

Management's discussion and analysis

For the year ended December 31, 2009

March 10, 2010



BellAliant

MD&A

This document provides management's discussion and analysis (MD&A) of our financial condition as at, and results of operations for, the year ended December 31, 2009, compared to 2008. This MD&A should be read together with our audited consolidated financial statements and accompanying notes for the year ended December 31, 2009, and the audited consolidated financial statements and accompanying notes, and MD&A of Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP) for the year ended December 31, 2009. Our consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All amounts in this document are in millions of Canadian dollars, except where otherwise stated.

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

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

Forward-looking information

This MD&A is dated March 10, 2010, and is current to that date unless otherwise stated. It contains forward-looking information related to our future financial condition and results of operations and anticipated future events and circumstances, including in particular under the heading "Conversion transaction", "Distributions" and "Future changes in accounting policies". The purpose of this forward-looking information is to provide the reader with information about our expectations, plans and priorities for 2010 or other future periods. Readers are cautioned that such information may not be appropriate for other purposes. This information is based on our current expectations and estimates about the markets in which we and Bell Aliant Holdings LP operate and our beliefs and assumptions regarding these markets. Unless otherwise indicated, forward-looking information in this MD&A describes our expectations at March 10, 2010. 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 dependence on Bell Aliant Holdings LP, and therefore all of the risks and uncertainties to which its operations are subject, including increasing competition, ability to achieve strategies and plans, general economic conditions and changing regulations; unpredictability and volatility of unit price; the nature of fund units; limitation on non-resident ownership; dilution through issuance of additional units; and changing tax

rates and 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 3, 2010, relating to 2009 earnings results and 2010 financial guidance for the Fund and Bell Aliant Holdings LP, which is available at www.bellaliant.ca as well as www.sedar.com and incorporated by reference herein.

OUR BUSINESS

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

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

As a result of these transactions, we indirectly own an 82.5 per cent interest in Bell Aliant Holdings LP, which in turn consolidates the financial results of Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Télébec and NorthernTel. We account for this investment on an equity basis as we exercise significant influence over the operating, investing and financial policies of this entity, but we do not control it. BCE Inc. (BCE) and Bell Canada own the remaining 17.5 per cent interest in Bell Aliant Holdings LP. Bell Canada also owns a 37.9 per cent interest in Bell Aliant LP (34.95 per cent on a proportionate cash distribution basis). These interests are exchangeable into Fund units, which give BCE an effective 44.09 per cent combined voting interest in us (43.95 per cent on a fully diluted basis) as at December 31, 2009. 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 indirectly affected by the events and transactions, financial and capital management, and risks and uncertainties of Bell Aliant Holdings LP, these factors could materially influence the distributions we receive from them, and in turn, our ability to pay distributions.

Changes to trustees and board of directors

On April 29, 2009, Charles White resigned from the board of trustees of the Fund and the boards of directors of our operating subsidiaries. On May 1, 2009, Andrew Smith resigned from the boards of directors of our operating subsidiaries.

Conversion transaction

As a result of the federal government's previously announced changes to income tax legislation affecting publicly listed or traded income trusts, such as us, starting January 1, 2011, we will be taxed as if we were a corporation. We anticipate we will be taxed at a blended federal / provincial rate of 29 per cent of taxable income in 2011, dropping to 27 per cent of taxable income by 2013. A transaction would be required to convert us from an income trust structure to a corporate structure (Conversion Transaction).

The Department of Finance enacted amendments to the Income Tax Act (Canada) on March 12, 2009, to facilitate the conversion of existing income trusts into corporations on a tax-deferred basis (Conversion Rules), which will remain in effect until January 2013.

We expect that a Conversion Transaction will be recommended to unitholders, which would involve a tax-deferred exchange of Fund units for shares of a corporation on a one for one basis under the Conversion Rules. We expect that the Conversion Transaction would be effective on or by January 1, 2011.

