



Bell Aliant Regional Communications  
Income Fund  
and  
Bell Aliant Regional Communications  
Holdings, Limited Partnership

**Notice Concerning  
Forward-Looking Information**

February 5, 2008

## Notice Concerning Forward-Looking Information

In this document, *we*, *us*, *our* and *Bell Aliant* mean Bell Aliant Regional Communications Income Fund (also specifically referred to as the Fund) or Bell Aliant Regional Communications Holdings, Limited Partnership, its subsidiaries and controlled entities (also specifically referred to as Holdings LP).

Bell Aliant issued a news release on February 5, 2008 containing our outlook for certain key financial reporting indicators for the fiscal year 2008 (our Guidance). This Guidance, together with certain oral statements by our senior management on a telephone conference call with the financial community to be held on February 6, 2008, and the accompanying simultaneous webcast presentation (archived on [bell.aliant.ca](http://bell.aliant.ca)), all contain forward-looking information related to Bell Aliant's objectives, plans, strategies, financial condition, results of operations and businesses. In addition, we, or others on our behalf, may make other written or oral statements that include forward-looking information from time to time.

Information is forward looking when it uses what we know and expect today to make a statement about the future. Forward-looking information is based on our current expectations, estimates and assumptions about the markets we operate in, the Canadian economic environment and our ability to execute our business plans. Statements containing forward-looking information may include words such as *anticipate*, *believe*, *could*, *expect*, *goal*, *guidance*, *intend*, *may*, *objective*, *plan*, *outlook*, *seek*, *aim*, *strive*, *target* and *will*.

It is important to know:

- Forward-looking information describes our expectations on the day that the statement containing that information is made. The forward-looking information set out in our 2008 Guidance or presented or stated orally by our senior management on our conference call or webcast on February 6, 2008, reflect our expectations as of February 5, 2008.
- Our actual results could differ materially from what we expect if known or unknown risks affect our business, or if our estimates or assumptions turn out to be inaccurate. As a result, we cannot guarantee that any forward-looking information that we provide will materialize and, accordingly, you are cautioned not to place undue reliance on this forward-looking information.
- Forward-looking information does not take into account the effect that transactions or non-recurring or other special items announced or occurring after the information is provided may have on our business. Except as specifically identified by us, such information does not reflect the effect of dispositions, sales of assets, monetization, mergers, acquisitions, other business combinations or transactions, asset write-downs or other charges

announced or occurring after forward-looking information is provided. Even if identified by us, the financial effect of such transactions and non-recurring and other special items can be complex and necessarily depends on the facts particular to each of them. Accordingly, the expected effect cannot be meaningfully described in the abstract or presented in the same manner as known risks affecting our business.

- We disclaim any intention and assume no obligation to update or revise any forward-looking information even if new information becomes available, as a result of future events or for any other reason, except in accordance with applicable securities laws.

You will find in Sections A, B and C of this document, respectively, a description of:

- the principal forward-looking information provided by Bell Aliant;
- the material factors and assumptions applied and made by Bell Aliant in providing such forward-looking information; and
- the principal known risks that could cause our actual results to differ materially from our current expectations or that could cause our assumptions and estimates to be inaccurate.

## A. FORWARD-LOOKING INFORMATION

This section outlines the principal elements of financial Guidance provided by Bell Aliant for fiscal 2008. This Guidance, and the other forward-looking information provided on February 6, 2008, updates and replaces any other forward-looking information relating to the same reporting metrics that we may have previously provided for any future period.

### A.1

#### 2008 Guidance

For 2008, Bell Aliant expects to achieve the following ranges of results for key financial reporting indicators. Guidance is presented on a basis consistent with reported results for 2007.

	<b>2008 Guidance</b>
<b>Revenue<sup>1</sup></b>	\$3.37 - \$3.44 billion
<b>Distributable cash<sup>2</sup></b>	\$720 - \$740 million
<b>Capital intensity<sup>3</sup></b>	14.5 - 15.5 %

<sup>1</sup> Revenue is the consolidated revenue for Holdings LP.

<sup>2</sup> Distributable cash is the combined distributable cash of Bell Aliant (the Fund and Holdings LP combined, without duplication). We use distributable cash, among other measures, to assess the financial performance of our ongoing business. It should not be seen as a measure of liquidity or as a substitute for comparable metrics prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). We believe that certain investors and analysts use distributable cash to measure our, as well as other open-ended trusts', ability to generate a sustainable return for unitholders. Distributable cash should not be confused with cash from operating activities which is the most comparable Canadian GAAP financial measure.

Distributable cash is the cash generated from operating activities that is available to distribute to our unitholders. We calculate it using EBITDA<sup>4</sup> of Holdings LP and add or deduct any cash items not included in EBITDA but required for operating purposes in the current period, including following items:

- (i) cash funding requirements for current service pension costs for defined benefit pension plans and other net benefit plans to the extent not already deducted in determining EBITDA;
- (ii) cash interest expense;
- (iii) capital expenditures;
- (iv) other cash income or expenses that may be incurred to the extent not included in EBITDA;
- (v) an adjustment to cash capital taxes to reflect a normalized level that will be achieved once announced provincial tax rate reductions come into effect in future years;
- (vi) cash income or expenses of the Fund;
- (vii) adjustments for certain one-time or other normalizing expenses items;
- (viii) the portion of our consolidated distributable cash that is generated for the benefit of the non-controlling interest in our controlled subsidiaries; and
- (ix) the portion of distributable cash that was generated by discontinued operations.

