



Bell Aliant Regional Communications Holdings, Limited Partnership Management's Discussion and Analysis Third Quarter 2009

This management's discussion and analysis (MD&A) describes our operations, performance and financial condition for the three and nine months ended September 30, 2009, compared to the corresponding periods in 2008. This MD&A should be read together with our third quarter 2009 unaudited interim consolidated financial statements and accompanying notes and our audited consolidated financial statements and accompanying notes for the year ended December 31, 2008, and related MD&A. All amounts in this document are in millions of Canadian dollars, except where noted. Our consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP).

Throughout this document, unless otherwise indicated, "we", "us", "our" and "Bell Aliant Holdings LP" refer to Bell Aliant Regional Communications Holdings, Limited Partnership and its subsidiaries. In preparing this document, we have taken into account information available to us up to the date of this MD&A, November 10, 2009, unless otherwise stated.

Additional information about us and Bell Aliant Regional Communications Income Fund (the Fund), including annual and quarterly reports, supplementary financial information, annual information forms and information circulars can be found under "financial reports" on the Fund's website at www.bellaliant.ca or on SEDAR at www.sedar.com.

Forward-looking information

This MD&A contains forward-looking information related to our future financial condition and results of operations. The purpose of forward-looking information is to provide the reader with information about our expectations, plans and priorities 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 operate and our beliefs and assumptions regarding these markets. Unless otherwise indicated, forward-looking information in this MD&A describes our expectations at November 10, 2009. In some cases, forward-looking information may be identified by words such as "anticipate", "believe", "could", "expect", "plan", "seek", "may", "intend", "will", "forecast" 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 ability to achieve strategies and plans; general economic conditions; increasing competition; changing regulations; reliance on systems; dependence on key suppliers; changing technology; required operating and capital expenditures; our relationship with BCE Inc. (BCE) and Bell Canada; pension plan funding; liquidity and financing risk; leverage and restrictive covenants; BCE's governance rights; reliance on key personnel and labour relations; success of acquisitions and dispositions; legal contingencies and changes in laws. Some of these risk factors are largely beyond our control. In addition, a number of assumptions were made by us in providing forward-looking information in this MD&A, such as certain Canadian economic assumptions, market assumptions, financial and operational assumptions, and assumptions about transactions. Refer to the "Assumptions made in the preparation of forward-looking information and risks that could affect our business and results" section of this MD&A for further discussion of these and other assumptions and 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 by us 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 as well as www.sedar.com.

Our business

We are one of North America’s largest regional communication services providers and we deliver information, communications and technology services to approximately 5.3 million Canadians across Atlantic Canada, Ontario and Quebec.

Our principal operations are carried on by Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Télébec, Limited Partnership (Télébec), and NorthernTel, Limited Partnership (NorthernTel). We operate as one reportable segment, which represents the manner in which we are organized and managed for planning, assessing performance and making resource allocation decisions.

Our business environment

Competitive landscape

Our most significant competitive threat continues to be from cable companies expanding their local service areas and providing bundled offerings in our regions. The competitive footprint overlap with cable companies expanded to approximately 64 per cent of households in our territories at the end of September 2009, which represents a 9 percentage point increase since the same period a year ago. We expect continued growth in the footprint and intensity of our competition.

In response to these competitive pressures, we continue to be committed to delivering the highest quality of customer service, choice and convenience to our customers. We are continually enhancing our products and services, promoting our own bundled and *Value Package*[™] service offerings, and working with customers to provide innovative and complete solutions. We continue to invest in our communities and support activities that are important to our customers and employees. We remain focused on the successful execution of our strategic objectives. Refer to our achievements as discussed in the “Strategy” section for further details.

Regulatory landscape

Our business is affected by decisions made by the Canadian Radio-television and Telecommunications Commission (CRTC or the Commission) and the federal government, pursuant to the *Telecommunications Act* and the *Broadcasting Act*. We regularly participate in the public processes leading up to these decisions, submitting evidence, opinions and comments to the CRTC. We also work with other industry and interested parties in lobbying for regulatory reform where we feel necessary and warranted, while similarly opposing those parties seeking to raise the regulatory burdens in our industry.

For a complete discussion, refer to the “Regulatory developments” section.

Planning for future changes in taxation rules

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. The Fund holds 82.5 per cent of our partnership units, with the remaining 17.5 per cent held by BCE and Bell Canada. We anticipate that the Fund will recommend to its unitholders a tax-deferred transaction to convert from an income trust to a corporation under the conversion rules enacted into law on March 12, 2009. We anticipate that 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 are paid to Fund unitholders. We do not expect these conversion measures will affect our business model or operating plans.

Third quarter in review

Summary of results

For the period ended September 30 (millions of dollars)	Three months			Nine months ⁽²⁾		
	2009	2008 ⁽²⁾	% change	2009	2008	% change
Operating revenues	\$785.8	\$806.6	(2.6)	\$2,388.6	\$2,443.1	(2.2)
EBITDA ⁽¹⁾	\$374.9	\$371.0	1.1	\$1,100.8	\$1,084.7	1.5
Operating income ⁽¹⁾	\$163.7	\$171.3	(4.4)	\$478.7	\$487.8	(1.9)
Net earnings from continuing operations	\$98.8	\$95.1	3.9	\$277.9	\$255.6	8.7
Net loss from discontinued operations	(\$7.0)	(\$1.6)	n.m.	(\$14.3)	(\$13.4)	6.7
Net earnings	\$91.8	\$93.5	(1.8)	\$263.6	\$242.2	8.8

n.m. not meaningful

⁽¹⁾ EBITDA and operating income are non-GAAP financial measures. Refer to the "Non-GAAP financial measures" section for more details.

⁽²⁾ Financial results for all prior periods have been restated to reflect Innovatia Inc. and our xwave New England business as discontinued operations.

Operating revenues for the third quarter of 2009 decreased by 2.6 per cent, or \$20.8 million, and year-to-date decreased by 2.2 per cent, or \$54.5 million, compared to the same periods in 2008. We continue to see revenue declines in local and long distance, mainly due to competitive losses and substitution by other services. Other revenues have also declined throughout 2009, mainly due to a decline in outsourcing revenue as Bell Mobility repatriated work previously performed by us in 2008, as well as lower product sales, rental revenues, and custom work. Total information technology (IT) revenues also declined in the third quarter and on a year-to-date basis, compared to the same period in the prior year, but the timing and mix of IT service and IT fulfillment work throughout 2009 has led to fluctuations on a quarterly basis when compared to the prior year. On a year-to-date basis, large IT product sales in the first quarter of 2009 contributed to the increase in IT fulfillment revenues over 2008. The decline in IT services revenues for year-to-date 2009 over 2008 has more than offset the IT fulfillment revenue growth. The decline mainly reflects the recognition in the first quarter of 2008 of previously deferred IT services revenues associated with a major healthcare IT project in Quebec. Partially offsetting these revenue declines are growth in our data and wireless revenues, mainly due to growth in our Internet and wireless customer bases. Refer to our "Results of operations" section for additional details.

Although operating revenues declined, we have reduced operating expenses such that EBITDA has improved by 1.1 per cent, or \$3.9 million, during the third quarter of 2009, compared to the third quarter of 2008, and 1.5 per cent, or \$16.1 million, on a year-to-date basis. Labour-related cost reductions and other cost containment initiatives accounted for most of the EBITDA improvement, while also contributing

was a one-time \$3.0 million adjustment that reduced senior management long-term incentive plan expenses. Normalizing for this adjustment, EBITDA growth on a year-to-date basis was 1.2 per cent.

Although there was growth in EBITDA and a decline in net cost of benefits plans expense due to lower current service costs, our depreciation and amortization expense increased as there were changes to certain capital assets useful lives, and we recognized restructuring and other charges in the third quarter of 2009 related to productivity initiatives to create a more efficient cost structure, with no similar charges in the third quarter of 2008. As a result, operating income decreased in the third quarter of 2009 by 4.4 per cent, or \$7.6 million, compared to the third quarter of 2008, and 1.9 per cent, or \$9.1 million, on a year-to-date basis.

Net earnings decreased by \$1.7 million in the third quarter of 2009, compared to the third quarter of 2008. This decrease is made up of a \$3.7 million increase in net earnings from continuing operations offset by a \$5.4 million increase in net loss from discontinued operations. On a year-to-date basis, net earnings increased by \$21.4 million compared to 2008, which includes a \$22.3 million increase in net earnings from continuing operations reduced by a \$0.9 million increase in net loss from discontinued operations.

Net earnings from continuing operations has increased \$3.7 million in the third quarter and \$22.3 million on a year-to-date basis, as the decrease in operating income was offset mainly by higher income tax recoveries and lower non-controlling interest in 2009 earnings, compared to 2008. In addition, the year-to-date net earnings from continuing operations was also negatively affected by a \$13.3 million financial derivative loss resulting from settlement of fixed-floating interest rate swaps in connection with our repayment of variable interest debt in May 2009.