We are carefully considering our particular circumstances and the alternatives available to us in order to determine how best to structure a Conversion Transaction. Details about the proposed conversion terms and process and the anticipated dividend policy going forward are being developed and are expected to be released in May 2010, with a unitholder vote on the Conversion Transaction expected at the Fund's 2010 Annual and Special Meeting scheduled for June 16, 2010. We continue to consider strategies on uses of cash and appropriate dividend policy post conversion. Our objective is to deliver a sustainable high payout dividend to shareholders following January 1, 2011, while balancing our other business priorities including investing in broadband and maintaining investment grade credit ratings. Although a reduction to our current distribution is expected following completion of a Conversion Transaction, for taxable retail investors resident in Canada, dividends paid by a corporation are taxed at lower rates than the distributions paid by us prior to January 1, 2011, as an income trust. As such, under a corporate structure, the dividend tax credit mechanism can be expected to mitigate, to a large part, the after-tax effect of a lower dividend for those investors. We do not expect these conversion measures will affect the business model or plans of our operating subsidiaries.

SUMMARY OF RESULTS

The following table shows selected consolidated financial results for the most recent eight quarters as well as on an annual basis for 2009, 2008, and 2007. The quarterly information is unaudited, but has been prepared on the same basis as our annual and interim consolidated financial statements.

<i>For the year ended December 31</i> <i>(millions of dollars, except per unit amounts)</i>	2009				
	Total	Q4	Q3	Q2	Q1
Equity income from investments and other revenues	303.6	80.2	80.7	76.3	66.4
Net earnings from continuing operations	299.6	79.4	80.0	74.8	65.4
Net earnings (loss) from discontinued operations	(10.6)	(2.1)	(5.7)	(3.4)	0.6
Net earnings	289.0	77.3	74.3	71.4	66.0
Basic earnings per unit from continuing operations	2.36	0.63	0.63	0.59	0.51
Basic earnings (loss) per unit from discontinued operations	(0.09)	(0.02)	(0.05)	(0.03)	0.01
Basic earnings per unit	2.27	0.61	0.58	0.56	0.52
Diluted earnings per unit from continuing operations	2.19	0.55	0.58	0.55	0.51
Diluted loss per unit from discontinued operations	(0.09)	(0.01)	(0.05)	(0.03)	—
Diluted earnings per unit	2.10	0.54	0.53	0.52	0.51
Distributions declared	369.0	92.3	92.3	92.3	92.1

<i>For years ended December 31</i> <i>(millions of dollars, except per unit amounts)</i>	2008					2007
	Total	Q4	Q3	Q2	Q1	Total
Equity income from investments and other revenues	255.7	66.0	76.2	69.4	44.1	300.2
Net earnings from continuing operations	251.7	65.5	74.7	68.5	43.0	292.7
Net earnings (loss) from discontinued operations	(0.3)	0.1	0.3	(0.7)	—	208.8
Net earnings	251.4	65.6	75.0	67.8	43.0	501.5
Basic earnings per unit from continuing operations	1.98	0.51	0.59	0.54	0.34	2.24
Basic earnings (loss) per unit from discontinued operations	—	0.01	—	(0.01)	—	1.60
Basic earnings per unit	1.98	0.52	0.59	0.53	0.34	3.84
Diluted earnings per unit from continuing operations	1.87	0.41	0.58	0.54	0.34	2.03
Diluted earnings (loss) per unit from discontinued operations	—	0.01	—	(0.01)	—	1.11
Diluted earnings per unit	1.87	0.42	0.58	0.53	0.34	3.14
Distributions declared	367.5	92.1	92.1	92.1	91.2	368.9

Net earnings

Net earnings represent equity income from our indirect ownership in the earnings of our investments, increased (decreased) for future tax recovery (expense) related to our proportionate share of temporary differences between the carrying amounts of assets and liabilities reported on the balance sheets of our subsidiaries and their corresponding tax values. It also includes an immaterial amount of interest income earned on cash and cash equivalents, less our expenses of \$4.0 million in both 2009 and 2008, and \$7.5 million in 2007. Our net earnings are substantially dependent upon the results of operations of our subsidiary investments. The financial performance of Bell Aliant Holdings LP for the year ended December 31, 2009, compared to 2008, is discussed in its 2009 MD&A.

