

## Management's Discussion and Analysis

*This document provides management's discussion and analysis (MD&A) of our financial condition as at, and results of operations for, the three months (Q3) and nine months (YTD) ended September 30, 2011, compared to the same periods in 2010. This MD&A should be read together with our unaudited consolidated interim financial statements and accompanying notes for the period ended September 30, 2011 (interim financial statements), and the Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP) audited annual financial statements and MD&A for the year ended December 31, 2010. All amounts in this document are in millions of Canadian dollars, except where noted. Our interim financial statements, along with the comparative periods presented therein, have been prepared in accordance with International Financial Reporting Standards (IFRS). The annual financial statements of Bell Aliant Holdings LP are prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP).*

*On January 1, 2011, Bell Aliant Regional Communications Income Fund (the Fund) completed its conversion from an income trust structure to a corporate structure (the Conversion). Bell Aliant Inc. is the successor corporation to the Fund. As part of the Conversion, Bell Aliant Holdings LP was dissolved and certain of its subsidiaries and affiliates amalgamated. Bell Aliant Regional Communications Inc. (Bell Aliant GP) is the successor corporation to Bell Aliant Holdings LP. Throughout this document, unless otherwise specified or the context otherwise indicates, "we", "us" and "our" refer to Bell Aliant GP and its subsidiaries for 2011 and subsequent periods and to Bell Aliant Holdings LP and its subsidiaries prior to January 1, 2011.*

*Additional information about us and Bell Aliant Inc., including annual information forms and other recent financial reports, can be found on Bell Aliant Inc.'s website at [www.bellaliant.ca](http://www.bellaliant.ca). These and other continuous disclosure documents are also available at [www.sedar.com](http://www.sedar.com).*

### Forward-looking information

*This MD&A is dated November 1, 2011, and 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 sections "Other financial performance metrics", "Strategy", "Operating activities", "Cash requirements", "Future changes in accounting policies", "Regulatory developments", "Assumptions made in the preparation of forward-looking information" and "2011 revised guidance". The purpose of this forward-looking information is to provide the reader with information about our expectations, plans and priorities for fiscal 2011 or other future periods. Readers are cautioned that such information may not be appropriate for other purposes. This information is based on our estimates about the markets in which we operate and our beliefs and assumptions regarding these markets. Unless otherwise indicated, the forward-looking information in this MD&A describes our expectations at November 1, 2011. 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: increasing competition; management's ability to achieve strategies and plans, including expansion of our fibre-to-the-home (FTTH) network and managing the cost structure; general economic conditions; pension valuation and investment risk; reliance on systems; changing technology; demand for our products and services; our business relationship with BCE Inc. (BCE) and Bell Canada; changing regulations; dependence on key suppliers; maintenance of credit ratings; leverage and restrictive covenants; BCE's governance rights; reliance on key personnel and labour relations, including the requirement for effective business continuity planning and the ability to attract and retain new employees; legal contingencies and changes in laws, including laws pertaining to privacy and security of customer information; and tax related risks. 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, as well as market, financial and operational assumptions. 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 it 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.*

*For additional information on material factors and assumptions used to develop forward-looking information and risk factors that could cause actual results to differ materially from forward-looking information, see also the "Risk management" section of the Fund's MD&A for the year ended December 31, 2010, and the "Assumptions made in the preparation of forward-looking information" and "Risks that could affect our business and results" sections of our MD&A for the year ended December 31, 2010, which are available at [www.bellaliant.ca](http://www.bellaliant.ca) as well as [www.sedar.com](http://www.sedar.com).*

### OUR BUSINESS

We are one of North America's largest regional communications service providers and have been serving customers for over a century. With our *FibreOP*<sup>TM</sup> services, we were the first company in Canada to cover an entire city with FTTH technology. We offer a complete range of innovative information, communication and technology services including voice, data, Internet, TV, video, wireless and value-added business solutions to our customers across six Canadian provinces.

Our principal operations are carried out by our three operating partnerships, Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Télébec, Limited Partnership (Télébec) and NorthernTel, Limited Partnership (NorthernTel). We consolidate these and other subsidiary partnerships and corporations in our financial statements. 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.

### CORPORATE CONVERSION

On January 1, 2011, the Fund completed its conversion from an income trust structure to the Bell Aliant Inc. corporate structure.

The Fund unitholders received one common share of Bell Aliant Inc. for each Fund unit held, and therefore their proportionate ownership interests in Bell Aliant Inc. were effectively unchanged by the Conversion. The Conversion transactions were accounted for at carrying values since there was no substantial change in ownership or control. As well, BCE and Bell Canada continue to have the same governance rights and proportionate ownership interest in Bell Aliant Inc. as they had in the Fund (on an as-converted basis) before the Conversion.

Refer to our interim financial statements and MD&A for the three months (Q1) ended March 31, 2011, for additional information about the Conversion.

### Q3 IN REVIEW

A continued focus on our strategic priorities has resulted in a positive shift in our revenue trajectory in 2011. Our Internet, TV and wireless revenues have continued to grow while the rates of decline in our traditional voice and data service revenues have slowed from those experienced in recent years. Driven by the expansion of our *FibreOP* service area, our Atlantic residential operating revenue has continued to grow, building on the positive trend we started to see in the first half of 2011. We remain committed to resetting our cost structure, as continued restructuring initiatives and productivity enhancements have helped to mitigate the effects of traditional revenue declines on EBITDA and to preserve strong EBITDA margins. We

also strengthened the focus on working capital management to improve cash flow. In combination, these achievements contributed to our delivery of \$109.9 million in free cash flow for Q3 2011.

### Summary of operating results

For the period ended September 30 (millions of dollars, except as otherwise noted)	Q3			YTD		
	2011	2010	% change	2011	2010	% change
Operating revenues	\$700.2	\$703.7	(0.5)	\$2,074.4	\$2,092.5	(0.9)
EBITDA <sup>(1)</sup>	\$339.7	\$349.3	(2.7)	\$1,002.5	\$1,031.0	(2.8)
EBITDA margin <sup>(1)</sup>	48.5%	49.6%	(2.2)	48.3%	49.3%	(2.0)
Operating income	\$153.7	\$175.5	(12.4)	\$500.3	\$496.1	0.8
Net earnings from continuing operations	\$80.1	\$32.5	n.m.	\$256.3	\$351.5	(27.1)
Net earnings (loss) from discontinued operations	(0.2)	0.6	n.m.	(4.4)	(1.1)	n.m.
Net earnings	\$79.9	\$33.1	n.m.	\$251.9	\$350.4	(28.1)

n.m. not meaningful

<sup>(1)</sup> EBITDA and EBITDA margin are non-IFRS financial measures. Refer to the "Non-IFRS financial measures" section for more details.

Although we are starting to experience some positive in-year momentum, operating revenues decreased marginally by 0.5 per cent, or \$3.5 million in Q3 2011, and by 0.9 per cent, or \$18.1 million YTD 2011, compared to the same periods in 2010. The decrease in Q3 and YTD 2011 was driven by declines in local and access and long distance revenues, which were partially offset by growth in our data and wireless revenue. Lower voice revenues are primarily attributable to the decline in network access service (NAS) customers due to competitive losses and a reduction in primary lines as customers adopt wireless and Voice over Internet Protocol (VoIP) technologies. Growth in our high-speed Internet, IPTV and wireless customer bases, as well as higher average revenue per customer (ARPC) from migrations to higher value services and select pricing actions contributed to higher revenues from these services. In 2011, other revenues increased in Q3 due to higher pole attachment revenues, but decreased YTD primarily as a result of sales associated with the G8 Summit in Q2 2010 that did not repeat in 2011.

EBITDA decreased by 2.7 per cent, or \$9.6 million, in Q3 2011, and by 2.8 per cent, or \$28.5 million, YTD 2011, compared to the same periods in 2010. The decline was primarily driven by the operating revenue decline and a change in the mix of operating revenues towards those with lower margins, combined with higher operating costs related to our *FibreOP* service expansion during 2011. Savings from ongoing procurement initiatives and operating efficiencies helped to mitigate cost pressures in 2011 related to the growth areas of our business.

EBITDA margin was 48.5 per cent in Q3 2011, a decline of 1.1 percentage points from Q3 2010. For YTD 2011, EBITDA margin decreased by 1.0 percentage point to 48.3 per cent, compared to the same period in 2010.

Operating income decreased by 12.4 per cent, or \$21.8 million, in Q3 2011, and increased by 0.8 per cent, or \$4.2 million, YTD 2011, compared to the same periods in 2010. The EBITDA decline in Q3 and YTD 2011 was more than offset by lower depreciation and amortization, reflecting a smaller depreciable asset base. This was primarily due to an impairment charge recorded on certain of our finite-life intangible assets in the fourth quarter (Q4) of 2010. Our productivity initiatives reduced operating income as severance and other charges in Q3 and YTD 2011 increased by \$25.8 million and \$17.1 million, respectively, compared to the same periods in 2010.

Net earnings increased \$46.8 million in Q3 2011 compared to Q3 2010. This improvement was driven by a \$47.6 million increase in net earnings from continuing operations, slightly offset by a \$0.8 million increase in net loss from discontinued operations. For YTD 2011, net earnings decreased by \$98.5 million compared to

YTD 2010, which reflected a \$95.2 million reduction in net earnings from continuing operations and a \$3.3 million increase in net loss from discontinued operations.

