Bell Aliant Regional
Communications Income Fund

Consolidated financial statements and notes

December 31, 2010

Bell Aliant

Management's report

TO THE UNITHOLDERS

The accompanying financial statements are the responsibility of management. The financial statements have been prepared according to Canadian generally accepted accounting principles and include amounts based on management's best estimates and judgments.

Management has established and maintains accounting and internal control systems that include written policies, procedures and a comprehensive internal audit program. These systems are designed to provide reasonable assurance that our financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements, and that our assets are properly safeguarded.

The board of directors oversees management's responsibilities for financial reporting primarily through the audit committee. The financial statements have been reviewed and approved by the board of trustees on recommendation from the audit committee. The audit committee is also responsible for making recommendation with respect to the appointment of the independent auditors and for approving their remuneration and terms of engagement. Other responsibilities of the audit committee include meeting periodically with the independent auditors, management and the internal auditors to review accounting, auditing, internal controls, litigation, financial reporting and other matters. The internal auditors and the external auditors have free access to the audit committee both with and without management present.

Our independent auditors, Deloitte & Touche LLP, have audited our financial statements. The accompanying auditors' report outlines the scope of their examination and their opinion.

Karen H. Sheriff
President and chief executive officer
Bell Aliant Regional Communications Holdings Inc.,
General Partner of Bell Aliant Regional
Communications Holdings, Limited Partnership

Glen LeBlanc
Chief financial officer
Bell Aliant Regional Communications Holdings Inc.,
General Partner of Bell Aliant Regional
Communications Holdings, Limited Partnership

March 9, 2011

Auditor's report

TO THE UNITHOLDERS OF BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND

We have audited the accompanying consolidated financial statements of Bell Aliant Regional Communications Income Fund, which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009, and the consolidated statements of earnings (loss), statements of unitholders' equity, comprehensive earnings (loss) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Bell Aliant Regional Communications Income Fund as at December 31, 2010 and December 31, 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte + Touche LLP

Chartered Accountants
March 9, 2011
Halifax, Nova Scotia

Statements

CONSOLIDATED BALANCE SHEETS

As at December 31

(millions of dollars)	Notes	2010	2009
Assets			
Current assets			
Cash and cash equivalents	9	5.3	2.6
Distributions receivable	9	29.6	31.1
Due from related parties	9	27.4	25.2
		62.3	58.9
Investments	2	3,324.4	4,092.7
Total assets		3,386.7	4,151.6
Liabilities and unitholders' equity			
Current liabilities			
Payables and accruals		0.1	—
Distributions payable	6	30.8	30.8
		30.9	30.8
Unitholders' equity		3,355.8	4,120.8
Total liabilities and unitholders' equity		3,386.7	4,151.6

See accompanying notes to the consolidated financial statements

Approved on behalf of the board of trustees:

Edward Reevey
Trustee

Louis Tanguay
Trustee

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

For the years ended December 31

(millions of dollars, except earnings per unit)	Notes	2010	2009
Equity income (loss) from investments	2	(397.6)	303.6
Operating expenses	9	3.4	4.0
Net earnings (loss) from continuing operations		(401.0)	299.6
Net loss from discontinued operations of equity investee	2	(3.5)	(10.6)
Net earnings (loss)		(404.5)	289.0
Earnings (loss) per unit	4		
Basic from continuing operations		(3.15)	2.36
Basic from discontinued operations		(0.03)	(0.09)
Basic		(3.18)	2.27
Diluted from continuing operations		(3.90)	2.19
Diluted from discontinued operations		(0.03)	(0.09)
Diluted		(3.93)	2.10

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)

For the years ended December 31

(millions of dollars)	Note	2010	2009
Net earnings (loss)		(404.5)	289.0
Other comprehensive earnings	2	3.7	12.8
Comprehensive earnings (loss)		(400.8)	301.8

