



## **Bell Aliant Regional Communications Income Fund**

### **Management's Discussion and Analysis**

### **First Quarter 2009**

*This document provides management's discussion and analysis (MD&A) of our financial condition as at, and results of operations for, the three months ended March 31, 2009, compared to the corresponding period in 2008. This MD&A should be read together with our unaudited interim consolidated financial statements and accompanying notes for the period ended March 31, 2009, and our audited consolidated financial statements and accompanying notes, for the year ended December 31, 2008, and related MD&A. 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 and its subsidiaries. References to Bell Aliant Regional Communications Holdings, Limited Partnership (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](http://www.bell.aliant.ca). These and other continuous disclosure documents are also available at [www.sedar.com](http://www.sedar.com).*

#### **Forward-looking information**

*This MD&A is dated May 6, 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 May 6, 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 our 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](http://www.bell.aliant.ca) as well as [www.sedar.com](http://www.sedar.com).*

## **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.

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, Limited Partnership (Télébec) and NorthernTel, Limited Partnership (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 (34.7 per cent on a proportionate cash distribution basis). These interests are exchangeable into Fund units, which give BCE an effective 44.1 per cent combined interest in us on a fully-diluted basis. Under a Securityholders' 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 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 unaudited interim consolidated financial statements and accompanying notes, and MD&A of Bell Aliant Holdings LP for the three month period ended March 31, 2009.

### *Planning for future changes in taxation*

As discussed in our MD&A for the year ended December 31, 2008, as a result of the federal government's October 2006 announced changes to income tax legislation, starting January 1, 2011, the Fund will be taxed as if it were a corporation. During 2008, the Department of Finance released proposed amendments to the Income Tax Act (Canada) to facilitate the conversion of existing income trusts, such as us, into corporations on a tax-deferred basis (Conversion Rules). These Conversion Rules were enacted into law on March 12, 2009. At this point, we anticipate that we will recommend a conversion transaction to our unitholders to be effective on or by January 1, 2011, and we are carefully considering our particular circumstances and the alternatives available to us in order to determine how best to structure the conversion into a corporation. At this time, we are forecasting that we will have sufficient tax shelter to defer incurring an income tax liability for at least 18 months and as much as 24 months after conversion to a corporation. We are also continuing to investigate strategies and options that could mitigate the effect that the eventual payment of income taxes will have on the distributions that we pay to our unitholders.

## Summary of results

The following table shows selected consolidated financial results for the most recent eight quarters. The quarterly information is unaudited, but has been prepared on the same basis as our annual and interim consolidated financial statements.

<i>For the eight quarters ended March 31, 2009 (millions of dollars, except per unit amounts)</i>	2009	2008				2007		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Equity income from investments and other revenues	\$66.4	\$66.0	\$76.2	\$69.4	\$44.1	\$106.8	\$69.9	\$48.7
Net earnings from continuing operations	65.4	65.5	74.7	68.5	43.0	105.6	68.8	45.5
Net earnings (loss) from discontinued operations	0.6	0.1	0.3	(0.7)	-	(0.5)	0.4	204.5
Net earnings	\$66.0	\$65.6	\$75.0	\$67.8	\$43.0	\$105.1	\$69.2	\$250.0
Basic earnings per unit from continuing operations	\$0.51	\$ 0.51	\$ 0.59	\$ 0.54	\$0.34	\$ 0.82	\$ 0.53	\$ 0.34
Basic earnings (loss) per unit from discontinued operations	0.01	\$ 0.01	\$ -	\$ (0.01)	-	-	0.01	1.53
Basic earnings per unit	\$0.52	\$0.52	\$0.59	\$0.53	\$0.34	\$0.82	\$0.54	\$1.87
Diluted earnings per unit from continuing operations	\$0.51	\$ 0.41	\$ 0.58	\$ 0.54	\$0.34	\$ 0.72	\$0.49	\$ 0.25
Diluted earnings (loss) per unit from discontinued operations	-	\$ 0.01	\$ -	(0.01)	-	-	-	1.08
Diluted earnings per unit	\$0.51	\$0.42	\$0.58	\$0.53	\$0.34	\$0.72	\$0.49	\$1.33
Distributions declared	\$92.1	\$92.1	\$92.1	\$92.1	\$91.2	\$89.5	\$90.5	\$92.9

### *Net earnings*

Net earnings mainly 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. Net earnings also include a small amount of interest income earned on cash and cash equivalents and operating expenses. Our net earnings are substantially dependent upon the results of operations of our equity investments. The financial performance of Bell Aliant Holdings LP for the three month period ended March 31, 2009, compared to the same period in 2008, is discussed in its first quarter 2009 MD&A.

