



## Bell Aliant Regional Communications Income Fund Management's Discussion and Analysis First Quarter 2010

*This document provides management's discussion and analysis (MD&A) of our financial condition as at, and results of operations for, the three months ended March 31, 2010, compared to the corresponding period in 2009. This MD&A should be read together with our unaudited interim consolidated financial statements and accompanying notes for the period ended March 31, 2010, our audited consolidated financial statements and accompanying notes for the year ended December 31, 2009, and related MD&A along with the unaudited interim consolidated financial statements and accompanying notes of Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP) for the period ended March 31, 2010 and related MD&A. Our consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All amounts in this document are in millions of Canadian dollars, except where otherwise stated.*

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

*Quarterly and annual reports, as well as annual information forms and information circulars, can be found under "financial reports" on the Bell Aliant Regional Communications Income Fund website at [www.bell.aliant.ca](http://www.bell.aliant.ca). These and other continuous disclosure documents are also available at [www.sedar.com](http://www.sedar.com).*

### *Forward-looking information*

*This MD&A is dated May 4, 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" and "Future changes in accounting policies". The purpose of this forward-looking information is to provide the reader with information about our expectations and plans 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 May 4, 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; cash distributions are not guaranteed and will fluctuate with the performance of the business; structural subordination of Fund units; capital investment made by Bell Aliant Holdings LP; limitation on non-*

*resident ownership; redemption right of unitholders; termination of the Fund; dilution through issuance of additional units; and tax related risks including 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.bell.aliant.ca](http://www.bell.aliant.ca) as well as [www.sedar.com](http://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.

We indirectly own an 82.5 per cent interest in Bell Aliant Holdings LP, which in turn consolidates the financial results of Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Télébec, Limited Partnership (Télébec) and NorthernTel, Limited Partnership (NorthernTel). We account for this investment on an equity basis as we exercise significant influence over the operating, investing and financial policies of this entity, but we do not control it. BCE Inc. (BCE) and Bell Canada own the remaining 17.5 per cent interest in Bell Aliant Holdings LP. Bell Canada also owns a 37.9 per cent interest in Bell Aliant LP (36.75 per cent on a proportionate cash distribution basis). BCE's and Bell Canada's 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 March 31, 2010. Under a securityholders' agreement, BCE has certain governance rights that give it control over Bell Aliant Holdings LP so long as its fully diluted Fund ownership interest is 30.0 per cent or greater and certain commercial agreements are in place with Bell Aliant LP.

We are economically dependent on our significant equity investee, Bell Aliant Holdings LP. As we are affected by the events and transactions, financial and capital management, and risks and uncertainties of Bell Aliant Holdings LP, these factors could materially influence the distributions we receive from it, and in turn, our ability to pay distributions.

## **Summary of results**

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

<i>For the eight quarters ended March 31, 2010 (millions of dollars, except per unit amounts)</i>	<b>2010 Q1</b>	<b>2009</b>				<b>2008</b>		
		<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>
Equity income from investments and other revenues	\$63.8	\$80.2	\$80.7	\$76.3	\$66.4	\$66.0	\$76.2	\$69.4
Net earnings from continuing operations	63.2	79.4	80.0	74.8	65.4	65.5	74.7	68.5
Net earnings (loss) from discontinued operations	-	(2.1)	(5.7)	(3.4)	0.6	0.1	0.3	(0.7)
Net earnings	\$63.2	\$77.3	\$74.3	\$71.4	\$66.0	\$65.6	\$75.0	\$67.8
Basic earnings per unit from continuing operations	\$0.50	\$0.63	\$0.63	\$0.59	\$0.51	\$0.51	\$0.59	\$0.54
Basic earnings (loss) per unit from discontinued operations	-	(0.02)	(0.05)	(0.03)	0.01	0.01	-	(0.01)
Basic earnings per unit	\$0.50	\$0.61	\$0.58	\$0.56	\$0.52	\$0.52	\$0.59	\$0.53
Diluted earnings per unit from continuing operations	\$0.48	\$0.55	\$0.58	\$0.55	\$0.51	\$0.41	\$0.58	\$0.54
Diluted earnings (loss) per unit from discontinued operations	-	(0.01)	(0.05)	(0.03)	-	0.01	-	(0.01)
Diluted earnings per unit	\$0.48	\$0.54	\$0.53	\$0.52	\$0.51	\$0.42	\$0.58	\$0.53
Distributions declared	\$92.3	\$92.3	\$92.3	\$92.3	\$92.1	\$92.1	\$92.1	\$92.1