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

For the year ended December 31, 2010 *(millions of dollars)*	Notes	Stated capital	Contri-buted surplus	Accu-mulated deficit	Accu-mulated other compre-hensive loss	Total accu-mulated deficit and other compre-hensive loss	Total unit-holders' equity
Balance December 31, 2009		4,192.2	45.7	(95.3)	(21.8)	(117.1)	4,120.8
Net loss		—	—	(404.5)	—	(404.5)	(404.5)
Distributions declared	6	—	—	(369.4)	—	(369.4)	(369.4)
Redemption of units	3	(0.1)	—	—	—	—	(0.1)
Deferred unit plan	3, 7	3.5	1.8	—	—	—	5.3
Other comprehensive earnings of equity investee	2	—	—	—	3.7	3.7	3.7
Balance December 31, 2010		**4,195.6**	**47.5**	**(869.2)**	**(18.1)**	**(887.3)**	**3,355.8**

For the year ended December 31, 2009 *(millions of dollars)*	Notes	Stated capital	Contri-buted surplus	Accu-mulated deficit	Accu-mulated other compre-hensive loss	Total accu-mulated deficit and other compre-hensive loss	Total unit-holders' equity
Balance December 31, 2008		4,184.9	45.7	(15.3)	(34.6)	(49.9)	4,180.7
Net earnings		—	—	289.0	—	289.0	289.0
Distributions declared	6	—	—	(369.0)	—	(369.0)	(369.0)
Redemption of units	3	(0.1)	—	—	—	—	(0.1)
Deferred unit plan	3, 7	7.4	—	—	—	—	7.4
Other comprehensive earnings of equity investee	2	—	—	—	12.8	12.8	12.8
Balance December 31, 2009		4,192.2	45.7	(95.3)	(21.8)	(117.1)	4,120.8

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31

(millions of dollars)	Notes	2010	2009
Cash from (used in) operating activities			
Net earnings (loss) from continuing operations		(401.0)	299.6
Adjustments to reconcile net earnings (loss)			
to cash from operating activities			
Loss (income) from equity investments	2	397.6	(303.6)
Change in operating assets and liabilities	5	(0.3)	(11.8)
		(3.7)	(15.8)
Cash from (used in) financing activities			
Issuance of units	3	3.5	7.4
Redemption of units	3	(0.1)	(0.1)
Purchase of units for distribution reinvestment	3, 6	(16.7)	(14.7)
Cash distributions paid to unitholders	6	(352.7)	(354.2)
		(366.0)	(361.6)
Cash from investing activities			
Cash distributions received from equity investment	2	372.4	373.8
		372.4	373.8
Net increase (decrease) in cash from continuing operations		2.7	(3.6)
Cash and cash equivalents, beginning of year		2.6	6.2
Cash and cash equivalents, end of year		5.3	2.6

See accompanying notes to the consolidated financial statements

Notes

Bell Aliant Regional Communications Income Fund was established in 2006 and is an unincorporated, open-ended, limited purpose trust governed by the laws of Ontario, pursuant to a Declaration of Trust. All references to "we", "us", "our" or the "Fund" refer to Bell Aliant Regional Communications Income Fund and its subsidiaries. We hold investments in entities whose operations are primarily focused on the provision of regional telecommunications services in Atlantic Canada, Ontario and Quebec. Our principal investment is an 82.46 per cent equity interest in Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP), which consolidates its operating subsidiaries.

NOTE 1
SIGNIFICANT ACCOUNTING POLICIES

We have prepared these consolidated financial statements in accordance with Canadian generally accepted accounting principles (Canadian GAAP).

We consolidate the financial statements of entities we control, including Bell Aliant Holdings Trust and Bell Nordiq Trust, and equity account for the investments over which we exercise significant influence, including Bell Aliant Regional Communications Holdings Inc. (Bell Aliant Holdings GP) and Bell Aliant Holdings LP. Bell Aliant Holdings LP consolidates its operating subsidiaries. These financial statements should be read in conjunction with the audited consolidated financial statements of Bell Aliant Holdings LP as at December 31, 2010.

All significant inter-company transactions have been eliminated on consolidation.

Use of accounting estimates

Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. By their nature, these estimates and assumptions are subject to measurement uncertainty and as such, actual results could differ from estimates used in these financial statements. We use estimates for certain items such as income taxes.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and notes receivable from Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), as described in note 9, all of which are readily convertible to cash and subject to insignificant risk of change in fair value, liquidity and credit risk.

Distributions

Distributions receivable from our indirect investment in Bell Aliant Holdings LP and distributions payable to our unitholders are recorded when declared.