<sup>3</sup> Capital intensity equals capital expenditures per the statement of cash flows of Holdings LP divided by revenue.

## A.2

### Other forward-looking information and assumptions

In addition to the Guidance for 2008, the following sets out additional forward-looking information and assumptions used in developing the information:

- For 2008 we anticipate being able to generate positive consolidated revenue growth of up to 2.0 per cent compared to 2007 consolidated revenues. It is expected that the declining revenue trends for local and long distance revenues will continue, but will be more than offset by continued growth in Internet and information and technology (IT), and other revenues.
- We anticipate the percentage of residential households in our territory that will have access to a competing cable telephony offering will increase from approximately 48 per cent at the end of 2007 to exceed 55 per cent within the next 18 months. At the end of 2007 approximately 80 per cent of this competitive footprint was forborne from local service regulation, and we expect this to continue to eventually grow to a level that essentially mirrors the competitive footprint.
- During 2008 we anticipate the rate of decline in local network access lines from our customer base to be similar to that experienced in 2007. We assume that our marketing and retention plans will benefit from greater regulatory forbearance and that the penetration of our multi-service bundles will continue to grow across all customer segments. We also expect the rate of local revenue decline will be less than the rate of network access services (NAS) customer decline as we continue to grow the average revenue per customer (ARPC) through a combination of pricing, product bundling and new product introduction.
- We expect the rate of decline in revenues from long distance services to be relatively consistent with that experienced in 2007, as we anticipate being able to offset competitive pressures with new product introductions and pricing activities.
- Despite the continued change in our revenue mix expected in 2008 we anticipate being able to maintain our EBITDA<sup>4</sup> margins at approximately the

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<sup>4</sup> We define EBITDA as operating revenues less operating expenses, which means it represents operating income before depreciation and amortization expense, net benefit plans cost, and restructuring and other charges. We use EBITDA, among other measures, to assess the operating performance of our ongoing businesses without the effects of depreciation and amortization expense, net benefit plans cost, and restructuring and other charges. We exclude depreciation and amortization expense and net benefit plans cost because they largely depend on the accounting methods and assumptions an organization uses, as well as non-operating factors, such as the historical cost of capital investments and the fund performance of an organization's pension plans. We exclude these items because they affect the comparability of our financial results and could potentially distort the analysis of trends in business performance. Excluding restructuring and other charges does not imply they are necessarily non-recurring. We believe that certain investors and analysts use these measures to assess our ability to service debt, make capital distributions to unitholders and to meet other payment obligations, or as a

same level as 2007 by generating further operating cost savings through productivity measures.

- We anticipate that we will expand the portion of homes in our residential customer market that have access to our high-speed Internet network from a current level of 72 per cent. This expansion, along with greater penetration of Internet services within our existing footprint, select pricing increases and new product introductions, is anticipated to contribute to continued double-digit annual growth rates in 2008 for both Internet customers and revenues. This growth rate should be fairly consistent with overall expected industry growth rates for Internet services.
- In 2008 we expect our fibre-to-the-node (FTTN) coverage to increase modestly from approximately 188,000 at the end of 2007. This technology allows us to provide higher bandwidth to support applications such as IPTV, music and music downloads, gaming, conferencing and other new applications which will support revenue growth.
- Pension deficit funding for 2008 is expected to be in the range of \$50 to \$60 million. The funding of current service costs for our pension plans and the funding of other post employment benefits (OPEBs) are estimated to be higher in 2008 compared to 2007.
- Other uses of cash, including the payment of cash capital taxes that are excluded from our calculation of distributable cash, are anticipated to be in the range of \$10 to \$15 million for 2008.
- We will aim to maintain our ratio of net debt<sup>5</sup> to EBITDA at a level consistent with investment grade ratings.
- We anticipate being subject to the equivalent of corporate income tax at a statutory rate of approximately 30 per cent starting January 1, 2011.
- The payout ratio of Fund distributions divided by distributable cash is anticipated to be approximately 90 per cent in 2008.
- We anticipate an increase in the monthly Fund distribution rate to \$0.2417 per unit effective with the February 2008 distribution<sup>6</sup>.

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common valuation measurement in the telecommunications industry. EBITDA should not be confused with operating revenues or expenses which are the most comparable Canadian GAAP financial measures.

<sup>5</sup> Net debt of Holdings LP is long-term debt, long-term debt due within one year, notes payable and bank advances, and notes payable to related party, less cash and cash equivalents and notes receivable from related parties that are readily convertible to cash.

<sup>6</sup> The declaration of future distributions is subject to approval by the Bell Aliant Trustees.

## **B. MATERIAL ASSUMPTIONS MADE IN THE PREPARATION OF FORWARD-LOOKING STATEMENTS**

A number of factors or assumptions were applied or made by Bell Aliant in preparing Guidance for 2008 and in providing the forward-looking information referred to above. The material factors and assumptions are outlined in this section. The reader should note that factors and assumptions applied or made in the preparation of the 2008 Guidance and forward-looking information, although considered reasonable by Bell Aliant at the time of preparation, may prove to be inaccurate due to material factors and risks, as set out herein, that could cause actual results to differ materially from a conclusion, forecast or projection. Accordingly, our actual results could differ materially from our expectations as set forth in our 2008 Guidance and forward-looking information.