Q3 and YTD 2011 net earnings from continuing operations are not directly comparable to those in the same periods of 2010 due to the Conversion that occurred January 1, 2011. In 2010, net earnings from continuing operations included gains and losses related to the fair value re-measurement of the class B exchangeable limited partnership units issued by Bell Aliant LP, as well as distributions declared on those exchangeable limited partnership units. The re-measurement and distribution did not recur in 2011, as these units were transferred to us as part of the Conversion and are now eliminated upon consolidation of Bell Aliant LP. Additionally, income tax expense is higher in 2011 due to a combination of the Conversion, an increase in effective taxes rates and higher earnings subject to tax, compared to 2010. The year-over-year comparison is also affected by costs related to the early redemption of medium-term notes, which were higher in 2010 than in 2011.

In 2011, net loss from discontinued operations of \$0.2 million in Q3 and \$4.4 million YTD mainly represents the after-tax loss on the sale of our xwave business on January 1, 2011. Discontinued operations in 2010 represented the operating results of our xwave business.

#### Other financial performance metrics

Free cash flow and adjusted earnings per share (EPS) of Bell Aliant Inc. are some of our key financial performance metrics. The following table provides a summary reconciliation of cash from operating activities to free cash flow, dividends / distributions declared along with adjusted EPS of Bell Aliant Inc. for Q3 and YTD 2011, compared to the corresponding periods in 2010. Since our operations support dividends to Bell Aliant Inc. shareholders, free cash flow combines our cash performance with that of Bell Aliant Inc.

<i>For the period ended September 30</i> <i>(millions of dollars, except per share amounts)</i>	Q3			YTD		
	2011	2010	% change	2011	2010	% change
Cash from operating activities	\$272.5	\$258.2	5.5	\$625.8	\$715.8	(12.6)
Cash used in operating activities of Bell Aliant Inc.	(0.4)	(1.1)	(63.6)	(1.5)	(2.9)	(48.3)
Total cash from operating activities	272.1	257.1	5.8	624.3	712.9	(12.4)
Capital expenditures	(162.2)	(113.4)	43.0	(435.7)	(332.0)	31.2
Free cash flow <sup>(1)</sup>	\$109.9	\$143.7	(23.5)	\$188.6	\$380.9	(50.5)
Lump sum pension contribution	-	-	n.m.	200.0	-	n.m.
Free cash flow <sup>(1)</sup> before lump sum pension contribution	\$109.9	\$143.7	(23.5)	\$388.6	\$380.9	2.0
Dividends / distributions declared on common shares/units <sup>(2)</sup>	\$108.2	\$165.1	(34.5)	\$324.6	\$495.3	(34.5)
Dividends declared on preferred shares issued by a subsidiary	\$3.5	-	n.m.	\$7.6	-	n.m.
Adjusted earnings per share of Bell Aliant Inc. <sup>(1)</sup>	\$0.41	n.m.	n.m.	\$1.28	n.m.	n.m.

n.m. not meaningful

<sup>(1)</sup> Free cash flow and Adjusted earnings per share of Bell Aliant Inc. are non-IFRS measures. Refer to the "Non-IFRS financial measures" section for further detail.

<sup>(2)</sup> Dividends included amounts declared by Bell Aliant Inc. to shareholders. Distributions include amounts declared by the Fund to unitholders and by Bell Aliant LP and Bell Aliant Holdings LP to Bell Canada and BCE on units that were exchangeable into Fund units.

For Q3 2011, free cash flow was \$109.9 million, a decrease of \$33.8 million, or 23.5 per cent, from Q3 2010. For YTD 2011, free cash flow was \$188.6 million compared to \$380.9 million YTD 2010. The YTD 2011 decrease is mainly attributable to the \$200.0 million lump sum pension contribution to defined benefit pension plans made in Q1 2011. Adjusting for this amount, free cash flow before the lump sum pension contribution was \$388.6 million YTD 2011, an increase of \$7.7 million, or 2.0 per cent, compared to YTD 2010. The Q3 2011 decrease in free cash flow is mainly due to higher planned capital expenditures, compared to the same period in 2010. We are on track to delivering free cash flow in 2011 that is within our guidance range of \$525

million to \$575 million. Refer to the "Financial and capital management" section for further details on cash from operating and investing activities.

Bell Aliant Inc. declared and paid dividends for YTD 2011 of \$1.425 per Bell Aliant Inc. common share, which represented 85.2 per cent of our combined free cash flow before the lump sum pension contribution. We target a long-term dividend payout ratio of 75 to 85 per cent of free cash flow, and expect to be within this range in 2011.

Cash distributions declared under the trust structure for YTD 2010 were 130.0 per cent of combined free cash flow. However, distributions made while under an income trust structure were assessed based on distributions declared as a percentage of distributable cash, which differs from our measure of free cash flow.

Adjusted EPS of Bell Aliant Inc. was \$0.41 and \$1.28 for Q3 and YTD 2011, respectively. We have targeted an adjusted EPS for Bell Aliant Inc. of \$1.60 to \$1.80 per share in 2011, and we expect to be within this range by year end. In calculating adjusted EPS of Bell Aliant Inc., we have excluded the amortization of certain finite-life intangible customer relationship assets acquired in previous business combinations as it relates to assets that will largely not be replaced through future capital spending. Once these assets were purchased as part of a business combination, further costs incurred in relation to acquiring any new subscribers, other than in a business combination, or retaining existing ones are captured in operating expenses. Therefore, we have excluded this amortization to provide what we believe is a more meaningful measure of EPS. Refer to the "Non-IFRS financial measures" section for more details.

### OUR COMPETITIVE LANDSCAPE

We operate in a highly competitive environment, with cable companies remaining our most significant competitive threat. The expansion of cable telephony competitive footprint continues in our regions. At the end of September 2011, the competitive footprint overlap with cable companies was approximately 71 per cent of residential households in our territories, representing a 3 percentage point increase from a year ago. Competitors are leveraging promotional discounts, marketing campaigns and distribution channels to capture market share. We have implemented programs in all of our markets to be competitive while continuing to deliver the highest quality customer service, choice and convenience to our customers. We will continue to promote our competitively priced bundles, provide our customers with innovative products and enhanced technology to meet their needs, and invest significantly in our FTTH network, expanding our coverage to more communities across the Atlantic region in 2011 and 2012.

### STRATEGY

#### Highlights of strategic achievements in Q3 2011

##### Improve the customer experience

A determined focus on service fundamentals remains at the core of our strategy to deliver a superior customer experience. In Q3 2011, we continued to drive performance by focusing on our strong customer experience program, allowing us to keep our promises, do the job right the first time, and make each and every customer interaction consistent and exceptional.

##### Retain our customers

Bundles are instrumental for retaining customers and owning the whole home as they allow us to remain competitive by offering a simple, complete and integrated communications, Internet and entertainment solution.

In Q3 2011, we continued to promote bundle offers across all our markets. Our *FibreOP* services are primarily sold through bundles, as customers seek to purchase additional, high-value services such as faster Internet speed, high-definition (HD) TV programming and personal video recorder (PVR) services. In our *FibreOP* service territories, we have experienced a lower rate of NAS customer turnover than the rate we typically experience in our non-*FibreOP* service territories.

### Grow broadband

The capabilities of our FTTH network have given us a clear competitive advantage in our *FibreOP* service territories that our competitors cannot easily match. Expanding our *FibreOP* service area allows us to provide more homes with access to leading edge technology, including the fastest Internet speeds in our markets and an exceptional TV experience.

We continued to make significant progress on our FTTH network expansion during Q3 2011. We now expect to pass approximately 450,000 homes and businesses by the end of 2011, up from our previous estimate of 430,000, and remain on track to expand *FibreOP* services to pass more than 600,000 homes and businesses by the end of 2012. For YTD 2011, we passed an additional 260,000 homes and businesses with *FibreOP* services, bringing the total homes and businesses passed at the end of September 2011 to 398,000 in Atlantic Canada.

In certain regions of Quebec, where we offer cable TV service, we completed the initial phase of our DOCSIS 3.0 upgrade project, which will enable us to provide faster Internet speeds and improve service for both residential and business customers.

### Reset our cost structure

In an intensely competitive market, a disciplined approach to cost reduction is critical. We expect our major cost reduction initiatives for 2011 will ensure our business is more efficient through enhanced workforce productivity, controlled discretionary spending and optimized benefits of our commercial agreements with Bell Canada.

In Q3 2011, we announced a union retirement offer which was accepted by approximately 500 Atlantic region employees who will leave the company over the next 30 months. We expect a portion of these positions will be replaced with employees hired at a lower wage scale negotiated as part of the collective agreement that covers our Atlantic region employees, reducing our labour costs going forward. In addition, we successfully renegotiated new collective agreements with our NorthernTel and our Télébec clerical employees, further securing part of our cost structure over the next three years.

Third party spending reduction initiatives continue to focus on negotiating better rates with our suppliers, reducing or eliminating certain discretionary operating expenses, and on purchasing or building infrastructure rather than renting. The purchase of poles in Newfoundland in Q4 2010 is an example of an initiative that enables us to continue to experience operating cost savings throughout 2011. In Q3 2011, our procurement efforts with Internet transit providers, call centre and operations partners, as well as maintenance and equipment vendors resulted in increased savings from a number of key suppliers.

Finally, we have completed negotiations on our commercial agreements with Bell Canada and expect to continue to gain benefits through our strategic relationship in 2012.

### Engage employees

Promoting a high performance culture, enhancing leadership effectiveness and improving employee communication continue to be our strategic priorities in support of employee engagement.

