

Management's discussion and analysis

For the year ended December 31, 2008

March 10, 2009

MD&A

This document provides management's discussion and analysis (MD&A) of our financial condition as at, and results of operations for, the year ended December 31, 2008, compared to 2007. This MD&A should be read together with our audited consolidated financial statements and accompanying notes for the year ended December 31, 2008, and the audited consolidated financial statements and accompanying notes, and MD&A of Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP) for the year ended December 31, 2008. Our consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All amounts in this document are in millions of Canadian dollars, except where otherwise stated.

Throughout this document, unless otherwise specified or the context otherwise indicates, "we", "us", "our" and the "Fund" refer to Bell Aliant Regional Communications Income Fund. References to Bell Aliant Holdings LP include that entity and its subsidiaries.

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

Forward-looking information

This MD&A is dated March 10, 2009, and is current to that date unless otherwise stated. It contains forward-looking information related to our future financial condition and results of operations. The purpose of this forward-looking information is to provide the reader with information about our expectations and plans for 2009 or other future periods. Readers are cautioned that such information may not be appropriate for other purposes. This information is based on our current expectations and estimates about the markets in which we and Bell Aliant Holdings LP operate and our beliefs and assumptions regarding these markets. Unless otherwise indicated, forward-looking information in this MD&A describes our expectations at March 10, 2009. In some cases, forward-looking information may be identified by words such as "anticipate", "believe", "could", "expect", "plan", "seek", "may", "intend", "will" and similar expressions. This information is subject to important risks and uncertainties, which are difficult to predict, and assumptions, which may prove to be inaccurate. Some of the risk factors which could cause results or events to differ materially from current expectations include but are not limited to: our dependence on Bell Aliant Holdings LP, and therefore all of the risks and uncertainties to which its operations are subject; stock market volatility; market or business conditions; changing laws and regulations; unpredictability and volatility of unit price; the nature of fund units; limitation on non-resident ownership; dilution through issuance of additional units; and changing taxation rules for income trusts. Some of these risk factors are largely beyond our control. Refer to the "Risk management" section of this MD&A for further discussion of these and other risk factors. Should any risk factor affect us in an unexpected manner, or should assumptions underlying the forward-looking information prove incorrect, the actual results or events may differ materially from the results or events predicted. Unless otherwise indicated, forward-looking information does not take into account the effect that transactions or non-recurring or other special items announced or occurring after this information is provided may have on our business. All of the forward-looking information reflected in this document

and the documents referred to within are qualified by these cautionary statements. There can be no assurance that the results or developments anticipated will be realized or, even if substantially realized, that they will have the expected consequences for us. Except as may be required by Canadian securities laws, 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. Readers should not place undue reliance on any forward-looking information.

See also the "Forward-looking information" section of our news release dated February 2, 2009, relating to 2008 earnings results and 2009 financial guidance for the Fund and Bell Aliant Holdings LP, which is available at www.bell.aliant.ca as well as www.sedar.com and incorporated by reference herein.

OUR BUSINESS

We are an unincorporated, open-ended, limited purpose trust governed by the laws of the Province of Ontario. We hold investments in subsidiaries that operate one of the largest regionally focused telecommunications service providers in North America.

On January 1, 2008, we transferred our 36.7 per cent indirect ownership interest in Télébec, Limited Partnership (Télébec) and NorthernTel, Limited Partnership (NorthernTel) to our subsidiary, Bell Aliant Holdings LP, in return for 8,246,429 class 2 limited partnership units of Bell Aliant Holdings LP. Since there was no substantive change in ownership of our 36.7 per cent indirect equity interest in Télébec and NorthernTel, the transfer was accounted for at carrying value. Subsequently, Télébec and NorthernTel each issued one class B limited partnership unit to us. As such, Bell Aliant Holdings LP now directly or indirectly owns, except for this nominal interest held by us, 100.0 per cent of Télébec and NorthernTel.

As a result of these transactions, we indirectly own an 82.5 per cent interest in Bell Aliant Holdings LP, which in turn consolidates the financial results of Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Télébec and NorthernTel. We account for this investment on an equity basis as we exercise significant influence over the operating, investing and financial policies of this entity, but we do not control it. BCE Inc. (BCE) and Bell Canada own the remaining 17.5 per cent interest in Bell Aliant Holdings LP. Bell Canada also owns a 37.9 per cent interest in Bell Aliant LP (34.9 per cent on a proportionate cash distribution basis). These interests are exchangeable into Fund units, which give BCE an effective 44.2 per cent combined interest in us on a fully diluted basis. Under a security-holders' agreement, BCE has certain governance rights that give it control over Bell Aliant Holdings LP so long as its fully diluted Fund ownership interest is 30.0 per cent or greater and certain commercial agreements are in place with Bell Aliant LP.

