total	2007 DSA	2007 AMP	2007 SalesBridge	2007 ADS	2007 Total
Operating revenues	26.8	50.6	77.4	26.6	93.5	—	19.8	139.9
Expenses	25.4	47.3	72.7	23.3	85.5	1.0	7.7	117.5
Write-down of goodwill (note 11)	—	11.2	11.2	—	—	—	—	—
Gain on sale, as restated	—	—	—	—	—	—	304.5	304.5
Income tax expense (recovery)	0.4	2.8	3.2	0.8	2.2	(0.3)	60.2	62.9
Non-controlling interest	—	—	—	—	—	(0.3)	—	(0.3)
Net earnings (loss) from discontinued operations	1.0	(10.7)	(9.7)	2.5	5.8	(0.4)	256.4	264.3

6. Discontinued operations (continued)

Correction of an error

In the fourth quarter of 2008, we determined that the gain on sale of ADS, reported in the second quarter of 2007, was overstated by $9.6 million due to an error in the carrying value of net assets of ADS at the time of the sale. Accordingly, the 2007 financial results were restated to reduce the gain on sale included in net earnings (loss) from discontinued operations by $9.6 million and to decrease the 2008 opening partners' equity by the same amount. This reduced basic earnings per unit from discontinued operations by $0.07 for the year ended December 31, 2007.

7 CAPITAL INVESTMENTS

As at December 31, 2008 (millions of dollars)	Cost	Accumulated depreciation and amortization	Net book value
Property, plant and equipment			
Land	24.6	—	24.6
Buildings and towers	604.5	258.3	346.2
Telecommunications facilities and equipment	7,498.3	4,406.7	3,091.6
Other equipment	363.9	243.8	120.1
Plant under construction	138.0	—	138.0
Materials and supplies	5.6	—	5.6
	8,634.9	4,908.8	3,726.1
Finite-life intangibles			
Software	467.9	274.5	193.4
Customer relationships	2,878.4	295.4	2,583.0
Bilateral license agreement	464.5	28.9	435.6
Roaming agreements	12.4	6.1	6.3
	3,823.2	604.9	3,218.3
	12,458.1	5,513.7	6,944.4

As at December 31, 2007 (millions of dollars)	Cost	Accumulated depreciation and amortization	Net book value
Property, plant and equipment			
Land	24.5	—	24.5
Buildings and towers	572.6	240.1	332.5
Telecommunications facilities and equipment	7,099.7	3,978.4	3,121.3
Other equipment	353.3	228.1	125.2
Plant under construction	121.1	—	121.1
Materials and supplies	5.5	—	5.5
	8,176.7	4,446.6	3,730.1
Finite-life intangibles			
Software	443.0	263.8	179.2
Customer relationships	2,694.1	172.2	2,521.9
Bilateral license agreement	464.5	17.2	447.3
Roaming agreements	9.2	3.1	6.1
	3,610.8	456.3	3,154.5
	11,787.5	4,902.9	6,884.6

7. Capital investments (continued)

As a result of the acquisition of the 36.7 per cent interest in Télébec and NorthernTel and the assets and operations of KMTS, as discussed in note 2, we recorded an additional $40.4 million in property, plant and equipment and $187.8 million in finite-life intangibles in 2008.

Capital investments include the cost of assets acquired under capital leases of $37.6 million (2007 – $33.0 million) and the related accumulated amortization of $9.9 million (2007 – $8.3 million).

We recorded aggregate depreciation and amortization expenses on property, plant and equipment and finite-life intangibles for the year ended December 31, 2008, of $514.5 million and $201.2 million, respectively (December 31, 2007 – $523.2 million and $251.7 million, respectively).

8 DEFERRED CHARGES

As at December 31 (millions of dollars)	2008	2007
Customer contract costs	1.7	11.7
Debt issue costs (note 1)	2.4	3.5
Other	11.8	12.3
	15.9	27.5

We recorded aggregate amortization expense on deferred charges for the year ended December 31, 2008, of $0.4 million (2007 – $0.5 million).

9 POST-EMPLOYMENT BENEFITS

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

DC pension plans and other retirement savings plans

For most member-employees, our DC pension plans and other retirement savings plans require employer contributions and employee contributions of between nil and 6 per cent of pensionable earnings, depending on the plan. For some executives, there is a DC retirement savings plan that requires employer contributions of up to 15 per cent of the executive's eligible earnings. The total cost of our DC pension plans is equal to our required contributions and was $7.9 million for the year ended December 31, 2008 (2007 – $7.3 million).

DB pension plans

Our DB pension plans provide pensions to employees who retire after meeting certain age and service conditions. Pensions are based on specified pension rates applied to the employees' years of service and best five-year average earnings. Our DB pension plans are contributory for certain members and non-contributory for others, depending on the plan. All DB pensions are integrated with the Canada Pension Plan and include limited indexing to help protect the income of retired members from inflation.

9. Post-employment benefits (continued)

OPEB plans

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

In January 2007, we made changes to certain of our OPEB plans that will limit future benefits. These changes resulted in a reduction in past service costs of $14.8 million, which is being amortized on a straight-line basis over the expected average remaining service lives of affected employees.

Components of accrued benefit asset (liability)

The following table shows the status of and changes in the obligations and assets related to the DB pension and the OPEB plans for the years ended December 31:

	DB pension plans		OPEB plans	
(millions of dollars)	2008	2007	2008	2007
Plan obligations:				
Accrued benefit obligation, beginning of year	2,964.3	2,940.6	208.3	220.3
Employee current service contributions	4.2	4.3	—	—
Current service cost	62.1	64.6	2.2	2.5
Interest on the obligation	161.1	154.6	11.2	10.9
Past service costs relating to plan amendments	—	—	—	(14.8)
Actuarial (gains) losses	(171.4)	(88.5)	4.0	(3.4)
Transfers from other plans	—	9.5	—	—
Benefits paid out of the plan	(120.2)	(120.8)	(7.4)	(7.2)
Accrued benefit obligation, end of year	2,900.1	2,964.3	218.3	208.3
Plan assets:				
Fair value of plan assets, beginning of year	2,516.7	2,443.8	—	—
Actual return on plan assets	(282.1)	89.7	—	—
Benefits paid out of the plans	(120.2)	(120.8)	(7.4)	(7.2)
Employee current service contributions	4.2	4.3	—	—
Transfers from other plans	—	9.5	—	—
Employer cash contributions to the plans	104.4	90.2	7.4	7.2
Fair value of plan assets, end of year	2,223.0	2,516.7	—	—
Plan deficit, end of year	(677.1)	(447.6)	(218.3)	(208.3)
Unamortized actuarial losses	823.8	587.8	47.9	47.0
Unamortized past service costs	52.8	58.3	(52.1)	(60.2)
Unamortized transitional (asset) obligation	—	(3.0)	—	0.8
Valuation allowance	—	(21.4)	—	—
Accrued benefit asset (liability), end of year	199.5	174.1	(222.5)	(220.7)
Accrued benefit asset	398.9	363.9	—	—
Accrued benefit liability	(199.4)	(189.8)	(222.5)	(220.7)

