

ALiant INC.

(Incorporated under the laws of Canada)

CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)

March 31, 2006



ALIAANT INC.
Consolidated balance sheets
(Unaudited)

(thousands of dollars)

	Notes	As at March 31, 2006	As at December 31, 2005
Assets			
Current assets			
Cash and cash equivalents		\$ 81,353	\$ 195,009
Accounts receivable		299,777	302,348
Inventory		25,910	29,279
Prepayments		23,859	21,410
Future income tax asset		4,771	5,510
Income tax receivable		2,503	15,010
		438,173	568,566
Capital investments			
Property, plant and equipment		1,763,230	1,783,848
Finite-life intangibles		132,364	121,178
		1,895,594	1,905,026
Other assets			
Deferred charges	8	19,582	18,101
Future income tax asset		50,329	43,281
Accrued benefit asset	2	268,028	266,878
Indefinite-life intangibles		3,726	3,726
Goodwill		61,351	61,351
		403,016	393,337
Total assets		\$ 2,736,783	\$ 2,866,929
Liabilities and shareholders' equity			
Current liabilities			
Notes payable and bank advances		\$ 2,666	\$ 11,208
Payables and accruals	3	202,972	195,691
Dividends payable		-	37,577
Income tax payable		17,634	78,537
Future income tax liability		3,612	8,746
Long-term debt due within one year	4	108,392	6,623
		335,276	338,382
Future income tax liability		24,860	19,821
Long-term debt	4	750,361	897,880
Accrued benefit liability	2	182,772	182,038
Deferred credits	5	19,909	11,324
		1,313,178	1,449,445
Non-controlling interest		6,145	5,588
Shareholders' equity			
Capital stock	6	1,182,724	1,176,035
Contributed surplus		1,428	886
Retained earnings		233,308	234,975
		1,417,460	1,411,896
Total liabilities and shareholders' equity		\$ 2,736,783	\$ 2,866,929

See accompanying notes to the consolidated financial statements

Signed on behalf of the board of directors

Chairman:

Director:

ALIAN T INC.
Consolidated statements of income
(Unaudited)
For the three months ended March 31

(thousands of dollars, except per share amounts)

	Note	2006	2005
Operating revenues		\$ 544,949	\$ 524,414
Expenses			
Operating expenses		349,441	339,118
Depreciation and amortization		98,896	98,590
Restructuring and other charges		311	-
		448,648	437,708
Operating income		96,301	86,706
Other expenses			
Financial derivative loss	5	13,068	-
Other expenses (income)		(269)	961
		12,799	961
Interest charges			
Interest on long-term debt		17,247	17,186
Other interest expense		184	199
		17,431	17,385
Income before underlisted items		66,071	68,360
Income taxes			
Current tax expense		31,739	23,990
Future tax expense (recovery)		(6,404)	383
		25,335	24,373
Income before non-controlling interest		40,736	43,987
Non-controlling interest		557	403
Net income		\$ 40,179	\$ 43,584
Earnings per common share			
Basic and diluted		\$ 0.30	\$ 0.31

See accompanying notes to the consolidated financial statements

ALIAN T INC.**Consolidated statements of retained earnings****(Unaudited)****For the three months ended March 31***(thousands of dollars)*

	Note	2006	2005
Retained earnings, beginning of period		\$ 234,975	\$ 313,681
Net income		40,179	43,584
Dividends declared on preferred shares		(2,384)	(2,384)
Dividends declared on common shares		(39,462)	(39,024)
Excess of repurchase of common shares over stated value	6	-	(24,088)
Retained earnings, end of period		\$ 233,308	\$ 291,769

See accompanying notes to the consolidated financial statements

ALiant INC.
Consolidated statements of cash flows
(Unaudited)
For the three months ended March 31

(thousands of dollars)