In Q3 2011, we continued to promote clear communication between employees and leaders. As well, we continued to focus on creating development opportunities for top talent and ensuring succession and development plans are in place for senior leaders and employees with critical skills.

## RESULTS OF OPERATIONS

For the period ended September 30 (millions of dollars)	Q3			YTD		
	2011	2010	% change	2011	2010	% change
Local and access	\$312.7	\$325.3	(3.9)	\$934.8	\$973.2	(3.9)
Data	219.7	208.4	5.4	648.9	619.5	4.7
Long distance	97.9	102.6	(4.6)	288.7	298.7	(3.3)
Wireless	25.9	24.3	6.6	73.2	67.3	8.8
Other revenues	44.0	43.1	2.1	128.8	133.8	(3.7)
Operating revenues	\$700.2	\$703.7	(0.5)	\$2,074.4	\$2,092.5	(0.9)
Operating expenses	360.5	354.4	1.7	1,071.9	1,061.5	1.0
EBITDA <sup>(1)</sup>	\$339.7	\$349.3	(2.7)	\$1,002.5	\$1,031.0	(2.8)
Depreciation and amortization	159.5	173.1	(7.9)	469.8	519.6	(9.6)
Severance and other charges	26.5	0.7	n.m.	32.4	15.3	n.m.
Operating income	\$153.7	\$175.5	(12.4)	\$500.3	\$496.1	0.8
Net finance expense	43.1	48.6	(11.3)	128.4	142.4	(9.8)
Distributions to holders of class B exchangeable partnership units issued by Bell Aliant LP	-	52.3	n.m.	-	157.0	n.m.
Loss (gain) on the re-measurement of the class B exchangeable partnership units issued by Bell Aliant LP	-	31.7	n.m.	-	(156.0)	n.m.
Other expense (income)	(1.2)	13.4	n.m.	5.0	16.8	(70.2)
Income tax expense (recovery)	31.7	(3.0)	n.m.	110.6	(15.6)	n.m.
Net earnings from continuing operations	\$80.1	\$32.5	n.m.	\$256.3	\$351.5	(27.1)
Net earnings (loss) from discontinued operations	(0.2)	0.6	n.m.	(4.4)	(1.1)	n.m.
Net earnings for the period	\$79.9	\$33.1	n.m.	\$251.9	\$350.4	(28.1)

n.m. not meaningful

<sup>(1)</sup> EBITDA is a non-IFRS financial measure. Refer to the "Non-IFRS financial measures" section for more details.

## Operating revenues

## Local and access

Local and access revenue declined 3.9 per cent, or \$12.6 million, in Q3 2011, and 3.9 per cent, or \$38.4 million, YTD 2011, compared to the same periods in 2010. This was largely driven by a 5.2 per cent decline in our total NAS customers at September 30, 2011, compared to September 30, 2010. Revenue losses continue to be mitigated through programs targeted at retaining our highest value customers and implementing selected price increases that reflect the higher value provided through our bundled packages.

During Q3 2011, our total net NAS declines were approximately 37,900, representing an increase of 2,400 over net NAS declines during Q3 2010, but a marked improvement on the year-over-year net NAS decline of approximately 8,700 experienced during Q2 2011. At September 30, 2011, the number of residential NAS customers was 6.7 per cent lower than at September 30, 2010, reflecting continued competitive intensity, the opening of new competitive footprint and the substitution of wireline services by wireless and VoIP services. The number of business NAS customers was 2.3 per cent lower than at September 30, 2010.

## Data

Data revenue increased 5.4 per cent, or \$11.3 million, in Q3 2011, and 4.7 percent, or \$29.4 million, YTD 2011, compared to the same periods in 2010. In Q3 2011, Internet revenues grew by 6.7 per cent, or \$7.7 million, and IPTV revenues grew by 79.7 per cent, or \$5.1 million, compared to Q3 2010. These increases more than offset the decline in other data revenues of 1.7 per cent, or \$1.5 million. YTD 2011 results reflect a similar trend as an \$8.4 million decline in other data revenues was more than compensated by growth in Internet and IPTV revenues of \$23.6 million and \$14.2 million, respectively.

At September 30, 2011, total IPTV subscribers reached approximately 68,200, up 57.9 per cent from September 30, 2010. *FibreOP* TV customers grew by approximately 10,700 in Q3 2011 to reach approximately 30,400 at the end of September 2011, with some migration occurring between our legacy Bell

Aliant TV and our new *FibreOP* TV. Overall, IPTV customer net additions were approximately 9,000 in Q3 2011.

Growth in residential high-speed Internet ARPC continued to drive most of the increase in Internet revenues. Customer demand for more bandwidth and premium services, along with selective pricing increases, pushed ARPC to a new high of \$42.32 in Q3 2011. ARPC increased 5.9 per cent, or \$2.34, from \$39.98 in Q3 2010, and represents an increase of \$2.09, or 5.3 per cent, to \$41.65 YTD 2011.

High-speed Internet customers reached almost 860,000 at the end of September 2011, up 2.7 per cent from a year earlier. Overall net high-speed Internet customer additions of approximately 4,900 in Q3 2011 were down from approximately 9,600 in Q3 2010, reflecting lower growth in DSL footprint, migration to *FibreOP*, and continued competitive activity. *FibreOP* residential Internet customers grew by approximately 12,000 during the current quarter to reach approximately 34,000 at the end of September 2011. The majority of the *FibreOP* Internet net additions were customers migrating from DSL and FTTN networks which would not have contributed to overall high-speed Internet customer growth, but increasingly contribute to growth in ARPC.

Other data revenue declined as a result of competitive pressures, migration to IP-based technologies, and re-pricing of services. The decline in data revenues this year has improved from trends experienced in 2010 as a result of renewed data service demand growth in Atlantic Canada.

### Long distance

Long distance revenue declined by 4.6 per cent, or \$4.7 million, in Q3 2011, and 3.3 per cent, or \$10.0 million, YTD 2011, compared to the same periods in 2010. The decline is primarily the result of lower NAS, substitution of traditional wireline service with email, cellular calling and VoIP services and migration from legacy long distance per-minute plans to flat rate plans. The effects of these declines were partially mitigated by selective price increases.

### Wireless

Wireless revenue increased by 6.6 per cent, or \$1.6 million, in Q3 2011, and by 8.8 per cent, or \$5.9 million, YTD 2011, compared to the same periods in 2010. This was mainly due to an 11.0 per cent increase in the number of wireless customers at September 30, 2011, compared to September 30, 2010. For Q3 2011, wireless ARPC decreased 3.7 per cent, or \$2.30, and YTD 2011 by 1.8 per cent, or \$1.07, compared to the same periods in 2010, mainly driven by roaming volume and rate changes. This is offset to a large degree by an increase in Smartphone users who are choosing new voice and data plans, and selected price increases on certain services.

### Other revenues

Other revenues increased 2.1 per cent, or \$0.9 million, in Q3 2011, compared to Q3 2010, mainly due to an increase in pole attachment revenue driven by both price increases in late 2010 and the purchase of poles in Newfoundland in Q4 2010. For YTD 2011, other revenues decreased by 3.7 per cent, or \$5.0 million, compared to the same period in 2010. The overall decline was largely driven by revenues generated from the G8 Summit in Q2 2010, which did not recur in 2011, as well as a decrease in telecommunications equipment sales, other rental revenue and outsourcing revenues.

## Expenses

## Operating expenses

For the period ended September 30 (millions of dollars)	Q3			YTD		
	2011	2010	% change	2011	2010	% change
Labour costs						
Wages, salaries and related taxes and benefits	\$134.6	\$131.9	2.0	\$399.0	\$403.7	(1.2)
Current service costs of post-employment benefit plans	15.7	13.0	20.8	46.8	39.3	19.1
Share-based compensation plan expense	4.2	5.0	(16.0)	14.9	8.9	67.4
Contractor, outsourcing and other labour costs	15.9	13.4	18.7	47.0	37.0	27.0
Capitalized labour	(38.3)	(32.3)	18.6	(113.3)	(101.5)	11.6
<b>Total labour costs</b>	<b>\$132.1</b>	<b>\$131.0</b>	<b>0.8</b>	<b>\$394.4</b>	<b>\$387.4</b>	<b>1.8</b>
Cost of sales, content costs and payments to other carriers	173.9	172.9	0.6	511.7	513.3	(0.3)
Real estate expenses	9.5	8.9	6.7	29.0	29.6	(2.0)
Operating taxes	9.3	10.5	(11.4)	28.5	32.2	(11.5)
Bad debt expense	6.9	6.8	1.5	19.2	19.2	-
Other operating expenses	28.8	24.3	18.5	89.1	79.8	11.7
<b>Operating expenses</b>	<b>\$360.5</b>	<b>\$354.4</b>	<b>1.7</b>	<b>\$1,071.9</b>	<b>\$1,061.5</b>	<b>1.0</b>

Operating expenses increased by 1.7 per cent, or \$6.1 million, in Q3 2011, and 1.0 per cent, or \$10.4 million, YTD 2011, compared to the same periods in 2010.