Investments

We equity account for our 81.50 per cent investment in Bell Aliant Holdings GP and 82.46 per cent investment in Bell Aliant Holdings LP, as we exercise significant influence over operating, investing and financial policies but do not control these entities. BCE and Bell Canada own the remaining 18.50 per cent interest in Bell Aliant Holdings GP and 17.54 per cent interest in Bell Aliant Holdings LP.

Under a securityholders' agreement, BCE has certain rights in respect of the board of Bell Aliant Holdings GP including:

- The right to appoint up to a majority of directors for so long as BCE and Bell Canada, directly or indirectly, hold not less than 30 per cent of our units (on a fully diluted basis) and certain commercial agreements are in place; and
- The right to require written consent from BCE, along with the majority vote from the board, prior to undertaking certain matters or transactions for so long as BCE and Bell Canada, directly or indirectly, hold not less than 20 per cent of our units (on a fully diluted basis).

As a result of these rights, BCE controls the board of Bell Aliant Holdings GP, and thus Bell Aliant Holdings LP.

Income taxes

We qualify as a mutual fund trust for the purposes of the Income Tax Act (Canada). As such, we are only taxable on any amounts not allocated to unitholders. These financial statements do not reflect any current income taxes as we are committed to distributing to our unitholders all or virtually all of our taxable income and taxable capital gains. We intend to comply with the provisions of the Income Tax Act that permit the deduction of distributions to unitholders from our taxable income and taxable capital gains. Income tax liabilities related to our distributions are the obligations of the unitholders.

As described in note 10, effective January 1, 2011, we converted from an income trust structure to a corporate structure and as such, we will be subject to tax as a corporation from that date forward. Income taxes will be accounted for using the asset and liability method of tax allocation. Under this method, our proportionate share of equity income from investments will be reduced (increased) for future income tax expense (recovery). This will reflect the expected future income tax consequences of our proportionate share of the temporary differences between the carrying amounts of assets or liabilities reported on the balance sheets of Bell Aliant Regional Communications Inc. (Bell Aliant GP) and its subsidiaries and their corresponding tax values, as well as the benefit of Bell Aliant GP's and its subsidiaries' losses that will more likely than not be realized and carried forward to future years to reduce income taxes. Future income taxes are computed using substantively enacted rates applicable to the years in which the differences are expected to reverse. For the Fund, only temporary differences expected to reverse after January 1, 2011, are taken into account in the determination of the future tax expense (recovery).

Financial instruments

Financial instruments are recognized when we become a party to the contractual provisions of a financial instrument or non-financial derivative contract. All financial instruments are measured at fair value on initial recognition.

For purposes of ongoing measurement, we classify financial assets and liabilities according to their characteristics and management's choices and intentions related thereto. Subsequent measurement for these financial assets and liabilities is based on either fair value or amortized cost using the effective interest method, depending upon their classification. The carrying values of our financial instruments approximate fair values due to their short-term nature.

Our financial assets and liabilities are generally classified and measured as follows:

Balance sheet account	Classification	Subsequent measurement
Cash and cash equivalents	Held for trading	Fair value
Distributions receivable	Loans and receivables	Amortized cost
Due from related parties	Loans and receivables	Amortized cost
Payables and accruals	Other liabilities	Amortized cost
Distributions payable	Other liabilities	Amortized cost

Held for trading

Held for trading financial assets are typically acquired with the objective to generate revenue from short-term fluctuations in price. Interest earned, gains and losses realized on disposal and unrealized gains and losses from changes in fair value are recorded in net earnings as incurred.

Loans and receivables

Loans and receivables result from the delivery of cash or other assets by us to a borrower in return for a promise to repay on demand or on a specified date(s). Gains and losses are recognized in earnings in the period that the asset is derecognized or impaired.

Other liabilities

Other liabilities include all financial liabilities other than derivatives or liabilities that have been classified as held for trading. These financial liabilities are measured at amortized cost.

Transaction costs

Transaction costs that are incremental and directly attributable to the acquisition or issue of a financial asset or financial liability are recorded as follows:

- Held for trading – expensed as incurred; and
- Loans and receivables, and other liabilities – included in the carrying value of the financial asset or financial liability and amortized over the expected life of the financial instrument using the effective interest rate method.