Net loss from discontinued operations increased \$5.4 million in the third quarter of 2009 and \$0.9 million on a year-to-date basis compared to the same periods in 2008, mainly due to the classification of Innovatia Inc. (Innovatia) to discontinued operations in the third quarter of 2009. An agreement was entered into on September 30, 2009, to sell 100 per cent of the shares of Innovatia. On a year-to-date basis, the net loss from discontinued operations in 2008 also reflects a \$10.8 million loss from the operations of Atlantic Mobility Products (AMP), mainly due to an \$11.2 million write-down of goodwill.

Distributable cash

The following table provides a summary reconciliation of cash from operating activities to standardized distributable cash and distributable cash for the three and nine months ended September 30, 2009, and 2008, and additional information on the relationship between cash from operating activities, net earnings and cash distributions declared. Since our operations ultimately support distributions to Fund unitholders, distributable cash combines our cash performance with that of the Fund.

For the period ended September 30 (millions of dollars)	Three months			Nine months ⁽⁴⁾		
	2009	2008 ⁽⁴⁾	% change	2009	2008	% change
Cash from operating activities	\$298.1	\$307.9	(3.2)	\$803.5	\$894.2	(10.1)
Add (deduct): Cash from operating activities of the Fund and discontinued operations	(4.6)	(0.3)	n.m.	(26.6)	(4.1)	n.m.
Capital expenditures	(114.7)	(138.2)	17.0	(343.7)	(359.9)	4.5
Standardized distributable cash ⁽¹⁾	\$178.8	\$169.4	5.5	\$433.2	\$530.2	(18.3)
Add (deduct): Operating items funded through cash reserves or borrowing	23.7	6.0	n.m.	149.1	31.6	n.m.
Other adjustments	5.3	3.9	35.9	8.6	7.6	13.2
Distributable cash ⁽¹⁾	\$207.8	\$179.3	15.9	\$590.9	\$569.4	3.8
Net earnings	\$91.8	\$93.5	(1.8)	\$263.6	\$242.2	8.8
Cash distributions declared ⁽²⁾	\$165.1	\$164.9	0.1	\$495.1	\$493.1	0.4
Excess of cash from operating activities over cash distributions declared ⁽³⁾	\$128.4	\$142.7	(10.0)	\$281.8	\$397.0	(29.0)
Excess (shortfall) of net earnings over cash distributions declared	(\$73.3)	(\$71.4)	(2.7)	(\$231.5)	(\$250.9)	7.7

n.m. not meaningful

⁽¹⁾ Refer to the "Non-GAAP financial measures" section for a definition and detailed reconciliation of cash from operating activities to standardized distributable cash and distributable cash.

⁽²⁾ Distributions declared includes amounts declared by the Fund to unitholders and by Bell Aliant Holdings LP and Bell Aliant LP to Bell Canada and BCE on units that are exchangeable into Fund units.

⁽³⁾ Cash from operating activities includes that generated by the Fund and discontinued operations.

⁽⁴⁾ Financial results for all prior periods have been restated to reflect Innovatia Inc. and our xwave New England business as discontinued operations.

Standardized distributable cash for the third quarter of 2009 was \$178.8 million, which represents an increase of \$9.4 million, or 5.5 per cent, when compared to the same period in 2008. The increase relates mainly to a \$23.5 million decrease in capital spending in the third quarter of 2009, compared to the third quarter of 2008, offset by a \$9.8 million decrease in cash from operating activities in the third quarter of 2009, compared to the same period in 2008. When comparing the year-to-date results for 2009 with the same period in 2008, standardized distributable cash decreased \$97.0 million, or 18.3 per cent, due to a \$90.7 million decrease in cash from operating activities and a \$7.8 million decrease in standardized distributable cash from discontinued operations, offset by lower capital spending of \$16.2 million. Refer to our “Summary of cash flows” section for additional information on cash from operating activities and capital spending.

In contrast to standardized distributable cash, our calculation of distributable cash excludes working capital fluctuations, restructuring charges and certain other items we fund through cash reserves or short-term borrowings. On this basis, distributable cash of \$207.8 million for the third quarter of 2009 increased \$28.5 million, or 15.9 per cent, compared to the same period in 2008. The increase is mainly attributed to EBITDA growth of \$3.9 million and lower capital expenditures of \$23.5 million. On a year-to-date basis, distributable cash of \$590.9 million represents an increase of \$21.5 million, or 3.8 per cent, mainly related to growth in EBITDA and reduced capital spending offset by lower cash from discontinued operations.

In the third quarter of 2009, cash distributions declared were \$165.1 million, or 79.5 per cent of distributable cash, compared to \$164.9 million, or 92.0 per cent of distributable cash, for the comparable period in 2008. For the nine months ended September 30, 2009, cash distributions declared were \$495.1 million, or 83.8 per cent of distributable cash, compared to \$493.1 million, or 86.6 per cent, for the comparable period in 2008. The decrease in the distributable cash payout ratio in both the three and nine months ended September 30, 2009, is due to the level of distributions being held consistent with 2008 payouts, while distributable cash has increased in both the third quarter of 2009 and on a year-to-date basis, compared to the same periods in 2008.

Strategy

Highlights of strategic achievements in the third quarter of 2009

Our 2009 strategy builds on our past strategies and the success we have been able to achieve in recent years. We are focused on achieving five strategic objectives:

1. Improve the customer experience;
2. Retain our customers;
3. Grow broadband;
4. Reset our cost structure; and
5. Engage employees.

We made progress on the achievement of our strategic objectives during the third quarter of 2009 through advancing our ongoing business operations as described below.

Improve the customer experience

Our service results continued to improve in the third quarter of 2009, driven by enhanced service offerings, improved processes, tools and training. Some of the highlights of these initiatives include the implementation of our Same Day, Next Day service which provides our television, Internet and wireline customers a service guarantee that if an issue cannot be resolved remotely, we will dispatch a technician that day or the next at no further charge. In our Central region, we are seeing the benefits of this program which is having a positive impact on the time it takes to complete a repair order. The work that we completed earlier in the year on proactive maintenance is having an overall positive impact on the number of repair orders.

We upgraded the email platform for both residential and business customers during the third quarter of 2009, significantly increasing mailbox storage, enhancing the ability to send and receive larger attachments and improving the web mail application. We also implemented new SmartPhone technology in our Customer Care Centres in Nova Scotia and Prince Edward Island that improved call routing, menu selections, monitoring and management tools.

Our continued focus on keeping our promise to customers and doing things right the first time continues to show in all our performance metrics.

Retain our customers

Focus on retaining our customers continues to be a key priority for us as competitive activity continues to intensify. In addition to our programs to improve the customer experience which is essential to retention, we run many programs to ensure we maximize the retention of our customer base across all of our product lines.

We increased the number of competitive offers and activity in the third quarter of 2009, in response to Rogers Communications Inc. "Couch Campaign" as well as other competitors' offers.

We continued the roll-out of the new Bell Aliant branding in Atlantic Canada, moving the brand onto more of our trucks, buildings and promotional materials.

In the business market, the changes we made earlier in 2009 to our sales force are improving our relationships with our customers. Reorienting our teams from a segment to geographical structure is leading to closer knowledge of our customers' businesses and operating environments and creating stronger relationships with key decision makers.

Grow broadband

In September 2009, we began connecting customers in Fredericton to our fibre-to-the-home (*FibreOP*TM) service. We expect that *FibreOP*TM will be available to all residents of Fredericton and Saint John by mid 2010 and will provide best-in-class Internet speed and high definition (HD) TV experiences in those markets. To date, sales are strong and customers are providing positive feedback.

We continue to expand our broadband footprint and we added over 21,500 homes during the third quarter of 2009, to now pass over 76 per cent of the homes in our territory.

We made a number of speed increases to our high-speed Internet services including increasing High-Speed Ultra from 5 to 7 megabits per second (Mbps) and High-Speed Max from 10 to 14 Mbps.

Numerous upgrades were made to our Bell Aliant TV during the third quarter of 2009, focusing on our HD product and personal video recorder (PVR) service.

Reset our cost structure

Cost structure improvements, specifically those resulting from our 2008 and 2009 restructuring initiatives, are showing significant reductions in expenses, particularly labour costs. During the third quarter of 2009, we continued to focus on cost containment in a number of areas. We continued re-negotiating contracts with several large vendors for lower prices as part of a broader program focused on improving the overall procurement process. Additionally, as previously discussed, there were enhancements in the contact centre SmartPhone technology, which resulted in permanent, long-term cost savings and improvements in customer service at the same time.