Total labour costs increased by 0.8 per cent, or \$1.1 million, in Q3 2011, and by 1.8 per cent, or \$7.0 million, YTD 2011, compared to the same periods in 2010. On a YTD basis, we continue to achieve efficiencies as a result of our restructuring and productivity initiatives, although wages, salaries and related taxes and benefits expense increased during Q3 2011 compared to Q3 2010, largely due to \$2.2 million of severance and benefit costs related to the union retirement offer in Q3 2011 and higher performance-based incentive plan costs. A portion of the costs associated with the retirement offer, relating to those employees that are being replaced with similar positions, is recognized in operating costs while the remainder is recognized separately in severance and other charges below EBITDA. The increase in current service costs of our post-employment benefit plans was driven by a lower discount rate used in 2011 compared to 2010 for our DB pension and other post employment benefit (OPEB) plans, offset to a degree by the effect of having fewer active members in these plans. The costs of our defined contribution (DC) plans were consistent with the prior year. Share-based compensation plan expense is lower in Q3 2011 compared to Q3 2010, due to mark-to-market adjustments of the related liability reflecting the recent fluctuations in Bell Aliant Inc.'s share price and also due to a hedging program put in place during Q3 2011. For YTD 2011, there were fewer deferred unit forfeitures in Q1 2011, compared to Q1 2010, which increased share-based compensation expense in 2011, compared to 2010. Contractor, outsourcing and other labour costs in Q3 2011 reflected escalating resource needs for our *FibreOP* service expansion and TV demand, including increased contractor costs related to third party arrangements. The increased labour costs relating to our FTTH network and *FibreOp* service expansion are reflected in capitalized labour.

Cost of sales, content costs and payments to other carriers increased by 0.6 per cent, or \$1.0 million, in Q3 2011, and decreased by 0.3 per cent, or \$1.6 million, YTD 2011, compared to the same periods in 2010. The Q3 2011 increase is driven by higher TV content costs resulting from growth in our IPTV subscribers, and higher hardware subsidies driven by increased wireless activations and renewals. This was partially offset by lower product cost of goods sold and productivity savings achieved through our commercial agreement with Bell Canada. For YTD 2011, cost of sales also reflects lower network service cost of goods sold as the first half of 2010 included costs related to the G8 Summit that did not recur in 2011.

Real estate expenses increased 6.7 per cent, or \$0.6 million, in Q3 2011, which is mainly attributable to the timing of building maintenance costs in 2011. These expenses have decreased by 2.0 per cent, or \$0.6 million YTD 2011, compared to the same periods in 2010, as we have reduced our office space requirements due to the streamlining of our workforce.

Operating taxes decreased 11.4 per cent, or \$1.2 million, in Q3 2011, and by 11.5 per cent, or \$3.7 million YTD 2011, compared to the same periods in 2010. This is primarily due to lower provincial capital taxes and, to a lesser extent, lower property and municipal revenue tax expense.

Bad debt expense increased 1.5 per cent, or \$0.1 million, in Q3 2011, compared to the same period in 2010, which mainly reflects slightly lower customer recoveries in Q3 2011. For YTD 2011, bad debt expense was unchanged compared to the same period in 2010.

Other operating expenses increased 18.5 per cent, or \$4.5 million, in Q3 2011, and by 11.7 per cent, or \$9.3 million YTD 2011, compared to the same periods in 2010. This is largely attributable to the recognition of higher scientific research and experimental development credits in 2010 which were not repeated in 2011, and increased advertising and customer support costs as part of our *FibreOP* rollout.

### Depreciation and amortization

Depreciation and amortization decreased 7.9 per cent, or \$13.6 million, in Q3 2011, and 9.6 per cent, or \$49.8 million YTD 2011, compared to the same periods in 2010. This is primarily the result of recording the impairment charge on certain finite-life intangible assets in Q4 2010, which significantly reduced our intangible asset base, offset slightly by shorter estimated useful lives of these intangible assets.

### Severance and other charges

Severance and other charges increased by \$25.8 million, in Q3 2011, and by \$17.1 million YTD 2011, compared to the same periods in 2010. Both years included employee severance and benefit costs related to voluntary retirement offers for certain unionized employees and streamlining our management workforce, as well as real estate rationalization costs. During 2011, we recorded \$28.6 million in employee severance and benefit costs and \$3.8 million in real estate rationalization charges, compared to \$14.5 million and \$0.8 million, respectively, in 2010.

### Net finance expense

Net finance expense decreased \$5.5 million, or 11.3 per cent, in Q3 2011, and \$14.0 million, or 9.8 per cent, YTD 2011, compared to 2010.

Finance expense decreased \$0.5 million in Q3 2011 and increased \$1.2 million YTD 2011, compared to the same periods in 2010. The decrease in Q3 2011 reflects lower net debt levels as a result of repayments made this year and lower short-term interest rates, partially offset by higher bank fees. The YTD 2011 increase reflects these same trends except that \$0.9 million higher interest charged on a higher pension obligation more than offset the decline in interest expense from lower net debt levels and lower short-term rates.

Finance income includes interest earned and the expected returns on pension plan assets. Finance income increased \$5.0 million in Q3 2011 and \$15.2 million YTD 2011, compared to the same periods in 2010, driven by higher expected returns on DB pension plan assets as a result of a higher pension asset base.

### Class B exchangeable partnership units issued by Bell Aliant LP

In 2010, we expensed distributions to holders of class B exchangeable partnership units issued by Bell Aliant LP of \$52.3 million and \$157.0 million in Q3 and YTD 2010, respectively, due to financial liability classification of the units under IFRS. There was no similar distribution expense recognized in 2011, as these units were transferred to us as part of the Conversion and are now eliminated upon consolidation of Bell Aliant LP.

In 2010, these units were also marked-to-market at each reporting date, with any changes in value recognized directly in net earnings for the period. In Q3 and YTD 2010, we recognized a loss of \$31.7 million and a gain of \$156.0 million, respectively, with no similar amount recognized in 2011, due to their elimination upon consolidation.

### Other expense (income)

Other expense decreased \$14.6 million in Q3 2011, and \$11.8 million YTD 2011, compared to the same periods in 2010. This improvement related primarily to a \$12.1 million loss on the early redemption of medium-term notes in September 2010, compared to a \$4.4 million loss of similar nature occurring in May 2011. As well, in June 2011 we entered into a series of foreign currency derivative contracts, which resulted in us recognizing a fair value adjustment gain of \$1.5 million and \$1.3 million in Q3 and YTD 2011, respectively. There was no similar hedging transaction in 2010.

### Income tax expense (recovery)

The income tax expense in Q3 2011 was \$31.7 million, representing an increase of \$34.7 million from a recovery of \$3.0 million in Q3 2010. For YTD 2011, the income tax expense was \$110.6 million, representing an increase of \$126.2 million from a recovery of \$15.6 million YTD 2010. The increase in income tax expense for both Q3 and YTD 2011 is predominantly driven by higher earnings before tax in 2011 compared to the same periods in 2010, primarily driven by the Conversion transaction, which resulted in the inclusion in our taxable earnings of income that in prior periods had been attributed to the class B exchangeable partnership units issued by Bell Aliant LP and the partnership units issued by Télébec and NorthernTel held indirectly by the Fund; the loss of the tax effectiveness of our income trust structure due to the January 1, 2011 application of the revised tax rules affecting income trusts; an increase in our blended weighted average federal and provincial effective tax rate and a change in our temporary differences reversal pattern as compared to the same period in 2010. The settlement of a prior year income tax audit issue slightly offset these increases.

### Net loss from discontinued operations

Net loss from discontinued operations of \$0.2 million in Q3 2011 and \$4.4 million YTD 2011 represents the after-tax loss on the sale of our xwave business on January 1, 2011. Discontinued operations in 2010 reflected the operating results of our xwave business which had net income of \$0.6 million in Q3 2010 and a net loss of \$1.1 million YTD 2010.

### 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 an IFRS basis, unless otherwise noted.

For the eight quarters ended September 30 (millions of dollars, except per share / unit amounts)	2011			2010				2009 <sup>(2)</sup>
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Operating revenues	\$700.2	\$692.6	\$681.6	\$714.9	\$703.7	\$700.1	\$688.7	\$719.0
EBITDA <sup>(1)</sup>	\$339.7	\$333.5	\$329.3	\$345.1	\$349.3	\$343.0	\$338.7	\$364.8
Operating income (loss)	\$153.7	\$175.6	\$171.0	(\$1,569.6)	\$175.5	\$163.8	\$156.8	\$145.8
Net earnings (loss):								
Continuing operations	\$80.1	\$87.4	\$88.8	(\$1,388.5)	\$32.5	\$71.0	\$248.0	\$96.5
Discontinued operations	(0.2)	(0.8)	(3.4)	(0.7)	0.6	(2.3)	0.6	(3.9)
Net earnings (loss)	\$79.9	\$86.6	\$85.4	(\$1,389.2)	\$33.1	\$68.7	\$248.6	\$92.6
Basic earnings (loss) per share / unit:								
Continuing operations	\$0.76	\$0.83	\$0.87	(\$8.65)	\$0.20	\$0.44	\$1.54	\$0.60
Discontinued operations	(0.01)	(0.01)	(0.03)	-	0.01	(0.01)	0.01	(0.02)
Basic earnings (loss) per share / unit	\$0.75	\$0.82	\$0.84	(\$8.65)	\$0.21	\$0.43	\$1.55	\$0.58
Diluted earnings (loss) per share / unit:								
Continuing operations	\$0.76	\$0.83	\$0.87	(\$8.65)	\$0.20	\$0.44	\$0.48	\$0.60
Discontinued operations	(0.01)	(0.01)	(0.03)	(0.01)	-	(0.01)	-	(0.02)
Diluted earnings (loss) per share / unit	\$0.75	\$0.82	\$0.84	(\$8.66)	\$0.20	\$0.43	\$0.48	\$0.58

<sup>(1)</sup> EBITDA is a non-IFRS measure. Refer to the "Non-IFRS financial measures" section for more details.