### **Economic Assumptions**

Bell Aliant's 2008 Guidance and forward-looking information are based on various assumptions concerning the Canadian economy, and specifically the economies of the regions in Canada where Bell Aliant operates, namely Ontario, Quebec, and the Atlantic Provinces. First, it assumes that Canadian GDP growth in 2008 will be 1.5 to 2.5 per cent, slightly lower than GDP growth experienced in 2007, and essentially consistent with recent estimates made by the Bank of Canada. The regions in which Bell Aliant operates are expected to see slightly lower economic growth rates than the Canadian average, but the outlook for economic conditions remains fairly stable and just slightly lower than 2007. We also assume that the general level of interest rates and the inflation rate will remain fairly stable around current levels. For this purpose current levels are indicated by the approximate 3 to 4 per cent interest rate on Government of Canada bonds and the approximate 1.5 to 2.5 per cent growth rate of the Consumer Price Index.

### **Market Assumptions**

Our 2008 Guidance and forward-looking information also reflect various assumptions about the markets in which we operate. First, we have assumed growth in overall Canadian telecommunications revenues will be in line with general GDP growth. Second, we have assumed that our market share of the consumer voice telecommunications market will continue to decrease in 2008 due to the expansion of existing competitors and entrance of new competitors, particularly cable companies, and broad industry trends such as wireless and Voice over Internet Protocol (VoIP) substitution. Finally, we have assumed that the 2008 revenue growth rates of the Canadian IT industry will be 6 to 7 per

cent and that the 2008 revenue growth rate of the Canadian Internet market will be 10 to 12 per cent.

## **Financial and Operational Assumptions**

The financial and operational assumptions made by Bell Aliant apply on a consolidated basis consistent with the previous year.

First, revenue growth estimates for 2008 are based upon an assumption of increasing ARPC across various lines of service. Second, we have assumed that the percentage of residential households in our territory that will have access to a competing cable telephony offering will increase from approximately 48 per cent at the end of 2007 to exceed 55 per cent within the next 18 months. At the end of 2007 approximately 80 per cent of this competitive footprint was forborne from local service regulation, and we expect this to continue to eventually grow to a level that essentially mirrors the competitive footprint. Freeing us from the constraints of regulation of local services in competitive markets allows us to more effectively design and deliver appropriate product bundles and offers to the market to compete on a level playing field with the cable telephony providers. This should enable us to maintain our NAS loss rate at similar levels to that experienced in 2007, despite the expanded competitive footprint.

Third, we anticipate being able to offset local revenue declines, and continued long distance revenue declines, with growth from Internet, IT, wireless, IPTV and other revenues, although these each have a lower contribution to EBITDA margins than the voice telecommunications revenues. We do anticipate being able to generate operating cost savings through productivity measures to help offset the lower margin and other expense pressures from normal inflationary growth.

Pension deficit funding for our defined benefit (DB) pension plans for 2008 will be in the range of \$50 to \$60 million. This reflects our plans to continue to apply prior years' excess funding to reduce 2008 deficit funding requirements and to take advantage of solvency funding relief measures through the use of letters of credit to fund a portion of our deficit funding requirements. The funding of current service costs for our DB plans and our defined contribution (DC) plans and the funding of OBEs are a component of distributable cash and are estimated to be higher in 2008 compared to 2007, primarily reflective of a maturing DB and OPEBs beneficiary group and general salary increases. The expectations we have stated here are based on our anticipation of the conclusion of December 31, 2007 actuarial reviews, which are expected to be complete by mid-2008.

A normalized level of cash capital taxes is assumed to be zero, reflecting the future anticipated enactment of all previously announced provincial capital tax eliminations by the provinces of Ontario, Quebec, New Brunswick and Nova

Scotia. However, we anticipate that cash taxes and other cash costs not deducted in calculating distributable cash for the year 2008 will be in the range of \$10 to \$15 million.

Our capital expenditures will be made as required to support our existing infrastructure and to advance our strategic initiatives. We anticipate that a normal level of capital intensity for 2008 will be in the range of 14.5 to 15.5 per cent of revenues.

## **C. RISKS THAT COULD AFFECT OUR BUSINESS AND RESULTS**

This section describes material factors and general risks that could affect Bell Aliant, including the Fund and Holdings LP and all its subsidiaries and controlled entities.

Risk management is fundamental to the long term success of any organization. For us, risk is defined as the level of exposure to uncertainties that the organization must understand and effectively manage as we execute our strategies to achieve our business objectives and create value for our stakeholders. We employ an integrated, enterprise-wide framework to identify, assess and manage the risks across the organization.