Engage employees

In 2009, we are committed to reinforcing a performance-based culture by more closely aligning personal performance with corporate objectives and by continuing to invest in leadership development.

To further engage employees in building customer loyalty, we launched our Make it Personal program to employees in Ontario and Quebec. The Make It Personal program is an internal, online referral program where employees help friends or family with our products and service.

Most recently, we launched our largest internal sponsorship campaign ever, in relation to the Vancouver 2010 Olympics. This campaign is focused on engaging our employees in the role we play as a sponsor of this world event. There are opportunities for employees to participate in the Olympic Torch Bearer program and a chance to win a trip to the Olympics by submitting referrals to the Make It Personal program. Additionally, a number of employees have been accepted for assignments in British Columbia, supporting the operational delivery of the Olympic Games.

Results of operations

In addition to distributable cash, our financial performance is measured by operating revenues, EBITDA and operating income.

For the period ended September 30 (millions of dollars)	Three months			Nine months ⁽²⁾		
	2009	2008 ⁽²⁾	% change	2009	2008	% change
Local and access	\$341.8	\$356.8	(4.2)	\$1,020.9	\$1,055.8	(3.3)
Long distance	111.2	117.0	(5.0)	323.5	342.5	(5.5)
Data	207.8	198.9	4.5	615.2	590.0	4.3
Information technology	61.3	62.8	(2.4)	238.0	244.9	(2.8)
Wireless	24.3	21.9	11.0	65.3	59.3	10.1
Other revenues	39.4	49.2	(19.9)	125.7	150.6	(16.5)
Operating revenues	\$785.8	\$806.6	(2.6)	\$2,388.6	\$2,443.1	(2.2)
Operating expenses	410.9	435.6	(5.7)	1,287.8	1,358.4	(5.2)
EBITDA ⁽¹⁾	\$374.9	\$371.0	1.1	\$1,100.8	\$1,084.7	1.5
Net cost of benefit plans	20.0	25.1	(20.3)	64.7	74.6	(13.3)
Depreciation and amortization	177.4	174.6	1.6	530.8	522.3	1.6
Restructuring and other charges	13.8	-	n.m.	26.6	-	n.m.
Operating income ⁽¹⁾	\$163.7	\$171.3	(4.4)	\$478.7	\$487.8	(1.9)
Other expenses	(0.8)	(0.6)	(33.3)	12.2	2.0	n.m.
Interest charges	40.0	38.1	5.0	116.5	117.2	(0.6)
Income tax expense (recovery)	(8.4)	(0.9)	n.m.	(32.1)	(4.8)	n.m.
Non-controlling interest	34.1	39.6	(13.9)	104.2	117.8	(11.5)
Net earnings from continuing operations	\$98.8	\$95.1	3.9	\$277.9	\$255.6	8.7
Net earnings from discontinued operations	(7.0)	(1.6)	n.m.	(14.3)	(13.4)	(6.7)
Net earnings	\$91.8	\$93.5	(1.8)	\$263.6	\$242.2	8.8

n.m. not meaningful

⁽¹⁾ EBITDA and operating income are non-GAAP financial measures. Refer to the "Non-GAAP financial measures" section for more details.

⁽²⁾ Financial results for all prior periods have been restated to reflect Innovatia Inc. and our xwave New England business as discontinued operations.

Operating revenues

Local and access

Local and access revenue is earned primarily through the provision of network access services (NAS), along with enhanced service features, contribution payments and competitor network access payments. Despite a 4.9 per cent drop in our total NAS customers at September 30, 2009, compared to September 30, 2008, we have contained the local and access revenue decline to 4.2 per cent, or \$15.0 million, in the third quarter of 2009, and 3.3 per cent, or \$34.9 million, on a year-to-date basis, compared to the same periods in 2008. The third quarter of 2008 included a one-time retroactive favourable contribution subsidy revenue adjustment, without which the local service revenue decline in the third quarter of 2009 was 3.4 per cent. Revenue losses continued to be mitigated through programs targeted at retaining our highest value customers, pricing increases and increased features penetration.

At September 30, 2009, the number of residential NAS customers was 5.5 per cent lower than at September 30, 2008, and the number of business NAS customers was 3.8 per cent lower. In our

residential market, we are continuing to experience competitive losses due to increased competitive intensity and an expansion in the cable competitive footprint, as well as substitution by other services, such as wireless and VoIP. In addition, the economic downturn has softened the market and slowed new installations. The business NAS decline was largely due to the continued migration of lines in relation to the loss of a federal government contract in 2008.

Long distance

Long distance revenue, earned through toll and long distance terminating services, declined by 5.0 per cent, or \$5.8 million, in the third quarter of 2009, and 5.5 per cent, or \$19.0 million, on a year-to-date basis, compared to the same periods in 2008. The long distance revenue decrease was a result of a decline in long distance minutes and average revenue per minute. The decline in long distance minutes of 3.7 percent for the quarter and 4.0 per cent for the year to date is due to customer losses and substitution by email, cellular calling and IP-based services. The decline in average revenue per minute of 2.9 per cent for the quarter and 2.1 per cent for the year to date is due to price reductions, primarily with our enterprise customers, and customers continuing to shift away from rate-per-minute plans in favour of set-price unlimited or large usage packages.

Data

Data revenue is earned through the provision of data access, data circuits, high-speed and dial-up Internet services, managed services, and enhanced services and applications, such as security services, dial-up accelerator and Bell Aliant TV. Revenue from these services increased \$8.9 million, or 4.5 per cent, for the third quarter of 2009 compared to the same period in 2008, substantially due to growth in Internet revenue of \$11.1 million, or 11.3 per cent. On a year-to-date basis, data and Internet revenue increased \$25.2 million, or 4.3 per cent, with \$31.1 million, or 10.8 per cent, growth in Internet revenue.

At September 30, 2009, our high-speed Internet customer base had grown 7.1 per cent over September 30, 2008, with growth in both the residential and business markets. We have experienced strong growth in our high-speed Internet customers and although the rate of increase over the last year is lower, this trend is reflected across the industry. We have mitigated this declining growth rate by marketing our higher value services to customers and through selected price increases, which have resulted in an increase in residential high-speed Internet average revenue per customer (ARPC) of \$2.04, or 5.6 per cent, to \$38.20 during the third quarter of 2009, and an increase of \$2.00, or 5.6 per cent, to \$37.68 year-to-date.

Information technology

IT services and fulfillment revenue is earned primarily by our xwave division through systems integration, IT consulting, and hardware and software fulfillment. Overall IT services and fulfillment revenue declined in the third quarter of 2009 by 2.4 per cent, or \$1.5 million, and on a year-to-date basis, 2.8 per cent, or \$6.9 million, compared to the same periods in 2008. Although IT fulfillment revenues have increased on a year-to-date basis by \$7.6 million, the decline in the third quarter of \$2.1 million, compared to the same period in 2008, is due to the timing of product sales as there were fewer large product sales in the second and third quarter of 2009 and more in the first quarter of the year. IT services revenues grew marginally by \$0.6 million in third quarter of 2009 but have declined on a year-to-date basis by \$14.5 million, which reflects the recognition, in the first quarter of 2008, of previously deferred revenues associated with a major healthcare IT project in Quebec.

Wireless

Wireless revenue is earned through providing cellular, paging and mobile radio services over digital wireless networks in our Télébec, NorthernTel, and Kenora Municipal Telephone Services (KMTS) branded territories in Quebec and Ontario. Revenue increased by 11.0 per cent, or \$2.4 million, in the third quarter of 2009, and 10.1 per cent, or \$6.0 million, on a year-to-date basis compared to the same periods in 2008. This was mainly due to a 5.3 per cent increase in wireless customers at September 30, 2009, compared to September 30, 2008, and a 2.5 per cent, or \$1.50, increase in ARPC on a year-to-date basis. Growth in ARPC is largely attributed to higher roaming revenues and features penetration.

Other revenues

Other revenues consist mainly of terminal rentals and sales, personal computer sales, telecom equipment sales, custom work completed for large customers, and revenue generated by our outsourcing arrangement with Bell Mobility. Other revenues declined by 19.9 per cent, or \$9.8 million, in the third quarter of 2009, compared to the same period in 2008. This decline is partially driven by a decrease in outsourcing revenue of \$1.6 million, or 24.4 per cent, due to repatriation of work in 2008 by Bell Mobility that was previously performed by us. In addition, product sales declined by \$4.8 million or 28.4 per cent, and custom work declined by \$2.9 million or 89.8 per cent, compared to third quarter of 2008, attributed to a weaker economy. On a year-to-date basis, other revenues declined by 16.5 per cent, or \$24.9 million, mainly reflecting a \$10.4 million decrease in outsourcing revenue due to the repatriation of work in 2008 by Bell Mobility that was previously performed by us, as well as \$7.5 million less custom work, \$5.4 million lower product sales and \$3.3 million lower rental revenues.