### *Net earnings*

Net earnings represent equity income from our indirect ownership interest in the earnings of our investments. This includes 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. Our net earnings also include an immaterial amount of interest income earned on cash and cash equivalents and operating expenses. Our net earnings are substantially dependent upon the results of operations of our subsidiary investments. The financial performance of Bell Aliant Holdings LP for the three month period ended March 31, 2010, compared to the same period in 2009, is discussed in its first quarter 2010 MD&A.

Net earnings in the first quarter of 2010 decreased \$2.8 million, or 4.2 per cent, from the first quarter of 2009. Our equity income from continuing and discontinued operations of Bell Aliant Holdings LP in the first quarter of 2010 decreased \$3.2 million, or 4.8 per cent, compared to the first quarter of 2009 primarily due to a decrease in net earnings of that investment. Also, the equity income in the first quarter of 2010 included an immaterial amount of future income tax expense relating to temporary differences that are expected to reverse after January 1, 2011, compared to a \$0.6 million expense in the first quarter of 2009.

### *Distributions declared*

During the first quarter of 2010, we declared distributions of \$92.3 million, or \$0.725 per unit, compared to \$92.1 million, or \$0.725 per unit, in the first quarter of 2009. The increase is a result of a slightly higher number of Fund units outstanding. Our monthly distribution rate remained unchanged on a quarter-over-quarter basis.

We are entirely dependent on distributions from Bell Aliant Holdings LP to make our distributions. A further discussion of distributions made by Bell Aliant Holdings LP can be found in its MD&A for the three month period ended March 31, 2010.

## **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. Should

unitholders determine it appropriate, a transaction is 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).

Subject to approval by unitholders at our annual and special meeting on June 16, 2010, we expect to convert to a corporation under a plan of arrangement under the Canada Business Corporation Act, through a tax-deferred exchange of our units for shares of a corporation on a one-for-one basis under the Conversion Rules. The conversion, assuming receipt of court and other regulatory approval and satisfaction or waiver of applicable conditions, is expected to be effective on or by January 1, 2011. The conversion will have no impact on our underlying business model or operating plans, but is expected to reduce administrative costs associated with our existing more complex trust structure, improve comparability of our financial condition and results of operation to our peers, and broaden our potential investor base. Following the conversion, BCE and Bell Canada will have the same governance rights and economic interests in us as immediately before the conversion. In addition, Scotia Capital Inc. was engaged and has provided its opinion to the Fund trustees and the directors of Bell Aliant Regional Communications Holdings Inc., our general partner, that the conversion transaction is fair, from a financial point of view, to unitholders.

An information circular outlining details about the proposed terms and process for the Conversion Transaction is expected to be mailed to unitholders in late May 2010.

#### Dividend policy

In considering an appropriate dividend policy for the new corporation for 2011 and onward, our objectives are to seek to ensure dividend sustainability while maintaining a high dividend payout to our investors. Given that the Fund will be subject to income taxes in 2011, regardless of whether the Conversion Transaction occurs, a change in the current distribution rate is inevitable.

We expect to continue to declare and pay monthly distributions at the current annual rate of \$2.90 per unit throughout 2010. The initial dividend policy of the new corporation is expected to have an annual dividend rate of \$1.90 per share, to be paid quarterly at a rate of \$0.475 per share beginning in March 2011. 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, in large part, the after-tax effect of a lower dividend for those investors.

## Financial and capital management

The following table summarizes our financial position as at March 31, 2010, as compared to December 31, 2009.