We are economically dependent on our significant equity investee, Bell Aliant Holdings LP. As we are indirectly affected by the events and transactions, financial and capital management, and risks and uncertainties of Bell Aliant Holdings LP, these factors could materially influence the distributions we receive from them, and in turn, our ability to pay distributions. This MD&A should be read in conjunction with the consolidated financial statements and accompanying notes, and MD&A of Bell Aliant Holdings LP for the year ended December 31, 2008.

Changes to Trustees and Board of Directors

On July 11, 2008, George Cope, Siim Vanaselja and David Wells replaced Michael Sabia, Lawson Hunter and Patrick Pichette on the boards of directors of our operating subsidiaries. Mr. Cope was appointed chair of these boards. In addition, Mr. Hunter was replaced by Mr. Vanaselja as trustee and chair of the Fund.

On November 3, 2008, Stephen Wetmore left the boards of directors of our main operating subsidiaries and Andrew Smith was appointed to these boards.

Planning for future changes in taxation

As a result of the federal government's October 31, 2006, announced changes to income tax legislation affecting publicly listed or traded income trusts, such as us, starting January 1, 2011, we will be taxed as if we were a corporation, at a blended federal/provincial tax rate we anticipate being in the range of 25.0 to 30.0 per cent of taxable income. While it is still early to precisely determine the effect that these changes will have on our cash flow in years after 2010, we are forecasting that we will have sufficient tax shelter to defer incurring an income tax liability until 2012. We are continuing to investigate strategies and options that could mitigate the effect that payment of income taxes will have on the distributions that we pay to our unitholders. These options may include, among other things: planning to preserve or augment our tax loss carryforward amounts and other discretionary tax deduction or credit pools for utilization after 2010 to reduce taxable income or income taxes otherwise payable by Bell Aliant Holdings LP; strengthening the financial position of Bell Aliant Holdings LP to allow greater flexibility in our future distribution policy; investing in productivity initiatives at Bell Aliant LP to lower our overall expenses and contribute positively to future cash flow growth; and utilizing excess cash in the period prior to 2011 to repurchase Fund units to reduce total future cash distribution requirements. It is uncertain whether these initiatives, if pursued, would allow Bell Aliant Holdings LP to avoid reducing per-unit cash distributions, and ultimately distributions made by us.

During 2008, the Department of Finance (Finance) released proposed amendments to the Income Tax Act (Canada) (Tax Act) to facilitate the conversion of existing income trusts, such as us, into corporations on a tax-deferred basis (Conversion Rules). On February 6, 2009, Finance introduced Bill C-10 which contained the Conversion Rules, amended to address areas of concern under the initial version of the draft legislation. These Conversion Rules, if implemented, would be available until January 2013.

The Conversion Rules, as proposed, would permit two basic tax-efficient conversion methods. In general, income trusts may convert to a corporate structure by either (i) having unitholders directly exchange their income trust units for shares of a Canadian corporation (Exchange Method), or (ii) redeeming the outstanding income trust units by distributing to unitholders the shares of an underlying Canadian corporation that directly or indirectly owns the business (Distribution Method). The Conversion Rules would permit further rationalization of the organization's structure by allowing the dissolution of the income trust and certain subsidiary trusts on a tax-deferred basis. Under both methods, the conversion may be effected on a tax deferred basis for both trusts and their unitholders without the need to file any tax elections. Under the Conversion Rules, as amended, a unitholder may elect out of the tax deferral by filing a joint election with the Canadian corporation under the Tax Act, subject to certain conditions and limitations.

At this point, we do not anticipate that we will propose a conversion transaction to our unitholders to be effective prior to January 1, 2011. However, the Conversion Rules are complex and technical, and Finance has proposed a number of alternatives for completing a conversion. The Conversion Rules may be further amended before being enacted into law. Accordingly, we will be carefully considering our particular circumstances in order to determine whether to propose a conversion transaction to our unitholders and, if so, how to structure a conversion into a corporation.

SUMMARY OF RESULTS

The following table shows selected consolidated financial results for the most recent eight quarters as well as on an annual basis for 2008, 2007 and for the period July 7, to December 31, 2006. The quarterly information is unaudited, but has been prepared on the same basis as our annual and interim consolidated financial statements.