9. Post-employment benefits (continued)

Effective July 7, 2006, we created a new DB pension plan for employees who transferred employment to us from Bell Canada. The accrued benefit obligation and the fair value of the plan assets relating to the prior service earned while participating in Bell Canada's pension plan are included in our DB pension assets and accrued benefit obligation reflected in the previous table. The asset transfer values have been calculated per the agreed upon terms, but the transfer of assets from Bell Canada's pension plan has not yet received regulatory approval. As well, on January 1, 2005, certain management and unionized employees had transferred membership and past service benefits from the DC to the DB pension plans. The DC assets of these employees and the corresponding obligation were reflected as transfers to DB pension plans in that year but we are awaiting regulatory approval for the plan amendments and corresponding asset transfers.

All of our individual DB pension plans have deficits where the accrued benefit obligation exceeds the fair value of plan assets, therefore, the previous table also reflects the aggregated values of the DB pension plans with deficits.

Net cost of benefit plans

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

For the years ended December 31	DB pension plans		OPEB plans	
(millions of dollars)	2008	2007	2008	2007
Current service cost	62.1	64.6	2.2	2.5
Interest on the accrued benefit obligation	161.1	154.6	11.2	10.9
Actual return on plan assets	282.1	(89.7)	—	—
Actuarial (gains) losses	(171.4)	(88.5)	4.0	(3.4)
Past service costs relating to plan amendments	—	—	—	(14.8)
Elements of employee future benefit plans cost, before recognizing its long-term nature	333.9	41.0	17.4	(4.8)
Deficiency of actual return over expected return	(441.5)	(65.9)	—	—
Deferral of amounts arising during the year:				
Actuarial gains (losses) on accrued benefit obligation	171.4	88.5	(4.0)	3.4
Past service costs relating to plan amendments	—	—	—	14.8
Amortization of deferred amounts:				
Past service costs	5.5	5.5	(8.1)	(7.9)
Net actuarial losses	15.7	26.4	1.6	2.3
Transitional (asset) obligation	—	(0.6)	—	0.2
Adjustments to recognize long-term nature of employee future benefit plans cost	(248.9)	53.9	(10.5)	12.8
Increase (decrease) in valuation allowance	(21.4)	21.4	—	—
Net cost of benefit plans	63.6	116.3	6.9	8.0

Assumptions

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

	2008	2007
Discount rate, end of year	5.50%	5.50%
Discount rate, end of preceding year	5.50	5.30
Expected rate of return on plan assets	6.30	6.70
Rate of compensation increase	3.00	3.00
Growth rate of per capita health care costs, first five years	10.00	8.00
Growth rate of per capita health care costs, thereafter	4.50%	4.50%

9. Post-employment benefits (continued)

The discount rate is a weighted average of the discount rates used to value the accrued benefit obligations of our individual DB pension and OPEB plans. We have certain plans that predominantly have only active employee members and others with only retiree members. Our DB pension plans are closed to new members. For plans that have predominantly active employee members, we base the discount rate on current interest rates for the long-term debt of high-quality corporate issuers. In the case of plans that have only retiree members, we base the discount rate on current annuity rates. Similarly, these demographic factors affect our investment policies for plan assets and therefore our expected rates of return on plan assets. At December 31, 2008, our individual plans are discounted at rates that range from 4.25 per cent to 7.00 per cent (December 31, 2007 – 5.30 per cent to 5.60 per cent). The 2008 net actuarial gains of $167.4 million relate primarily to changes made to our discount rate assumptions at December 31, 2008. For the year ended December 31, 2008, we used expected rates of return on individual plan asset portfolios that ranged from 5.25 per cent to 7.50 per cent (2007 – 6.00 per cent to 7.50 per cent).

Sensitivity to changes in assumptions

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

		Rate	DB pension plans		OPEB plans	
(millions of dollars, except as otherwise noted)	Assumption	change	Obligation	Cost	Obligation	Cost
Discount rate	4.25 – 7.00%	+/-0.25%	94.0	3.0	7.0	—
Expected rate of return on plan assets	5.25 – 7.50	+/-0.25	—	6.0	—	—
Rate of compensation increase	3.00	+/-0.25	17.0	1.0	—	—
Growth rate of per capita health care costs	4.50 – 10.00%	+1.00	—	—	26.0	1.0
		-1.00%	—	—	(22.0)	(1.0)

Investment of DB pension plans assets

Our investment policy is to maintain a diversified portfolio of assets, invested in a prudent manner to balance the security of the funds with long-term growth objectives for the assets. We strive to maximize long-term returns while maintaining a desired range of surplus and funding volatility. The asset mix policy includes the following targets and actual allocations as at December 31:

		Percentage of plan assets	
Asset category	Target weight	2008	2007
Domestic bonds/fixed income securities	55 – 65%	63%	59%
Canadian equity securities	10 – 15	10	15
Non-Canadian equity securities	25 – 30	27	26
Total		100%	100%

The asset mix policy is established through consideration of many factors, including plan funded ratios, plan demographics, tolerance for fluctuations in market value, portfolio diversification and the targeted long-term rate of return for the assets. Foreign exchange risk is inherent in the asset mix policy and foreign currency fluctuations may significantly affect the Canadian dollar returns on the portfolio, especially over short time periods. Our policy is to hedge a portion of the risk of foreign currency fluctuations within the asset portfolios.

9. Post-employment benefits (continued)

Over the 10 year period ended December 31, 2008, our weighted average rate of return for our DB pension plans was 5.2 per cent per annum (December 31, 2007 – 7.2 per cent).