	As at March 31, 2010	As at December 31, 2009
<i>(millions of dollars)</i>		
Total assets	<b>\$4,120.6</b>	\$4,151.6
Total liabilities	<b>\$30.9</b>	\$30.8
Unitholders' equity	<b>\$4,089.7</b>	\$4,120.8

#### *Assets and liabilities*

At March 31, 2010, our assets mainly consisted of our indirect investment in, and distributions and other amounts receivable from, Bell Aliant Holdings LP. The carrying value of our investments has decreased by \$28.8 million since December 31, 2009, as our equity income was less than the distributions declared to us by our equity investee. As well, we generally consolidate our excess cash with that of Bell Aliant LP and invest it together in marketable, short-term money market instruments and as such, the balance due from (to) related parties and our cash and cash

equivalent balance will fluctuate over time depending on our cash requirements. At March 31, 2010, these assets decreased \$2.3 million from the balances at December 31, 2009, principally related to amounts accrued as receivable from Bell Aliant Holdings LP under our deferred unit plan.

Our liabilities, consisting mainly of distributions payable to our unitholders, were \$30.9 million as at March 31, 2010, compared to \$30.8 million as at December 31, 2009.

#### *Fund units*

At March 31, 2010, there were 127,276,513 Fund units outstanding, 100,373,827 exchangeable limited partnership units and 1,077,091 units notionally issued under our deferred unit plan. Only 741,970 units notionally issued under our deferred unit plan are considered dilutive, as the remainder are subject to certain future performance criteria being met. Accordingly, there were 228,392,310 Fund units outstanding on a fully diluted basis as at March 31, 2010.

At April 28, 2010, there were 127,357,123 Fund units outstanding.

## **Related party transactions**

As previously discussed in the “Our business” section, we indirectly own an 82.5 per cent equity interest in Bell Aliant Holdings LP. As well, BCE and Bell Canada own 43.95 per cent of our units on a fully-diluted basis. There was no change to the Securityholders’ Agreement with BCE during the first quarter of 2010.

Refer to note 8 of our unaudited interim consolidated financial statements for the period ended March 31, 2010, for further information on our related party transactions with Bell Aliant Holdings LP.

## **Significant accounting policies and critical accounting estimates**

Our accounting policies and methods and critical accounting estimates and assumptions are consistent with those described in note 1 to our audited consolidated financial statements for the year ended December 31, 2009.

### **Future changes in accounting policies**

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

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

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

### **International financial reporting standards (IFRS)**

In April 2008, the CICA’s Accounting Standards Board released an exposure draft, Adopting IFRSs in Canada, which proposes to fully converge Canadian GAAP with IFRS effective January 1, 2011. The convergence will occur over a transitional period, with certain standards adopted prior to 2011 and

other standards at the date of transition. The International Accounting Standards Board is continually mandating projects and making pronouncements to evolve IFRS, and as a result, IFRS at the transition date is expected to differ from its current form.

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, which includes:

- Phase 1 – Raise awareness and initial assessment
- Phase 2 – Detailed assessment
- Phase 3 – Design
- Phase 4 – Implementation

We have substantially completed the first three phases and are currently focusing our efforts on implementation, the fourth phase. Refer to the Bell Aliant Holdings LP MD&A for the quarter ended March 31, 2010 and the year ended December 31, 2009, and our MD&A for the year ended December 31, 2009, for a detailed description of our changeover plan.

We will continue to monitor changes to IFRS throughout 2010, and review and assess accordingly prior to our changeover.

## **Risk management**

During the first quarter of 2010, we have not identified any significant changes to the nature of the risks that we are exposed to in our business.

In stating our expectation of the anticipated 2011 dividend rate of \$1.90 per share annually for the new corporation, we have made certain tax assumptions, and assumptions regarding the operational and financial performance of ourselves and Bell Aliant Holdings LP. Refer to the Bell Aliant Holdings LP MD&A for the quarter ended March 31, 2010, for further information on these assumptions and risks.

## **Controls and procedures**

### **Internal control over financial reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*. Our system of internal control is based on the framework and criteria published in the report Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

There have been no changes in our internal control over financial reporting during the three months ended March 31, 2010, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.