2009 compared to 2008

Net earnings from continuing operations increased \$13.9 million, or 21.2 per cent, in the fourth quarter of 2009, and \$47.9 million, or 19.0 per cent, in 2009, compared to the same periods in 2008, which is mainly due to an increase in equity income from our investment in Bell Aliant Holdings LP. The increase in equity income is a result of an improvement in Bell Aliant Holdings LP's net earnings from continuing operations and a \$14.0 million reduction in equity income in the first quarter of 2008 related to a notional depreciation and amortization adjustment. This adjustment related to the finalization of the notional purchase price allocation related to our acquisition of the remaining 36.7 per cent interest in Télébec and NorthernTel that was not repeated in 2009. This was partially offset by an \$8.0 million decrease in future tax recovery in 2009, compared to 2008.

Net earnings (loss) from discontinued operations increased \$2.2 million in the fourth quarter of 2009, and \$10.3 million in 2009, compared to the same periods in 2008. Net earnings (loss) from discontinued operations includes our proportionate share of the results of operations of Innovatia Inc. (Innovatia), a subsidiary of Bell Aliant Holdings LP, xwave New England Corp, the Defence, Security and Aerospace (DSA) business of Bell Aliant Holdings LP's xwave division, and Atlantic Mobility Products Limited Partnership (AMP) in 2008. The increase in net earnings (loss) from discontinued operations is due to losses on disposal of discontinued operations in 2009 and greater operating losses from these operations compared to 2008. Our proportionate share of the net earnings (loss) from discontinued operations in 2008 reflects the results of operations of DSA and AMP and also includes an \$11.2 million write-down of goodwill related to AMP.

2008 compared to 2007

Net earnings from continuing operations decreased \$41.0 million in 2008, compared to 2007. This was caused by lower equity income from our investment in Bell Aliant Holdings LP in 2008, combined with the net effect of a \$14.0 million notional depreciation and amortization adjustment, offset by an \$8.9 million future tax recovery in 2008 and \$3.9 million of other adjustments.

Net earnings from discontinued operations in 2007 included our proportionate share of the results of operations of Aliant Directory Services (ADS) until April 2007, when an after-tax gain of \$248.6 million was recorded by Bell Aliant Holdings LP on the disposal of ADS.

Distributions

During the fourth quarter of 2009, we declared distributions to our unitholders totalling \$92.3 million, or \$0.725 per unit, compared to \$92.1 million, or \$0.725 per unit in 2008. On an annual basis, during 2009, 2008 and 2007, we declared distributions totalling \$369.0 million, \$367.5 million and \$368.9 million, respectively or \$2.90, \$2.89 and \$2.81 per unit, respectively.

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

The combined cash distributions declared in 2009 were 85.4 per cent of the combined distributable cash, compared to 91.9 per cent for 2008. The annual rate of distributions to our unitholders was \$2.90 per unit in 2009. The decision not to increase the per unit distribution rate in 2009 was made by our trustees in order to preserve liquidity and financial flexibility, considering market conditions. As the combined distributable cash increased in 2009, this resulted in a combined payout ratio of less than 90 per cent in 2009.

In 2010, as the Fund trustees anticipate a conversion to a corporate structure by January 1, 2011, the distribution policy is focused on maintaining stability of the distribution until conversion. Therefore, in February 2010, we announced that the distribution per unit to unitholders would remain unchanged at \$0.2417 per month, or \$2.90 per year for 2010. As the Fund will become subject to taxation in 2011, the dividend following conversion to a corporate structure is expected to be lower than the distribution paid to unitholders in 2010, as previously described in the "Conversion transaction" section. Details of the dividend policy for the corporate structure are expected to be released in May 2010 in the Fund's Management Information Circular for its Annual and Special Meeting of Unitholders to be held in June 2010.