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

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

As at December 31 (millions of dollars, except as otherwise noted)	2008 Approximate value	2008 Approximate per cent of total plan assets	2007 Approximate value	2007 Approximate per cent of total plan assets
Plan assets held				
Common shares of BCE Inc. (BCE)	4.4	0.20%	4.1	0.20%
Debentures of BCE and Bell Canada	4.8	0.20	7.4	0.30
Securities of the Fund or Bell Aliant LP, held indirectly	0.4	—	1.3	—
	9.6	0.40%	12.8	0.50%

Benefit plan contributions

We are responsible for adequately funding our DB pension plans. The required contributions to the registered plans are made to a trust fund that is used to pay benefits under the plans. These contributions are determined by actuarial funding valuations and reflect actuarial assumptions about future investment returns, salary projections and future service benefits. We are funding the registered DB pension plans through contributions that meet or exceed the applicable statutory funding rules and regulations governing the particular plans. Part of the funding for our DB pension plans is satisfied through the purchase of letters of credit (note 13) held in trust for the benefit of the plans.

The DB and DC pension arrangements for executives and OPEB plans are not registered pension plans. We fund payments under these plans directly when the benefits are paid. Certain benefits under the executive DB and DC pension arrangements are secured by letters of credit (note 13) held in trust for the benefit of the named current and retired executives.

Our contributions to DB and DC pension plans as well as OPEB plans are as follows:

For the years ended December 31 (millions of dollars)	2008	2007
DB pension plans contributions	104.4	90.2
OPEB plans contributions	7.4	7.2
Funding of DB pension and OPEB plans	111.8	97.4
DC pension plans contributions	7.9	7.3
Total contributions	119.7	104.7

10 INDEFINITE-LIFE INTANGIBLES

For the years ended December 31 (millions of dollars)	2008	2007
Télébec and NorthernTel brands	72.8	46.2
KMTS brand	1.2	—
Telecommunication licenses	35.5	20.9
Cable licenses	15.7	15.7
	125.2	82.8

In 2008, as a result of the acquisition of the 36.7 per cent interest in Télébec and NorthernTel and the assets and operations of KMTS, as discussed in note 2, we recorded an additional $42.4 million in indefinite-life intangibles related to the Télébec and NorthernTel brands, KMTS brand, and telecommunication licenses.

11 GOODWILL

(millions of dollars)	
Goodwill as at December 31, 2006	5,446.2
Allocations to assets and liabilities as a result of the finalization of purchase price allocation on the acquisition of Bell Canada's wireline operation in Ontario and Quebec and Bell Nordiq Group Inc.	(2,891.7)
Goodwill as at December 31, 2007	2,554.5
Acquisition of interest in Télébec and NorthernTel (note 2)	191.8
Acquisition of assets and operations of KMTS (note 2)	9.8
Write-down related to AMP goodwill	(11.2)
Change in estimate of the value of the long-term receivable from Bell Canada	21.7
Goodwill as at December 31, 2008	2,766.6

During the first quarter of 2008, as a result of Bell Canada notifying us of their intent to discontinue using AMP as its exclusive distributor of mobility products in Atlantic Canada, we assessed the carrying value of goodwill related to AMP. An impairment charge of $11.2 million was recorded, which reduced the carrying value of the goodwill related to AMP to nil. AMP has been reclassified as discontinued operations as discussed in note 6.

We are continuing discussions with Bell Canada on an estimated long-term receivable to be paid to us in relation to the acquisition of Bell Canada's wireline operation in Ontario and Quebec. The estimated long-term receivable relates to the effect of a 2006 CRTC decision on our operating revenues, which required Bell Canada to reduce rates charged for services in certain regions, some of which affected customer accounts that we acquired. During the third quarter of 2008, we decreased the estimated long-term receivable from $44.0 million to $22.3 million and increased goodwill (note 24). The long-term receivable from Bell Canada is based on an estimated amount of rate reductions, which have not been finally determined by the CRTC at this time, and which could be different from current estimates. Once the rate reductions are finalized by the CRTC, the long-term receivable from Bell Canada will be adjusted accordingly and this amount could be materially different from the current estimate.

12 RESTRUCTURING AND OTHER CHARGES

In 2007, we estimated and recorded a pre-tax restructuring charge of $27.4 million related to costs to continue advancing the organization's productivity initiatives leading into 2008. As departing employees had options that affected the amount of their severance and real estate rationalization costs were incurred, during the third quarter of 2008, we reduced the estimated cost of the 2007 restructuring initiative by $5.6 million to reflect the final costs.

During 2008, we recorded $5.6 million of severance and benefit costs related to the announced departure of a senior executive and continued our organizational productivity initiatives, which resulted in a $60.7 million pre-tax restructuring charge. The charge included $54.2 million of severance and benefit costs and $6.5 million of real estate rationalization costs.

The liability included in payables and accruals for restructuring and other charges is as follows:

As at December 31

(millions of dollars)	2008	2007
Liability, beginning of year	22.8	4.0
Restructuring and other charges:		
Employee costs	59.8	23.1
Real estate costs	6.5	4.3
Change in the 2007 restructuring charge estimate	(5.6)	—
	60.7	27.4
Cash payments	(18.4)	(8.6)
Liability, end of year	65.1	22.8

The restructuring and other charges liability for employee costs is anticipated to be expended in 2009, and real estate rationalization will be drawn down as lease vacancy and other real estate costs are incurred.

13 SHORT-TERM DEBT

We have the following operating facilities available to us:

As at December 31

(millions of dollars)	2008	2007
Committed lines of credit:		
Revolving operating facilities	551.0	576.0
Non-revolving pension reserve facilities	450.0	450.0
Dedicated letter of credit facilities	168.1	138.0
Uncommitted operating lines of credit:		
Demand operating facilities	16.0	17.0
Total operating facilities	1,185.1	1,181.0

Included in the amounts available under operating credit facilities is $1.0 million (December 31, 2007 – $12.0 million) for discontinued operations.

We also maintain a $400.0 million commercial paper program. We ensure at all times that sufficient undrawn capacity exists on our revolving operating facilities to support outstanding issuances of commercial paper.