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

### **Risks Related to the Business of Bell Aliant**

#### ***Ability to achieve strategies and plans***

We operate in an increasingly competitive marketplace, with competition emerging from VoIP providers, cable TV operators, system integrators, and soon perhaps, new entrants in the wireless market. We have identified two strategic priorities to address the growing competition: (1) to provide a superior customer experience and (2) to improve operational efficiency. We believe a superior customer experience is created by providing exceptional customer service, providing value through our leading products and services, and having strong community involvement. The goals of superior customer experience include improving customer retention, increasing revenue per customer, and increasing share of new customers, which also generally improve operational efficiency. The support of our workforce will enable us to deliver on our strategic priorities. Our strategic initiatives are summarized as follows:

- *Customer service* - We are continuing to implement extensive changes in the way we serve our customers to make it easier for customers to do business with us.
- *Providing value through leading products and services* -We continue to develop and introduce innovative products and services that will offer convenience and ease of use for consumers and a competitive advantage for businesses. In combination with our IT division, xwave, we continue to provide a full suite of information and communications technology (ICT) services for our large private and public sector customers, and offer industry-specific solutions for health care, justice and public safety, defence and aerospace, and governments.
- *Community* - We have a long-standing commitment to the communities we serve and a history of giving generously to help them thrive socially, culturally and economically. Our 10,000 employees live in the hundreds of communities we serve and we believe their community spirit and involvement is a significant factor in the strength of our brands. We believe addressing the unique needs of local communities provides us with a competitive advantage.
- *Operational efficiency* - While pursuing top-line revenue growth, we will continue to aggressively manage our cost structure to grow distributable cash and deliver value to Fund unitholders. Our 2008 productivity program will seek operating cost savings through process, system and technology improvements, infrastructure replacement, and synergies and consolidation of operations. We also intend to leverage our scale and relationship with Bell Canada to pursue supply chain efficiencies.
- *Acquisitions* - We continually explore opportunities for further consolidation in our industry as evidenced by our privatization of Bell Nordiq Income Fund in January 2007, and our acquisition of the assets and operations of Kenora Municipal Telephone System (KMTS), concluded on February 1, 2008. The size of our revenue and fixed asset base, in addition to our proven ability to operate successfully in regional markets, provides us with a strong platform for future acquisitions of other regional and rural operations.

These initiatives are intended to have a wide-reaching effect on our customer interactions, our internal processes, our network and our people. If we are unable to attain these initiatives on a timely basis or achieve the desired effect, we may be unable to meet our business objectives. As a result, our financial performance, including our growth prospects, could be negatively affected.

Our plans are also to bring the assets and operations of KMTS under the Bell Aliant structure and to realize operating synergies through elimination of certain costs, leveraging adjacent networks and technologies, and leveraging our scale for purchasing and product development. The combination of existing businesses is a complex task, and there is a risk that the synergies

anticipated will not be achieved or, if achieved, may be delayed compared to our expectations. As a result, our financial performance could be negatively affected.

There is also a risk that, should the pace of our broadband roll-out be slower than is currently contemplated in our business plan, our Internet growth rate could be lower than current expectations, thereby adversely affecting our expected number of Internet subscribers and revenues in 2008.

### ***General economic conditions***

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

Our performance, and the degree to which our expectations regarding future events are realized, is affected by the general condition of the economy, as the demand for services tends to decline when economic growth and retail activity decline. Any slowdown in global economic activity could make the overall economic environment more uncertain and could have an important effect on the performance of the Canadian economy, and the realization of our expectations. It is not possible to accurately predict economic fluctuations and the consequences of such fluctuations on our performance.

We constantly monitor economic developments in the markets where we operate. We use this information in our continuous strategic and operational reviews to adjust our initiatives as economic conditions dictate.

### ***Increasing competition***

In a series of decisions beginning in the late 1970s and ending in 1998, the Canadian Radio-Television and Telecommunications Commission (CRTC) opened up competition in all product and services segments in which we operate. The CRTC also imposed a number of competitor safeguards and marketing restrictions on the operations of our telecommunications business. We therefore face competition for most of the services we provide, with some of our operating territories having among the most competitive telecommunications markets in North America for local residential service.

In addition to the competition that has existed for many of our services for several years, recently other competitors have launched competing services or announced their ability or intention to offer local telephony services in a growing proportion of the territories we serve.

Our strategy includes enhancing services and packages to create value, working with customers to provide innovative and complete solutions, improving our cost structure to enable greater price competitiveness, and expanding our IP network and capabilities to provide broader access and innovative solutions. Competition, and particularly changes in the competitive landscape, can place

these strategies at risk. Increased competition and the introduction of new services by competitors may have an effect on our expected growth or on the pricing of our current services that cannot be predicted.

The local competitive footprint served by cable TV competitors may evolve more quickly, and eventually to a larger proportion of our existing territory than we currently expect. Additionally, competition from non-traditional entities that may be international in scope could converge into the telecom space faster and in more areas than we would currently anticipate. If either of these situations occurs, our market share and revenues will be negatively affected.

Further, the measurement and forecasting of the size of the competitive footprint itself is subject to risks of estimation error because it depends on market data that is not generated by us and on the business plans of our competitors, of which we have no direct knowledge or control. Therefore our estimates are subject to constant revision and risk that they may be materially inaccurate.

#### *Local and long distance*

In 2006, new competitors began offering local telephone service in a large portion of our marketplace, and this intensified in 2007. These competitors have the ability to offer four-services bundles, consisting of telephone, Internet, wireless and TV. Cable competitors are free from telecom regulation and are able to offer local service in unregulated bundles priced to gain market share. We continue to pursue our customers' business by offering value, simplicity and competitive pricing. We are also continuing to improve our ability to compete for their business by pursuing further regulatory freedoms. However, there is no assurance that this will mitigate churn and market share erosion resulting from new competitive entrants to our marketplace.