Net earnings from continuing operations for the first quarter of 2009 increased \$22.4 million, or 52.1 per cent, from the first quarter of 2008. Our equity income from Bell Aliant Holdings LP in the first quarter of 2009 increased by \$22.3 million, or 50.6 per cent, from the first quarter of 2008 primarily due to an increase in net earnings of that investment. Offsetting this was a decrease of \$10.0 million in future taxes as the first quarter of 2008 had a \$9.4 million recovery relating to temporary differences that are expected to reverse after January 1, 2011, versus a \$0.6 million expense in the first quarter of 2009. In addition, there was a \$14.0 reduction in equity income in the first quarter of 2008 related to a notional depreciation and amortization adjustment that wasn't repeated in 2009.

Net earnings from discontinued operations for the first quarter of 2009 include our proportionate share of the results of operations of Bell Aliant Holdings LP's defence, security and aerospace (DSA) business.

### *Distributions declared*

During the first quarter of 2009, we declared distributions of \$92.1 million, or \$0.725 per unit, compared to \$91.2 million, or \$0.718 per unit, in the first quarter of 2008. The increase is a result of a slightly higher number of Fund units outstanding, as well as a 2.8 per cent increase in our monthly distribution rate which commenced in February 2008.

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 three month period ended March 31, 2009.

## Financial and capital management

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

	As at March 31, 2009	As at December 31, 2008
<i>(millions of dollars)</i>		
Total assets	\$4,189.3	\$4,211.6
Total liabilities	\$30.8	\$30.9
Unitholders' equity	\$4,158.5	\$4,180.7

### Assets and liabilities

At March 31, 2009, 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 has decreased by \$25.4 million since December 31, 2008, as our equity income was less than the distributions declared to us by our equity investee. 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 related parties and our cash and cash equivalent balance will fluctuate over time depending on our cash requirements. At March 31, 2009, these assets increased \$3.1 million from the balances at December 31, 2008, principally related to amounts accrued as receivable under our deferred unit plan.

Our liabilities consist mainly of distributions payable to our unitholders, which were \$30.7 million as at March 31, 2009, unchanged from December 31, 2008.

### Fund units

At March 31, 2009, there were 127,227,697 Fund units outstanding, 100,373,827 exchangeable limited partnership units and 1,283,206 units notionally issued under our deferred unit plan. Only 437,769 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 228,039,293 Fund units outstanding on a fully diluted basis as at March 31, 2009.

At May 1, 2009, there were 127,237,500 Fund units outstanding.

## Related party transactions

As previously discussed in the "Our business" section, we indirectly own an 82.5 per cent equity interest in Bell Aliant Holdings LP. As well, BCE and Bell Canada own 44.1 per cent of our units on a fully-diluted basis. There was no change to the Securityholders' Agreement with BCE during the first quarter of 2009.

Refer to note 8 of our unaudited interim consolidated financial statements for the period ended March 31, 2009, for further information on our related party transaction with Bell Aliant Holdings LP.

## Significant accounting policies and critical accounting estimates

Our accounting policies and methods and critical accounting estimates and assumptions are consistent with those described in note 1 to our annual 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.

## Business combinations, Consolidated financial statements and Non-controlling interests

The CICA issued Section 1582, Business Combinations, concurrently with Sections 1601, Consolidated financial statements, and 1602, Non-controlling interests. Section 1582, which replaced Section 1581, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. Section 1601, which replaced Section 1600, carries forward the existing Canadian guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition, except for those aspects that deal with non-controlling interests. Section 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination. The new standards apply to interim and annual financial statements for fiscal years beginning on or after January 1, 2011, with early adoption permitted. We are assessing the effect of the new standards on our consolidated financial statements.

## 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.

As discussed in our MD&A for the year ended December 31, 2008, we have developed a four-phase approach to transitioning to IFRS as follows:

*Phase 1 – Raise awareness and initial assessment*

*Phase 2 – Detailed assessment*

*Phase 3 – Design*

*Phase 4 – Implementation*

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 in the second quarter of 2009. We will continue to refine these policies as we complete our conversion effort. We have commenced designing operational process changes, which includes information technology 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.

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

## **Risk management**

During the first quarter of 2009, we have not identified any significant changes to the nature of the risks that we are exposed to in our business.

For a discussion of risks related to the Fund, refer to the “Risk management” section of our MD&A for the year ended December 31, 2008, and the “Risk Factors” section of our 2008 Annual Information Form. 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, and the “Risk Factors” section of Bell Aliant Holdings LP’s 2008 Annual Information Form, as updated in Bell Aliant Holdings LP’s MD&A for the first quarter of 2009.

## Controls and procedures

### Internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*. Our system of internal control is based on the framework and 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.

There have been no changes in our internal control over financial reporting during the three months ended March 31, 2009, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.