Revenue recognition

Equity income is recorded based on our percentage ownership in the net earnings of investments over which we exercise significant influence over operating, investing and financial policies but do not control.

Other revenue includes interest income, which is recorded as it is earned.

Earnings per unit

Basic earnings per unit is based on the weighted average number of units outstanding during the period. Diluted earnings per unit is computed in accordance with the treasury stock method and based on the weighted average number of units and dilutive unit equivalents.

Unit-based compensation plans

We maintain employee unit purchase plans and a deferred unit plan for certain employees of Bell Aliant Holdings LP (note 7). Compensation expense related to these plans is recorded in Bell Aliant Holdings LP. The effect of forfeitures on the compensation expense is recognized as forfeitures occur.

Economic dependence

We are economically dependent on Bell Aliant Holdings LP, as our ability to pay distributions is entirely dependent on the distributions received from Bell Aliant Holdings LP. Significant events or transactions in Bell Aliant Holdings LP could materially influence our ability to pay distributions.

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.

International financial reporting standards (IFRS)

Effective January 1, 2011, IFRS will replace Canadian GAAP for publicly accountable enterprises, which includes Canadian reporting issuers. We will prepare our financial statements in accordance with IFRS commencing January 1, 2011, and have progressed significantly in the assessment of the effect of transitioning to the new standards on our consolidated financial statements.

NOTE 2
INVESTMENTS

Equity earnings and other comprehensive earnings from our investment in Bell Aliant Holdings LP, and distributions declared and received from our equity investments were as follows:

For the years ended December 31 *(millions of dollars)*	2010	2009
Equity income (loss) from investments	(397.6)	303.6
Net loss from discontinued operations	(3.5)	(10.6)
Other comprehensive earnings	3.7	12.8
Distributions declared	370.9	373.7
Distributions received	372.4	373.8

For the year ended December 31, 2010, equity income (loss) from investments includes $6.2 million of future income tax recovery (2009 – $0.9 million) relating to our proportionate share of temporary differences between the reported carrying amounts and corresponding tax values of assets and liabilities in certain subsidiaries of Bell Aliant Holdings LP, which are expected to reverse after December 31, 2010.

Other comprehensive earnings relate to our proportionate share of Bell Aliant Holdings LP's reclassification of net losses and amortization of losses on settled cash flow hedges to net earnings. The accumulated other comprehensive loss included in unitholders' equity represents our proportionate share of the unamortized portion of losses on forward fixed-floating interest rate swaps that were settled in 2007 by Bell Aliant Holdings LP.

NOTE 3
UNITHOLDERS' CAPITAL

Authorized

Our unitholders' capital is authorized to include an unlimited number of two classes of units:

- Units; and
- Special voting units.

Each unit represents an equal fraction of undivided beneficial interest in us. All units are transferable and share equally in all of our distributions whether of net earnings (losses), net realized capital gains or other amounts, or net assets in the event of our termination or windup. All units rank among themselves equally and rateably without discrimination, preference or priority. Units are redeemable at a price per unit equal to the lesser of (a) 90 per cent of the current market price of a unit calculated as of the date on which the units were tendered for redemption; or (b) 100 per cent of the closing market price on the redemption date.

Special voting units are issued in connection with certain securities exchangeable or exercisable for, or convertible into, our units. Special voting units are not entitled to any beneficial interest in any of our distributions or in our net assets in the event of our termination or windup. Each special voting unit entitles the holder to a number of votes at any meeting of voting unitholders equal to the number of units into, or for which, the related exchangeable security is exchangeable, exercisable or convertible.

Issued and outstanding

		2010		2009
As at December 31 *(millions of dollars, except as otherwise noted)*	**Number of units**	**Stated capital**	Number of units	Stated capital
Units	127,394,907	4,195.6	127,264,016	4,192.2
Special voting units	100,373,827	—	100,373,827	—
		4,195.6		4,192.2

Units

The following table provides details of the change in our issued and outstanding units:

		2010		2009
For the years ended December 31 *(millions of dollars, except as otherwise noted)*	**Number of units**	**Stated capital**	Number of units	Stated capital
Units, beginning of year	127,264,016	4,192.2	126,983,707	4,184.9
Deferred unit plan units exercised *(note 7)*	132,528	3.5	283,130	7.4
Redemption of units	(1,620)	(0.1)	(2,805)	(0.1)
Fractional unit adjustment	(17)	—	(16)	—
Units, end of year	127,394,907	4,195.6	127,264,016	4,192.2

As certificates are issued to unit holders for whole units, any fractional units that these unitholders may be entitled to are paid out in cash.