<sup>(2)</sup> Financial results for the fourth quarter of 2009 are presented on a Canadian GAAP basis.

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

- In general, the consolidated operating revenue trend reflects year-over-year growth in Internet, TV and wireless revenues generated from growing customer bases and higher ARPC, which has been more than offset by declines in legacy voice revenues.
- In 2009 and 2010, as part of our organizational productivity initiatives aimed to create a more efficient cost structure and improve our overall service to customers, we offered limited voluntary retirement incentives to a number of our unionized employees in Ontario and Quebec, and continued the streamlining of our management workforce and real estate rationalization. This resulted in recognizing related severance and other charges of \$13.7 million in Q4 2009 and \$10.7 million, \$3.3 million, \$0.5 million and \$12.5 million in Q1, Q2, Q3, and Q4 2010, respectively. In 2011, we continued our focus on similar productivity initiatives which included a further voluntary retirement incentive to eligible unionized employees in Atlantic Canada, recognizing related severance and other charges of \$4.5 million, \$1.4 million and \$26.5 million in Q1, Q2, and Q3, respectively.
- On November 1, 2009, we concluded a share purchase agreement under which the senior leaders of Innovatia Inc. acquired all of its outstanding shares. The proceeds on closing were \$1.5 million, resulting in a pre-tax loss on sale of \$1.5 million being recognized in Q4 2009.
- In Q4 2010, as part of our annual balance sheet reviews and in preparation for our conversion to a corporate structure and transition to IFRS, we revisited the original estimates used in valuing assets, such as finite-life intangibles related to customer relationships which we acquired from Bell Canada in 2006 and in 2007 on the privatization of Télébec and NorthernTel. Using revised estimates in 2010, an impairment in the carrying value of certain finite-life intangibles related to customer relationships was identified and we recorded a non-cash write-down of \$1,727.9 million.
- In Q4 2010, we announced that we signed an asset purchase agreement, under which Bell Canada would acquire our xwave business. As a result, we reclassified the results of our xwave business operations as discontinued operations. The transaction closed on January 1, 2011, with proceeds on sale of \$38.4 million in cash and \$33.7 million in a receivable from Bell Canada related to post-closing balance sheet adjustments. During YTD 2011, we collected \$12.4 million of this receivable and paid \$4.7 million to settle liabilities that we retained in connection with expenses incurred by xwave in 2010. An after-tax loss on sale of \$3.4 million, \$0.8 million, and \$0.2 million which is net of \$8.9 million allocated to goodwill, has been recorded in net loss from discontinued operations in Q1, Q2 and Q3 2011, respectively.

Additional details regarding our results for Q3 2011 are discussed throughout this document. Further information on our prior quarterly results, as reported under IFRS or Canadian GAAP as applicable, can be found in our respective quarterly or annual financial statements and related MD&As.

## FINANCIAL AND CAPITAL MANAGEMENT

## Summary of cash flows

<i>For the nine month period ended September 30</i>			
<i>(millions of dollars)</i>	2011	2010	% change
Cash from (used in):			
Operating activities	\$625.8	\$715.8	(12.6)
Investing activities	(432.2)	(404.7)	6.8
Financing activities	(286.3)	(312.8)	(8.5)
Net decrease in cash from continuing operations	(\$92.7)	(\$1.7)	n.m.
Net increase (decrease) in cash from discontinued operations	46.1	(10.4)	n.m.
Net decrease in cash for the period	(\$46.6)	(\$12.1)	n.m.

n.m. - not meaningful

For YTD 2011, we used net cash of \$46.6 million, compared to using net cash of \$12.1 million for the same period in 2010. This increase in use of cash of \$34.5 million is the result of lower cash from continuing operations of \$91.0 million, partially offset by higher cash flow from discontinued operations of \$56.5 million. The higher cash flow from discontinued operations reflects the cash proceeds realized in YTD 2011 from the sale of our xwave business.

## Operating activities

Cash generated from operating activities decreased 12.6 per cent, or \$90.0 million, YTD 2011, compared to YTD 2010. Contributing to this decline was a \$167.4 million increase in funding of DB pension, DC pension, and OPEB plans, reflecting the \$200.0 million lump sum pension contribution, and a \$27.0 million decrease in net earnings from continuing operations net of non-cash adjustments. This was offset by a \$104.4 million increase in cash flow from changes in operating assets and liabilities, or working capital.

Cash flow generated from working capital changes was \$34.0 million YTD 2011, compared to using cash of \$70.4 million YTD 2010. Higher payables and accruals represented \$94.6 million more cash from working capital YTD 2011, compared to the same period in 2010. Of this, \$41.4 million was attributable to the timing of the accrual and payment of severance charges. For YTD 2011, the accrual increased by a net \$17.0 million due primarily to the new initiatives announced in Q3, while in the same period in 2010 the liability declined by a net \$24.4 million due to cash payments required for previously announced initiatives. Capital expenditure growth YTD 2011, driven by our accelerated FTTH expansion, has also increased our cash flow from working capital by contributing to an increase in accounts payable. Cash flow from working capital changes was negatively affected by accounts receivable YTD 2011, as we generated \$14.1 million less cash compared to the same period in 2010. A reduction in inventory levels YTD 2011 contributed to \$11.3 million more cash flow compared to the same period in 2010. Cash used to fund deferred charges decreased \$10.4 million largely due to the non-recurrence in 2011 of deferred costs incurred in 2010 related to corporate conversion, long-term prepayments for procurement contracts and new customer acquisition costs.

Funding of our post-employment benefit plans is included in the use of cash from operating activities. For YTD 2011, total funding of our post-employment benefit plans was \$276.1 million, compared to \$108.7 million for the same period in 2010. Cash funding for our DB pension plans was \$263.7 million, compared to \$97.3 million for the same period in 2010. In 2011, these amounts included \$37.6 million of current service contributions and \$226.1 million of special deficit funding, compared to \$39.3 million and \$58.0 million in 2010, respectively. The \$1.7 million year-over-year decline in current service contributions is due to fewer active participants in the plans in 2011 compared to the prior year. The year-over-year increase in our special deficit funding reflects a \$200.0 million lump sum cash contribution that we made in Q1 2011 to our

registered DB pension plans. We plan to apply a portion of our lump sum pension contribution against our required special deficit funding throughout 2011.

For YTD 2011, contributions to our OPEB plans to fund benefits were \$6.5 million, compared to \$6.0 million YTD 2010. DC pension plan contributions were \$5.9 million year-to-date, compared to \$5.4 million from contributions for continuing operations during the same period in 2010.

### Investing activities

Cash used in investing activities increased by 6.8 per cent, or \$27.5 million for YTD 2011, compared to YTD 2010.

Purchases of capital investments were \$435.7 million YTD 2011, compared to \$332.0 million YTD 2010, representing an increase of 31.2 per cent, or \$103.7 million. Consistent with our strategic priority to grow broadband, specifically focusing on our *FibreOP* service, we continue to accelerate the expansion of our FTTH network. Additionally, total cash from investing activities includes \$1.7 million in proceeds on sale of investments, as we collected receivables from CAE Professional Services (Canada) Inc. related to post-closing balance sheet adjustments for the sale of our DSA business, with no similar proceeds received in 2010.

In Q3 2010, BCE and Bell Canada elected to be loaned an amount equal to their deferred distributions, in the form of non-interest bearing notes receivable with a maturity date of January 1, 2011. As a result, notes receivable from related parties included \$72.8 million YTD 2010, with no corresponding transaction occurring YTD 2011.

### Financing activities

For YTD 2011, cash used in financing activities was \$286.3 million, compared to \$312.8 million YTD 2010, a decline of 8.5 per cent, or \$26.5 million, primarily attributable to lower cash dividends/distributions to our equity holders in 2011. The cash used in financing activities in YTD 2011 also reflects the proceeds received from the preferred share issue described below and higher net debt repayments in 2011 compared to 2010.

We had net repayments of debt (including short and long-term debt, capital leases and notes payable to related parties) of \$171.3 million for YTD 2011, compared to net proceeds of \$114.5 million in the same period of 2010. In 2011, we repaid a net \$42.5 million in notes payable to related parties, of which \$43.3 million represented final distributions under the income trust structure paid in early Q1. For YTD 2011, we had net repayments of long-term debt of \$113.4 million, related to scheduled and early repayments on mortgages, debentures and medium-term notes. For YTD 2010, we had \$8.3 million in net repayments of long-term debt. Refer to our "Debt" section below for additional details. We had net proceeds of short-term promissory notes under our commercial paper program of \$52.8 million for YTD 2011, compared to proceeds of \$147.8 million in the same period of 2010. In 2011, we also repaid \$40.0 million under our non-revolving term bank facility and reduced proceeds from the accounts receivable securitization by \$10.0 million. In 2010, we also reduced proceeds for the accounts receivable securitization by \$15.0 million. The repayments of both long and short-term debt in 2011 have been facilitated in part by the proceeds from disposition received on our sale of the xwave business, from excess free cash flow and in part from proceeds of the preferred share issuance, described below. In 2010, net proceeds were required to fund higher working capital requirements.

We had total gross proceeds on the preferred share issuance by Bell Aliant Preferred Equity Inc. (Prefco) of \$287.5 million in Q1 2011, with no similar transaction in 2010. These proceeds were used to make the \$200.0 million lump sum pension contribution previously referred to, as well as to repay net debt as discussed above.