Expenses

Operating expenses

For the period ended September 30 (millions of dollars)	Three months			Nine months ⁽¹⁾		
	2009	2008 ⁽¹⁾	% change	2009	2008	% change
Cost of sales	\$126.2	\$125.7	0.4	\$426.9	\$408.9	4.4
Salaries, benefits, contract labour and consulting	145.7	159.2	(8.5)	435.7	485.8	(10.3)
Selling, general and administrative	137.6	147.8	(6.9)	419.5	455.4	(7.9)
Capital taxes	1.4	2.9	(51.7)	5.7	8.3	(31.3)
Operating expenses	\$410.9	\$435.6	(5.7)	\$1,287.8	\$1,358.4	(5.2)

⁽¹⁾ Financial results for all prior periods have been restated to reflect Innovatia Inc. and our xwave New England business as discontinued operations.

Cost of sales increased 0.4 per cent, or \$0.5 million, in the third quarter of 2009, compared to the same period in 2008. This increase is in TV content expense as our TV subscribers grew, offset by declines in IT fulfillment and other product revenues compared to the same period in 2008. On a year-to-date basis, cost of sales increased 4.4 per cent, or \$18.0 million, compared to the same period in 2008, reflecting similar trends experienced in the third quarter of 2009, except IT fulfillment sales increased, which increased the associated cost of goods sold. As well, there was a year-over-year increase of \$8.6 million in product cost of goods sold associated with an IP access solution provided to certain wholesale customers during 2009.

Salaries, benefits, contract labour and consulting expenses decreased 8.5 per cent, or \$13.6 million, in the third quarter of 2009, compared to the same period in 2008, due to the continuation of productivity initiatives that were introduced in late 2008 and early 2009 related to workforce restructuring. On a year-to-date basis, labour costs decreased 10.3 per cent, or \$50.1 million, compared to the same period in 2008, due to the implementation of these productivity initiatives, the one-time \$3.0 million adjustment in the second quarter which reduced senior management long-term incentive plan expenses, and the timing of the recognition in the first quarter of 2008 of revenues and expenses related to an IT healthcare project in Quebec, which had previously been deferred.

Selling, general and administrative expenses decreased 6.9 per cent, or \$10.2 million, in the third quarter of 2009, compared to the same period in 2008. There were various cost containment and other expense reductions of approximately \$6.9 million, represented by decreases in bad debt expense following a review of our allowance for doubtful accounts, real estate expenses, provincial and municipal property and revenue taxes, and other discretionary expenses. On a year-to-date basis, selling, general and administrative costs decreased 7.9 per cent, or \$35.9 million, compared to the same period in 2008, primarily as a result of the timing of recognition of professional costs associated with the Quebec healthcare project discussed above, along with \$7.7 million in savings realized in relation to the commercial agreements with Bell Canada, and other cost containment and expense reductions.

Net cost of benefit plans

Net cost of benefit plans declined 20.3 per cent, or \$5.1 million, in the third quarter of 2009, and \$9.9 million, or 14.4 per cent, on a year-to-date basis, compared to the same periods in 2008. The decrease for the quarter and year to date is mainly due to lower current service costs resulting from an increase in the average rate used to discount the obligations of our defined benefit (DB) pension and other post-employment benefit plans at the end of 2008. We also have fewer active employees in these plans than a year earlier. As well, defined contribution (DC) pension costs were slightly lower than the prior year, also reflecting a decrease in the number of participants in these plans following restructuring initiatives that occurred earlier in 2009.

Depreciation and amortization

Depreciation and amortization increased 1.6 per cent, or \$2.8 million, in the third quarter of 2009, and increased 1.6 per cent, or \$8.5 million, on a year-to-date comparative basis. Periodically, we perform studies on the useful lives of certain of our capital assets, which results in changes to our depreciation and amortization.

Restructuring and other charges

Restructuring and other charges for the third quarter of 2009 and on a year-to-date basis were \$13.8 million and \$26.6 million, respectively, with no similar expense in the corresponding periods of 2008. In October 2009, we announced a plan to consolidate certain contact centres in Atlantic Canada. Unionized employees based in the affected contact centres were offered relocation to the remaining contact centres. We estimated the cost of implementing this plan and recorded a liability for severance and other costs of \$13.0 million. On a year-to-date basis, we also incurred costs relating to an early retirement incentive offered to a limited number of unionized staff and charges related to rebranding.

Other expenses (income)

Other income increased \$0.2 million in the third quarter of 2009 compared to the same period in 2008. On a year-to-date basis other expenses were \$12.2 million in 2009 compared to \$2.0 million for the same period of 2008. The year-to-date increase in the other expenses includes \$13.3 million reclassified from other comprehensive earnings, related to the previously unrecognized portion of net losses on interest rate hedges that were settled during the second quarter of 2009.

Interest charges

Interest charges increased 5.0 per cent, or \$1.9 million, in the third quarter of 2009, and decreased 0.6 per cent, or \$0.7 million, on a year-to-date basis, compared to the same periods in 2008. The quarter-over-quarter increase relates primarily to higher rates experienced as a result of the refinancing of \$350.0 million of debt in May 2009. Although \$350.0 million in short-term bank debt was replaced with fixed rate medium-term notes, total debt levels are largely unchanged year over year.

Income tax recovery

A portion of our income is earned through limited partnerships. The taxable income earned through limited partnerships is not subject to tax at the limited partnership level, but is allocated directly to the respective partners. The tax provision reported relates to our corporate subsidiaries that are subject to tax on their taxable income. The \$7.5 million increase in income tax recovery in the third quarter of 2009 to \$8.4 million, compared to an income tax recovery of \$0.9 million for the same period in 2008, was mainly due to lower capital investment related deductions for tax purposes as compared to financial reporting purposes. On a year-to-date basis, the income tax recovery increased by \$27.3 million compared to the same period in 2008, reflecting \$16.5 million higher income tax recovery in 2009 due to tax rates changes combined with higher income tax recovery due to lower capital investment related deductions, offset by higher pension and other employee benefit and long-term debt expense deductions for tax purposes as compared to financial reporting purposes.

Non-controlling interest

Non-controlling interest in our earnings represents Bell Canada's 37.9 per cent ownership interest in our subsidiary, Bell Aliant LP (34.9 per cent on a proportionate cash distribution basis). The per unit distributions attributable to and paid to Bell Canada equal, to the greatest extent practicable, the per unit distributions paid by the Fund to holders of Fund units. The non-controlling interest related to Bell Canada's interest in Bell Aliant LP is based on Bell Canada's pro-rata share of cash distributions from Bell Aliant LP each quarter.

Non-controlling interest in our earnings decreased 13.9 per cent, or \$5.5 million, in the third quarter of 2009, and 11.5 per cent, or \$13.6 million on a year-to-date basis, compared to the same periods in 2008, which mainly reflects Bell Canada's proportionate share of the decrease in net income of Bell Aliant LP for the period.

Net loss from discontinued operations

Discontinued operations in 2009 reflect the operating results of Innovatia, xwave New England Corp (xwave New England) and the assets of our Defence, Security and Aerospace (DSA) business, while 2008 also includes the operating results of AMP. Net loss from discontinued operations increased \$5.4 million in the third quarter of 2009, and \$0.9 million on a year-to-date basis, compared to the same periods in 2008.

On September 30, 2009, we entered into a share purchase agreement under which the current senior leaders of Innovatia will acquire all of the outstanding shares of Innovatia. The transaction closed on November 1, 2009, with \$1.5 million proceeds on closing. As a result, we have reclassified the results of Innovatia's operations as discontinued operations and recognized a \$6.1 million impairment loss for the write-down of the net assets to fair value. In addition, Innovatia generated a \$0.3 million higher loss from operations in the third quarter of 2009, compared to the same period in 2008. On a year-to-date basis, Innovatia generated an \$8.7 million higher loss in 2009, compared to 2008.

In 2008, AMP generated a \$10.8 million loss from discontinued operations on a year-to-date basis, mainly due to an \$11.2 million write-down of goodwill recorded in the first quarter of 2008.