13. Short-term debt (continued)

The status of our operating facilities is as follows:

As at December 31 (millions of dollars)	2008	2007
Letters of credit and guarantee issued:		
Letters of credit	223.6	168.1
Letters of guarantee	—	2.0
	223.6	170.1
Drawn amounts:		
Revolving operating facilities	193.0	210.0
Non-revolving pension reserve facilities	15.0	—
Uncommitted operating lines of credit (note 4)	—	5.7
Other	0.2	1.0
Short-term debt	208.2	216.7
Unused available credit facilities	753.3	794.2
Total operating facilities	1,185.1	1,181.0

Our operating facilities are unsecured except as discussed in note 4.

Bankers' Acceptance advances of $208.0 million (December 31, 2007 – $210.0 million) outstanding under our revolving operating and non-revolving pension reserve facilities bear interest at rates from 2.19 to 2.90 per cent per annum and mature on dates from January 8 to 30, 2009.

14 LONG-TERM DEBT

As at December 31 (millions of dollars, except as otherwise noted)	Interest rate	Maturity	2008	2007
Notes				
Bell Aliant LP	4.72% to 6.17%	2011 – 2037	2,250.0	2,250.0
Debentures				
Télébec	5.34% to 5.75%	2013 – 2020	100.0	150.0
NorthernTel	6.00% to 11.00%	2009 – 2020	44.7	46.8
			144.7	196.8
Total – notes and debentures			2,394.7	2,446.8
Non-revolving term	Floating	2009 – 2010	150.0	100.0
Obligations under capital leases	4.09% to 5.91%	2009 – 2017	24.8	24.1
Note payable	6.70%	2009	1.5	2.9
Mortgage – Télébec	12.50%	2011	2.9	3.1
Other		2009 – 2020	4.9	8.3
Debt issue costs			(10.1)	(11.6)
Total long-term debt			2,568.7	2,573.6
Less: portion due within one year			114.7	59.8
			2,454.0	2,513.8

Interest rates on the non-revolving term debt depend upon the form of borrowing selected and our credit rating. Prime rate based loans bear interest at the prime rate per annum while Canadian Bankers' Acceptance, US LIBOR loans, Letters of credit and Letters of guarantee bear interest at the base rate plus a spread of 0.50 to 0.85 per cent per annum. These rates may vary based on the credit ratings of our long-term debt.

14. Long-term debt (continued)

All notes are issued in series and certain series are redeemable at our option prior to maturity at the prices, times and conditions specified in each series. The notes are issued under trust indentures and are unsecured.

Télébec's debentures are secured by a mortgage on land and buildings located in Val D'Or, Quebec. The NorthernTel debentures and the non-revolving term debt are unsecured.

During the year ended December 31, 2008, we:

- Repaid at maturity, $50.0 million of Télébec's Series Z debentures, bearing interest at 5.85 per cent per annum;
- Drew $50.0 million on a new non-revolving term facility by means of Bankers' Acceptances, which currently bear interest at 2.50 per cent;
- Entered into capital lease obligations totalling $7.5 million for telecommunications and other equipment and bearing interest at rates ranging from 4.26 per cent to 5.75 per cent per annum;
- Repaid principal amounts as they came due for obligations under capital leases, mortgage, note payable and other long-term debt totalling $10.6 million;
- Renegotiated the terms of a long-term obligation totalling $4.3 million in connection with the acquisition in 2006 of software licenses to be a monthly royalty payment agreement with the vendor. Consequently, this amount was removed from long-term debt with the corresponding removal of the net book value of the software licenses from intangible assets.

As a result of the acquisition of the 36.7 per cent interest in Télébec and NorthernTel, as discussed in note 2, in 2008 other long-term debt includes $2.3 million (2007 – $5.4 million) related to the fair market value of long-term debt issued by Télébec and NorthernTel. We recorded amortization of these amounts of $1.4 million in 2008 (2007 – $1.4 million).

No debt issue costs were incurred for 2008 (2007 – $5.5 million). We recorded amortization of debt issue costs of $1.5 million in 2008 (2007 – $6.7 million).

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

(millions of dollars)	2009	2010	2011	2012	2013	Thereafter
Long-term debt	107.8	53.1	755.4	5.7	71.3	1,560.7
Capital leases	8.4	7.9	3.4	0.4	0.4	4.3
	116.2	61.0	758.8	6.1	71.7	1,565.0

15 FINANCIAL INSTRUMENTS

Cash and cash equivalents

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

15. Financial instruments (continued)

Accounts receivable

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

Derivative financial instruments

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

We are exposed to credit risks if counterparties to our derivative financial instruments are unable to meet their obligations. We expect that they will be able to meet their obligations, as we deal only with Canadian chartered banks and their subsidiaries. There was minimal credit risk relating to derivative financial instruments at December 31, 2008.

We use interest rate swaps to manage the interest rate exposure between fixed and floating interest rates on our outstanding debt, and to hedge the interest rate exposure on future refinancing of existing debt. The fixed-floating interest rate swaps outstanding were as follows:

As at December 31 (millions of dollars, except as otherwise noted)	Fixed interest rate	2008 Fair value	2008 Notional principal	2007 Fair value	2007 Notional principal
August 20, 2010	4.98%	6.6	100.0	1.9	100.0
August 23, 2010	4.98%	6.6	100.0	1.8	100.0
June 23, 2010	3.75%	2.0	50.0	—	—
		15.2	250.0	3.7	200.0

Under these swaps, which are being accounted for as cash flow hedges, we pay a fixed rate of interest and receive the floating Bankers' Acceptance rate, which is reset quarterly. The fair values are in favour of the counterparty and are recorded as derivative liabilities.

At December 31, 2008, a one per cent increase (decrease) in the interest rates used to value our interest rate swaps would cause the derivative liability to decrease (increase) by approximately $4.4 million.

In 2007, we settled $1.25 billion of fixed-floating interest rate swaps. We paid $30.5 million to the counterparty on settlement of swaps to which hedge accounting applied, which was included in other comprehensive earnings (losses). We received $6.4 million from the counterparty on settlement of swaps to which hedge accounting did not apply, which was included in other expenses (income).

Long-term debt

Long-term debt is normally issued at fixed rates of interest and remains outstanding until maturity. Therefore, both liquidity and interest rate risk is considered minimal once issued. We address refinancing risk for upcoming long-term debt maturities, including the current portion of long-term debt, by staggering maturity dates, conducting long-term cash flow planning and maintaining access to various credit facilities, including bank credit facilities (note 13). Refer to note 14 for details of our long-term debt.