Financing activities for YTD 2011 also included dividends paid to Bell Aliant Inc. of \$327.3 million, dividends paid to preferred shareholders of \$7.6 million and distributions of \$53.9 million, which represented the final disbursements required for distributions under the income fund structure. For YTD 2010, total distributions paid to the Fund and to holders of class B exchangeable partnership units issued by Bell Aliant LP and exchangeable LP units of Bell Aliant Holdings LP were \$426.0 million.

## 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 anticipate generating enough cash from our operating activities to pay for property, plant and equipment, dividends to shareholders, and other commitments as they arise.

Our capital structure is as follows:

<i>(millions of dollars, except as otherwise noted)</i>	September 30, 2011		December 31, 2010	
Shareholders' / partners' capital	<b>\$3,261.7</b>	49.5%	\$1,666.0	34.6%
Preferred shares issued by a subsidiary	<b>281.0</b>	4.2%	-	-
Net debt	<b>3,051.5</b>	46.3%	3,148.8	65.4%
Total capital	<b>\$6,594.2</b>	100.0%	\$4,814.8	100.0%

### Shareholders'/partners' capital

#### Common shares

As at September 30, 2011, Bell Aliant GP's authorized capital consists of an unlimited number of two classes of shares, voting common shares and non-voting common shares, neither of which are publicly traded.

The number of common shares issued and outstanding at September 30, 2011, was 101,373,833 voting common shares, with Bell Aliant Inc. owning all but 1 voting common share which is held indirectly by BCE. Non-voting common shares have not been issued.

#### Partnership units

As at December 31, 2010, Bell Aliant Holdings LP had an unlimited number authorized of each of its three classes of units, which were not publicly traded. The number of units issued and outstanding was 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.

On January 1, 2011, all outstanding partnership units were cancelled as part of the dissolution of Bell Aliant Holdings LP during the Conversion, as described in our Q1 2011 interim financial statements and MD&A.

#### Non-controlling interest

Non-controlling interest at September 30, 2011, represents the preferred shareholders' ownership interest in Prefco, our wholly-owned subsidiary. In March 2011, Prefco issued preferred shares of \$287.5 million. Prefco recognized \$9.5 million in commissions and share issue costs, less associated income tax of \$3.0 million, as a deduction from proceeds of the share issuance. For further details concerning the offering of these preferred shares, refer to note 13 of our interim financial statements and Bell Aliant Inc.'s press release dated February 22, 2011.

#### Debt

We have a total of \$3,070.3 million in debt issued at September 30, 2011, including \$2,500.0 million in unsecured and unsubordinated medium-term notes outstanding under Bell Aliant LP's trust indenture dated September 14, 2006.

On April 26, 2011, we issued \$300.0 million of 7-year unsecured medium-term notes, bearing interest at 4.88 per cent per annum and maturing on April 26, 2018. The notes were issued at a discount and issue costs incurred were \$1.5 million, resulting in net proceeds of \$298.5 million.

Using the proceeds from this note issue, on May 6, 2011, we made a partial redemption of the 4.72 per cent medium-term notes due to mature on September 26, 2011. We redeemed \$300.0 million principal amount and recognized a \$4.4 million loss on redemption, as a result of paying a \$4.0 million early redemption penalty and recognizing \$0.4 million in previously unamortized issuance costs.

On September 26, 2011, we paid on maturity the remaining \$105.0 million outstanding principal portion of the 4.72 per cent medium-term notes along with accrued interest.

During 2011, we amended and restated our syndicated bank credit facilities, resulting in a single \$750.0 million revolving operating facility with a new term to expiry of June 6, 2015, and the elimination of the non-revolving pension reserve facility. The total amount available under our short-term operating credit facilities is \$997.7 million at September 30, 2011, compared to \$1,255.3 million at December 31, 2010. We continue to maintain a \$400.0 million commercial paper program, supported by unused capacity on this revolving operating facility.

Amounts drawn under our short-term credit facilities increased by \$2.8 million to \$380.0 million at September 30, 2011, compared to \$377.2 million at December 31, 2010. We issued \$52.8 million of short-term promissory notes under our commercial paper program, resulting in a total amount issued of \$262.0 million at September 30, 2011, compared to \$209.2 million at December 31, 2010. The increase in short-term promissory notes along with cash was used to repay the remaining \$105.0 million medium-term notes that matured on September 26, 2011. In connection with the amendment and restatement of our syndicated bank credit facilities, the outstanding bankers' acceptance advances of \$40.0 million under the non-revolving pension reserve facility were repaid during Q2 2011. We also repurchased \$10.0 million under the revolving accounts receivable securitization program. In addition, the amount of issued letters of credit decreased by \$7.6 million, to a total of \$278.5 million. Included in the letters of credit at December 31, 2010, is \$11.1 million for discontinued operations, with no such amount at September 30, 2011.

In the amended and restated bank credit facility, certain financial covenants were amended, including the total leverage ratio (as defined in the agreement) increasing from 3.0 times to 3.25 times. A copy of the amended and restated credit facility is available on [www.sedar.com](http://www.sedar.com) as a material document. There have been no other changes to the covenants and provisions contained in our credit facilities as disclosed in our MD&A for the year ended December 31, 2010, except for amendments required relating to the Conversion.

### Ratings

There were no changes to our investment grade ratings in Q3 2011.

	S&P	DBRS
Bell Aliant LP senior unsecured debt	BBB, stable outlook	BBB (high), stable trend
Bell Aliant LP commercial paper	Not rated	R-1 (low), stable trend
Bell Aliant Preferred Equity Inc. preference shares	P-3 (high), stable outlook	Pfd-3 (high), stable trend

### Cash requirements

We require a significant amount of cash to execute our business strategy. Our cash requirements for Q3 2011 consisted of dividends to shareholders, purchases of capital, pension plan funding, repayment of short and long-term debt, and payments of other commitments. It is anticipated that cash requirements for the remainder of 2011 will result in the use of cash as follows:

- The annual cash requirement to pay dividends to Bell Aliant Inc. shareholders (subject to their declaration at the discretion of the directors) is estimated to be in the range of \$432 to \$435 million for 2011. For YTD 2011, we paid \$327.3 million in dividends to enable Bell Aliant Inc. to fund its dividends and expenses.
- For YTD 2011, capital expenditures were \$435.7 million. We now anticipate 2011 capital expenditures to be in the range of \$560 to \$575 million, up from our previous guidance of \$520 to \$560 million, as we further accelerate our FTTH network expansion and connect new customers.

- We are required to 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 the issuance of commercial paper. Aside from the debt maturities referred to above, we have no significant long-term debt maturities remaining in 2011.
- Our DB pension plans have funding deficits. In 2010, the pension plans achieved a return on assets that exceeded our expected rate of return. However, the discount rates utilized to calculate our solvency funding liabilities for active employees at December 31, 2010, were lower than those used at December 31, 2009. In addition, 2011 funding requirements reflect increased liabilities resulting from early retirements in 2010. Based on the results of our 2010 actuarial valuations, required funding of our DB pension deficits for 2011 will be in the range of \$105 to \$110 million, compared to \$86.3 million for 2010. As part of our 2011 financing plans, on March 15, 2011, we used a portion of the proceeds from the issuance of preferred shares to make a \$200.0 million lump sum cash contribution to our DB pension plans. We will apply a portion of this lump sum amount against our required 2011 deficit funding. We believe that taking this step now lessens the future volatility that solvency valuations have on our cash flows, strengthens our credit profile, improves our cash flow generation, represents an attractive return on investment, and enhances the security of pension benefits for retirees and employees in our DB pension plans. In addition, we estimate that a further \$25 to \$50 million in cash deficit funding payments, which approximates our going concern funding requirements, will be contributed to the pension plans in 2011.
- Productivity initiatives, announced periodically since 2008, are expected to result in the use of cash for severance, benefits and real estate rationalization costs of approximately \$28 to \$32 million in 2011. For YTD 2011, we paid \$17.9 million in accrued severance charges and real estate rationalization costs.
- We will also use cash for other commitments, such as operating leases and purchase commitments for equipment and other network infrastructure.

### Other financial arrangements

Our contractual obligations remain substantially unchanged from those described in our 2010 annual MD&A.

### RELATED PARTY TRANSACTIONS

Our significant related parties continue to be BCE, Bell Canada and Bell Aliant Inc. For greater detail on our related party transactions and our relationship with BCE and Bell Canada, refer to note 25 to our audited consolidated financial statements for the year ended December 31, 2010, and to note 19 of our interim financial statements.

### SIGNIFICANT ACCOUNTING POLICIES

#### International financial reporting standards (IFRS)

Our interim financial statements are prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) under IAS 34, *Interim Financial Reporting*, and with IFRS 1, *First-time Adoption of IFRS*, and in accordance with the accounting policies we expect to apply in our financial statements for the year ending December 31, 2011. They do not include all of the information required for full annual financial statements. Previous to Q1 2011, our consolidated annual and interim financial statements were prepared in accordance with Canadian GAAP. The adoption of IFRS has not affected our overall performance, strategic decisions or underlying trends of our operations.

### Impact of transition to IFRS

Refer to note 20 of our interim financial statements for more detail on the significant IFRS 1 exemptions we have taken and reconciliations between our 2010 results previously prepared under Canadian GAAP and to those under IFRS. The reconciliations include Total equity as at September 30, 2010, and Net earnings (loss) and Comprehensive income (loss) for the three and nine months ended September 30, 2010. Our IFRS accounting policies are provided in note 2 to our interim financial statements for Q1 2011.