	Notes	2006	2005
Cash from (used in) operating activities			
Net income		\$ 40,179	\$ 43,584
Adjustments to reconcile net income to cash from operating activities			
Depreciation and amortization		98,896	98,590
Future income taxes		(6,404)	383
Net benefit plans cost	2	22,610	22,433
Funding of defined benefit pension and other post-employment benefit plans	2	(23,025)	(80,089)
Non-controlling interest		557	403
Financial derivative loss	5	13,068	-
Other non-cash items		749	(410)
Change in operating assets and liabilities		(46,910)	(52,379)
		99,720	32,515
Cash from (used in) financing activities			
Collection of long-term receivable		-	4,823
Net proceeds (repayments) of notes payable and bank advances		(8,542)	(5,909)
Repayments of long-term debt		(50,014)	(98)
Repayments of capital lease obligations		(1,138)	(387)
Decrease in non-controlling interest		-	(1,646)
Issuance of common shares	6	4,166	402
Repurchase of common shares	6	-	(33,192)
Cash dividends paid on preferred shares		(2,384)	(2,384)
Cash dividends paid on common shares		(74,517)	(37,676)
		(132,429)	(76,067)
Cash from (used in) investing activities			
Purchase of capital investments		(80,947)	(81,677)
Business acquisitions, net of cash		-	(54)
		(80,947)	(81,731)
Net decrease in cash		(113,656)	(125,283)
Cash, beginning of period		195,009	323,265
Cash, end of period		\$ 81,353	\$ 197,982
Cash consists of:			
Cash and cash equivalents		81,353	35,982
Note receivable from related party		-	162,000
		\$ 81,353	\$ 197,982
Supplementary disclosure			
Interest paid		\$ 13,507	\$ 13,088
Income taxes paid, net		\$ 76,183	\$ 24,906

See accompanying notes to the consolidated financial statements

ALIAN T INC.
Notes to the consolidated financial statements
March 31, 2006

1. SIGNIFICANT ACCOUNTING POLICIES

We have prepared the unaudited interim consolidated financial statements in accordance with Canadian generally accepted accounting principles using the same basis of presentation and accounting policies as the annual audited consolidated financial statements for the year ended December 31, 2005. These unaudited interim consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2005.

Comparative figures

Certain comparative financial information has been reclassified to conform to the presentation adopted for 2005.

2. ACCRUED BENEFIT ASSET (LIABILITY)

Components of net benefit plans cost

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

For the period ended March 31 <i>(thousands of dollars)</i>	Defined benefit (DB) pension plans		Other post-employment benefit (OPEB) plans	
	2006	2005	2006	2005
Current service cost	\$ 11,637	\$ 7,592	\$ 571	\$ 1,190
Interest on the accrued benefit obligation	30,781	27,525	2,339	2,889
Actual return on plan assets	(67,100)	(28,733)	-	-
Past service costs relating to plan amendments	-	-	(44,939)	-
Elements of employee future benefit plans cost, before recognizing its long-term nature	\$ (24,682)	\$ 6,384	\$ (42,029)	\$ 4,079
Excess of actual return over expected return	\$ 33,471	\$ 3,142	\$ -	\$ -
Deferral of past service costs relating to plan amendments arising during the year	-	-	44,939	-
Amortization of deferred amounts:				
Past service costs	1,375	1,375	(1,490)	-
Net actuarial losses	10,059	7,382	967	71
Adjustments to recognize long-term nature of employee future benefit plans cost	\$ 44,905	\$ 11,899	\$ 44,416	\$ 71
Net benefit plans cost	\$ 20,223	\$ 18,283	\$ 2,387	\$ 4,150

Effective January 15, 2006, certain employees transferred participation from our existing defined benefit OPEB plans to a new plan having a maximum annual benefit that the employee may use to purchase group benefits upon retirement. As a result of these changes, a reduction in past service costs of \$44.9 million was recorded during the quarter and is being amortized on a straight-line basis over the expected average remaining service lives of employees. In addition, the plan changes will result in a reduction of current service costs and interest costs.

ALIAN T INC.
Notes to the consolidated financial statements
March 31, 2006

2. ACCRUED BENEFIT ASSET (LIABILITY) (Continued)

Pension plan contributions

The following table shows the funding of DB pension and OPEB plans.

For the period ended March 31 (thousands of dollars)	2006	2005
DB pension plans		
Required contributions	\$ 21,373	\$ 18,770
Additional voluntary funding	-	60,000
OPEB plans contributions	1,652	1,319
Funding of DB pension and OPEB plans	\$ 23,025	\$ 80,089

In the fourth quarter of 2005, \$17.3 million of additional voluntary funding of DB pension plans made in the first quarter of 2005 was reallocated to required contributions.