Selected quarterly financial information

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

For the eight quarters ended September 30 (millions of dollars, except per unit amounts)	2009			2008 ⁽³⁾				2007 ⁽³⁾
	Q3	Q2 ⁽³⁾	Q1 ⁽³⁾	Q4	Q3	Q2	Q1	Q4
Operating revenues	\$785.8	\$784.5	\$818.3	\$803.2	\$806.6	\$806.8	\$829.7	\$811.8
EBITDA ⁽¹⁾	\$374.9	\$367.2	\$358.7	\$365.6	\$371.0	\$360.4	\$353.3	\$365.2
Operating income ⁽¹⁾	\$163.7	\$164.5	\$150.5	\$112.7	\$171.3	\$161.8	\$154.7	\$141.6
Net earnings (loss):								
Continuing operations	\$98.8	\$94.7	\$84.4	\$81.0	\$95.1	\$85.0	\$75.5	\$114.9
Discontinued operations	(7.0)	(5.4)	(1.9)	(1.0)	(1.6)	(0.6)	(11.2)	2.5
Net earnings	\$91.8	\$89.3	\$82.5	\$80.0	\$93.5	\$84.4	\$64.3	\$117.4
Basic and diluted earnings (loss) per unit:								
Continuing operations	\$0.62	\$0.59	\$0.53	0.50	\$0.59	\$0.53	\$0.47	\$0.75
Discontinued operations	(0.05)	(0.03)	(0.02)	-	(0.01)	-	(0.07)	0.02
Basic and diluted earnings per unit	\$0.57	\$0.56	\$0.51	\$0.50	\$0.58	\$0.53	\$0.40	\$0.77
Distributable cash ⁽¹⁾	\$207.8	\$186.6	\$196.5	\$146.2	\$179.3	\$183.3	\$206.8	\$169.5
Cash distributions declared ⁽²⁾	\$165.1	\$165.1	\$164.9	\$164.8	\$164.9	\$164.9	\$163.3	\$160.1

⁽¹⁾ EBITDA, operating income and distributable cash are non-GAAP measures. Refer to the "Non-GAAP financial measures" section for more details.

⁽²⁾ Cash distributions declared include amounts declared by the Fund to unitholders and by Bell Aliant Holdings LP and Bell Aliant LP to Bell Canada and BCE on units that are exchangeable into Fund units.

⁽³⁾ Financial results for all prior periods have been restated to reflect Innovatia Inc. and our xwave New England business as discontinued operations.

The quarterly operating results reflect the following significant transactions and trends:

- The first quarter of every year typically experiences stronger IT fulfillment revenue from customers in the government sector.
- In 2007, we commenced a restructuring program to advance our productivity initiatives. The total cost of the program was \$27.3 million, of which \$5.2 million was recorded as restructuring and other charges in the fourth quarter. A further restructuring initiative was launched in 2008 with a \$60.3 million charge recorded in the fourth quarter to facilitate a new organizational structure. To continue our productivity initiatives in 2009 and create a more efficient cost structure and improve our service to customers, we offered voluntary retirement incentives and announced an operational consolidation of certain contact centres in Atlantic Canada. We recognized restructuring charges related to these initiatives of \$9.3 million, \$2.6 million and \$13.0 million in the first, second and third quarters of 2009, respectively.
- We recorded a pension valuation allowance of \$21.4 million in the fourth quarter of 2007 against an accounting surplus in one of our pension plans, which was subsequently reversed during the fourth quarter of 2008.
- We recorded a tax recovery of \$60.6 million in the fourth quarter of 2007, mainly related to the revaluation of net future tax assets and liabilities as a result of tax rate changes.
- We recorded an \$11.2 million write-down of goodwill in AMP during the first quarter of 2008, which was reflected in net loss from discontinued operations.
- On May 1, 2009 we concluded an asset purchase agreement for CAE Professional Services (Canada) Inc. (CAE) to acquire our DSA business, which operated under the xwave brand. The proceeds on closing were \$16.3 million in cash and \$7.6 million in receivables from CAE related to post-closing balance sheet adjustments, with an additional \$8.5 million of proceeds contingent upon the occurrence of certain future events, for potential total proceeds of \$32.4 million. A pre-tax gain on sale of \$1.9 million was recorded in the second quarter of 2009, which was reflected in net loss from discontinued operations.
- On June 1, 2009, we concluded a share purchase agreement for Abilis Solutions Inc. to acquire 100 per cent of the outstanding shares of xwave New England. The proceeds on closing were \$4.9 million, resulting in a \$2.9 million loss on sale being recognized.

Details regarding our results for the third quarter of 2009 are discussed throughout this document. Further information on our prior quarterly results can be found in the respective quarterly financial statements and related MD&A on our website at www.bellaliant.ca, and filed on SEDAR at www.sedar.com.

Financial and capital management

Summary of cash flows

For the period ended September 30 (millions of dollars)	Three months			Nine months ⁽¹⁾		
	2009	2008 ⁽¹⁾	% change	2009	2008	% change
Cash from (used in):						
Operating activities	\$298.1	\$307.9	(3.2)	\$803.5	\$894.2	(10.1)
Financing activities	(171.9)	(153.1)	(12.3)	(458.4)	(527.1)	13.0
Investing activities	(114.6)	(138.3)	17.1	(341.9)	(386.1)	11.4
Net decrease in cash from continuing operations	\$11.6	\$16.5	(29.7)	\$3.2	(\$19.0)	n.m.
Net increase (decrease) in cash from discontinued operations	0.3	(0.5)	n.m.	9.6	(4.2)	n.m.
Net increase (decrease) in cash for the period	\$11.9	\$16.0	(25.6)	\$12.8	(\$23.2)	n.m.

n.m. - not meaningful

⁽¹⁾ Financial results for all prior periods have been restated to reflect Innovatia Inc. and our xwave New England business as discontinued operations.

We generated net cash of \$11.9 million in the third quarter of 2009, compared to \$16.0 million in the corresponding period of 2008. On a year-to-date basis, we generated cash of \$12.8 million compared to using cash of \$23.2 million for the same period in 2008. Of the \$36.0 million increase in cash flows in the first nine months of 2009, \$13.8 million resulted from higher cash flow from discontinued operations. This increase primarily reflects the sale proceeds realized from our DSA and xwave New England businesses earlier in 2009.

Operating activities

Cash generated from operating activities decreased \$9.8 million, or 3.2 per cent, in the third quarter of 2009, compared to the same period in 2008. Net earnings from continuing operations, net of non-cash adjustments, decreased \$10.3 million, funding of DB pension and other post-employment benefit plans increased \$8.6 million and cash flow from changes in operating assets and liabilities, or working capital, increased \$9.1 million. On a year-to-date basis, cash generated from operating activities was \$90.7 million, or 10.1 per cent, lower than the same period in 2008, as net earnings from continuing operations, net of non-cash adjustments, decreased \$11.1 million, funding of DB pension and other post-employment benefit plans increased \$11.9 million and cash flow from changes in working capital decreased \$67.7 million.

Cash flow generated from working capital was \$16.6 million in the third quarter of 2009, compared to \$7.5 million in the third quarter of 2008. The third quarter of the year is normally fairly neutral for cash inflow from working capital changes, with low seasonal impacts from changes in accounts receivable and accounts payable and accruals. High cash outflows due to the timing of interest coupon payments on long-term debt are offset by lower prepaid expenditures and other items which are typically paid in the first half of the year. The increase in cash flow from working capital changes compared to the third quarter of 2008 relates mainly to the accrual of \$13.0 million in restructuring charges in third quarter of 2009. Cash flow used in working capital was \$50.2 million for the nine months ended September 30, 2009, compared to generating \$17.5 million in the same period in 2008. The year-to-date reduction in cash flow from working capital changes compared to 2008 was mainly due to \$58.1 million paid for previously accrued restructuring charges, greater reductions in accounts payable and accruals during 2009, and lower cash flow from inventory changes.

Total contributions to our DB pension plans in the third quarter of 2009 and on a year-to-date basis were \$34.3 million and \$89.3 million, respectively, compared to \$25.9 million and \$78.0 million, respectively, for the same periods in 2008. In August 2009, we filed the required 2008 actuarial valuations of our pension

plans. We have adjusted our 2009 contributions to the pension plans based on the filed valuation results, which reflected higher funding deficits as a result of market conditions experienced in 2008. Included in the total contributions for the third quarter is \$21.9 million of deficit-reducing payments, up from \$11.9 million in the third quarter of 2008. On a year-to-date basis, deficit reducing payments are \$48.5 million, compared to \$36.9 million for the same period in 2008.

Financing activities

Cash used in financing activities increased by \$18.8 million for the third quarter of 2009, compared to the same period in 2008, and decreased by \$68.7 million for the nine months ended September 30, 2009, compared to the same period in 2008.

In the third quarter of 2009, our net repayments of debt (including short and long-term debt, notes payable to related party and capital lease obligations) were \$5.5 million, compared to net proceeds from debt of \$13.1 million in the third quarter of 2008. In the third quarter of 2008, we used our short-term borrowing facilities to a greater extent for operating purposes.