### Future changes in accounting policies

The IASB has issued several new standards, amendments to standards, and interpretations that are not yet effective for the year ending December 31, 2011, and although early adoption is permitted, they have not been applied in preparing our interim financial statements. We are currently evaluating the effect, if any, that these new standards and amendments will have on our financial results. They are as follows:

#### *Disclosures - Transfers of Financial Assets (Amendments to IFRS 7, Financial Instruments: Disclosures)*

The amendments to IFRS 7, effective for annual periods beginning on or after July 1, 2011, require increased disclosure for the transfer of financial assets, particularly where there is a disproportionate amount of transactions that take place at the end of a reporting period.

#### *IFRS 9, Financial Instruments*

IFRS 9, effective for annual periods beginning on or after January 1, 2013, is the first of the IASB's three phase project to replace IAS 39. It requires classification and measurement of financial assets in either the amortized cost or the fair value category.

#### *IFRS 10, Consolidated Financial Statements*

IFRS 10, effective for annual periods beginning on or after January 1, 2013, builds on existing principles by identifying the concept of control as the determining factor whether an entity should be included within the consolidated financial statements of the parent company. It provides additional guidance to assist in the determination of control where this is difficult to assess.

#### *IFRS 12, Disclosure of Interests in Other Entities*

IFRS 12, effective for annual periods beginning on or after January 1, 2013, requires disclosure on all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles, and other off-balance-sheet vehicles.

#### *IFRS 13, Fair Value Measurement*

IFRS 13, effective for annual periods beginning on or after January 1, 2013, sets out a single framework for measuring fair value and required disclosures. It is applicable when another IFRS requires or permits fair value measurements or related disclosures, except for share-based payment transactions within the scope of IFRS 2, Share-based Payment, leasing transactions within the scope of IAS 17, *Leases*, and measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2, *Inventories*, or value in use in IAS 36, *Impairment of Assets*.

#### *Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12, Income Taxes)*

The amendments to IAS 12, effective for annual periods beginning on or after January 1, 2012, set out presumptions for the recovery of certain assets, and are relevant in those cases where different tax consequences can arise depending on how the carrying amounts are recovered.

#### *Defined Benefit Plans (Amendments to IAS 19, Employee Benefits)*

The amendments to IAS 19, effective for annual periods beginning on or after January 1, 2013, eliminate the corridor approach to recognizing actuarial gains and losses and require entities to segregate changes in the defined benefit obligation and in the fair value of plan assets into three components. The amendments also enhance disclosure surrounding the risks arising from defined benefit plans.

## REGULATORY DEVELOPMENTS

Our business is affected by decisions made by the Canadian Radio-television and Telecommunications Commission (CRTC or the Commission), pursuant to the Telecommunications Act, the Broadcasting Act and the Radiocommunication Act.

Regulatory developments in Q3 2011, up to and including November 1, 2011, which are, or may be significant to our business, include the following:

### Support structure rates

As discussed in our MD&A for the year ended December 31, 2010, on December 2, 2010, the CRTC approved revised third party pole attachment rates for incumbent local exchange carriers (ILECs). On July 4, 2011, the CRTC also approved a rate for service poles (i.e. an ILEC pole supporting a drop wire to the customer's premises) equal to the ILEC's main pole rate. Historically, third parties have not paid for service pole access.

In Q1 2011, a consortium of cable companies filed a review and variance application seeking to reduce the rates established in the December decision. On September 1, 2011, the Commission denied the cable companies' application. Certain implementation matters are now being addressed, including the pole count data required to initiate the service pole charges.

### Télébec toll interconnection rates

On February 14, 2011, MTS Allstream Inc. filed an application with the Commission seeking reductions in the toll interconnection rates charged in the province of Quebec by Télébec and TELUS Communications Company (TCC) in Quebec. Télébec filed its response and provided additional information requested by the Commission. On August 22, 2011, the Commission directed Télébec and TCC to file tariff notices proposing to amend their rates for direct connection, access tandem, and toll-free carrier identification services, and for primary interexchange carrier processing, in the province of Quebec, within 90 days.

In addition, the Commission determined that the companies will not be compensated for any potential revenue losses if rates for the four services are reduced.

### Updated costs for subsidy calculation purposes

On June 2, 2011, we filed an application with the Commission asking for approval of increased costs for use in determining the subsidy per residential NAS in regulated high cost serving areas across certain of our serving territories. Approval of increases to such costs would provide increased subsidy revenues and further flexibility to increase local service prices in some regulated high cost serving areas, in accordance with Telecom Regulatory Policy 2011-291, described in our MD&A for the year ended December 31, 2010.

Based on a Commission letter dated October 20, 2011, the record will close on November 18, 2011. It is not known at this time when a ruling may be expected.

### Forbearance

On September 29, 2011, the Commission granted forbearance of business local exchange service in all but four of the 138 exchanges in Atlantic Canada for which we requested forbearance in Q2 2011. As well, on October 21, 2011, the Commission granted forbearance in all 19 exchanges in Atlantic Canada for which we requested forbearance of residential exchange service in early Q3 2011.

During September 2011, we filed applications with the CRTC requesting forbearance of residential primary exchange service in 38 exchanges in Ontario and Quebec. We await the Commission's decision in this matter.

### Customer/carrier service group (CSG) function

On August 19, 2011, the Commission removed the prohibition against a CSG disclosing end-user information to the internal sales and marketing team when a third party cancels a customer's service. In practice, this means that when our CSG team receives a request from a competitor to transfer a customer's service away

from us, that information can be shared with our retention teams and our agents can communicate improved service offers to a customer prior to transferring the customer's service.

### Vertical integration

On September 21, 2011, the CRTC issued a decision setting out the regulatory framework applicable to vertically integrated companies that own or control both programming and broadcasting distribution undertakings. The Commission's stated objective in the proceeding was to ensure that consumers continue to benefit from a wide choice of programming in a broadcasting system where programming and distribution have become increasingly integrated. In the decision the Commission established rules regarding the offering of exclusive programming content in a wireless or internet service, the mandatory sharing of new pay or specialty services with other distribution undertakings upon launch, as well as requirements for the packaging of independent and non-related programming. The decision also set out a code of conduct containing general guidelines intended to govern commercial interaction among broadcasting distribution undertakings, programming services and new media undertakings. The decision also establishes procedures for the resolution of commercial disputes involving these parties. Bell Aliant is subject to these new rules and guidelines.

### Proceeding to review over-the-top (OTT) programming services

As discussed in our Q2 2011 MD&A, on May 25, 2011, the CRTC initiated a proceeding aimed at better understanding the impact OTT programming (programming delivered via internet) will have on the Canadian broadcasting system. Online broadcasters, both foreign and domestic, are currently exempt from broadcasting regulation pursuant to the CRTC's new media exemption order while conventional programmers and distributors continue to have regulatory obligations under the Broadcasting Act and regulations.

On October 5, 2011, the CRTC announced that its fact-finding exercise produced inconclusive results. Consequently, the CRTC will continue to monitor the evolving communications environment and OTT programming services will be the main focus of its annual consultation with the broadcasting industry in November 2011. Additionally, another fact-finding exercise will be held in May 2012.

### Value for signal (VFS)

As discussed in our MD&A for the year ended December 31, 2010, the CRTC announced its intention to implement a regime where broadcasters can choose to either retain their existing regulatory protections or negotiate a VFS fee with distributors. The Commission subsequently sought a ruling from the Federal Court of Appeal confirming its jurisdiction to establish such a regime. On February 28, 2011, the Federal Court of Appeal ruled that the CRTC did have jurisdiction to establish a regulatory regime allowing private local over-the-air television stations (OTAs) to choose to negotiate with broadcasting distribution undertakings, such as Bell TV, for a fair value in exchange for the distribution of the programming services broadcast by those local OTAs. On September 29, 2011, the Supreme Court of Canada granted Cogeco Cable Inc., Rogers Media Inc., Shaw Cablesystems G.P. and TCC leave to appeal the Federal Court decision. If the appeal is unsuccessful, and VFS were implemented, we would be required to pay a fee to local television stations in exchange for the distribution of the programming services broadcast by those local televisions.

### Review of local, wireless, and toll interconnection regimes

As discussed in our Q1 and Q2 2011 MD&A, on March 23, 2011, the CRTC initiated a proceeding to review the local, wireless, and long distance interconnection regulatory regimes. This is a broad policy review of network interconnection matters aimed at determining whether existing interconnection regimes can be simplified and consolidated. In addition to reviewing the existing rules under this regime, another key issue being considered is whether interconnection on an IP basis should be mandated for all carriers. A two week public hearing on this proceeding began on October 24, 2011, and a decision is expected in early 2012. It is not known at this time what impact the review will have on us.

## 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 this MD&A are based on a number of assumptions that we believed were reasonable on the day we made the forward-looking statements. A number of factors or assumptions were applied or made by us in preparing our revised 2011 guidance, as presented in the "2011 revised guidance" section, and in providing the forward-looking information referred to throughout this MD&A. There are no changes to the material market, operational and financial assumptions discussed in our 2010 annual MD&A, as subsequently updated in our Q1 2011 and Q2 2011 MD&As, other than the following:

#### Market, operational and financial assumptions

Year over year operating revenue changes across most major revenue categories will be more favourable than those experienced in 2010 primarily due to customer migration to higher-value services and selective price increases.

Competition in both business and consumer markets will continue to be intense with the cable telephony competitive footprint growing from its current level of 71 percent to reach a peak of 75 to 80 per cent over the next several years. Net NAS declines will be similar to those experienced in 2010. High-speed Internet subscriber net additions will be slightly lower than those experienced in 2010.