3. RESTRUCTURING CHARGE PAYABLE

In 2004, we restructured our operations by reducing the workforce in certain areas and offered a voluntary early retirement incentive program (ERIP) to all eligible employees, which resulted in a pre-tax charge against earnings for the year ended December 31, 2004, of \$72.3 million.

At March 31, 2006, payables and accruals included a restructuring charge balance of \$6.3 million (December 31, 2005 - \$12.5 million). The balance remaining at March 31, 2006, mainly represents amounts payable to ERIP participants who elected to defer a portion of their payment following their retirement. The cash payments associated with the ERIP will be charged against this balance.

4. LONG-TERM DEBT

On March 1, 2006, we redeemed, prior to maturity, all of our outstanding 10.45 per cent first mortgage bonds, Series AD, due March 1, 2013, at a price equal to 101.00 per cent of their \$50.0 million principal amount.

During the first quarter of 2006, we recorded a long-term obligation totalling \$5.4 million for the acquisition of software licences, which is non-interest bearing and payable to 2008 as contract milestones are met.

5. DERIVATIVE FINANCIAL INSTRUMENTS

On March 1, 2006, our Series AD, 10.45 per cent, first mortgage bonds were redeemed prior to maturity. Effective March 2, 2006, an outstanding interest rate swaption related to the call option on our Series AD first mortgage bonds was exercised by the counterparty. As a result, we were placed into an interest rate swap agreement, whereby we pay a fixed interest rate of 10.45 per cent and receive the three-month Bankers' Acceptance floating interest rate on a notional amount of \$50.0 million. Payments will be made semi-annually, commencing on September 2, 2006, and ending on March 2, 2013. On March 2, 2006, the fair value of the swap was \$17.9 million in favor of the counterparty, and was recorded as a derivative liability in deferred credits. An unamortized premium amount of \$4.7 million related to the swaption that was previously recorded as a deferred credit was also extinguished. The resulting net charge to other expenses was \$13.2 million.

ALIAN T INC.
Notes to the consolidated financial statements
March 31, 2006

5. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

At March 31, 2006, the fair value of the swap decreased by \$0.1 million to \$17.8 million. Changes to the fair value of the swap are recorded in other expenses. The net fixed-to-floating interest payments will reduce the derivative liability.

We also participate in a swaption transaction related to our NBTel Series AA debentures with a notional amount of \$40.0 million. These debentures are callable at our option on or after July 19, 2006, up to their maturity date in 2013. The swaption is exercisable by the counterparty effective July 19, 2006, and grants an option to the counterparty to enter into a fixed-floating interest rate swap agreement with us. Under the swap agreement we would pay a fixed interest rate of 11.125 per cent in exchange for receiving the three-month Bankers' Acceptance floating interest rate from the effective date until maturity in 2013. In exchange for providing the counterparty with this option, we received premium income of \$5.4 million in 1997, which is being amortized against interest charges over the period to maturity of the underlying debentures.

At March 31, 2006, the fair value of the swaption was \$15.4 million in favour of the counterparty. The fair value, less unamortized premium income of \$2.5 million, results in a \$12.9 million deferred financial derivative liability that is not currently recorded in our financial statements due to the application of hedge accounting. If the debentures are called prior to their maturity, hedge accounting will cease and the fair value of the financial derivative liability on that date will be charged to other expense and reflected as a deferred credit in the balance sheet.

6. CAPITAL STOCK

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

	As at March 31, 2006		As at December 31, 2005	
	Number of shares	Stated capital	Number of shares	Stated capital
<i>(thousands of dollars, except as otherwise noted)</i>				
Common shares, beginning of period	127,137,554	\$ 1,003,771	132,744,009	\$ 1,044,729
Common shares purchased for cancellation	-	-	(5,797,715)	(46,068)
Shares issued under:				
Dividend reinvestments	87,730	2,860	163,360	4,571
Stock option plan	141,690	3,828	27,900	539
Common shares, end of period	127,366,974	\$ 1,010,459	127,137,554	\$ 1,003,771

Common shares purchased for cancellation

We commenced a normal course issuer bid (NCIB) on February 4, 2005, which allowed us to purchase, from time to time, up to 6,637,200 of our outstanding common shares at the market price with cash through the facilities of the Toronto Stock Exchange (TSX), representing approximately 5.0 per cent of our issued and outstanding common shares as of January 31, 2005, being 132,744,009 common shares. Purchases of common shares could be made up to the expiry date of February 3, 2006, and Bell Canada, our majority shareholder, could sell shares into the NCIB on a pro rata basis. For the three months ended March 31, 2006, no shares were purchased for cancellation. For the three months ended March 31, 2005, we purchased for cancellation 1,151,188 shares for an aggregate price of \$33.2 million, which reduced capital stock by \$9.1 million and retained earnings by \$24.1 million.