On a year-to-date basis, our net proceeds from debt were \$56.0 million, compared to net proceeds of \$21.7 million for the same period in 2008. We issued \$350.0 million of unsecured medium-term notes in the second quarter of 2009. Debt issue costs of \$1.2 million were incurred, and the notes were issued at a discount providing net proceeds of \$348.6 million. The proceeds were used to repay \$250.0 million of Bankers' Acceptance advances that were outstanding under our revolving operating facilities and a \$100.0 million non-revolving term loan. Associated with the repayment of these floating-rate obligations, we paid cash of \$15.4 million to settle our outstanding fixed-floating interest rate swaps. We also repaid the \$50.0 million long-term bank facility that was put in place during the second quarter of 2008 for Télébec. Refer to the "Financing and liquidity" section for further discussion on our short-term and long-term debt.

We also used cash of \$55.0 million in the first quarter of 2008 to repurchase accounts receivable from the securitization trust, with no similar activity occurring under the program in 2009. We increase or decrease the amount of accounts receivable we sell to the securitization trust based on the amount of our eligible accounts receivable and our determination of the cost effectiveness of this program.

Financing activities also include distributions paid to the Fund and non-controlling interests, which were \$166.4 million in the third quarter of 2009, and \$166.2 million in the same period in 2008. On a year-to-date basis, total distributions were \$499.0 million, compared to \$493.8 million in the same period in 2008.

Investing activities

Cash used in investing activities decreased by \$23.7 million in the third quarter of 2009, and \$44.2 million on a year-to-date basis, compared to the same periods in 2008.

Capital investments were \$114.7 million in the third quarter of 2009, compared to \$138.2 million in the same period 2008, representing a decrease of \$23.5 million, or 17.0 per cent. On a year-to-date basis, capital investments decreased \$16.2 million compared to the same period in 2008. The decrease in capital spending for the third quarter and on a year-to-date basis reflects both timing of capital projects and an anticipated lower level of capital spending. Spending in the third quarter of 2009 was driven by the continued rollout of our broadband network. We have reduced our capital spending in 2009, compared to 2008, to reflect a prioritization of profitability and productivity of investments, specifically lowering investments in information technology projects. Capital expenditures were 14.6 per cent of operating revenues in the third quarter of 2009 and 14.4 per cent on a year-to-date basis, in line with our annual revised target of 13.7 per cent to 14.7 per cent. Refer to the "Revised guidance" section for further details of our revised target.

We also used net cash of \$28.1 million in the 2008 to purchase the assets and operations of KMTS, with no similar investment in 2009.

Financing and liquidity

Sources of liquidity

We derive most of our liquidity from cash from operating activities, as well as bank credit facilities, a commercial paper program, and our accounts receivable securitization program. We normally anticipate generating enough cash from our operating activities to pay for capital investments, distributions and other commitments. With an increase in pension deficit funding requirements for 2009, we have drawn on our dedicated pension reserve bank facility to supplement our operating cash flows to make these contributions. Utilizing this special-purpose credit facility has preserved capacity and access to liquidity for general operating purposes under our revolving credit facilities.

Our capital structure is as follows:

<i>(millions of dollars, except as otherwise noted)</i>	September 30, 2009		December 31, 2008	
Partners' equity	\$4,819.4	52.1%	\$4,882.9	52.5%
Non-controlling interest	1,609.6	17.4%	1,662.5	17.8%
Net debt	2,826.5	30.5%	2,768.5	29.7%
Total capital	\$9,255.5	100.0%	\$9,313.9	100.0%

Partners' capital

We have an unlimited number authorized of each of the three classes of units. Our units are not publicly traded. The number of units issued and outstanding at September 30, 2009, which is unchanged from December 31, 2008, is as follows:

- 28,168,803 class 1 exchangeable limited partnership units;
- 132,367,606 class 2 limited partnership units; and
- 54,000 general partnership units.

Debt

We have a total of \$2.6 billion in unsecured and unsubordinated medium-term notes outstanding under Bell Aliant LP's trust indenture dated September 14, 2006. On April 28, 2009, we filed a new medium-term note shelf prospectus that will be available for future medium-term note issuances for a 25-month period. In May 2009, we issued \$350.0 million of medium-term notes, bearing interest at 6.29 per cent per annum and maturing on February 17, 2015.

We have decreased the amounts available for use under our short-term operating credit facilities by \$45.6 million to \$1,139.5 million since December 31, 2008. Dedicated letter of credit facilities supporting contracts that were transferred as part of the sale of the DSA business were decreased by \$45.8 million; the non-revolving pension reserve facility was decreased by \$2.4 million when letters of credit supporting the 10-year solvency funding schedule of certain of our pension plans were reduced; and uncommitted lines of credit were increased by \$2.6 million. Amounts drawn under our pension reserve facility increased by \$25.0 million from December 31, 2008, to \$40.0 million at September 30, 2009. We also maintain a \$400.0 million commercial paper program, supported by unused capacity on our revolving operating facilities. There was \$37.5 million issued under our commercial paper program at September 30, 2009, with no amounts issued at December 31, 2008.

There have been no changes to the covenants and provisions contained in our credit facilities as disclosed in our MD&A for the year ended December 31, 2008.

Cash requirements

We require a significant amount of cash to execute our business strategy. Our cash requirements for the third quarter of 2009 consisted of distributions to unitholders, investments in capital, pension plan funding, repayment of short and long-term debt, and payments of other commitments. Cash requirements in 2009 are expected to be similar to 2008. Specifically, it is anticipated that these requirements will result in the use of cash as follows:

- The annual cash requirement to make distributions to Fund unitholders and pro-rata distributions to BCE and Bell Canada on exchangeable limited partnership units is estimated to be approximately \$660 million for 2009.
- We anticipate 2009 capital expenditures to be in the range of 13.7 to 14.7 per cent of operating revenues. Refer to the "Revised guidance" section for further discussion on capital intensity.
- We repay short-term and long-term debt according to its terms. We ensure at all times that sufficient undrawn capacity exists on our revolving operating facilities to support issuances of commercial paper.
- All of our DB pension plans have funding deficits. Our deficit funding for 2009 will be approximately \$73 million, in line with our expectations. We have drawn \$25.0 million from our pension reserve bank facility to partially fund pension deficit payments in 2009. Although we do not plan further draws on the facility to fund pension deficit payments in 2009, we anticipate that we will utilize the facility in the fourth quarter of 2009 in order to secure letters of credit totalling approximately \$79 million required under funding relief regulations.
- Restructuring initiatives, announced during the fourth quarter of 2008 and year to date in 2009 are expected to result in the use of cash of approximately \$70 million in fiscal 2009.
- We will also use cash for other commitments, such as operating leases and purchase commitments for equipment and other network infrastructure.

Other financial arrangements

Contractual obligations

We have various operating leases for equipment and other network infrastructure, and purchase commitments under various service and commercial agreements, including our commercial agreements with Bell Canada. Further details of these commitments are described in notes 21 and 24 to our audited consolidated financial statements for the year ended December 31, 2008, and in note 12 to our unaudited interim consolidated financial statements for the period ended September 30, 2009, which are incorporated by reference herein.

Accounts receivable securitization

Under a revolving purchase and sale agreement, we sell certain accounts receivable to a securitization trust. During the third quarter of 2009, net cash proceeds were \$165.0 million, unchanged from December 31, 2008. Further details of these agreements are described in notes 1 and 3 to our audited consolidated financial statements for the year ended December 31, 2008, which are incorporated by reference herein.

Use of derivative financial instruments

We periodically utilize derivative financial instruments in the management of interest rate exposures associated with our long and short-term debt and specific firm commitments.

Further details of our use of derivative financial instruments and the accounting policies we follow are provided in notes 1 and 15 to our audited consolidated financial statements for the year ended December 31, 2008, which are incorporated by reference herein.

Related party transactions

Our significant related parties continue to be BCE, Bell Canada and the Fund. For greater detail on our related party transactions and our relationship with BCE and Bell Canada, refer to note 24 to our audited consolidated financial statements for the year ended December 31, 2008, and to note 14 of our unaudited interim consolidated financial statements for the period ended September 30, 2009, which are incorporated by reference herein.

Significant accounting policies

Our consolidated financial statements as at and for the three and nine months ended September 30, 2009, have been prepared in accordance with Canadian GAAP. Our accounting policies and methods and critical accounting estimates and assumptions are consistent with those as described in note 1 to our consolidated financial statements for the year ended December 31, 2008, except for the adoption of the new accounting standard related to goodwill and intangible assets.

Goodwill and intangible assets

Commencing January 1, 2009, we adopted Section 3064, Goodwill and Intangible Assets, issued by the Canadian Institute of Chartered Accountants (CICA), which provides guidance on the management, recognition, presentation and disclosure of these assets. The adoption of this Section did not have a material effect on our operations or financial reporting.