For the year ended December 31 (millions of dollars, except per unit amounts)					2008
	Q1	Q2	Q3	Q4	Total
Equity income from investments and other revenues	44.1	69.4	76.2	66.0	255.7
Net earnings from continuing operations	43.0	68.5	74.7	65.5	251.7
Net earnings (loss) from discontinued operations	—	(0.7)	0.3	0.1	(0.3)
Net earnings	43.0	67.8	75.0	65.6	251.4
Basic earnings per unit from continuing operations	0.34	0.54	0.59	0.51	1.98
Basic earnings (loss) per unit from discontinued operations	—	(0.01)	—	0.01	—
Basic earnings per unit	0.34	0.53	0.59	0.52	1.98
Diluted earnings per unit from continuing operations	0.34	0.54	0.58	0.41	1.93
Diluted earnings (loss) per unit from discontinued operations	—	(0.01)	—	0.01	—
Diluted earnings per unit	0.34	0.53	0.58	0.42	1.93
Distributions declared	91.2	92.1	92.1	92.1	367.5

For years ended December 31 (millions of dollars, except per unit amounts)					2007 ⁽¹⁾	2006 ⁽²⁾
	Q1	Q2	Q3	Q4	Total	Total
Equity income from investments and other revenues	74.8	48.7	69.9	106.8	300.2	120.5
Net earnings from continuing operations	72.8	45.5	68.8	105.6	292.7	119.5
Net earnings (loss) from discontinued operations	4.4	204.5	0.4	(0.5)	208.8	8.7
Net earnings	77.2	250.0	69.2	105.1	501.5	128.2
Basic earnings per unit from continuing operations	0.55	0.34	0.53	0.82	2.24	0.96
Basic earnings (loss) per unit from discontinued operations	0.03	1.53	0.01	—	1.60	0.07
Basic earnings per unit	0.58	1.87	0.54	0.82	3.84	1.03
Diluted earnings per unit from continuing operations	0.55	0.25	0.49	0.72	2.03	0.96
Diluted earnings per unit from discontinued operations	0.02	1.08	—	—	1.11	0.05
Diluted earnings per unit	0.57	1.33	0.49	0.72	3.14	1.01
Distributions declared	96.0	92.9	90.5	89.5	368.9	163.0

(1) The financial information for 2007 has been restated to reflect the correction of an error as described in note 2 to our consolidated financial statements as at December 31, 2008.

(2) Information for 2006 is for the period from July 7 to December 31, 2006.

Net earnings

Net earnings represent equity income from our indirect ownership in the earnings of our investments, increased (decreased) for future tax recovery (expense) related to our proportionate share of temporary differences between the carrying amounts of assets and liabilities reported on the balance sheets of our subsidiaries and their corresponding tax values, plus a small amount of interest income earned on cash and cash equivalents, less our expenses of \$4.0 million in 2008, compared to \$7.5 million in 2007. As such, our net earnings are substantially dependent upon the results of operations of our subsidiary investments. The financial performance of Bell Aliant Holdings LP for the year ended December 31, 2008, compared to 2007, is discussed in its 2008 MD&A.

Net earnings from continuing operations in the fourth quarter of 2008 decreased \$40.1 million, or 38.0 per cent, from the fourth quarter of 2007. On a year-over-year basis, net earnings from continuing operations in 2008 decreased \$41.0 million, or 14.0 per cent, from 2007. Our equity income from Bell Aliant Holdings LP in the fourth quarter of 2008 decreased by \$40.8 million, or 38.2 per cent, from the fourth quarter of 2007 due to a decrease in net earnings of that investment caused primarily by a \$60.6 million restructuring charge taken in the fourth quarter of 2008. On an annual basis, equity income decreased \$42.0 million, or 14.1 per cent, from 2007, as there was a decrease in net earnings from continuing operations which was compounded by the net effect of a \$14.0 million notional depreciation and amortization adjustment related to the finalization of the notional purchase price allocation related to our acquisition of the remaining 36.7 per cent interest in NorthernTel and Télébec through the privatization of Bell Nordiq Income Fund and other minor charges, an \$8.9 million future tax recovery relating to our 36.7 per cent proportionate share of temporary differences that are expected to reverse after January 1, 2011, of Télébec and NorthernTel, and \$3.9 million of other minor adjustments.