Included in the common share purchases for the three months ended March 31, 2005, were 607,488 shares purchased at market value from Bell Canada for an aggregate price of \$17.5 million.

ALIAN T INC.
Notes to the consolidated financial statements
March 31, 2006

6. CAPITAL STOCK (Continued)

Stock option plan

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

	As at March 31, 2006		As at December 31, 2005	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of period	2,892,493	\$ 30.26	2,496,777	\$ 30.37
Granted	-	\$ -	481,520	\$ 29.24
Forfeited	(39,584)	\$ 33.30	(57,904)	\$ 31.82
Exercised	(141,690)	\$ 27.02	(27,900)	\$ 19.30
Options outstanding, end of period	2,711,219	\$ 30.38	2,892,493	\$ 30.26
Options exercisable, end of period	2,274,326	\$ 30.42	2,084,481	\$ 30.35

For the three months ended March 31, 2006, compensation expense in the amount of \$0.5 million (March 31, 2005 - \$0.5 million) related to stock options granted was recorded.

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

	As at March 31, 2006	As at December 31, 2005
	Number of units	Number of units
Units outstanding, beginning of period	173,750	109,322
Granted	4,143	144,889
Forfeited	-	(16,463)
Exercised	-	(63,998)
Units outstanding, end of period	177,893	173,750

For the three months ended March 31, 2006, compensation expense in the amount of \$1.1 million (March 31, 2005 - \$0.3 million) related to the PSUs and PPSUs outstanding was recorded.

Employees' stock savings plan

The total number of common shares bought on the open market for employees during the three months ended March 31, 2006, was 270,073 (March 31, 2005 - 380,050). Compensation expense related to the employees' stock savings plan of \$1.9 million for the three months ended March 31, 2006, (March 31, 2005 - \$1.6 million) was recorded.

ALIAN T INC.
Notes to the consolidated financial statements
March 31, 2006

7. SEGMENTED INFORMATION

For the three months ended March 31, 2006 (thousands of dollars)	Telecommunications			Information Technology	Corporate and others	Eliminations	Consolidated
	Wireline	Wireless	Total				
Revenue from external customers	\$ 345,971	\$ 112,693	\$ 458,664	\$ 86,324	\$ (39)	\$ -	\$ 544,949
Intersegment revenue	(1,992)	3,477	1,485	17,872	-	(19,357)	-
Operating revenues	343,979	116,170	460,149	104,196	(39)	(19,357)	544,949
Operating expenses	199,918	60,022	259,940	99,500	8,499	(18,498)	349,441
Restructuring and other charges	311	-	311	-	-	-	311
Depreciation and amortization	85,365	12,399	97,764	888	348	(104)	98,896
Operating income	58,385	43,749	102,134	3,808	(8,886)	(755)	96,301
Other income (expenses)			(14,752)	361	44,062	(42,470)	(12,799)
Interest charges			17,238	104	1,207	(1,118)	17,431
Income taxes (recovery)			25,418	2,501	(2,311)	(273)	25,335
Non-controlling interest			557	-	-	-	557
Net income			\$ 44,169	\$ 1,564	\$ 36,280	\$ (41,834)	\$ 40,179
Purchase of capital investments	\$ 69,963	\$ 11,054	\$ 81,017	\$ 733	\$ -	\$ (803)	\$ 80,947
Total assets			\$ 2,591,938	\$ 157,764	\$ 1,513,191	\$ (1,526,110)	\$ 2,736,783