The distributions we make are generally taxable to the recipient unitholder. The tax attributes of our distributions may change from year to year depending on the taxable income mix of our subsidiary investments. The following table reflects the taxable and non-taxable breakdown of distributions for 2009 and 2008:

<i>For the years ended December 31</i>	2009	2008
Taxable portion		
Other investment income	95.12%	95.06%
Dividend income	3.93%	4.73%
Capital gains	0.25%	0.05%
Non-taxable portion		
Return of capital	0.45%	0.11%
Capital gains	0.25%	0.05%
	100.00%	100.00%

We are entirely dependent on distributions from Bell Aliant Holdings LP to make our distributions. A complete discussion of distributions made by Bell Aliant Holdings LP can be found in its MD&A for the year ended December 31, 2009.

FINANCIAL AND CAPITAL MANAGEMENT

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

<i>As at December 31</i> <i>(millions of dollars)</i>	2009	2008	2007
Total assets	4,151.6	4,211.6	4,316.4
Total liabilities	30.8	30.9	30.2
Unitholders' equity	4,120.8	4,180.7	4,286.2

Assets and liabilities

At December 31, 2009, our assets mainly consisted of our indirect investment in, and distributions and other amounts receivable from, Bell Aliant Holdings LP. In 2009, the carrying value of our investments decreased from 2008 as distributions declared of \$369.0 million were greater than equity income from continuing and discontinued operations in our investments of \$293.0 million. The carrying value of our investments also decreased in 2008 from 2007, as distributions declared by our equity investee of \$367.5 million were greater than equity income from continuing and discontinued operations in our investments of \$255.3 million. As well, we generally consolidate our excess cash with that of Bell Aliant LP and invest it together in marketable, short-term money market instruments and as such, the balance due from (to) related parties and our cash and cash equivalent balance will fluctuate over time depending on our cash requirements. Refer to "Related Party Transactions" for further discussion on transactions during 2009 and balances outstanding at December 31, 2009.

Our liabilities consist mainly of distributions payable to our unitholders, which were \$30.8 million as at December 31, 2009, \$30.7 million as at December 31, 2008, and \$29.8 million as at December 31, 2007.

Fund units

As at December 31, 2009, there were 127,264,016 Fund units outstanding, 100,373,827 exchangeable limited partnership units (each exchangeable for one Fund unit, and each accompanied by one special voting unit of the Fund) and 1,293,698 units notionally issued under our deferred unit plan. Only 739,199 units of those notionally issued under our deferred unit plan are considered dilutive, as the vesting of the remainder is subject to certain future performance criteria being met. Accordingly, there were 228,377,042 Fund units outstanding on a fully diluted basis as at December 31, 2009.

At March 5, 2010, there were 127,272,340 Fund units outstanding.

STABILITY RATINGS

Our stability ratings as at December 31, 2009, and currently, are SR-2/Stable outlook (Moderate distribution profile) from Standard and Poor's and STA-2 (high) from DBRS Limited, which are unchanged from 2008.

A stability rating measures an income trust's stability of distribution relative to other rated Canadian income trusts. A rating is not a recommendation to buy, sell or hold Fund units and may be revised or withdrawn at any time. Stability ratings do not take into consideration such factors as pricing or stock market risk.

RELATED PARTY TRANSACTIONS

As previously discussed in the "Our business" section, we indirectly own an 82.5 per cent equity interest in Bell Aliant Holdings LP, which is unchanged from December 31, 2008.

We are entirely dependent on the distributions we receive from Bell Aliant Holdings LP to make our distributions. In 2009, distributions declared to us were \$373.7 million, compared to \$372.8 million in 2008. At December 31, 2009, \$31.1 million was included in distributions receivable, compared to \$31.2 million at December 31, 2008.