Net earnings from discontinued operations for 2008 includes our proportionate share of the results of operations of Bell Aliant Holdings LP's defence, security and aerospace (DSA) business commencing as discontinued operations in the third quarter and Atlantic Mobility Products (AMP) commencing as discontinued operations in the second quarter. Net earnings from discontinued operations in 2007 includes our proportionate share of the results of operations of Aliant Directory Services (ADS) until April 2007, when an after-tax gain of \$248.6 million was recorded by Bell Aliant Holdings LP on the disposal by ADS of its net assets and operations, and SalesBridge Canada Corp. In addition, in the fourth quarter of 2008, we corrected an error made in the second quarter of 2007 that overstated our proportionate share of net earnings from discontinued operations of our equity investment in Bell Aliant Holdings LP. Accordingly, the 2007 financial results were restated to reduce our equity income from investments included in net earnings (loss) from discontinued operations by \$7.7 million and decrease the investment in Bell Aliant Holdings LP and unitholders' equity by the same amount as at December 31, 2007. This correction reduced basic and diluted earnings per unit from discontinued operations by \$0.06 and \$0.04, respectively, for the year ended December 31, 2007. See note 2 to our consolidated financial statements for the year ended December 31, 2008, for more detail on the restatement.

Net earnings in 2006 were significantly lower than 2007 or 2008, as the financial information reflects the Fund's period of active operations from July 7, 2006, to December 31, 2006, as opposed to a full year.

Distributions declared

Our objective is to target a long-term payout ratio of the combined distributions of Bell Aliant Holdings LP and us of approximately 90 per cent of the combined distributable cash, although the payout ratio may differ from this range in any given year. The remaining 10 per cent of combined distributable cash is intended to fund such obligations of Bell Aliant Holdings LP as working capital, pension plan deficits, restructuring and other charges, cash capital taxes, repaying long-term debt, and temporary fluctuations in cash flows that have not been funded through temporary borrowing. It is not our or Bell Aliant Holdings LP's intention to borrow to fund regular distributions.

For the year ended December 31, 2008, the combined cash distributions declared were 91.9 per cent of the combined distributable cash, compared to 92.8 per cent for the comparable period in 2007. The annual rate of distributions to our unitholders is currently \$2.90 per unit. The decision not to increase the per unit distribution rate in 2009 was made by our trustees in order to preserve liquidity and financial flexibility, considering current market conditions. With an anticipated increase in the combined distributable cash in 2009, this is expected to result in a combined payout ratio of less than 90 per cent in 2009. This does not necessarily indicate a departure from the approximate 90 per cent long-term payout target, however, this target and the declaration of our future distributions is subject to the consideration of numerous factors and at the discretion of our trustees.

During the fourth quarter of 2008, we declared distributions totalling \$92.1 million, or \$0.725 per unit, compared to \$89.5 million, or \$0.705 per unit in 2007. On an annual basis, during 2008, we declared distributions totalling \$367.5 million, or \$2.89 per unit, compared to \$368.9 million, or \$2.81 per unit, in 2007. The year-over-year increase in per unit distributions reflects a 2.8 per cent increase in our monthly distribution rate, which commenced in February 2008, offset by a lower average number of Fund units outstanding throughout 2008 as a result of the unit repurchases we completed under a normal course issuer bid (NCIB) in 2007.

In 2006, during the Fund's period of active operations from July 7, 2006, to December 31, 2006, we declared distributions totalling \$163.0 million, or \$1.313 per unit.

The distributions we make are generally taxable to the recipient unitholder. The tax attributes of our distributions may change from year to year depending on the taxable income of our subsidiary investments. The following table reflects the taxable and non-taxable breakdown of distributions for 2008 and 2007:

For the years ended December 31	2008	2007
Taxable portion		
Other investment income	95.06%	89.77%
Dividend income	4.73	8.88
Capital gains	0.05	0.05
Non-taxable portion		
Return of capital	0.11	1.25
Capital gains	0.05	0.05
	100.00%	100.00%

We are entirely dependent on distributions from Bell Aliant Holdings LP to make our distributions. A complete discussion of distributions made by Bell Aliant Holdings LP can be found in its MD&A for the year ended December 31, 2008.

FINANCIAL AND CAPITAL MANAGEMENT

The following table summarizes our financial position for each of the most recently completed financial years.

As at December 31 (millions of dollars)	2008	2007	2006
		(as restated)	
Total assets	4,211.6	4,316.4	4,135.3
Total liabilities	30.9	30.2	29.4
Unitholders' equity	4,180.7	4,286.2	4,105.9

Assets and liabilities

At December 31, 2008, our assets mainly consisted of our indirect investment in, and distributions and other amounts receivable from, Bell Aliant Holdings LP. The carrying value of our investments increased in 2007 over 2006, as equity income from continuing and discontinued operations in our investments of \$506.4 million was greater than distributions declared by our equity investee of \$372.1 million. In 2008, the carrying value of our investments decreased from 2007 as distributions declared of \$372.8 million were greater than equity income from continuing and discontinued operations in our investments of \$255.3 million. As well, we generally consolidate our excess cash with that of Bell Aliant LP and invest it together in marketable, short-term money market instruments and as such, the balance due from (to) related parties and our cash and cash equivalent balance will fluctuate over time depending on our cash requirements. Refer to "Related Party Transactions" for further discussion on transactions during 2008 and balances outstanding at December 31, 2008.