15. Financial instruments (continued)

Fair value of financial instruments

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

The carrying value of all financial instruments approximate fair value with the exception of long-term debt and the amount due within one year, which at December 31, 2008, has a carrying value of $2,568.7 million and a fair value of $2,318.3 million (December 31, 2007 – $2,573.6 million and $2,422.8 million, respectively).

16 NON-CONTROLLING INTEREST

As at December 31 (millions of dollars)	2008	2007
Bell Aliant LP	1,662.5	1,740.2
Télébec and NorthernTel (note 2)	—	89.0
SalesBridge (note 6)	—	0.4
	1,662.5	1,829.6

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

For the years ended December 31	2008		2007	
(millions of dollars)	Declared	Paid	Declared	Paid
Bell Aliant LP	208.9	208.5	203.1	202.7
Télébec and NorthernTel	—	4.5	40.9	40.0
	208.9	213.0	244.0	242.7

17 PARTNERS' CAPITAL

Authorized

Our partners' capital is authorized to include an unlimited number of three classes of units:

- Class 1 exchangeable limited partnership units;
- Class 2 limited partnership units; and
- General partnership (GP) units.

17. Partners' capital (continued)

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

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

Issued and outstanding

	Class 1 units		Class 2 units		GP units		Total
(millions of dollars, except as otherwise noted)	Number	Stated capital	Number	Stated capital	Number	Stated capital	stated capital
Units as at December 31, 2006	28,168,803	1,017.1	124,121,177	991.8	54,000	—	2,008.9
Return of capital	—	—	—	(460.9)	—	—	(460.9)
Units as at December 31, 2007	28,168,803	1,017.1	124,121,177	530.9	54,000	—	1,548.0
Business combination (note 2)	—	—	8,246,429	513.5	—	—	513.5
Units as at December 31, 2008	28,168,803	1,017.1	132,367,606	1,044.4	54,000	—	2,061.5

In 2007, we made a payment to return capital on the class 2 limited partnership units to Bell Aliant Holdings Trust in an amount of $460.9 million.

Employee unit purchase plans

We have two employee unit purchase plans for eligible employees. Under the terms of the plans, employees can choose each year to have up to 10 or 12 per cent of their annual base earnings withheld to purchase Fund units. We will also contribute to the plan on behalf of participants based upon employee contributions, using a prescribed formula. Depending on which plan the employee participates in, the purchase price of the Fund units is the arithmetic average of the closing price of the units traded on the Toronto Stock Exchange (TSX) on the last five days up to, and including, the investment date, or the value paid by the plan trustee to purchase the units on the open market. Participants in the plans receive additional Fund units in lieu of receiving cash distributions from the Fund. To satisfy employee purchases of Fund units under these plans, the Fund may issue up to 2,079,527 additional Fund units out of treasury or purchase them on the open market.

17. Partners' capital (continued)

The total number of Fund units bought on the open market for our employees during the year ended December 31, 2008, was 1,941,439 (December 31, 2007 – 1,766,276). Compensation expense related to the employee unit purchase plans of $9.6 million was recorded for the year ended December 31, 2008 (December 31, 2007 – $9.9 million).

Deferred unit plan

During 2007, the Fund implemented a deferred unit plan (DUP) for certain of our executives and senior management to further align their long-term incentive compensation with total unitholder value. Under this DUP, the Fund may grant deferred units to eligible plan members in such number and at such times as is determined as a bonus or in respect of services rendered by the plan member in the year of the grant. On the grant date, plan members will be credited with the deferred units granted to them. Grantees are also entitled to receive additional deferred units based on cash distributions that would have been received had the deferred units been converted to Fund units. The deferred units vest over a period of three years and are subject to certain performance criteria, with the exception of the 2006 grant, which was not made subject to performance criteria, as it was awarded in recognition of 2006 performance. Plan members are eligible to receive one Fund unit for each vested deferred unit upon their departure from the company or may hold the vested deferred units in an account until the end of the second year following their departure. There is no exercise price paid by the grantee for deferred units. The Fund may issue up to 3,559,280 additional Fund units out of treasury to satisfy awards under this DUP. Any unvested deferred units of a plan member upon their departure are forfeited.

A summary of the status of the deferred units and changes during the period are as follows:

For the years ended December 31	2008	2007
Deferred units outstanding, beginning of year	794,980	—
Granted:		
Service period fiscal 2006 to 2008	—	316,717
Service period March 2007 to March 2010	—	453,742
Service period fiscal 2008 to 2010	431,055	—
Reinvested distributions	106,609	52,581
	537,664	823,040
Forfeited	(114,346)	(23,680)
Exercised	(36,340)	(4,380)
Deferred units outstanding, end of year	1,181,958	794,980
Deferred units vested, end of year	686,145	108,174

The weighted average grant-date fair value of the 537,664 deferred units granted in the year ended December 31, 2008, totals $15.8 million (December 31, 2007 – 823,040 deferred units granted totals $24.1 million). For the year ended December 31, 2008, compensation expense of $12.9 million (December 31, 2007 – $8.5 million) was recorded related to the deferred units outstanding.

18 SEGMENTED INFORMATION

We operate as one reportable business segment, which is driven by our products and services, in order to provide customers with integrated communications services. This represents the manner in which we are organized and managed for planning and assessing performance and making resource allocation decisions. Our operations, including all revenues from customers, capital investments and goodwill are concentrated in Canada.