Special voting units

The following table provides the number of exchangeable limited partnership units and the number of special voting units issued and outstanding at December 31, 2010:

	Exchangeable limited partnership units	Special voting units
Class 1 exchangeable limited partnership units of Bell Aliant Holdings LP	28,168,803	28,168,803
Class B exchangeable limited partnership units of Bell Aliant LP	72,205,024	72,205,024
	100,373,827	100,373,827

Special voting units issued relate to exchangeable limited partnership units that were issued by Bell Aliant Holdings LP and Bell Aliant LP. The exchangeable limited partnership units are intended to be, to the greatest extent practicable, the economic equivalent of our units. Holders of exchangeable limited partnership units are entitled to receive distributions per unit from the partnerships that equal, to the greatest extent practicable, our distributions per unit paid to our unitholders. The exchangeable units are used in the calculation of fully diluted earnings per unit (note 4). Each exchangeable limited partnership unit is exchangeable for our units on a one-for-one basis subject to customary anti-dilution adjustments, and are transferable subject to certain restrictions. Concurrent with the exchange of exchangeable limited partnership units for our units, any related special voting units will be cancelled.

Exchange rights and liquidity rights

Exchange rights and liquidity rights are issued in connection with the exchangeable limited partnership units that were issued by Bell Aliant Holdings LP and Bell Aliant LP. Each class 1 exchangeable limited partnership unit issued by Bell Aliant Holdings LP, together with a share of Bell Aliant Holdings GP, and each class B exchangeable limited partnership unit issued by Bell Aliant LP, is exchangeable for our units on a one-for-one basis, subject to customary anti-dilution adjustments. The exchangeable limited partnership units can also be redeemed for cash at the amount of net proceeds received by us for issuing in the market that number of units equal to the number of units that would have been issued on an exchange of the exchangeable units to be redeemed.

Distribution reinvestment and optional unit purchase plan

Under the provisions of our distribution reinvestment and optional unit purchase plan, unitholders can elect to receive additional units in lieu of receiving cash distributions. Each participant in the plan may also make optional cash payments, subject to certain dollar value and time restrictions, to purchase additional units. To satisfy the purchase of units under this plan, we may issue units out of treasury or units may be purchased on the open market.

For the year ended December 31, 2010, we bought 690,445 units (2009 – 619,125 units) on the open market for unitholders participating in the distribution reinvestment and optional unit purchase plan. This was in lieu of paying $16.7 million in cash distributions (2009 – $14.7 million) and, in respect of the optional unit purchase plan, cash payments received of $1.3 million (2009 – $1.3 million).

NOTE 4
EARNINGS (LOSS) PER UNIT

For the years ended December 31 *(millions of dollars, except as otherwise noted)*	2010	2009
Basic		
Net earnings (loss) from continuing operations	(401.0)	299.6
Net loss from discontinued operations	(3.5)	(10.6)
Net earnings (loss)	(404.5)	289.0
Weighted average number of units outstanding	127,352,310	127,211,424
Basic earnings (loss) per unit from continuing operations	(3.15)	2.36
Basic earnings (loss) per unit from discontinued operations	(0.03)	(0.09)
Basic earnings (loss) per unit	(3.18)	2.27
Diluted		
Net earnings (loss) from continuing operations	(401.0)	299.6
Add non-controlling interest of holders of exchangeable units:		
Bell Aliant Holdings LP	(89.2)	66.3
Bell Aliant LP	(401.4)	134.9
	(891.6)	500.8
Net loss from discontinued operations	(3.5)	(10.6)
Add non-controlling interest of holders of exchangeable units:		
Bell Aliant LP	(0.8)	(2.4)
	(4.3)	(13.0)
Diluted net earnings (loss)	(895.9)	487.8
Weighted average number of units outstanding	127,352,310	127,211,424
Add exchangeable limited partnership units:		
Class 1 exchangeable limited partnership units of Bell Aliant Holdings LP	28,168,803	28,168,803
Class B exchangeable limited partnership units of Bell Aliant LP	72,205,024	72,205,024
Deferred units under unit-based compensation plan	968,600	739,199
	228,694,737	228,324,450
Diluted earnings (loss) per unit from continuing operations	(3.90)	2.19
Diluted earnings (loss) per unit from discontinued operations	(0.03)	(0.09)
Diluted earnings (loss) per unit	(3.93)	2.10