Our liabilities consist mainly of distributions payable to our unitholders, which were \$30.7 million as at December 31, 2008, and \$29.8 million as at December 31, 2007.

Fund units

We commenced an NCIB on February 28, 2007, which enabled us to purchase, from time to time, up to 13,738,000 of our outstanding units, representing approximately 10.0 per cent of our public float outstanding on February 26, 2007. The NCIB expired on February 27, 2008, with us having purchased a total of 10,630,000 units. Purchases under the NCIB were made with cash, at market prices, through the facilities of the Toronto Stock Exchange (TSX). No purchases were made under the NCIB in 2008. For the year ended December 31, 2007, we purchased for cancellation 10,630,000 units for an aggregate price of \$330.2 million, which reduced our stated capital by \$350.5 million and increased contributed surplus by \$20.3 million.

As at December 31, 2008, there were 126,983,707 Fund units outstanding, 100,373,827 exchangeable limited partnership units and 1,181,958 units notionally issued under our deferred unit plan. Only 686,145 units notionally issued under our deferred unit plan are considered dilutive, as the remainder are subject to certain future performance criteria being met. Accordingly, there were 228,043,679 Fund units outstanding on a fully diluted basis as at December 31, 2008.

At March 6, 2009, there were 127,191,951 Fund units outstanding.

STABILITY RATINGS

Our stability ratings as at December 31, 2008, and currently, are SR-2, stable (moderate) outlook from Standard and Poor's and STA-2 (high) from DBRS Limited, which are unchanged from the previous year.

A stability rating provides an indication of both the stability and sustainability of an income fund's distributable income. A rating is not a recommendation to buy, sell or hold units and may be revised or withdrawn at any time. Stability ratings do not take into consideration such factors as pricing or stock market risk.

RELATED PARTY TRANSACTIONS

As previously discussed in the "Our business" section, we indirectly own an 82.5 per cent (December 31, 2007 – 81.5 per cent) equity interest in Bell Aliant Holdings LP.

We are entirely dependent on the distributions we receive from Bell Aliant Holdings LP to make our distributions. In 2008, distributions declared to us were \$372.8 million, compared to \$372.1 million in 2007. At December 31, 2008, \$31.2 million was included in distributions receivable, compared to \$28.5 million at December 31, 2007.

In the normal course of business, we have an agreement with certain subsidiaries of Bell Aliant Holdings LP 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 our trustees for our administration. 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 measured and recorded at their exchange amounts as follows:

For the years ended December 31

(millions of dollars)

	2008	2007
Management salaries	0.8	0.8
General and administrative	3.2	4.7
Operating expenses	4.0	5.5

Management salaries are allocated based on estimated hours spent on our matters using actual salary rates. General and administrative expenses are based on actual expenses that are incurred on our behalf.

At December 31, 2008, \$13.6 million was due from related parties (2007 – \$3.0 million), which relates to the net of these operating expenses payable as well as amounts receivable relating to the deferred unit compensation plan as described below.

In 2008, Bell Aliant Holdings LP bought 1,941,439 of our units (2007 – 1,766,276 units), at a total cost of \$52.9 million (2007 – \$53.7 million), on the open market for employees of their subsidiaries participating in the employee unit purchase plans. Of these totals, \$9.6 million (2007 – \$9.9 million) was recorded as compensation expense in Bell Aliant Holdings LP, and the remainder was contributed by employees through payroll deduction, interest earned or distributions reinvested in employee plan accounts.

During 2007, we implemented a deferred unit plan for certain executives and senior management of Bell Aliant Holdings LP. As the deferred units will be settled with our units when exercised, in 2008, we recorded in contributed surplus the equivalent of the compensation expense that was recorded in certain subsidiaries of Bell Aliant Holdings LP of \$14.8 million (2007 – \$11.4 million). We also recorded this amount as receivable from Bell Aliant Holdings LP until the deferred units are exercised and we receive cash from Bell Aliant Holdings LP for the units we issue. In 2008, we issued 36,340 units (2007 – 4,380 units) out of treasury at an average market value of \$26.56 per unit (2007 – \$31.69 per unit) related to the deferred units exercised in the year. When these deferred units were exercised an amount of \$1.0 million (2007 – \$0.1 million) was reclassified from contributed surplus to stated capital.