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

The value of long distance as a stand-alone service has diminished but it is an integral component in the customer solution. In the telecommunications industry, long distance is increasingly offered within flat-rate calling plans while alternatives like VoIP, instant messaging and peer-to-peer applications replace traditional calling, contributing to continued price and minute erosion. Competition continues with dial-around and prepaid card providers, traditional primary inter-exchange carrier competitors and resellers, and most recently, VoIP providers. VoIP will continue to erode traditional long distance as the

technology improves and managed VoIP services are launched, making the technology transparent and more attractive to the consumer. We continue to manage the implementation of VoIP solutions in our market as part of our voice evolution strategy.

### *Internet*

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

### *Mobility*

Mobility service is becoming increasingly important to our customers as the service improves in reliability and features. It is therefore an important competitive differentiator within our suite of services, particularly as it pertains to our packages and bundles. Bell Aliant currently has an arrangement with Bell Mobility to provide these services to our customers (outside of the former Bell Nordiq operating territory). There is no guarantee that current arrangements will continue to be available indefinitely in their present form, or that the conditions under which these have been secured will not change.

While competition in the Canadian wireless market is quite robust, it could be further intensified following Industry Canada's decision to license additional wireless spectrum through a competitive auction process scheduled to take place in May 2008, where portions of this new spectrum will be set aside for new entrants. The addition of new industry players will likely heighten competition in this market and could have a material and negative effect on our results of operations, including with respect to our local and long distance business.

### ***Changing regulations***

Bell Aliant is affected by decisions made by the CRTC. In 2007 we saw major reform of the regulatory framework. Significant changes to the regulatory rules that will continue to affect our business are:

- Local Forbearance - The federal government issued its final version of the Order varying the CRTC's forbearance decision. The varied decision relaxed considerably the criteria for forbearance, eliminated the restrictions which had limited contact with customers who moved to a competitor (the "winback" restriction), removed restrictions on promotions, and permitted the waiver of service charges for residential customers returning from a competitor.

Bell Aliant has been granted forbearance in 119 exchanges for residential local exchange service (three of which are subject to delayed implementation) and in 37 exchanges for business local exchange service (three of which are subject to delayed implementation).

- Rates - The CRTC established the price cap framework for the third price cap period. The framework is much more market-oriented and flexible than the prior framework. Among other things, it eliminated the deferral account and permits rate de-averaging (i.e. the discretion to charge different customers different prices for the same product in the same area) for regulated local retail services. The CRTC also provided greater flexibility through the use of rate ranges in tariffs (rather than a specific price point), with the actual price remaining confidential.
- Quality of Service - The CRTC made certain improvements to the rules governing competitor quality of service indicators related to wholesale quality of service provided by the incumbent local exchange carriers (ILECs).

The CRTC has adopted a *force majeure* clause that excuses ILECs from paying penalties in a month where failure to meet the retail or competitor quality of service standard is caused by certain unforeseen events beyond their control, including labour disruptions.

- Review of regulatory measures - Effective November 23, 2007, the CRTC eliminated restrictions on bundling rules (i.e. tariffed and forborne services can now be bundled without any filing requirements so long as the price of the bundle at least equals the sum of the rates of all tariffed services in the bundle). The CRTC also removed the requirement for regulatory approval of market trials of services that would otherwise not be forborne.

Other regulatory developments that have affected and may continue to affect our business are:

- Deferral Account - Bell Aliant's deferral account has been cleared and closed. However, subject to the outcome of CRTC and court proceedings, Bell Aliant will be affected by further initiatives of Bell Canada to expand broadband services to communities within Bell Aliant's operating territory in Ontario and Quebec in satisfaction of Bell Canada's deferral account obligations. Bell Aliant has agreed to contribute to the economic spending portion of the project. In January 2008, the CRTC approved the use of Bell Canada's deferral account for a portion of the program proposed by Bell Canada, as well

as for improvements for services for persons with disabilities. The CRTC also ordered that the balance of the account remaining after those initiatives be rebated to customers. In 2006, certain consumer groups filed an appeal in the Federal Court of Canada challenging the use of the deferral account funds for broadband and accessibility initiatives. They argued that the funds should instead be rebated to residential customers. Bell Canada filed an appeal as well, claiming that the CRTC does not have jurisdiction to order rebates in connection with prices the CRTC had approved on a final basis. Both appeals were heard by the court in January 2008, however it could be some time before a decision is rendered.

- Wholesale Ethernet Services - The CRTC reversed its earlier decision which had ordered implementation of costly new wholesale services (e.g. Ethernet); however, the CRTC noted that it intends to address the regulatory requirements for these services, among others, in the context of its review of the regulatory framework applicable to wholesale services generally.
- Wholesale Services Review - the proceeding initiated by the CRTC in 2006 to review the regulatory framework applicable to wholesale services closed on December 7, 2007 and a decision is expected in the first quarter of 2008. The conclusion of this review will determine the extent to which ILECs and others will continue to be mandated to provide to competitors, at cost-based regulated prices, various components of their networks and whether, and over what period of time, some of these obligations may be phased out.