Revenue from external customers by product and service

For the years ended December 31

(millions of dollars)	2008	2007
Local and access	1,404.8	1,430.9
Long distance	452.3	474.8
Data	800.2	755.8
Information technology	315.3	262.4
Wireless	80.8	64.4
Product	70.5	76.7
Rentals	29.6	33.3
Service agreements	31.9	50.7
Innovatia Inc.	24.8	25.8
Other revenues	71.8	78.5
	3,282.0	3,253.3

19 EARNINGS PER UNIT

For the years ended December 31

(millions of dollars, except as otherwise noted)	2008	2007
		(as restated, note 6)
Net earnings from continuing operations	331.9	310.4
Net earnings from discontinued operations	(9.7)	264.3
Net earnings	322.2	574.7
Basic:		
Weighted average number of units outstanding	159,902,068	152,289,979
Basic from continuing operations	2.08	2.04
Basic from discontinued operations	(0.06)	1.73
Basic earnings per unit	2.02	3.77

20 OTHER COMPREHENSIVE EARNINGS (LOSSES)

Components of other comprehensive earnings (losses) and the related income tax effects are as follows:

For the years ended December 31 (millions of dollars)	2008 Amount arising	2008 Income taxes	2008 Net	2007 Amount arising	2007 Income taxes	2007 Net
Gains (losses) on derivatives designated as cash flow hedges	(11.5)	(2.5)	(9.0)	5.0	0.5	4.5
Reclassification to net earnings	4.5	1.0	3.5	(1.8)	(0.3)	(1.5)
Other comprehensive earnings (losses)	(7.0)	(1.5)	(5.5)	3.2	0.2	3.0

The reclassification to net earnings represents the portion of gains or losses on derivatives designated as cash flow hedges in prior periods that were transferred to interest charges in the year.

21 COMMITMENTS

Operating leases and purchase commitments

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

(millions of dollars)	2009	2010	2011	2012	2013	Thereafter
Operating leases	34.1	30.3	27.3	26.8	26.6	312.6
Purchase commitments	359.6	317.7	302.4	300.0	291.8	2,174.3
	393.7	348.0	329.7	326.8	318.4	2,486.9

Purchase commitments primarily relate to various information systems and technology agreements and obligations under service agreements, including those with a related party as described in note 24.

Deferral account

Bell Aliant LP's deferral account which covered our territory in Atlantic Canada was cleared and closed in 2007.

Bell Canada's deferral account includes amounts that arose from customers located in what is now our territory in Ontario and Quebec. Bell Canada's accumulated deferral account commitment at December 31, 2008, was estimated to be $152.0 million. The accumulated deferral account commitment takes into account the estimated deferral account drawdown during the first quarter of 2008 associated with the CRTC approved broadband expansion program and the initiatives associated with improving access to communications services for persons with disabilities. The annualized recurring amount in Bell Canada's deferral account is estimated at $16.3 million. On October 30, 2008, the CRTC issued Telecom Order 2008-305 directing Bell Canada and Bell Aliant to implement rate reductions effective December 1, 2008, for stand-alone local residential telephone access services in the non-high-cost serving area (non-HCSA) portions of their Ontario and Quebec serving areas to clear this amount. On December 1, 2008, Bell Canada filed an application to review and vary Telecom Order 2008-305, arguing that its obligation is limited to $11.7 million. A CRTC determination on the amount and timing of deferral account related rate reductions is expected in the first half of 2009.

21. Commitments (continued)

The CRTC has approved a total of 102 communities within the Ontario and Quebec portions of the servicing areas of Bell Canada and Bell Aliant in which Bell Canada and Bell Aliant can deploy broadband using the funds in Bell Canada's deferral account. In January 2008, the CRTC also approved Bell Canada's proposed initiatives to improve access to telecommunications services for persons with disabilities. Finally, the CRTC directed Bell Canada to rebate any balance remaining in its deferral account to residential subscribers in urban, non-HCSAs within the Ontario and Quebec portions of the serving areas of Bell Canada and Bell Aliant.

The issues of rebates and broadband expansion using deferral account funds were before the Federal Court of Appeal in connection with two separate appeals launched by Bell Canada and by certain consumer groups. Bell Canada had appealed the legality of the CRTC jurisdiction to order retroactive rebates while the consumer groups had appealed the decision to permit the use of deferral account funds to expand the availability of broadband services. In an order dated March 7, 2008, the Federal Court of Appeal dismissed both Bell Canada's and the consumer groups' appeals. Subsequently, Bell Canada and Telus Corporation (Telus) sought leave to appeal to the Supreme Court of Canada the Federal Court's decision as it relates to rebates while the consumer groups sought leave to appeal the decision as it relates to broadband services. On September 25, 2008, the Supreme Court of Canada granted Bell Canada, Telus and the consumer groups leave to appeal the Federal Court of Appeal's decision, which had upheld the CRTC decision regarding disposition of funds in the deferral accounts. The appeals are scheduled to be heard on March 26, 2009.

Subject to the outcome of these proceedings, we will be affected by these and further proposals of Bell Canada to satisfy their deferral account obligations, as we have agreed to contribute to the economic spending portion of the broadband project.

On September 14, 2007, the CRTC directed Télébec to amortize its cumulative deferral account shortfall in equal amounts over a four year period and also approved an exogenous factor of $3.0 million for the recovery of the recurring shortfall each year. As of December 31, 2008, Télébec's cumulative deferral account shortfall is estimated at $2.2 million (2007 – $3.0 million) and the recurring shortfall is now estimated at $1.8 million (2007 – $2.2 million), considering the rate increase approved by the CRTC on June 23, 2008.

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

22 CONTINGENCIES

Outstanding litigation matters as at December 31, 2008, include the following:

(a) On August 9, 2004, a lawsuit was filed in Saskatchewan against several Canadian wireless and cellular service providers, including one of our predecessor companies, Aliant Telecom Inc., by several alleged customers or former customers of the defendants. In the claim, the plaintiffs alleged, among other things, breach of contract, misrepresentation, negligence, collusion and breach of statutory obligations under the Competition Act (Canada) in relation to the system access fees that the defendants charge to their customers, and sought unspecified damages. On September 17, 2007, the court granted class action certification to the plaintiffs. We, as well as the other defendants, have appealed this decision granting certification. The court has also denied our motion seeking dismissal of the action against us on the basis that the Saskatchewan court does not have jurisdiction over disputes between us and our customers. We are also appealing this decision. We have defences to this claim, but the outcome of the matter is not determinable at this time.

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

(c) On June 26, 2008, a proposed class action was filed in the Saskatchewan Court of Queen's Bench against various Canadian telephone companies, including Bell Aliant LP, in relation to the charging of 911 fees. The suit alleges, among other things, breach of contract, negligence, collusion, and breach of fiduciary duty, and generally claims that the defendants have misrepresented the nature of 911 fees, and that the charges levied on customers are excessive. The plaintiffs claim unspecified damages. This matter involves many of the same parties and legal issues as presented in the system access fee matter referred to in paragraph (a) above. Therefore, the parties have tentatively agreed to hold this matter in abeyance pending disposition of the appeal of the certification order in the system access fee matter. We have defences to this claim, but the outcome of the matter is not determinable at this time.