The exchangeable limited partnership units are intended to be, to the greatest extent practicable, the economic equivalent of our units. If holders of the exchangeable limited partnership units were to trigger an exchange for our units, the distributions paid to the holders by Bell Aliant Holdings LP and Bell Aliant LP would be paid directly to us. In 2010 and 2009, the exchangeable limited partnership units were anti-dilutive for discontinued operations. The deferred units under unit-based compensation plans are dilutive (note 7).

NOTE 5
CHANGE IN OPERATING ASSETS AND LIABILITIES

As at December 31 *(millions of dollars)*	2010	2009
Due from related parties	(0.4)	(11.6)
Payables and accruals	0.1	(0.2)
	(0.3)	(11.8)

The change in operating assets and liabilities is net of the changes in amounts receivable from the deferred unit plan (note 7). Changes in the amounts receivable caused by unit issuance (note 3) are reflected as financing activities in the consolidated statements of cash flows when the deferred units are exercised.

NOTE 6
DISTRIBUTIONS DECLARED TO UNITHOLDERS

Distributions declared were as follows:

(millions of dollars, except per unit amounts)	2010			2009	
	Monthly distributions	Distributions per unit		Monthly distributions	Distributions per unit
Record date:			Record date:		
January 29	30.7	0.2417	January 30	30.7	0.2417
February 26	30.8	0.2417	February 27	30.7	0.2417
March 31	30.8	0.2417	March 31	30.7	0.2417
April 30	30.7	0.2417	April 30	30.7	0.2417
May 31	30.8	0.2417	May 29	30.8	0.2417
June 30	30.8	0.2417	June 30	30.8	0.2417
July 30	30.8	0.2417	July 31	30.7	0.2417
August 31	30.8	0.2417	August 31	30.8	0.2417
September 30	30.8	0.2417	September 30	30.8	0.2417
October 29	30.8	0.2417	October 30	30.7	0.2417
November 30	30.8	0.2417	November 30	30.8	0.2417
December 31	30.8	0.2417	December 31	30.8	0.2417
	369.4	2.9004		369.0	2.9004

Distributions paid were as follows:

For the years ended December 31 *(millions of dollars)*	2010	2009
Cash	352.7	354.2
Additional units on distribution reinvestment plan *(note 3)*	16.7	14.7
	369.4	368.9

We make monthly distributions with our distributable cash, which generally consists of all distributions received from Bell Aliant Holdings LP, less normal operating expenses, for or in respect of the relevant period. Monthly distributions are payable to unitholders of record on the last business day of each calendar month, or such other date as may be determined from time to time by our trustees (provided that December 31 in each calendar year shall be a distribution record date), and will be paid generally on or before the 15th day of the following month. Unitholders can elect to receive additional units in lieu of receiving cash distributions (note 3).

The trustees may approve additional distributions in excess of the monthly distributions during the year. The distribution payable for the month ending December 31 in each year may include an amount in respect of our net earnings and net realized capital gains, if any, to ensure that we will not be liable for income taxes for that year.

Any net earnings that are unavailable for cash distributions will, to the extent necessary to ensure that we will not be liable for income taxes, be distributed to unitholders in the form of additional units. As such, the amount of net earnings allocated to unitholders may exceed the amount of cash distributed. Our Declaration of Trust provides that immediately after any pro rata distribution of units to all unitholders in satisfaction of any non-cash distribution, the number of outstanding units will be consolidated such that each unitholder will hold after the consolidation the same number of units as the unitholder held before the non-cash distribution, except where non-resident unitholders are subject to withholding tax in respect of such distribution.