Future changes in accounting policies

The Accounting Standards Board (AcSB) 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 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 currently assessing the effect of the new standards on our consolidated financial statements.

International financial reporting standards (IFRS)

The AcSB has confirmed it will fully converge Canadian GAAP with IFRS with an effective date of January 1, 2011, for publicly accountable enterprises. 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 continues to evolve IFRS, and as a result, the standards at the transition date are expected to differ from their 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 with our conversion effort and as IFRS standards evolve. During the first quarter of 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. We completed the design phase at the end of the second quarter of 2009 and have commenced testing the proposed system design changes. This includes the design of a process for dual reporting in 2010 and IT system changes relating to property, plant and equipment. We expect the implementation phase will run through to December 31, 2010.

Our IFRS changeover team reports regularly to its steering committee and the audit committee regarding the status of the conversion effort. There is also continuous training and communication to senior leadership, affected employees, and internal and external stakeholders. We have allocated sufficient resources to our conversion project, engaged external consultants and collaborate with our corporate controls group and internal and external auditors. We expect to meet all milestones in our project plan as we complete our conversion effort.

This information is provided to allow investors and others to obtain a better understanding of our IFRS changeover plan and the resulting possible effects on, for example, our financial statements and operating performance measures. Readers are cautioned, however, that it may not be appropriate to use such information for any other purpose. This information also reflects our most recent assumptions and expectations; circumstances may arise, such as changes in IFRS, regulations or economic conditions, which could change these assumptions or expectations.

At this time we are unable to make a final determination of the quantitative and qualitative effects of our future adoption of IFRS, however, they may be material. Based on our work to date, we believe the areas of highest financial and/or operational impact will be employee future benefits, income taxes, property, plant and equipment, and designing and maintaining parallel systems for dual reporting required in 2010. Additional information will be provided as we move towards the changeover date.

Regulatory developments

Regulatory developments in the third quarter of 2009, and up to and including November 10, 2009, which are, or may be, significant to our business, include the following:

Access to next generation access services

On January 26, 2009, the CRTC issued Telecom Regulatory Policy 2009-34, in which it initiated a proceeding to consider issues regarding the appropriate configuration, classification and feasibility of an unbundled asymmetric digital subscriber line (ADSL) service for use by competitors. On May 8, 2009, the CRTC issued Telecom Notice of Consultation 2009-261, combining the proceeding initiated in Telecom Regulatory Policy 2009-34 and a corresponding request to provide further options for third party access to the high speed networks of cable companies. The proceeding will include an oral public hearing beginning on January 11, 2010. The proceeding is expected to close by the end of March 2010 and the CRTC could make a final determination in mid 2010. These various wholesale matters introduce the possibility that new, additional wholesale obligations could be imposed on us or that, on a go forward basis, certain wholesale services could be priced at lower rates. Neither outcome would have a retroactive effect on current rates or revenues. These issues may, however, require us to modify our investment plans and retail and wholesale commercial practices, including pricing and plans.

Deferral account

On September 25, 2008, the Supreme Court of Canada (the Court) approved the leave to appeal applications filed by Bell Canada, consumer groups and a competitor. The Court subsequently heard the appeals on March 26, 2009, and in a decision issued September 18, 2009, dismissed both appeals. As such, the Court confirmed that the CRTC has the legal authority to order that deferral account funds be used for both broadband expansion and returns to customers.

In a letter dated September 25, 2009, the CRTC re-established the follow-up processes that were originally identified in Telecom Decision CRTC 2008-1 and directed Bell Canada, MTS Allstream Inc. and Telus Communications Company to file additional information related to their approved deferral account-funded broadband expansion programs, as well as their return to customer proposal within the timeframes set out in that letter.

In light of the Supreme Court of Canada ruling, Bell Canada recorded \$152.0 million in restructuring and other charges in the third quarter of 2009 to reflect the current estimate of the remaining amount of its deferral account commitment. The allocation of this amount between returns to customers and additional broadband expansion has not yet been determined. We are unable to estimate the effect of the CRTC's decision at this time. The returns may impact the customers in our territory, but will not affect our financial results.

Broadcasting

On June 4, 2009, the CRTC issued Broadcasting Regulatory Policy 2009-329 in which it determined that broadcasting content distributed over the Internet and through mobile devices will continue to be exempt from broadcasting regulation and endorsed the call by the National Film Board for the Government of Canada to develop a national digital strategy. In addition, the CRTC referred to the Federal Court of Appeal the legal issue as to the applicability of the *Broadcasting Act* to Internet service providers (ISPs).

In its October 2008 decision (Broadcasting Public Notice 2008-100), the CRTC rejected the over-the-air broadcasters' fee-for-carriage (FFC) proposal, which would have required cable and satellite operators to pay for the right to carry local signals. However, the CRTC determined that cable and satellite operators would be required to contribute 1.0 per cent of their annual revenue to a new local programming improvement fund (LPIF) administered by an independent third party chosen by the Canadian Association of Broadcasters (CAB).

On July 6, 2009, and before the LPIF was implemented, the CRTC issued a decision increasing this contribution to 1.5 per cent and deciding that funds generated by the LPIF contribution do not need to be spent on additional local programming by TV stations. The CRTC also announced that it would further undertake a review of the LPIF contribution levels in a public hearing in September 2009, after which the CRTC indicated it was predisposed to reducing the LPIF contribution to 1.0 per cent starting in 2010. There can be no assurance that the LPIF contribution level will be reduced, maintained, or increased.

On July 6, 2009 the CRTC also decided to impose a FFC. In the ruling, the CRTC indicated that it would be appropriate for cable and satellite operators to negotiate with broadcasters for compensation for the distribution of local conventional television signals. In the absence of negotiated agreements, the CRTC stated that it would provide resolution through binding arbitration. In a public process in September 2009, the CRTC considered certain parameters of the negotiation. On August 6, 2009, a group of companies led by Bell Canada challenged the legality of the CRTC's FFC ruling on procedural grounds. On August 11, 2009, the CRTC amended its July 6, 2009, ruling and announced that it would hold a public process to consider whether FFC is appropriate and if so, how it should be implemented. A CRTC public hearing into the appropriateness of FFC is scheduled to commence on November 16, 2009.

On September 16, 2009, the Federal Cabinet issued an order requiring the CRTC to hold a public hearing and make recommendations on the advisability of FFC, taking into account how FFC would affect the affordability of cable and satellite TV services and the effect of FFC on the broadcast industry. The

CRTC's hearing on these issues is scheduled for December 7, 2009. We are unable to estimate the potential effect of FFC at this time.

Traffic Management

On November 20, 2008, the CRTC issued Telecom Public Notice 2008-19 where it initiated a proceeding to consider Internet traffic management practices (ITMPs) for retail and wholesale Internet services. The CRTC sought comments with supporting rationale on the changes in bandwidth consumption that can lead to network congestion; technical or economic ITMPs that are currently available or may be developed in the future; and the impact of these practices on end-users. In addition, the CRTC examined the appropriateness of implementing regulatory measures in relation to Internet traffic management by ISPs.

The CRTC issued its decision on October 21, 2009, in which it preserved ISPs' flexibility to manage their networks and established certain transparency requirements. The CRTC approved the use of technical ITMPs, including application-specific ITMPs such as those applied by Bell Canada; encouraged the use of economic ITMPs such as usage-based billing; established a framework against which future complaints about traffic management will be assessed; and established certain privacy and notification requirements.

Assumptions made in the preparation of forward-looking information and risks that could affect our business and results

Assumptions made in the preparation of forward-looking information

Forward-looking statements made in our MD&A for the year ended December 31, 2008, and in this MD&A are based on a number of assumptions that we believe were reasonable on the day we made the forward-looking statements. In our MD&A for the year ended December 31, 2008, we outlined the principal assumptions that we made in the preparation of our forward-looking statements relating to our expected financial and operational performance in 2009. These assumptions include economic, market, financial, operational and transaction assumptions, and except as outlined below, have not changed significantly up to November 10, 2009.

Revised guidance

We have revised our 2009 guidance for operating revenue and capital intensity as a result of our recent divestiture of xwave New England and announced sale of Innovatia. For accounting purposes, these businesses were reclassified to discontinued operations in our unaudited interim consolidated financial statements for the period ended September 30, 2009.

	Original 2009 Guidance	Revision October 2009
Operating Revenue	\$3,180 million to \$3,280 million	\$3,140 million to \$3,240 million
Capital Intensity ⁽¹⁾	13.5 to 14.5 percent	13.7 to 14.7 percent
Distributable Cash ⁽²⁾	\$750 million to \$790 million	no change

⁽¹⁾ Capital intensity equals capital expenditures per the statement of cash flows divided by operating revenues.