Collectively, the recent CRTC orders and proposed changes will serve to lessen the regulatory burden and are expected to improve our marketing flexibility and ability to compete effectively. There is no guarantee however that these new regulatory trends will continue.

### ***Reliance on systems***

We rely on various complex systems that are used in the provision of services to customers, and the management of customer relationships, billings and inventory. These systems are made up of many integrated parts consisting of cable, equipment, buildings and towers, IT equipment, IT software and related data. The success of our operations depends on how well these components are protected against damage from fire, adverse weather, natural disasters, power loss, hacking, computer viruses, disabling devices, deliberate acts of vandalism, acts of war or terrorism, and other events. Any of these things could cause operations to be shut down indefinitely.

Our operations also depend on timely replacement and maintenance of our networks and equipment. Our systems are connected to the systems of other

telecommunications carriers, and we rely on them to deliver some of our services. Any of the potential threats mentioned above, as well as labour disruptions, bankruptcies, technical difficulties or other events affecting the networks of these other carriers, could be detrimental to both our customer relationships and operating results.

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

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

### ***Changing technology***

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

We want to provide our customers with leading edge technology, so we monitor technological advancements and consumer purchasing trends. We use this information in our continuous strategic and operational reviews to adjust our initiatives as required. In doing so, we also periodically assess the useful lives of our capital investments in light of our expectations of technological advances and make changes as required.

### ***Expenditures, capital and demand for services***

Significant expenditures on new technologies are required to remain competitive in the rapidly evolving telecommunications industry. As we update our networks, products and services, we may be exposed to incremental financial risks associated with acquiring assets that may be subject to accelerated obsolescence, and which therefore have little or short lived commercial or economic value.

An increasingly important driver for network and infrastructure investments is the growth of Internet traffic and the resulting significant increases in bandwidth demand. This traffic is driven by residential and business Internet usage and has overtaken the volume of voice telephony traffic on many routes. It is uncertain to what extent this traffic will continue to exhibit high growth rates as high-speed Internet services are deployed and bandwidth intensive applications, such as video, are increasingly downloaded by users. While we monitor bandwidth demand and seek to optimize network performance, if these efforts are unsuccessful, it could have a material and negative effect on our results of operations.

We constantly evaluate the cost benefit of our network and infrastructure investments to seek to ensure they remain reliable for our customers and meet their increasing technical needs.

### ***Achieving synergy and productivity targets***

Our strategies and priorities require us to continue to transform our cost structure. Accordingly, we are continuing to implement several productivity improvements and initiatives to reduce costs while containing our capital expenditures. Our objectives for cost reduction/productivity improvements and synergies from the creation of Bell Aliant, our ongoing business operations, and planned acquisition of KMTS are aggressive and there is no assurance that these initiatives will be successful in reducing costs. There will be a material and negative effect on our profitability if we do not successfully implement these productivity initiatives and productivity improvements and manage capital expenditures while maintaining the quality of our service. Our relationship and agreements with entities such as Bell Canada and Bell Mobility are instrumental in achieving our productivity goals. If our relationship or agreements with these parties change so as to reduce efficiencies, this will affect our productivity objectives. Each year between 2002 and 2005, Bell Aliant and its predecessor companies had to reduce the price of certain services that are subject to regulatory price caps and may be required to do so again in the future. We have also reduced our prices for some services that are not regulated in order to remain competitive, and may have to continue doing so in the future. There would be a material and negative effect on our profitability if factors, such as increasing competition or regulatory actions, result in lower revenues and we cannot reduce our expenses at the same rate. Many productivity improvements and cost reduction initiatives require capital

expenditures to implement systems that automate or improve our operations. There is no assurance that these investments will be effective in delivering the planned productivity improvements and cost reductions. Improved customer service is critical to increasing customer retention and ARPC. It may, however, be difficult to improve customer service while significantly reducing costs. If we are unable to achieve either or both of these objectives, it could have a material and negative effect on our results of operations.

***Relationship with BCE Inc. (BCE) and Bell Canada and the availability of business opportunities***

Bell Canada and certain of its affiliates and associates have substantial global operations and greater financial, technical and operational resources than us. We have entered into a series of long-term commercial agreements with Bell Canada, including a commercial relationship management agreement. In the event that this agreement were to be terminated, we, Bell Canada, and our respective affiliates, associates or operating companies could thereafter compete with each other.

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

We have a mutually beneficial relationship with Bell Canada and are operating under the commercial relationship management and other agreements according to the agreed upon terms.

On June 30, 2007, BCE announced it had entered into a definitive agreement to be acquired by an investment group led by Teachers Private Capital, the private investment arm of the Ontario Teachers Pension Plan, Providence Equity Partners Inc. and Madison Dearborn Partners, LLC. Since that date Merrill Lynch Private Capital has joined the group of investors. On September 21, 2007, the transaction received BCE shareholder approval. We are not a party to the transaction and cannot predict the effect that a change of ownership of BCE may have on our organization.

***Pension plan funding***

We maintain a number of DB pension plans, some of which have solvency and / or going concern funding deficiencies. The plans are exposed to general future valuation risk and required funding levels for 2008 and beyond may change as required actuarial valuations are completed. If the return on plan assets, interest on the obligation, or actual experience of the plans are better or worse than anticipated, valuations can result in either lower or higher minimum required contributions.