For the three months ended March 31, 2005 (thousands of dollars)	Telecommunications			Information Technology	Corporate and others	Eliminations	Consolidated
	Wireline	Wireless	Total				
Revenue from external customers	\$ 346,669	\$ 97,637	\$ 444,306	\$ 80,108	\$ -	\$ -	\$ 524,414
Intersegment revenue	(1,054)	2,578	1,524	24,722	-	(26,246)	-
Operating revenues	345,615	100,215	445,830	104,830	-	(26,246)	524,414
Operating expenses	208,311	53,644	261,955	95,181	7,743	(25,761)	339,118
Depreciation and amortization	85,102	11,750	96,852	1,945	308	(515)	98,590
Operating income	52,202	34,821	87,023	7,704	(8,051)	30	86,706
Other income (expenses)			(1,339)	(220)	44,429	(43,831)	(961)
Interest charges			17,130	80	1,210	(1,035)	17,385
Income taxes (recovery)			25,366	3,040	(4,048)	15	24,373
Non-controlling interest			403	-	-	-	403
Net income			\$ 42,785	\$ 4,364	\$ 39,216	\$ (42,781)	\$ 43,584
Purchase of capital investments	\$ 70,769	\$ 8,548	\$ 79,317	\$ 2,837	\$ 9	\$ (486)	\$ 81,677
Goodwill acquired	\$ 54	\$ -	\$ 54	\$ -	\$ -	\$ -	\$ 54
Total assets			\$ 2,556,366	\$ 196,409	\$ 1,684,434	\$ (1,624,923)	\$ 2,812,286

ALIAN T INC.
Notes to the consolidated financial statements
March 31, 2006

8. COMMITMENTS

Operating leases and purchase commitments

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

<i>(thousands of dollars)</i>	<i>Remainder of</i>					
	2006	2007	2008	2009	2010	Thereafter
Operating leases	\$ 34,303	\$ 37,856	\$ 35,284	\$ 33,225	\$ 28,692	\$ 120,451
Purchase commitments	52,404	17,490	8,245	5,592	3,921	648
	\$ 86,707	\$ 55,346	\$ 43,529	\$ 38,817	\$ 32,613	\$ 121,099

Purchase commitments primarily relate to various information systems and technology agreements, obligations under service contracts and a billing system for our wireless services.

Deferral account

On February 16, 2006, the Canadian Radio-television and Telecommunications Commission (CRTC) issued its decision regarding the application of deferral account balances and allowable measures to reduce the accumulated deferral account balance. In this decision, the CRTC also estimated incumbent local exchange carriers' (ILEC) deferral account amounts, on an accumulated balance and future annualized commitment basis. Aliant's estimated balance at May 31, 2006, was expected to be \$21.8 million with an estimated annualized commitment of \$2.2 million.

The CRTC's decision requires a minimum of 5.0 per cent of the accumulated deferral account balance be reduced through improvements to telecommunications services access for persons with disabilities. As to the remaining 95.0 per cent of the funds in the deferral account, the CRTC addressed both broadband service investments and subscriber rebates. The CRTC concluded that each ILEC could use funds in its deferral accounts for initiatives to expand broadband services to rural and remote communities. Those ILECs who choose to invest in broadband are required to file a proposal with the CRTC by June 30, 2006, for approval to draw down qualified expenditures from their deferral accounts. If an ILEC chooses not to invest in broadband expansion, or invests in such expansion but has money left over in its deferral account, the remaining funds will be rebated to the ILEC's residential local subscribers in non-high cost serving areas.

The future annual deferral account obligations of ILECs are to be eliminated by reducing monthly prices for primary exchange service and optional local services for residential customers in non-high cost serving areas. We will file with the CRTC our rate proposal along with our updated deferral account balances by May 15, 2006. These rate changes, subject to CRTC approval, are to become effective on June 1, 2006, and can also be used to clear any additional future annual deferral account obligation as a result of the extension of the second price cap period to May 31, 2007.

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

ALIAN T INC.
Notes to the consolidated financial statements
March 31, 2006

8. COMMITMENTS (Continued)

Income fund formation

On March 7, 2006, we jointly announced with BCE Inc. the combining of our wireline operations, Bell Canada's wireline operations in its regional territories in Ontario and Quebec, and Bell's 63.4 per cent interest in the Bell Nordiq Partnerships, to form a new income fund, Bell Aliant Regional Communications Income Fund. As part of the proposed transaction, Bell Canada will acquire our wireless operations as well as DownEast Ltd. The transaction is expected to close as early as the third quarter of 2006, upon receipt of regulatory, shareholder and other required approvals.

During the first quarter of 2006, we incurred \$2.8 million of transaction costs associated with the creation of Bell Aliant Regional Communications Income Fund. These transaction costs relate mainly to investment banking and consulting fees and are included in deferred charges at March 31, 2006.