In the normal course of business, we have an agreement with certain subsidiaries of Bell Aliant Holdings LP for the provision of administrative and support services, such as corporate reporting, governance, investor relations, communications, treasury and all other services as may be necessary or requested by our trustees for our administration. The agreement commenced in July 2006, has an initial term of 10 years and will be automatically extended for additional five year periods unless notice of termination is given.

These services are measured and recorded at their exchange amounts as follows:

*For the years ended December 31
(millions of dollars)*

	2009	2008
Management salaries	0.8	0.8
General and administrative	3.2	3.2
Operating expenses	4.0	4.0

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

At December 31, 2009, \$25.2 million was due from related parties, compared to \$13.6 million at December 31, 2008, which relates to the net of these operating expenses payable as well as amounts receivable relating to the deferred unit compensation plan.

Bell Aliant Holdings LP has several unit-based compensation plans that are based on our units. Bell Aliant Holdings LP records all compensation expense related to these plans. In 2009, Bell Aliant Holdings LP bought 2,024,152 of our units (2008 – 1,941,439 units), at a total cost of \$52.2 million (2008 – \$52.9 million), on the open market for employees of its subsidiaries participating in employee unit purchase plans. Of these totals, \$9.4 million (2008 – \$9.6 million) was recorded as compensation expense in Bell Aliant Holdings LP, and the remainder was contributed by employees through payroll deduction, interest earned or distributions reinvested in employee plan accounts.

In addition, we have a deferred unit plan for certain executives and senior management of Bell Aliant Holdings LP. As the deferred units will be settled with our units when exercised, for the year ended December 31, 2009, we have recorded in contributed surplus the equivalent of the compensation expense that was recorded in Bell Aliant Holdings LP of \$7.6 million less \$0.2 million of other adjustments (December 31, 2008 – \$12.9 million plus \$1.9 million of other adjustments). We issued 283,130 units (December 31, 2008 – 36,340 units) out of treasury at an average market value of \$26.15 per unit (December 31, 2008 – \$26.56 per unit) related to the deferred units exercised in the period. When exercised, the corresponding value of \$7.4 million (December 31, 2008 – \$1.0 million) was reclassified from contributed surplus to stated capital.

Further details of the unit-based compensation plans are discussed in note 7 to our audited consolidated financial statements for the year ended December 31, 2009.

Throughout 2009, we continued to loan our excess cash to Bell Aliant LP through a series of promissory notes, resulting in an immaterial amount of interest revenue being earned during the year ended December 31, 2009 (December 31, 2008 – \$0.1 million). Refer to note 9 to our audited consolidated financial statements for the year ended December 31, 2009, for further information.

BCE and Bell Canada

BCE and Bell Canada beneficially own and control 44.09 per cent voting interest (43.95 per cent on a fully diluted basis) in our outstanding units as at December 31, 2009 (2008 – 44.15 per cent voting interest, 44.02 per cent on a fully diluted basis). There were no transactions with BCE and Bell Canada during the year.

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

Our consolidated financial statements as at December 31, 2009, have been prepared in accordance with Canadian GAAP. Our accounting policies and methods and critical accounting estimates and assumptions are consistent with those in effect in 2008. Further information on our significant accounting policies can be found in note 1 to our audited consolidated financial statements for the year ended December 31, 2009.

Future changes in accounting policies

The Accounting Standards Board (AcSB) of the Canadian Institute of Chartered Accountants (CICA) continually amends certain standards and guidelines contained in the CICA Handbook. We monitor these changes as they are proposed and will make changes to our accounting policies and disclosures as necessary.

International financial reporting standards (IFRS)

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

We will prepare our financial statements in accordance with IFRS commencing January 1, 2011.