Pension funding relief measures introduced in the May 2006 federal budget allowed plan sponsors to extend the funding period of solvency deficits from five years to ten years under certain conditions. We are currently able to take

advantage of these relief measures, in part, because we have in place letters of credit issued under our banking facilities. If we were unable to continue to access these credit facilities or otherwise failed to qualify for the solvency funding relief, there may be an immediate requirement for higher cash funding of our DB plans.

Cash funding and positive investment experience have gradually contributed to an improved funded position for our DB pension plans. As this occurs, management is shifting the asset mix and strategies in the pension plan funds to mitigate the effect that future interest rate changes and investment returns will have on the plans' funded position. As well, most of our DB pension plans are closed to new entrants, placing an eventual cap on the future growth of these obligations.

### ***Liquidity and financing risk***

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

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

Specifically, since the third quarter of 2007, the commercial paper (CP) market and the public term debt market in Canada have been experiencing some disruption to normal market operations and a dramatic widening of the interest rates spreads charged for corporate credits. A so-called "liquidity crunch" occurred when many CP issuers could not reissue new CP on maturity of existing outstanding debt or to finance their growth. Many issuers were forced to use back-up bank lines in place of CP, while others may not have had secure back-up sources.

While we could not have foreseen the specific events that precipitated this situation, our risk management policies do contemplate the potential for disruptions in capital markets and periods of reduced availability of credit. We are dependent on the capital markets and the commercial loan market to finance our operations. As such, our risk management efforts include diversifying funding sources, utilizing Canadian chartered banks as

counterparties and liquidity providers in our hedging and securitization programs, maintaining sufficient capacity on our back-up bank lines of credit to support our CP program, specifying issuer and rating limits and counterparty restrictions on our money market investments and properly diversifying our pension plan investments. These measures have helped to avoid any material negative effects from the recent situation.

However, if these conditions persist for a long period or broaden in their scope, or if there are other shocks to financial markets, we may incur increased costs or an inability to raise financing when needed for repayments of maturing debt or for growth. If we cannot raise the capital we need, we may have to limit our ongoing capital expenditures, limit our investment in new businesses, or sell or otherwise dispose of assets. Any of these possibilities could have a material and negative effect on our cash flow from operations and growth prospects.

#### ***Leverage and restrictive covenants***

We have debt service obligations in connection with the trust indentures for the issuance of debt by our operating subsidiaries and in their respective lines of credit. The degree to which we are leveraged could have important consequences including:

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

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

#### ***BCE has governance rights***

In connection with the arrangement under which Bell Aliant was created on July 7, 2006, we entered into a securityholders' agreement with BCE and Bell Canada. Under the terms of the security holders' agreement, for so long as

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

### ***Reliance on key personnel and labour relations***

Skilled and experienced telecommunications personnel are in high demand as a result of the strong growth and competitiveness of the telecommunications market. We may find it increasingly difficult to attract and to retain the necessary resources to meet our needs. It is possible that additional incentives may be required and that certain business initiatives may be at risk if skill shortages occur.

Approximately 53 per cent of our employees are represented by unions and are covered by collective agreements. Six collective agreements expired at various times throughout 2007 and all six were successfully renegotiated during 2007 at reasonable terms and without any work stoppages or strikes. These agreements cover more than 96 per cent of our unionized workforce. The agreements were renegotiated with expiry dates of 2011 and beyond, which means there will be minimal risk of a legal strike or lockout until at least March 2011 for more than 96 per cent of our unionized workforce.

The remaining 4 per cent (199 employees) of our unionized workforce is represented by three relatively small units, one of which has a contract expiry date in December 2008, and two of which have contract expiry dates in the

second quarter of 2009. These three contracts do not represent a high risk to us.

Work disruptions at our significant service providers, including Bell Canada, such as work slowdowns and work stoppages due to strikes, could significantly affect our business, including our customer relationships and results of operations.

#### ***Success of acquisitions and dispositions***

We may undertake the acquisition or disposition of businesses or other operations as part of our business strategies. In the case of acquisitions, success is often dependent upon the efficient integration of acquired operations into our business, and finding synergies in the combined undertaking. Likewise the success of divestitures is dependent upon obtaining fair value for the operations that are sold, and mitigating the financial effects of the removal of those operations from the overall enterprise. These activities also involve the investment of significant time and transactional resources which may be lost if we are unable to complete transactions as planned. We seek to mitigate these risks through detailed planning and analysis of all such transactions, and by employing skilled professional consultants and advisors.

#### ***Legal contingencies and changes in laws***

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

In addition, the adoption of new laws, changes in laws or changes in their interpretation, including changes in tax laws or rates, could materially or negatively affect our results of operations, cash flows and financial position.

### **Risks Related to the Fund**

The following is a discussion of risks that are unique to income trusts and to the Fund and its units specifically.

#### ***Dependence on Holdings LP***

The Fund is an open-ended, limited purpose trust, and is entirely dependent on distributions it receives from its indirect investment in the business of Holdings LP to make its distributions. There can be no assurance regarding the Fund's

ability to make distributions, which is dependent upon the financial performance of Holdings LP.