Further details of the employee purchase plans and deferred unit plan are discussed in note 7 to our consolidated financial statements for the year ended December 31, 2008.

Throughout 2008, we continued to loan our excess cash to Bell Aliant LP, through a series of promissory notes. The \$1.9 million promissory note that was receivable from Bell Aliant LP 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 revenue being earned during the year ended December 31, 2008 (December 31, 2007 – \$2.6 million). At December 31, 2008, a \$6.2 million promissory note was receivable from Bell Aliant LP, which carried interest at 1.81 per cent per annum and matured and was repaid on January 15, 2009. Refer to note 8 to our consolidated financial statements for the year ended December 31, 2008, for further information.

BCE and Bell Canada

On a fully diluted basis, BCE and Bell Canada beneficially own and control 44.2 per cent of our outstanding units as at December 31, 2008 (2007 – 44.2 per cent). There were no transactions with BCE and Bell Canada during the year.

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

Our consolidated financial statements as at December 31, 2008, have been prepared in accordance with Canadian GAAP. Our accounting policies and methods and critical accounting estimates and assumptions are consistent with those in effect in 2007, with the exception of the adoption on January 1, 2008, of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535, Capital Disclosures. This section establishes standards for disclosing qualitative and quantitative information about an entity's capital and how it is managed. As this standard only relates to disclosure requirements, it did not have any effect on our financial results.

Further information on our significant accounting policies can be found in note 1 to our consolidated financial statements for the year ended December 31, 2008.

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.

International financial reporting standards (IFRS)

In April 2008, the Accounting Standards Board released an exposure draft, Adopting IFRSs in Canada, which proposes to fully converge Canadian GAAP with IFRS effective January 1, 2011. The convergence will occur over a transitional period, with certain standards adopted prior to 2011 and other standards at the date of transition. The International Accounting Standards Board is continually mandating projects and making pronouncements to evolve IFRS, and as a result, IFRS at the transition date is expected to differ from its current form.

We have developed a four-phase approach to transitioning to IFRS. A description of the phases and our progress in each phase is as follows:

Phase 1 – Raise awareness and initial assessment

This phase involves developing an initial project structure, establishing a formal project management process, developing initial operational and milestone conversion plans, raising awareness through education sessions, developing communications and training strategies, and performing a high-level initial assessment of key areas that are anticipated to have the greatest effect on our financial reporting and business.

We initiated a formal project plan that includes a charter, steering committee and multi-functional team, project manager, and an initial project timeline. We have held educational awareness sessions. We performed a high-level initial assessment of the effect that conversion to the current form of IFRS will have on our operations and identified a modest number of topics possibly affecting either our financial results and/or the effort necessary to implement the changeover to IFRS. They include determining which first time adoption of IFRS exemptions we may choose to take advantage of and preparing the necessary disclosures and reconciliations on adoption; determining the comprehensiveness of our processes and procedures for property, plant and equipment in relation to IFRS; determining whether our off-balance sheet arrangements will continue to qualify under IFRS; and developing and maintaining two parallel sets of records in 2010.

Phase 2 – Detailed assessment

This phase involves performing a detailed analysis of the accounting and disclosure differences between Canadian GAAP and IFRS, analyzing the available accounting choices to be made and transitional options available, and modelling the initial assessment of the effect of the financial and disclosure differences on our financial statements and notes.

We have substantially completed our detailed assessments and identified the accounting and disclosure differences between Canadian GAAP and the current form of IFRS. We are currently evaluating the accounting policy choices necessary to convert to IFRS. Although we are tracking according to our project plan, continued progress is necessary before we can prudently disclose our accounting policy differences and choices available to us. We have developed an initial model of our financial statements and notes using IFRS presentation and disclosure standards, which will continue to be refined as we complete our conversion effort.

Phase 3 – Design

This phase involves making preliminary accounting policy decisions based on the detailed assessments, and designing the changes to be implemented to accounting, business and internal control processes and systems.

We are currently compiling and analyzing the information obtained in the detailed assessment phase and will be presenting our evaluation of and recommendations for appropriate accounting policy choices to our audit committee early in the second quarter of 2009. We have commenced designing operational process changes, which includes IT and data systems, internal controls over financial reporting, and developing and maintaining two parallel sets of records in 2010. We anticipate substantially completing phase three by the end of the second quarter of 2009.