In December 2008, the litigation related to the claim filed by Aliant Telecom Inc. against Voice Mobility Inc. in April 2006, and counterclaim filed by Voice Mobility Inc. in November 2006, was settled with an immaterial amount received from Voice Mobility Inc.

We become involved in various other claims and litigation as a regular part of our business. While we cannot predict the final outcome of claims and litigation that were pending at December 31, 2008, management believes that the resolution of these claims and litigation will not have a material effect on our consolidated financial position or results of operations.

Guarantees

As a regular part of our business, we enter into agreements that provide for indemnifications and guarantees to counterparties that may require us to pay for costs and losses incurred by the counterparties as a result of intellectual property infringement, misrepresentations, and losses of or damages to property. We cannot reasonably estimate the maximum potential amount we could be required to pay counterparties. While the majority of the agreements specify a maximum potential exposure, the amount also depends on the outcome of future events and conditions that cannot be predicted reliably. In the past, we have not made any significant payments under these guarantees.

At December 31, 2008, there are no accruals related to the guarantees (December 31, 2007 – nil).

23 CAPITAL MANAGEMENT

Our capital structure includes all components of partners' equity, the non-controlling interest in the equity of our controlled subsidiaries, long-term and short-term debt, net of cash and cash equivalents.

Our objectives in managing our capital structure are to:

- Maintain financial flexibility to preserve our ability to meet existing commitments and invest as necessary in the future development of the business;
- Provide access to sufficient cash flow to operate the business;
- Mitigate the impact of volatility in financing costs on the cash flows of the business; and
- Optimize the return to unitholders by utilizing an appropriate mix of debt and equity in the capital structure given our level of business risk.

When managing our capital structure we consider changes in economic conditions or the level of business risk and, from time to time, we consider and may adjust our distribution policy, enter into hedging transactions, issue or redeem debt, issue or repurchase partnership units or raise cash through our accounts receivable securitization program.

The non-GAAP financial metric we use to monitor our capital structure is the net debt to earnings before interest, taxes, depreciation and amortization (EBITDA) ratio. This financial ratio is calculated using a trailing twelve-month period for EBITDA. We define net debt as short-term and long-term debt less cash and cash equivalents. We define EBITDA as operating revenues less operating expenses, excluding the amount included in operating expenses for net benefit plans costs as a significant component of these costs reflect the amortization of past costs. Our capital management objective, which is unchanged from the prior year, is to maintain this ratio at approximately 2.0: 1.

Our net debt to EBITDA ratios were as follows:

As at December 31

(millions of dollars, except as otherwise noted)	2008	2007
Short-term debt (including notes payable to related party)	214.4	218.6
Long-term debt, including amount due within one year	2,568.7	2,573.6
Less: cash and cash equivalents	(14.6)	(48.1)
Net debt	2,768.5	2,744.1
Operating revenues	3,282.0	3,253.3
Less: operating expenses	(1,909.4)	(1,946.5)
Add: net cost of benefit plans included in operating expenses	78.3	131.6
EBITDA	1,450.9	1,438.4
Net debt to EBITDA ratio	1.9:1	1.9:1

We are subject to certain covenants in our bank credit facilities, including maintenance of a ratio of total debt to EBITDA (as defined in our credit facilities) of no more than 3.0:1. Under a Securityholders' Agreement with BCE and Bell Canada, we would need to seek their prior approval if we were to increase our debt to EBITDA ratio (as defined in the Securityholders' Agreement) above 2.5:1. In addition, we are subject to a new issuance test under our note trust indenture whereby new long-term debt can only be issued if it would result in a ratio of long-term debt to total capital (as defined in the trust indenture) of 75 per cent or less. We are in compliance with all these debt covenants and are not subject to any other externally imposed capital requirements.

24 RELATED PARTY TRANSACTIONS

BCE and Bell Canada

BCE and Bell Canada own 100 per cent of our class 1 exchangeable limited partnership units and 100 per cent of the class B exchangeable limited partnership units of Bell Aliant LP. As the units are exchangeable into Fund units, BCE and Bell Canada beneficially own and control 44.2 per cent of the Fund's outstanding units on a fully diluted basis as at December 31, 2008 (2007 – 44.2 per cent).

Under the Securityholders' Agreement, BCE has certain rights in respect of the board of Bell Aliant Holdings GP including the right to appoint up to a majority of directors for so long as BCE and Bell Canada, directly or indirectly, hold not less than 30 per cent of Fund units (on a fully diluted basis) and certain commercial agreements are in place. As a result of these rights, BCE controls the board of Bell Aliant Holdings GP, and thus Bell Aliant Holdings LP. The written consent of BCE is also required, along with the majority vote from the board, prior to undertaking certain matters or transactions for so long as BCE and Bell Canada, directly or indirectly, hold not less than 20 per cent of Fund units (on a fully diluted basis).

In 1999, we entered into a Memorandum of Agreement (MOA) with BCE and Bell Canada. This long-term strategic alliance agreement describes the understanding among us, BCE and Bell Canada with respect to the offering, marketing and provisioning of certain telecommunications services on a cooperative basis. Through this MOA, we gained access to Bell Canada's technology, the exclusive right to use specified Bell Canada trademarks in our territory and a license to use Bell Canada's promotional materials. Bell Canada agreed to promote the use and sale of technology and intellectual property developed by us. We agreed to provide each other with support services, including operational, technical, marketing, training and other support services. The MOA continues to apply to our operations in Atlantic Canada, subject to certain amendments that were made to the MOA in connection with the acquisition in 2006 of Bell Canada's wireline operations in Ontario and Quebec and Bell Nordiq Group Inc.

In 2006, we entered into a series of long-term commercial agreements with Bell Canada, which provide us with a broad range of technical, operational and human resource support services required for us to operate the wireline and Internet access operations previously operated by Bell Canada in the Ontario and Quebec regional territory (Bell Aliant Central Territory).

These agreements permit us to continue to receive the commercial and telecommunications services that Bell Canada was providing to us in Atlantic Canada prior to 2006. Any pre-existing commercial agreements between Bell Canada and us, which were not amended or replaced by the commercial agreements entered into in 2006, continue to apply. The commercial agreements also provide Bell Canada with the telecommunications and support services required to operate its wireless operation in the Bell Aliant Central Territory and in Atlantic Canada.