IFRS changeover plan and progress towards completion

Our IFRS changeover plan consists of a four-phase approach to transitioning to IFRS. We have substantially completed the first three phases and are currently focusing our efforts on implementation, the fourth phase. A description of our plan, progress by key activities, milestones achieved, and significant estimated effects on financial reporting are summarized in each phase as follows:

Phase 1 – Raise awareness and initial assessment

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

We initiated a formal project plan that included a charter, steering committee and multi-functional team, advisors, project manager, and an initial project timeline. We held IFRS educational awareness sessions. We performed a high-level initial assessment of the effect that conversion to the current form of IFRS will have on our operations and identified a modest number of topics we believed would affect either our financial results and/or the effort necessary to implement the changeover to IFRS. The initial assessment included determining which first time adoption of IFRS exemptions we may choose to take advantage of and identifying the necessary disclosures and reconciliations on adoption, and indentifying alternatives to developing and maintaining two parallel sets of records in 2010.

Phase 2 – Detailed assessment

This phase involved performing a detailed analysis of all the relevant IFRS standards to identify the accounting and disclosure differences between Canadian GAAP and IFRS, analyzing available accounting policy choices to be made, including first time adoption of IFRS exemptions available, and modelling the initial assessment of the effect of the accounting and disclosure differences on our financial statements and notes.

We completed our detailed assessments and identified the accounting and disclosure differences between Canadian GAAP and the current form of IFRS. We evaluated the accounting policy choices necessary to convert to IFRS, including those which must be addressed at changeover date and those to be applied on an ongoing basis after the transition to IFRS. We developed an initial model of our financial statements and notes using IFRS presentation and disclosure standards, which will continue to be refined as we complete our conversion effort.

Phase 3 – Design

This phase involved making preliminary IFRS accounting policy decisions based on the accounting and disclosure differences analysed in the detailed assessments performed in phase 2. Based on these preliminary decisions, key internal stakeholders and business areas most affected by the changeover are indentified. The accounting, business and internal control processes and IT systems are analysed in the key business areas and new processes, systems and controls are designed and tested.

The design and development of detailed solutions that comply with IFRS standards and disclosure requirements resulted in changes to our financial systems, processes and controls. We analysed the existing processes, systems, and controls in the affected business areas and designed new or modified existing processes, systems, and controls. The business area we identified that was most affected by the changeover was internal accounting. This area required the development of a dual reporting system and processes to be able to record IFRS results in parallel with Canadian GAAP results during 2010. As new system and process changes were designed and developed, internal controls were designed and modified to facilitate the development and on-going operation of the new systems and processes. These internal controls mainly related to the preparation and review of reconciliations, system testing and monitoring. We also trained the users of the changed systems and processes.

In addition, we provided general information to our audit committee on the IFRS changeover and our changeover plan, and delivered quarterly updates on our progress towards completion of our plan as well as our preliminary accounting policy choices under IFRS.

Phase 4 – Implementation

This phase involves finalizing preliminary accounting policy decisions, preparing our IFRS opening balance sheet at January 1, 2010, preparing our comparative financial statements and notes under IFRS for 2010, implementing the system and process changes identified in the design phase throughout the organization, delivering the required training on new accounting standards, monitoring, refining and testing the effectiveness of the revised internal control over financial reporting processes and disclosure controls and procedures, preparing and delivering external communications plans, and providing quarterly communications to our audit committee.

Phase 4 is currently underway and will carry us through to our changeover date of January 1, 2011. During this time, we will continue to report our results under Canadian GAAP but will also record preliminary results under IFRS, refining these results throughout the year as processes are improved and accounting policy choices are finalized. We are tracking favourably against our project plan, meeting all plan milestones and deliverables. Appropriate resources have been secured at all levels of the organization to complete the changeover. We have detailed project plans and provide progress reporting to our steering and audit committees. We have provided internal training to key finance personnel to ensure appropriate IFRS financial expertise exists and will continue to roll out communications and training sessions throughout the organization as we get closer to our final changeover.

Our analysis of IFRS and comparison to our accounting policies under Canadian GAAP has identified a number of differences. Many of these differences are not expected to have a significant affect on our financial position or operational results. While we have identified the key differences we believe will affect our financial statements, we have also determined that we are generally aligned with IFRS in many areas. We will continue to monitor changes to IFRS throughout 2010, and review and assess accordingly prior to our changeover. These key accounting differences are described below to provide a better understanding of the potential effects of our changeover to IFRS based on our preliminary accounting policy decisions. Actual accounting policies adopted may be materially different when the changeover to IFRS occurs on January 1, 2011.