Phase 4 – Implementation

This phase involves finalizing accounting policy decisions, implementing the changes identified in the design phase throughout the organization, developing and monitoring revised internal control processes, delivering the required training on new process and accounting standards, preparing external communications plans, and testing the system and process changes made through a parallel dry run process.

We anticipate commencing phase four in the second quarter of 2009. We expect phase four will run through to December 31, 2010.

Critical accounting estimates and assumptions

Under Canadian GAAP, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosures of contingent assets and liabilities in the financial statements. We base our estimates and assumptions on past experience and other factors that we believe are reasonable under the circumstances. This involves varying degrees of judgment about matters that may be inherently uncertain. The amounts currently reported in the financial statements could prove to be inaccurate or are subject to change under different conditions or using different assumptions. We periodically evaluate the reasonableness of these estimates and assumptions.

Investments

We assess the value associated with our investments in Bell Aliant Holdings LP and Bell Aliant Regional Communications Holdings Inc. (Bell Aliant Holdings GP) to ensure that any decline in market value that is considered to be other than temporary will be reflected in the carry value of the investments. If the market value is less than the carrying value and the decline is considered to be other than temporary, the investment is deemed impaired and the difference is charged to other expenses in the period that the assessment is performed.

Market value is based on estimates of discounted cash flows, external factors, or a combination of both. The determination of market 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 market value of investments 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.

RISK MANAGEMENT

The following is a discussion of risks that are unique to us as an income trust. For a discussion of risks related to the business of Bell Aliant Holdings LP, refer to the "Risk management" section of Bell Aliant Holdings LP's MD&A for the year ended December 31, 2008.

Dependence on Bell Aliant Holdings LP

The Fund is an open-ended, limited purpose trust, and is entirely dependent on distributions it receives from its indirect investment in Bell Aliant Holdings LP to make distributions to the Fund unitholders. There can be no assurance regarding the Fund's ability to make distributions, which is dependent upon the financial performance of Bell Aliant 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 price 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 CDIC Act) and are not insured under the provisions of the CDIC Act or any other legislation. Furthermore, we are not a trust company and, accordingly, are 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 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 Bell Aliant 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 us.

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 to us by Bell Aliant Holdings LP and, thus, eventually available to us to distribute to our unitholders. Our distributions are declared at the discretion of our trustees and therefore there can be no assurance that any distributions will be declared in the future. In determining an amount of distributions to declare, the trustees consider numerous factors, all of which are susceptible to a number of risks and other factors beyond our control and that of Bell Aliant Holdings LP. Bell Aliant Holdings LP has the discretion to establish cash reserves (including regulatory capital reserves) for the proper conduct of its business. Adding to these reserves in any year would reduce the amount of distributable cash and, hence, of cash available for distribution to us in that year. Accordingly, there can be no assurance regarding the actual levels of our distributions.

Structural subordination of the Fund units

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

Capital investment

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

Limitation on non-resident ownership

Our Declaration of Trust imposes various restrictions on unitholders. For example, in order to maintain mutual fund trust status under the 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 entitling the trustees to use all remedies available under the Broadcasting Act, the Radiocommunication Act, the Telecommunications Act and all related directions to the Canadian Radio-television and Telecommunications Commission to ensure that at no time will Canadians (as defined for purposes of those laws) own and control less than 80 per cent of Fund units (or such other minimum number, if applicable), or the Fund be otherwise controlled by non-Canadians. 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 takeover bids for 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.

Redemption right

There is a redemption right available to unitholders, but it is not expected to be the primary mechanism for unitholders to liquidate their investment. Upon redemption of Fund units, the Fund trustees may distribute securities or other property held by the Fund to its redeeming unitholders, subject to obtaining any required regulatory approvals and complying with the requisite terms and conditions of such approvals.

The property so distributed may not be qualified investments for trusts governed by certain plans under the Tax Act, depending on the circumstances at the time. Additionally, such securities are not, and are not expected to be, listed on any stock exchange and no established market is expected to develop in such securities and they may be subject to resale restrictions under applicable securities law.

Termination of the Fund

Upon termination of the Fund, the Fund trustees may distribute any downstream assets owned directly or indirectly by the Fund (including units of Bell Aliant Holdings LP) to the unitholders, subject to obtaining all required regulatory approvals. There is currently no market for such assets. In addition, none of the foregoing assets are freely tradable, nor are any of them currently listed on any stock exchange or qualified investments for trusts governed by certain plans under the Tax Act.

Dilution

Our 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.

Tax related risks**Qualified investments for tax deferred plans**

There can be no assurance that Fund units will continue to be qualified investments for certain plans under the Tax Act.