Wireless substitution for voice services will increase in our territories but will continue to lag other regions of Canada.

We expect to pass approximately 450,000 homes and businesses with FTTH by the end of 2011, up from our previous estimate of 430,000. We continue to expect to pass over 600,000 homes and businesses with FTTH by the end of 2012, which should result in higher total residential ARPC and significant TV subscriber and revenue growth. Cost reductions will continue in 2011 but at a lower rate than that achieved in recent years.

Pension expense under IFRS in 2011 will be \$60 to \$65 million based on a discount rate of 5.3 per cent and a long-term rate of return on plan assets of 6.1 per cent, up from a comparable 2010 IFRS-based pension expense of \$53 million. Pension current service cost funding will be \$65 to \$75 million, compared to \$69 million in 2010. Required pension deficit funding will be \$105 to \$110 million, compared to \$86 million in 2010. In addition to the \$200 million lump sum pension contribution, we will contribute \$25 to \$50 million of regular cash pension deficit funding, which approximates expected going concern funding requirements for 2011.

Taxable income is expected to be subject to blended federal and provincial corporate income tax rates of 29 per cent in 2011, dropping to 27 per cent by 2013 with a 2011 income tax provision of approximately \$135 to \$145 million. The utilization of accumulated tax-loss carryforwards will result in minimal cash taxes being paid in 2011 and 2012.

Our depreciation and amortization expense for 2011 will be \$625 to \$640 million, including approximately \$145 to \$150 million of amortization of intangibles.

Dividends paid by us, Bell Aliant Inc. and Prefco are expected to qualify as eligible dividends entitling Canadian resident individuals who receive them to the enhanced dividend gross-up and tax credit mechanism that will reduce the income tax otherwise payable.

### 2011 revised guidance

Based on passing more premises with our accelerated FTTH rollout and connecting more *FibreOP* customers this year than previously anticipated, our capital expenditures for 2011 are now expected to be slightly higher than the top end of our earlier announced guidance range. We now expect to pass approximately 450,000 homes and businesses with FTTH by the end of 2011, up from our previous estimate of 430,000. The strength of our revenue and EBITDA performance allows us to invest more in FTTH. As a result, we are increasing our 2011 guidance range for capital expenditures to \$560 to \$575 million. Our other 2011 guidance metrics remain unchanged.

	2011 Guidance Issued July 2011	2011 Revised Guidance Issued November 2011
Operating revenues	\$2,720 million - \$2,780 million	unchanged
EBITDA <sup>(2)</sup> before pension expense	\$1,360 million - \$1,400 million	unchanged
EBITDA <sup>(2)</sup> after pension expense	\$1,300 million - \$1,340 million	unchanged
Capital expenditures	\$520 million - \$560 million	\$560 million - \$575 million
Free cash flow <sup>(2)</sup>	\$525 million - \$575 million <sup>(1)</sup>	unchanged
Earnings per share before purchase price allocation amortization <sup>(3)</sup>	\$1.60 - \$1.80	unchanged

<sup>(1)</sup> Excludes \$200 million lump sum pension contribution.

<sup>(2)</sup> EBITDA and free cash flow are non-IFRS measures. Refer to the "Non-IFRS financial measures" section for more details.

<sup>(3)</sup> We estimate the purchase price allocation amortization in 2011 to approximate \$90 million - \$95 million, before tax, and earnings per share including the after tax effect of this amount for 2011 to approximate \$1.30 - \$1.50.

## Risk management

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, and that could cause actual results to differ materially from those expected or predicted in forward-looking statements, including the factors listed under the "Forward-looking information" section at the forefront of this MD&A. Refer to our MD&A for the year ended December 31, 2010, and our 2010 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 currently consider material to our consolidated operations.

During the first three quarters of 2011, we have not identified significant changes 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, 2010, and our 2010 Annual Information Form. We have provided updates on our regulatory and competitive environments in the "Regulatory developments" and "Our competitive landscape" sections.

## NON-IFRS FINANCIAL MEASURES

In addition to our results reported in accordance with IFRS we use certain non-IFRS financial measures as supplemental indicators of our operating performance and financial position and for internal planning purposes. These non IFRS-measures include:

- EBITDA (earnings before interest, taxes, depreciation and amortization);
- EBITDA margin;
- Free cash flow; and
- Adjusted EPS of Bell Aliant Inc.

The above terms do not have any standardized meanings prescribed by IFRS. They are therefore unlikely to be comparable to similar measures presented by other reporting issuers. EBITDA, EBITDA margin, free cash flow and adjusted EPS of Bell Aliant Inc. are presented on a consistent basis from period to period.

## EBITDA

We define EBITDA as operating revenues less operating expenses, which means it represents operating income before depreciation and amortization expense, and severance and other charges. Operating income is calculated before net finance expense and taxes are deducted.

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

<i>For the period ended September 30</i> <i>(millions of dollars)</i>	Q3		YTD	
	2011	2010	2011	2010
Net earnings	\$79.9	\$33.1	\$251.9	\$350.4
Add: Net finance expense	43.1	48.6	128.4	142.4
Distributions to holders of class B exchangeable partnership units issued by Bell Aliant LP	-	52.3	-	157.0
Loss (gain) on the re-measurement of the class B exchangeable partnership units issued by Bell Aliant LP	-	31.7	-	(156.0)
Other expense (income)	(1.2)	13.4	5.0	16.8
Income tax expense (recovery)	31.7	(3.0)	110.6	(15.6)
Net (earnings) loss from discontinued operations	0.2	(0.6)	4.4	1.1
Operating income	\$153.7	\$175.5	\$500.3	\$496.1
Add: Depreciation and amortization	159.5	173.1	469.8	519.6
Severance and other charges	26.5	0.7	32.4	15.3
EBITDA	\$339.7	\$349.3	\$1,002.5	\$1,031.0

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, and severance and other charges. We exclude depreciation and amortization expense 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 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, pay dividends to shareholders and to meet other payment obligations, and as a common valuation measurement in the telecommunications industry. EBITDA should not be confused with net earnings or operating income, which are the most comparable IFRS measures.

EBITDA margin is defined as EBITDA as a percentage of our operating revenues.

## Free cash flow

We define free cash flow as cash from operating activities less capital expenditures. Since our operations ultimately support dividends to Bell Aliant Inc. shareholders, free cash flow combines our cash performance with that of Bell Aliant Inc. We present free cash flow both including and excluding the lump sum pension contribution made in Q1 2011 as the contribution was exceptional and funded from proceeds of a preferred share issue of a subsidiary and not cash from operating activities.

The following table provides a reconciliation of cash from operating activities to free cash flow.

<i>For the period ended September 30</i> <i>(millions of dollars)</i>	Q3		YTD	
	2011	2010	2011	2010
Cash from operating activities	\$272.5	\$258.2	\$625.8	\$715.8
Cash used in operating activities of Bell Aliant Inc.	(0.4)	(1.1)	(1.5)	(2.9)
Total cash from operating activities	\$272.1	\$257.1	\$624.3	\$712.9
Capital expenditures	(162.2)	(113.4)	(435.7)	(332.0)
Free cash flow	\$109.9	\$143.7	\$188.6	\$380.9
Lump sum pension contribution	-	-	200.0	-
Free cash flow before lump sum pension contribution	\$109.9	\$143.7	\$388.6	\$380.9

We believe that certain investors and analysts use free cash flow to assess our ability to pay dividends to shareholders, service debt, and to meet other payment obligations, and as a common valuation measurement in our industry.

Free cash flow should not be confused with cash from operating activities, which is the most comparable IFRS financial measure.

Adjusted EPS of Bell Aliant Inc.

We define adjusted EPS of Bell Aliant Inc. as diluted EPS of Bell Aliant Inc., adjusted for the after-tax per share effect of amortizing purchase price allocation amounts, which represent the adjustments to historical cost of tangible and intangible assets acquired in business combinations.

The following table provides a reconciliation of diluted EPS to adjusted EPS of Bell Aliant Inc.

<i>For the period ended September 30, 2011</i> <i>(millions of dollars, except per share amounts)</i>	Q3		YTD	
	amount	per share	amount	per share
Diluted earnings per share of Bell Aliant Inc.		\$0.33		\$1.06
Purchase price allocation amortization, net of income taxes	\$16.5	\$0.08	\$49.8	\$0.22
Adjusted earnings per share of Bell Aliant Inc.		\$0.41		\$1.28

We use adjusted EPS of Bell Aliant Inc., among other measures, to assess the contribution of our operating performance on the earnings attributable to Bell Aliant Inc. common shareholders without the after-tax effect of the purchase price allocation amortization. We exclude this item as the amortization of certain finite-life intangible assets related to customer relationships acquired in previous business combinations will largely not be replaced through future capital spending. Future costs incurred in relation to acquiring any new subscribers or retaining existing ones are captured in ongoing operating expenses. We exclude this item because it can affect the comparability of our financial results and those of Bell Aliant Inc. and could potentially distort the analysis of trends in business performance. Excluding this item does not imply it is non-recurring.

We believe certain investors and analysts use this measure to assess Bell Aliant Inc.'s ability to pay dividends, which are entirely dependent on our dividends, and as a common valuation measurement in our industry.

Adjusted EPS of Bell Aliant Inc. should not be confused with diluted EPS, which is the most comparable IFRS financial measure.

## CONTROLS AND PROCEDURES

### Internal control over financial reporting

No changes were made in our internal control over financial reporting during Q3 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.