Accounting policies under IFRS

In certain cases, IFRS provides for a choice of accounting policies. Proposed changes in accounting policies under IFRS that we believe may materially affect our financial statements, based on Canadian GAAP and IFRS issued at December 31, 2009, are described below. For a discussion of the affect of adopting IFRS in Bell Aliant Holdings LP, refer to the "International financial reporting standards" section of Bell Aliant Holdings LP's MD&A for the year ended December 31, 2009.

Impairment of assets

Under Canadian GAAP, we assess for impairment of assets, other than goodwill and indefinite-life intangible assets, when events or changes in circumstances indicate that we may not be able to recover their carrying value. An impairment loss is recognized when the carrying value of the asset exceeds the total undiscounted cash flows expected from its use and disposition. The impairment loss is recorded as the difference between the carrying value and fair value of assets. Impairment of assets recognized under Canadian GAAP cannot be reversed in a subsequent period if circumstances change.

Under IFRS, identification and measurement of impairment of assets is determined by comparing the carrying value of assets to the greater of their fair value less costs to sell and value-in-use (generally discounted future cash flows). Impairment of assets, other than goodwill, is reversed in a subsequent period if circumstances change such that the previously determined impairment is reduced or eliminated.

Provisions, including asset retirement obligations

Under Canadian GAAP, we record asset retirement provisions when a present obligation exists as a result of past transactions or events, there is a likely outflow of resources required to settle the obligation, and the amount of the obligation can be reliably estimated. Asset retirement obligations are recorded when a legal or contractual obligation exists.

Provisions are recorded under IFRS when an outflow of resources is more likely than not, instead of the higher "likely" threshold under Canadian GAAP. Other specific differences exist in relation to the methods used to estimate the amount of provisions. Asset retirement obligations are recorded when a legal, contractual or constructive obligation exists.

First-time adoption of IFRS

Our financial statements for the year ending December 31, 2011, will be prepared according to IFRS with comparative amounts for the year ended December 31, 2010. IFRS 1, *First-time Adoption of International Financial Reporting Standards*, generally requires that we apply IFRS on a retrospective basis in our opening balance sheet as at January 1, 2010. IFRS 1 also provides certain mandatory exceptions and elective exemptions to retrospective application. We expect that our IFRS 1 elections will be approved by senior management during the first half of 2010, once we have completed our analysis of, and quantified on a preliminary basis, each exemption.

RISK MANAGEMENT

The following is a discussion of risks that are specific to us as an income trust. For a discussion of risks related to the business of Bell Aliant Holdings LP, refer to the "Risk management" section of Bell Aliant Holdings LP's MD&A for the year ended December 31, 2009.

Dependence on Bell Aliant Holdings LP

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

Unpredictability and volatility of unit price

The units of a publicly traded income trust do not necessarily trade at values determined by reference to the underlying value of its business. The price at which the units trade cannot be predicted. The market price of the units could be subject to significant fluctuations in response to variations in quarterly operating results, distributions, fluctuations in interest rates and other market factors. The annual yield on the units as compared to the annual yield on other financial instruments may also influence the price

of units in the public trading markets. In addition, the securities markets have experienced significant price and volume fluctuations from time to time in recent years that often have been unrelated or disproportionate to the operating performance of particular issuers. These broad fluctuations may adversely affect the market price of Fund units.

Nature of Fund units

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

The Fund units do not represent a direct investment in the business of Bell Aliant Holdings LP and should not be viewed by investors as shares or interests in such entity or any other operating company. The Fund units do not represent debt instruments and there is no principal amount owing to unitholders. As holders of Fund units, unitholders do not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. Each Fund unit represents an equal, undivided, beneficial interest in us.