Status as a mutual fund trust

There can be no assurance that we will continue to qualify as a mutual fund trust for the purposes of the Tax Act. If we cease to qualify as a mutual fund trust, the income tax treatment for us and our unitholders would be materially and adversely different than its current income tax treatment in certain respects.

Enactment into law of federal government's changes to income trusts and partnership taxation

The federal government's changes to the tax treatment of income trusts received royal assent and were enacted into law on June 22, 2007 (SIFT rules). For income trusts that were publicly traded before November 2006, such as us, 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, provided certain conditions are met. All else being equal, the imposition of this tax will result in us having less cash available to pay distributions. To qualify for the delay, we must comply with the normal growth guidelines regarding equity capital that were issued by 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. As a result of revisions to the normal growth guidelines that were announced on December 4, 2008, we can issue additional equity in an amount up to 100 per cent of our October 31, 2006, market capitalization without exceeding the normal growth guidelines. 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 we will be able to retain the benefit of the deferral of the SIFT rules.

Taxation of Bell Aliant Holdings Trust, Bell Nordiq Trust and the Fund

Interest on the indebtedness of Bell Aliant Regional Communications Inc. and Bell Nordiq Group Inc. (with respect to its taxation years prior to its June 30, 2007, windup) to Bell Aliant Holdings LP will be included in the income of Bell Aliant Holdings LP for Canadian federal income tax purposes on an accrual basis, whether or not actually paid. Bell Aliant Holdings LP is also required to include in its income, its share of the income of NorthernTel and T  l  bec for each year, whether or not such income is distributed. Bell Aliant Holdings Trust and Bell Nordiq Trust are in turn, required to include in their respective income their share of the income of Bell Aliant Holdings LP for each year. A sufficient amount of the annual net income (including net realized capital gains) of each of Bell Aliant Holdings Trust and Bell Nordiq Trust for each year is intended to be paid or payable in each year to us in order to eliminate Bell Aliant Holdings Trust's and Bell Nordiq Trust's respective liability under Part I of the Tax Act. Such amount will thereby be included in our income as sole unitholder of Bell Aliant Holdings Trust and Bell Nordiq Trust.

A sufficient amount of our annual net income (including net realized capital gains) is intended to be paid or payable each year to Fund unitholders in order to eliminate our liability for tax under Part I of the Tax Act. Where such amount of our net income in a taxation year exceeds the cash available for distribution in the year, such excess net income will be distributed to Fund unitholders in the form of additional Fund units. Fund unitholders will be required to include an amount equal to such excess net income in their income for tax purposes, in circumstances where they do not receive a corresponding cash distribution.

Interest expense deduction

Income fund structures generally involve significant amounts of subordinated inter-company or similar debt, generating substantial interest expense, which serves to reduce earnings and therefore income taxes payable. There can be no assurance that taxation authorities will not seek to challenge the amount of interest expense deducted. If such a challenge were to succeed against Bell Nordiq Group Inc. (with respect to its taxation years prior to its June 30, 2007, windup) or Bell Aliant Regional Communications Inc., it would materially adversely affect the amount of cash available to us for distribution to Fund unitholders. We believe that the interest expense inherent in our organizational structure is supportable and reasonable in light of the terms of the related indebtedness.

Allocation of partnership income

The general partners of Bell Aliant Holdings LP, Bell Aliant LP, NorthernTel and Télébec allocate the respective incomes of such partnerships among their respective partners in accordance with the terms of the related partnership agreements. The Tax Act contains provisions that permit a reallocation of partnership income or loss among members of a partnership where the agreed-upon allocation is not reasonable in the circumstances. Although such allocations are believed to be reasonable in the circumstances, there can be no assurance that taxation authorities will not seek to challenge such allocation. If such challenge were to succeed, the amount of cash available to us for distribution to Fund unitholders could be adversely affected.

CONTROLS AND PROCEDURES**Disclosure controls and procedures**

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us is recorded, processed, summarized and reported within the time periods specified under Canadian securities law. An evaluation of the effectiveness of our disclosure controls and procedures as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109), was performed under the supervision and participation of our management, including the chief executive officer (CEO) and chief financial officer (CFO). Based on the evaluation, the CEO and CFO concluded that the design and operation of our disclosure controls and procedures were effective as of December 31, 2008.

Internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in NI 52-109. Our internal control framework is based on the criteria published in the report Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Management evaluated the design and operation of our internal control over financial reporting as of December 31, 2008, and has concluded that our internal control over financial reporting is effective. There are no material weaknesses that have been identified by management.

No changes were made in our internal control over financial reporting during the year ended December 31, 2008, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.