NOTE 7
UNIT-BASED COMPENSATION PLANS

Employee unit purchase plans

We have two employee unit purchase plans for eligible employees of certain subsidiaries of Bell Aliant Holdings LP. Under the terms of the plans, employees can choose each year to have up to 10 or 12 per cent of their annual base earnings withheld to purchase our units. Certain subsidiaries of Bell Aliant Holdings LP also contribute to the plan on behalf of participants based upon employee contributions, using a prescribed formula. Depending on which plan the employee participates in, the purchase price of our units is the arithmetic average of the closing price of our units traded on the TSX on the last five days up to, and including, the investment date, or the value paid by the plan trustee to purchase the units on the open market. Participants in the plans receive additional units in lieu of receiving cash distributions. To satisfy employee purchases of our units under these plans, we may issue up to 2,079,527 (unchanged from December 31, 2009) additional units out of treasury or units may be purchased on the open market.

For the year ended December 31, 2010, we bought 1,947,842 units (2009 – 2,024,152 units) at a total cost of $50.8 million (2009 – $52.2 million) on the open market for employees of certain subsidiaries of Bell Aliant Holdings LP participating in the employee unit purchase plans. Of these totals, $9.0 million (2009 – $9.4 million) was recorded as compensation expense in Bell Aliant Holdings LP, and the remainder was contributed by employees through payroll deduction, interest earned or distributions reinvested in employee plan accounts.

Deferred unit plan

We have a deferred unit plan (DUP) for certain executives and senior management of Bell Aliant Holdings LP to further align their long-term incentive compensation with total unitholder value. Under this DUP, we may grant deferred units to eligible plan members, in such number and at such times as we determine, as a bonus or in respect of services rendered by the plan member or otherwise as compensation. On the grant date, plan members will be credited with the deferred units granted to them. Grantees are also entitled to receive additional deferred units based on cash distributions that would have been received had the deferred unit been converted to our units. The deferred units vest over a period of three years and are subject to certain performance criteria.

In February 2010, the Fund trustees approved amendments to the DUP to allow plan members to receive one unit or the cash equivalent of one unit for each vested deferred unit upon qualifying for payout under the terms of the grant. Previously, plan members were only permitted to receive one unit upon qualification for payout. There is no exercise price paid by the grantee for deferred units. We may issue up to 3,143,622 (December 31, 2009 – 3,276,150) additional units out of treasury to satisfy awards under this DUP. Any deferred units that do not vest due to failure to achieve prescribed performance targets are forfeited and any unvested deferred units of a plan member are forfeited upon their departure.

A summary of the status of the deferred units and changes during the year are as follows:

For the years ended December 31	2010	2009
Deferred units outstanding, beginning of year	1,293,699	1,181,958
Granted:		
February 2009 – Service period fiscal 2009 to 2011	—	350,492
June 2010 – Service period fiscal 2010 to 2012	369,784	—
Reinvested distributions	126,015	129,094
	495,799	479,586
Forfeited	(269,494)	(84,715)
Exercised *(note 3)*	(132,528)	(283,130)
Settled in cash	(6,908)	—
Deferred units outstanding, end of year	1,380,568	1,293,699
Deferred units vested, end of year	968,600	739,199

For the year ended December 31, 2010, the fair value of the 495,799 deferred units granted or credited on reinvestment of notional distributions (2009 – 479,586 deferred units granted or credited) was $12.8 million, or $25.91 per deferred unit (2009 – $12.5 million, or $26.16 per deferred unit).

As the deferred units may be settled with our units when exercised, for the year ended December 31, 2010, we have recorded in contributed surplus the equivalent of the compensation expense that was recorded in Bell Aliant Holdings LP of $5.5 million (2009 – $7.6 million less $0.2 million of other adjustments). We issued 132,528 units (2009 – 283,130 units) out of treasury at an average market value of $26.10 per unit (2009 – $26.15 per unit) related to the deferred units exercised in the period. When exercised, the corresponding value of $3.5 million (2009 – $7.4 million) was reclassified from contributed surplus to stated capital. We also recorded a reversal of $0.2 million (2009 – nil) in contributed surplus related to units settled in cash by Bell Aliant Holdings LP in 2010.

NOTE 8
CAPITAL MANAGEMENT

We do not carry on any active business operations as our activities are generally restricted to holding securities of our equity investees. We hold indirect equity investments in operating subsidiaries of Bell Aliant Holdings LP and we do not incur debt to finance these investments. Therefore, our capital structure is composed solely of our unitholders' equity.