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

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

Structural subordination of the Fund units

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

Capital investment

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

Limitation on non-resident ownership

Our Declaration of Trust imposes various restrictions on unitholders. For example, in order to maintain mutual fund trust status under the Tax Act, non-resident unitholders are prohibited from beneficially owning more than 45 per cent of Fund units. In addition, the Declaration of Trust contains a provision entitling the trustees to use all remedies available under the Broadcasting Act, the Radiocommunication Act, the Telecommunications Act and all related directions to the Canadian Radio-television and Telecommunications Commission to ensure that at no time will Canadians (as defined for purposes of those laws) own and control less than 80 per cent of Fund units (or such other minimum number, if applicable), or the Fund be otherwise controlled by non-Canadians. These restrictions may limit (or inhibit the exercise of) the rights of certain persons, including non-residents and non-Canadians, to acquire Fund units, to exercise their rights as unitholders and to initiate and complete takeover bids for the Fund units. As a result, these restrictions may limit the demand for Fund units from certain unitholders and thereby adversely affect the liquidity and market value of the Fund units.

On March 3 and 4, 2010, the federal government issued the Speech from the Throne and federal budget, respectively, wherein they indicated that the limits on foreign ownership in the Canadian telecommunications industry will be reviewed. No specific proposals were put forward and there are no details regarding the timing of any review of the foreign ownership limits. We are unable to determine how any potential reform proposals may affect us until further details are released.

Redemption right

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

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

Termination of the Fund

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

Dilution

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

Tax related risks

Qualified investments for tax deferred plans

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

Status as a mutual fund trust

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

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

The Government of Canada's changes to the tax treatment of income trusts announced on October 31, 2006, received royal assent and were enacted into law on June 22, 2007 (SIFT rules). Effective January 1, 2011, income trusts that were publicly traded before November 2006, such as us, will be subject to taxation at corporate rates and certain distributions made to unitholders will be taxed like dividends received from a corporation. All else being equal, the taxation of income trusts at corporate rates will result in us having less cash available to pay distributions. The Government of Canada specified that while there was no intention to prevent existing income trusts from normal growth during the transitional period, any undue expansion of an existing income trust before 2011 would make the new rules effective immediately. To qualify for the delay in applying the SIFT Rules, we must comply with the SIFT normal growth guidelines regarding equity capital that were issued on December 15, 2006, as amended from time to time (the Normal Growth Guidelines). In particular, our equity is permitted to grow by an aggregate amount up to 100 per cent of our October 31, 2006, market capitalization, up to and including the 2010 calendar year. In December 2008, the Minister of Finance released Explanatory Notes to accelerate the safe harbour amounts for 2009 and 2010 to make them available on and after December 4, 2008. This change does not alter the maximum available growth of a trust, but would generally allow a trust, like us, to use the remaining growth room in a single year, rather than incrementally over 2009 and 2010. As there is still uncertainty in the interpretation of these guidelines and what constitutes growth in certain situations, there can be no assurance that we will be able to retain the benefit of the deferral of the SIFT rules. If we are deemed to have undergone undue expansion during the period up to December 31, 2010, as described in the Normal Growth Guidelines, the SIFT Rules would become effective on a date earlier than January 1, 2011.

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

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

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

Interest expense deduction

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

Allocation of partnership income

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

CONTROLS AND PROCEDURES

Disclosure controls and procedures

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us is recorded, processed, summarized and reported within the time periods specified under Canadian securities law. An evaluation of the effectiveness of our disclosure controls and procedures as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109), was performed under the supervision and participation of our management, including the chief executive officer (CEO) and chief financial officer (CFO). Based on the evaluation, the CEO and CFO concluded that the design and operation of our disclosure controls and procedures were effective as at December 31, 2009.

Internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in NI 52-109. Our internal control framework is based on the criteria published in the report Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Management evaluated the design and operation of our internal control over financial reporting as at December 31, 2009, and has concluded that our internal control over financial reporting is effective. There are no material weaknesses that have been identified by management.

No changes were made in our internal control over financial reporting during the year ended December 31, 2009, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.