***Unpredictability and volatility of unit price***

A publicly-traded income trust does not necessarily trade at values determined by reference to the underlying value of its business. The prices at which the units trade cannot be predicted. The market price of the units could be subject to significant fluctuations in response to variations in quarterly operating results, distributions, fluctuations in interest rates and other market factors. The annual yield on the units as compared to the annual yield on other financial instruments may also influence the price of units in the public trading markets. In addition, the securities markets have experienced significant price and volume fluctuations from time to time in recent years that often have been unrelated or disproportionate to the operating performance of particular issuers. These broad fluctuations may adversely affect the market price of Fund units.

***Nature of Fund units***

The Fund units are not “deposits” within the meaning of the *Canada Deposit Insurance Corporation Act* (the Act) and are not insured under the provisions of the Act or any other legislation. Furthermore, the Fund is not a trust company and, accordingly, is not registered under any trust and loan company legislation as we do not carry on or intend to carry on the business of a trust company. In addition, although we qualify as a “mutual fund trust” as defined by the Income Tax Act, we are not a “mutual fund” as defined by applicable securities legislation.

The Fund units do not represent a direct investment in the business of Holdings LP and should not be viewed by investors as shares or interests in such entity or any other operating company. The Fund units do not represent debt instruments and there is no principal amount owing to unitholders. As holders of Fund units, unitholders do not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring “oppression” or “derivative” actions. Each Fund unit represents an equal, undivided, beneficial interest in the Fund. The price per unit is a function of our anticipated distributable cash at any time, which, in turn is dependent on the distributable cash distributed upstream by the business of Holdings LP.

***Cash distributions are not guaranteed and will fluctuate with the performance of the business***

There can be no assurance regarding the amounts of cash distributions distributed upstream by Holdings LP and, thus, eventually available for the Fund to distribute. The actual amount of distributions paid in terms of the Fund units depends upon numerous factors, all of which are susceptible to a number of risks and other factors beyond the Fund’s control and that of Holdings LP. Holdings LP has the discretion to establish cash reserves

(including regulatory capital reserves) for the proper conduct of its business. Adding to these reserves (including regulatory capital reserves) in any year would reduce the amount of distributable cash and, hence, of cash available for distributions in that year. Accordingly, there can be no assurance regarding the actual levels of the Fund's distributions.

### ***Structural subordination of the Fund units***

The Fund units are subordinated to the existing credit facilities and most of the other indebtedness and liabilities of Holdings LP.

### ***Capital investment***

The timing and amount of capital expenditures by Holdings LP directly affects the amount of distributable cash available for distribution, including, ultimately, the cash available for distributions to Fund unitholders. Such distributions may be reduced, or even eliminated, at times when trustees deem it necessary to make significant capital or other expenditures.

### ***Limitation on Non-Resident ownership***

The Fund's Declaration of Trust imposes various restrictions on unitholders. For example, in order to maintain "mutual fund trust" status under the Income Tax Act, non-resident unitholders are prohibited from beneficially owning more than 45 per cent of Fund units. In addition, the Declaration of Trust contains a provision prohibiting non-Canadians (for purposes of the Broadcasting Act, the Radiocommunication Act and the Telecommunications Act) from owning more than 20 per cent of the Fund units. These restrictions may limit (or inhibit the exercise of) the rights of certain persons, including non-residents and non-Canadians, to acquire Fund units, to exercise their rights as unitholders and to initiate and complete take-over bids in terms of the Fund units. As a result, these restrictions may limit the demand for Fund units from certain unitholders and thereby adversely affect the liquidity and market value of the Fund units held by the public.

### ***Dilution***

The Fund's Declaration of Trust authorizes us to issue an unlimited number of Fund units for the consideration and on those terms and conditions as are established by the trustees without the approval of any unitholders. Any further issuance of Fund units will dilute the interests of existing unitholders.

### ***Income tax***

The federal government's proposed changes to the tax treatment of income trusts received Royal Assent and were enacted into law on June 22, 2007 (the SIFT Rules). For income trusts that were publicly traded before November 2006, such as the Fund, these changes, which generally include the taxation of certain trust income at corporate rates and the taxation of certain distributions made to unitholders as if they were dividends from a corporation, will be delayed to 2011. All else being equal, the imposition of this tax will result in less cash being available to pay distributions from the Fund. To qualify for the

delay, the Fund must comply with the normal growth guidelines regarding equity capital that were issued by the federal Department of Finance on December 15, 2006, as amended from time to time, and are incorporated by reference in the legislation. The normal growth guidelines are intended to ensure that any growth by a trust is reasonable and within the policy objectives of parliament. The normal growth guidelines provide that the equity of the Fund can grow by an annual amount equal to 40 per cent of the October 31, 2006 market capitalization, for the period from November 1, 2006 to December 31, 2007, and 20 per cent for each of the 2008 to 2010 calendar years, with such growth rates cumulative during the period. We expect we will be able to operate within these guidelines. However, because there is still uncertainty in the interpretation of these guidelines, there can be no assurance that the Fund will be able to retain the benefit of the deferral of the SIFT Rules.

The Fund's Declaration of Trust requires us to distribute a sufficient amount of net income and net realized capital gains in order to eliminate our liability for tax under Part I of the Income Tax Act. If the net income and net realized gains are greater than the cash available for distribution for a given year, the excess will be distributed to unitholders in the form of additional Fund units.