⁽²⁾ Distributable cash is a non-GAAP financial measure. Refer to "Non-GAAP financial measures" section for further details.

Risk management

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 unitholders. 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. Refer to our MD&A for the year ended December 31, 2008, and our 2008 Annual Information Form, for a list of significant risks to which we believe we are exposed. The risks noted may not be exhaustive as there may be other risks that we are currently unaware of or that we do not presently consider material to our consolidated operations.

During the first three quarters of 2009, we have not identified significant changes, except as discussed below, to the nature of the risks that we are exposed to in our current business as described in our MD&A for the year ended December 31, 2008, and our 2008 Annual Information Form. We have provided updates on our regulatory and competitive environments in the "Regulatory developments" and "Our business environment" sections.

On October 27, 2009, the federal Department of Finance announced pension plan reform proposals that will, if implemented, impact our pension plan funding, governance, investment policy and administration. We are currently evaluating how these reform proposals will affect our plans; however, we will not be able to determine this specifically until detailed legislative and regulatory amendments are released. Our initial assessment is that the proposals may modestly improve our flexibility to use either cash or letters of credit to fund solvency deficiencies in our plans. However, the significant risk exposures faced by our DB pension plans, namely the effect of fluctuating interest rates, actuarial assumptions and equity market returns, have not changed and are not materially lowered by these proposed reform measures. We continue to manage these risk exposures through asset mix and funding policies aimed at lowering the volatility of future funding requirements while balancing the overall costs of the plans.

Non-GAAP financial measures

The terms operating income, EBITDA (earnings before interest, taxes, depreciation and amortization), standardized distributable cash and distributable cash do not have any standardized meanings prescribed by Canadian GAAP. They are therefore unlikely to be comparable to similar measures presented by other reporting issuers. Operating income, EBITDA, standardized distributable cash and distributable cash are presented on a consistent basis from period to period.

Operating income

Operating income represents operating revenues less expenses. We use operating income, among other measures, to assess the operating performance of our ongoing business.

The following table provides a reconciliation of operating revenues and expenses to operating income on a consolidated basis.

<i>For the period ended September 30</i> <i>(millions of dollars)</i>	Three months		Nine months	
	2009	2008	2009	2008
Operating revenues	\$785.8	\$806.6	\$2,388.6	\$2,443.1
Expenses	622.1	635.3	1,909.9	1,955.3
Operating income	\$163.7	\$171.3	\$478.7	\$487.8

Operating income allows us to compare our operating performance on a consistent basis. We believe that certain investors and analysts use operating income to measure our ability to grow, or as a common valuation measurement in the telecommunications industry.

Operating income should not be confused with operating revenues or expenses, which are the most comparable Canadian GAAP financial measures.

EBITDA

We define EBITDA as operating revenues less operating expenses, which means it represents operating income before depreciation and amortization expense, net cost of benefit plans, and restructuring and other charges. Operating income is calculated before interest and taxes are deducted.

The following table provides a reconciliation of operating income to EBITDA on a consolidated basis.

<i>For the period ended September 30</i> <i>(millions of dollars)</i>	Three months		Nine months	
	2009	2008	2009	2008
Operating income	\$163.7	\$171.3	\$478.7	\$487.8
Add: Net cost of benefit plans	20.0	25.1	64.7	74.6
Depreciation and amortization	177.4	174.6	530.8	522.3
Restructuring and other charges	13.8	-	26.6	-
EBITDA	\$374.9	\$371.0	\$1,100.8	\$1,084.7

We use EBITDA, among other measures, to assess the operating performance of our ongoing business without the effects of interest, taxes, depreciation and amortization expense, net cost of benefit plans, and restructuring and other charges. We exclude depreciation and amortization expense and net cost of benefit plans because they largely depend on the accounting methods and assumptions a company uses, as well as non-operating factors, such as the historical cost of capital investments and the performance of a company's pension plan assets. We exclude these items because they affect the comparability of our financial results and could potentially distort the analysis of trends in business performance.

EBITDA allows us to compare our operating performance on a consistent basis. We believe that certain investors and analysts use this measure to assess our ability to service debt, make distributions to unitholders and to meet other payment obligations, and as a common valuation measurement in the telecommunications industry.

EBITDA should not be confused with operating revenues or expenses, which are the most comparable Canadian GAAP measures.

Standardized distributable cash and distributable cash

Standardized distributable cash and distributable cash are both measures of cash generated from operating activities that may be available for distribution. We calculate standardized distributable cash from a cash flow perspective following CICA guidance, which uses cash from operating activities and adds or deducts the following items that affect cash flow:

- (i) Cash from operating activities of discontinued operations and the Fund, as this represents operating cash from activities, other than our continuing operations, which is available for distribution; and
- (ii) Capital expenditures.

CICA guidance on the calculation of standardized distributable cash measures would also include deductions related to any restrictions imposed on the amount of cash distributions as a result of compliance with financial covenants restrictions at the date of calculation. Our credit agreements only impose a restriction that distributions cannot exceed distributable cash over the last year if our credit ratings fall below investment grade. Since our ratings are within the investment grade categories, we are under no such restrictions.

We further adjust standardized distributable cash by the following items to determine our distributable cash:

- (i) Operating items funded through cash reserves or borrowings, such as changes in operating assets and liabilities (working capital), pension deficit funding, restructuring charges, and cash capital taxes in excess of normalized levels;
- (ii) Current income tax provisions (recoveries) are added back (deducted) as we have tax strategies in place to ensure that they are not payable (receivable) in cash; and
- (iii) Other elements of working capital changes that should not result in actual current or future cash flows.

All of these adjustments to determine standardized distributable cash and distributable cash can be found in our consolidated financial statements or records or the Fund's consolidated financial statements or records, with the exception of the normalization of cash capital taxes. This adjustment is a calculation where some management judgment is exercised in estimating the level of capital taxes that we will pay when future tax rate changes come into effect. We have assumed a stable capital base and the future enactment of all previously announced provincial capital tax rate reductions or eliminations by the provinces of Ontario, Quebec, New Brunswick and Nova Scotia. At this point, all of these provinces have announced phased elimination of capital taxes in prior budgets; therefore, our determination of distributable cash includes no cash capital taxes. The actual tax rates may differ materially as they are subject to future enacted tax laws.

The following table provides a reconciliation of cash from operating activities to standardized distributable cash and distributable cash.

<i>For the period ended September 30</i> <i>(millions of dollars)</i>	Three months		Nine months⁽¹⁾	
	2009	2008⁽¹⁾	2009	2008
Cash from operating activities	\$298.1	\$307.9	\$803.5	\$894.2
Add (deduct):				
Standardized distributable cash of discontinued operations	(1.9)	(0.5)	(11.6)	(3.8)
Cash from operating activities of the Fund	(2.7)	0.2	(15.0)	(0.3)
Capital expenditures	(114.7)	(138.2)	(343.7)	(359.9)
Standardized distributable cash	178.8	169.4	433.2	530.2
Add (deduct):				
Operating items funded through cash reserves or borrowing:				
Change in operating assets and liabilities (working capital)	(16.6)	(7.5)	50.2	(17.5)
Change in operating assets and liabilities (working capital) of the Fund	2.0	(1.7)	11.8	(3.2)
Change in operating assets and liabilities (working capital) and other non-cash items of the discontinued operations	2.0	0.4	8.0	7.1
Pension deficit funding	21.9	11.9	48.5	36.9
Restructuring charges	13.0	-	24.9	-
Cash capital taxes in excess of normalized levels	1.4	2.9	5.7	8.3
Other adjustments:				
Current income tax expense (recovery)	-	-	(2.0)	(3.9)
Other non-cash items provided for in working capital changes	5.3	3.9	10.6	11.5
Distributable cash	\$207.8	\$179.3	\$590.9	\$569.4

⁽¹⁾ Financial results for all prior periods have been restated to reflect Innovatia Inc. and our xwave New England business as discontinued operations.

The calculation of standardized distributable cash and distributable cash has been prepared using reasonable and supportable assumptions, all of which reflect our planned courses of action given management's judgement about the most probable set of economic conditions. Actual results may vary, perhaps materially, from the forward-looking assumptions used.

One of the primary metrics of our financial performance is distributable cash generated in a period. We use distributable cash, among other measures, to assess the financial performance of our ongoing business. We report standardized distributable cash to meet compliance with the CICA guidance for income trusts and other flow-through entities. These measures should not be seen as measures of liquidity or as substitutes for comparable metrics prepared in accordance with Canadian GAAP. We believe that certain investors and analysts use distributable cash to assess our ability and that of the

Fund to generate a sustainable return for unitholders. Standardized distributable cash and distributable cash should not be confused with cash from operating activities, which is the most comparable Canadian GAAP financial measure.

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 September 30, 2009, which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.