In 2006, we also entered into a Commercial Relationship Management Agreement (CRMA) with Bell Canada, which governs our general commercial relationship and addresses matters such as marketing co-operation, customer primeship and non-competition, and branding. The CRMA, together with certain agreements it refers to, also amends certain provisions of the MOA and extends the term of the MOA to that of the CRMA.

24. Related party transactions (continued)

The CRMA will automatically terminate upon termination or expiration of the Connecting and Operating Agreement, which we entered into with Bell Canada in 2006. Pursuant to the Connecting and Operating Agreement, the parties have agreed to interconnect their respective telecommunications systems for the exchange of telecommunications traffic. This agreement has an original term of 15 years from July 7, 2006, with automatic renewals for consecutive five year periods, unless four years prior notice of non-renewal is provided by one of the parties. The Connecting and Operating Agreement may be terminated for material breach at any time by a party, if (a) the parties mutually agree that the breach has occurred and has not been cured, or (b) a court or arbitrator makes a final and unappealable determination that the other party has materially breached the agreement and has not cured the breach within the appropriate contractual timeframe.

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

We also have an agreement with Bell Canada that provides access to certain of each other's intellectual property, in addition to providing us with access to Bell Canada's engineering and network intellectual property. In 2006, we entered into trademark license agreements with Bell Canada whereby each party and its affiliates are permitted to use the trademarks of the other party in accordance with the terms of the license for 30 years (subject to an additional 10 year renewal on request by the licensee, at the licensor's discretion).

In 2006, we entered into a distribution agreement with Bell Distribution Inc. (BDI), a subsidiary of Bell Canada, under which BDI acts as our agent for sales and distribution of our wireline and Internet access telecommunications services and related products in Atlantic Canada and the Bell Aliant Central Territory. We also entered into a corresponding distribution agreement with BDI under which we act as BDI's agent for the distribution of Bell Canada's wireless and satellite telecommunications services and related products and services in the same territory.

We also have an IS/IT agreement with Bell Canada under which Bell Canada provides information technology (IT) services to us in the Bell Aliant Central Territory. A part of this agreement requires the parties to jointly fund a plan to develop further IT services for us. The total capital anticipated to be expended on this plan is $90.0 million, of which Bell Canada has agreed to fund the first $32.0 million with the remaining $58.0 million being equally funded by Bell Canada and us.

During 2008, we announced a long-term agreement with Bell Canada to provide an enhanced transport network connecting Bell Mobility's cell sites in Atlantic Canada and in the Bell Aliant Central Territory. Our total capital expenditure over 2008 and 2009 will be approximately $50 million.

24. Related party transactions (continued)

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

For the years ended December 31 (millions of dollars, except as otherwise noted)	2008	2007
Operating revenues	308.8	328.1
Percentage of total operating revenues	9.41%	10.09%
Operating expenses	480.7	516.6
Net earnings (loss) from discontinued operations:		
Operating revenues	33.7	69.9
Operating expenses	40.3	84.0
Other income	—	(0.1)
Capital investments	24.8	8.4

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

As at December 31 (millions of dollars)	2008	2007
Accounts receivable:		
Trade	117.0	116.9
Wireless receivables (note 3)	11.4	46.5
Prepayments	5.8	1.6
Long-term receivables, including current portion in accounts receivable	40.0	64.0
Payables and accruals	77.3	120.3
Distributions payable	24.2	23.5
Deferred credits	1.6	4.0

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

The long-term receivable from Bell Canada of $22.3 million (2007 – $44.0 million) relates to consideration in relation to the acquisition of Bell Canada's wireline operation in Ontario and Quebec, as discussed in note 11. The balance bears interest at 9.75 per cent per annum and is due over a period of 10 years. Long-term receivables also include the capital funding commitment by Bell Canada in relation to the IS/IT services plan, as previously discussed, of $17.7 million (2007 – $20.0 million).

The distributions payable to BCE and Bell Canada relate to their interest in exchangeable limited partnership units of Bell Aliant LP and Bell Aliant Holdings LP. For the year ended December 31, 2008, $289.8 million of distributions were paid to BCE and Bell Canada (2007 – $281.6 million).

Estimated future minimum payments under our contractual obligations with Bell Canada, which are included in commitments in note 21, are as follows:

(millions of dollars)	2009	2010	2011	2012	2013	Thereafter
Contractual obligations	308.8	291.4	285.4	285.4	284.8	2,137.7

24. Related party transactions (continued)

The Fund

The Fund is entirely dependent on the distributions we pay to them to make their distributions. In 2008, we declared distributions to them of $372.8 million, compared to $372.1 million in 2007. At December 31, 2008, $31.2 million was included in distributions payable, compared to $28.5 million at December 31, 2007.

In the normal course of business, we have an administrative agreement with the Fund for the provision of administrative and support services, such as corporate reporting, governance, investor relations, communications, treasury and all other services as may be necessary or requested by the Fund trustees, for the administration of the Fund. The agreement has an initial term of 10 years, and will be automatically extended for additional five year periods unless notice of termination is given. These services are recorded at their exchange amount of $4.0 million (2007 – $5.5 million).

Several of our unit-based compensation plans, as discussed in note 17, are based on Fund units. All compensation expense for these plans is recorded in Bell Aliant Holdings LP.

Included in payables and accruals is a net amount due to the Fund of $13.6 million (2007 – $3.0 million), which includes the administrative expenses as well as unit-based compensation plans.

On January 1, 2008, the Fund transferred its 36.7 per cent ownership interest in Télébec and NorthernTel to us in return for 8,246,429 class 2 limited partnership units of Bell Aliant Holdings LP (note 2). The transfer was accounted for at its carrying value.

The Fund loans us their excess cash through a series of promissory notes. The Fund requests repayments as required for operating purposes. The $1.9 million promissory note that was payable to the Fund at December 31, 2007, was repaid on January 15, 2008. Subsequently issued promissory notes carried rates of interest from 1.81 per cent to 4.68 per cent per annum, resulting in $0.1 million of interest expense being incurred during the year ended December 31, 2008. At December 31, 2008, a $6.2 million promissory note was payable to the Fund, which bears interest at 1.81 per cent per annum and matures on January 15, 2009.