



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

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

### **Second 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 and six months ended June 30, 2009, compared to the corresponding periods in 2008. This MD&A should be read together with our unaudited interim consolidated financial statements and accompanying notes for the period ended June 30, 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.bellaliant.ca](http://www.bellaliant.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 July 30, 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 July 30, 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.bellaliant.ca](http://www.bellaliant.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 (34.5 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 period ended June 30, 2009.

### *Planning for future changes in taxation*

As a result of the federal government's previously announced changes to income tax legislation, starting January 1, 2011, the Fund will be taxed as if it were a corporation. We anticipate that we will recommend a transaction to Fund unitholders to convert from an income trust to a corporation under the conversion rules proposed by the Department of Finance and enacted into law on March 12, 2009. The conversion would 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. 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.

| For the eight quarters ended June 30, 2009<br>(millions of dollars, except per unit amounts) | 2009   |        | 2008   |        |        |        | 2007    |        |
|--|--------|--------|--------|--------|--------|--------|---------|--------|
|  | Q2     | Q1     | Q4     | Q3     | Q2     | Q1     | Q4      | Q3     |
| Equity income from investments and other revenues  | \$76.3 | \$66.4 | \$66.0 | \$76.2 | \$69.4 | \$44.1 | \$106.8 | \$69.9 |
| Net earnings from continuing operations  | 74.8   | 65.4   | 65.5   | 74.7   | 68.5   | 43.0   | 105.6   | 68.8   |
| Net earnings (loss) from discontinued operations   | (3.4)  | 0.6    | 0.1    | 0.3    | (0.7)  | -      | (0.5)   | 0.4    |
| Net earnings   | \$71.4 | \$66.0 | \$65.6 | \$75.0 | \$67.8 | \$43.0 | \$105.1 | \$69.2 |
| Basic earnings per unit from continuing operations   | \$0.59 | \$0.51 | \$0.51 | \$0.59 | \$0.54 | \$0.34 | \$0.82  | \$0.53 |
| Basic earnings per unit from discontinued operations   | (0.03) | 0.01   | 0.01   | -      | (0.01) | -      | -       | 0.01   |
| Basic earnings per unit  | \$0.56 | \$0.52 | \$0.52 | \$0.59 | \$0.53 | \$0.34 | \$0.82  | \$0.54 |
| Diluted earnings per unit from continuing operations   | \$0.55 | \$0.51 | \$0.41 | \$0.58 | \$0.54 | \$0.34 | \$0.72  | \$0.49 |
| Diluted earnings per unit from discontinued operations                                       | (0.03) | -      | 0.01   | -      | (0.01) | -      | -       | -      |
| Diluted earnings per unit  | \$0.52 | \$0.51 | \$0.42 | \$0.58 | \$0.53 | \$0.34 | \$0.72  | \$0.49 |
| Distributions declared   | \$92.3 | \$92.1 | \$92.1 | \$92.1 | \$92.1 | \$91.2 | \$89.5  | \$90.5 |

### 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 investment in Bell Aliant Holdings LP. The financial performance of Bell Aliant Holdings LP for the three and six month periods ended June 30, 2009, compared to the same periods in 2008, is discussed in its second quarter 2009 MD&A.

Net earnings from continuing operations for the second quarter of 2009 increased \$6.3 million, or 9.2 per cent, from the second quarter of 2008. This is primarily due to an increase in equity income from our investment in Bell Aliant Holdings LP in the second quarter of 2009 of \$6.9 million, or 9.9 per cent, compared to the corresponding period in 2008, due to an increase in net earnings of that investment. On a year-to-date basis, net earnings from continuing operations increased \$28.7 million, or 25.7 per cent, from the same period in 2008, as a result of the increase in our equity income from higher net earnings of our investments. This was offset by a \$9.8 million decrease in future income tax recovery as the first quarter of 2008 had a \$9.4 million future income tax recovery compared to a \$0.6 million future income tax expense for the same period in 2009. In addition, there was a \$14.0 million 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 (loss) from discontinued operations for the second quarter of 2009 include our proportionate share of the results of operations of xwave's professional services operations in New England, conducted through a subsidiary of Bell Aliant Holdings LP, and their defence, security and aerospace (DSA) business. Both of these businesses were sold in the second quarter of 2009, which resulted in recognizing a net after-tax loss on sale of \$1.1 million.

### Distributions declared

During the second quarter of 2009, we declared distributions of \$92.3 million, or \$0.7251 per unit to our unitholders, compared to \$92.1 million, or \$0.7251 per unit, in the second quarter of 2008. On a year-to-date basis, in 2009 we declared distributions of \$184.4 million, or \$1.4502 per unit to our unitholders, compared to \$183.3 million, or \$1.4435 per unit, for the same period in 2008. The increase is a result of

a slightly higher number of Fund units outstanding during 2009 compared to 2008, 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. Further discussion of distributions made by Bell Aliant Holdings LP can be found in its MD&A for the period ended June 30, 2009.

## Financial and capital management

The following table summarizes our financial position as at June 30, 2009 and December 31, 2008.

| <i>(millions of dollars)</i> | <b>As at June 30, 2009</b> | <b>As at December 31, 2008</b> |
|------------------------------|----------------------------|--------------------------------|
| Total assets                 | <b>\$4,177.6</b>           | \$4,211.6                      |
| Total liabilities            | <b>\$30.8</b>              | \$30.9                         |
| Unitholders' equity          | <b>\$4,146.8</b>           | \$4,180.7                      |

### *Assets and liabilities*

At June 30, 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 \$36.0 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. Therefore, the balance due from related parties and our cash and cash equivalent balance will fluctuate over time depending on our cash requirements. At June 30, 2009, these assets increased \$1.9 million from the balances at December 31, 2008, with the increase principally related to amounts accrued as receivable related to our deferred unit plan.

Our liabilities consist mainly of distributions payable to our unitholders, which were \$30.8 million as at June 30, 2009, and \$30.7 million as at December 31, 2008.

### *Fund units*

At June 30, 2009, there were 127,239,398 Fund units outstanding, 100,373,827 exchangeable limited partnership units and 1,283,991 units notionally issued under our deferred unit plan. Only 437,380 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 228,050,605 Fund units outstanding on a fully diluted basis as at June 30, 2009.

At July 24, 2009, there were 127,239,398 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. During the second quarter of 2009, both Charles White and Andrew Smith left their positions on the board of directors of Bell Aliant Holding LP's principal subsidiaries. The Securityholders' Agreement was amended as of May 1, 2009, to reduce the minimum number of directors required on the principal operating boards from 11 to nine.

Refer to note 7 of our unaudited interim consolidated financial statements for the period ended June 30, 2009, for further information on our related party transactions 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 have compiled and analyzed the information obtained in the detailed assessment phase and presented our preliminary 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 accounting policy choices as we continue through our conversion effort and will present our final accounting policy choices to the audit committee for approval later in 2009. We 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, during the first quarter of 2009. We have substantially completed the design phase at the end of the second quarter of 2009 and have commenced implementing the proposed system design changes. We expect the implementation phase will run through to December 31, 2010.

## **Risk management**

During the second 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 its MD&A for the year ended December 31, 2008, and the “Risk Factors” section of its 2008 Annual Information Form, as updated in its MD&A for the second 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 period ended June 30, 2009, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.