We also have a small amount of current assets financed by our current liabilities as our objective is to manage the timing of the receipt of cash distributions from our equity investees and the payment of our operating expenses and distributions to our unitholders. In order to make additional investments or to manage our capital and the income mix of distributions made to our unitholders, from time to time we consider and may adjust our distribution policy, issue or repurchase units or return capital to our unitholders.

NOTE 9
RELATED PARTY TRANSACTIONS

Bell Aliant Holdings LP

We receive distributions from Bell Aliant Holdings LP (note 2), which allow us to make our distributions (note 6). At December 31, 2010, $29.6 million (December 31, 2009 – $31.1 million) was included in distributions receivable.

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

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

For the years ended December 31 *(millions of dollars)*	2010	2009
Management salaries	0.9	0.8
General and administrative expenses	2.5	3.2
Operating expenses	3.4	4.0

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

At December 31, 2010, $27.4 million was due from Bell Aliant Holdings LP and its subsidiaries (December 31, 2009 – $25.2 million), which relates to the net of operating expenses payable as well as amounts receivable from the deferred unit plan (note 7).

We loan our excess cash to Bell Aliant LP through a series of promissory notes. Payments are requested as required for operating purposes. The $2.6 million promissory note that was receivable from Bell Aliant LP at December 31, 2009, was repaid on January 15, 2010. Subsequently issued promissory notes carried rates of interest from 0.50 per cent to 1.30 per cent per annum, resulting in an immaterial amount of interest revenue being earned during the years ended December 31, 2010, and 2009. At December 31, 2010, a $5.3 million promissory note was receivable from Bell Aliant LP, which carries interest at 1.30 per cent per annum and matures on January 31, 2011. This balance is included in cash and cash equivalents.

There is minimal credit risk associated with balances receivable from related parties at December 31, 2010.

BCE and Bell Canada

On a fully diluted basis, BCE and Bell Canada beneficially own and control 43.88 per cent of our outstanding units as at December 31, 2010 (December 31, 2009 – 43.95 per cent). There were no transactions with BCE and Bell Canada during the year.

NOTE 10
SUBSEQUENT EVENTS

Conversion to a corporation

On January 1, 2011, the Fund completed its conversion from an income trust structure to a corporate structure. As part of the conversion, BCE and Bell Canada exchanged 100 per cent, or 72,205,024, of class B exchangeable limited partnership units issued by Bell Aliant LP, 100 per cent or 28,168,803, class 1 exchangeable limited partnership units issued by Bell Aliant Holdings LP, 100 per cent, or 100,373,827, special voting units issued by the Fund and all but one voting common share of Bell Aliant Holdings GP for 100,373,827 Bell Aliant Inc. common shares. The Fund dissolved Bell Aliant Holdings Trust and Bell Nordiq Trust, and Bell Aliant Inc. issued 127,394,907 of its common shares to Fund unitholders on a one-for-one basis for outstanding Fund units. The Fund distributed its assets to Bell Aliant Inc., which also assumed the Fund's liabilities and subsequently dissolved and terminated the Fund, cancelling the authorized units and special voting units. Bell Aliant Inc. became the successor company of the Fund. As well, Bell Aliant Holdings LP's assets were directly or indirectly distributed to Bell Aliant GP, which in turn assumed Bell Aliant Holdings LP's liabilities. Bell Aliant Holdings LP dissolved, cancelling all of its units. Bell Aliant Holdings GP and Bell Aliant GP then amalgamated and Bell Aliant GP became the successor company of Bell Aliant Holdings LP.

These transactions were accounted for at carrying values as there was no substantial change in control. BCE continues to have certain rights in respect of the board of Bell Aliant GP under a securityholders' agreement which allows BCE to control the board. Bell Aliant Inc. exercises significant influence over operating, investing and financial policies of Bell Aliant GP, but does not control it. As a result, Bell Aliant Inc. equity accounts for its investment in Bell Aliant GP.

The deferred units, granted under the DUP (note 7), that were outstanding at the end of 2010, were converted to deferred share units, entitling plan members to one Bell Aliant Inc. common share or its cash equivalent for every vested deferred share unit held, and carrying the same vesting and performance criteria as the deferred units.

Bell Aliant Inc. paid the December 2010 distributions declared and payable by the Fund to its unitholders on January 14, 2011.