



FibreOP™  
changing everything

Q1

First quarter report 2011

**Bell**Aliant

News release: First quarter results	3
<b>Bell Aliant Inc.</b>	
Management's Discussion and Analysis	7
Income statement	14
Statements of comprehensive income	14
Statements of financial position	15
Statements of cash flows	16
Statements of changes in equity	17
Notes to the financial statements	18
<b>Bell Aliant Regional Communications Inc.</b>	
Management's Discussion and Analysis	35
Consolidated income statements	60
Consolidated statements of comprehensive income (loss)	61
Consolidated statements of financial position	62
Consolidated statements of cash flows	64
Consolidated statements of changes in equity	65
Notes to the consolidated financial statements	66

## News release

---

Thursday, May 5, 2011

### Bell Aliant reports first quarter 2011 results

- Net NAS declines improve for fourth consecutive quarter
- Atlantic residential revenues return to positive growth
- *FibreOP*<sup>™</sup> network coverage reaches 178,000 homes and businesses

Halifax, NS – Bell Aliant Inc. (TSX: BA) today reported financial results for the first quarter of 2011 for Bell Aliant Inc. (Bell Aliant) and Bell Aliant Regional Communications Inc. (Bell Aliant GP).

“Our first quarter results show that the focused execution of our strategic initiatives has us on the right path,” said Karen Sheriff, president and chief executive officer, Bell Aliant. “With our accelerated expansion of fibre-to-the-home (“FTTH”), our net NAS declines continue to improve and our Internet and TV revenues are growing such that our Atlantic residential revenues have returned to positive growth after a period of decline.”

“I am very encouraged by these results, especially considering that we have much of our *FibreOP* network expansion still ahead of us,” continued Ms. Sheriff. “I am confident that accelerating our FTTH network coverage in 2011 and 2012, combined with our recently announced launch of *FibreOP 2.0* with an even better TV experience and faster Internet speeds, will give us the scale and competitive advantage to turn our overall revenue trajectory around.”

“The first quarter was a very strong start to what will be a year of high execution for us. We expect EBITDA to be under pressure for the balance of this year as we incur start-up costs associated with increasing the number of customers subscribing to this new technology. That said, it is short-term pain that we can live with, considering the long-term benefits of the competitive advantage *FibreOP* gives us,” concluded Ms. Sheriff.

### First quarter 2011 highlights<sup>1</sup>

Bell Aliant Inc.’s net earnings in the first quarter of 2011 were \$84 million with earnings per share and adjusted earnings per share in the quarter of \$0.37 and \$0.44, respectively.<sup>2</sup>

First quarter financial highlights of Bell Aliant GP are summarized as follows:

(In millions of dollars) (unaudited)	Q1 2011	Q1 2010	Percentage Change
Operating Revenue	682	689	(1.0)%
EBITDA before pension current service costs	345	352	(2.0)%
EBITDA	329	339	(2.8)%
Capital Expenditures	120	94	(26.7)%
Free Cash Flow	88*	57	(55.4)%

\* excludes \$200 million lump sum pension contribution

Declines in Bell Aliant GP's operating revenues in the first quarter of 2011 were held to 1.0 per cent compared to the same quarter a year earlier, as growth in Internet and TV revenues largely offset declines in local and long distance revenues. Net network access services (NAS) declines continued an improving trend, with lower net declines than the same quarter a year earlier for the fourth consecutive quarter. Net NAS declines were 33,000 in the first quarter of 2011, down from 39,000 in the same quarter in 2010, due to strong bundling performance and retention programs, bolstered by the expansion of *FibreOP* Internet and TV service coverage in Atlantic Canada. Atlantic residential revenues increased approximately 3 per cent in the first quarter of 2011 from the same quarter in 2010, after experiencing several quarters of year-over-year decline.

Excluding pension current service costs, operating expenses in the first quarter of 2011 were flat to the same quarter of 2010. The expense benefits of staff reductions and continued productivity gains were offset by a \$4 million increase in equity-based incentive costs following a large reduction adjustment in the first quarter of 2010, and expense increases associated with the ramp-up of the *FibreOP* rollout. Pension current service costs in the first quarter of 2011 also increased \$2 million from the same quarter in 2010, as a result of lower interest rates.

EBITDA declined \$9 million (2.8 per cent) in the first quarter of 2011 compared to the same quarter in 2010, as a result of lower revenues and the increase in pension current service costs. EBITDA before pension current service costs declined \$7 million (2.0 per cent) in the first quarter of 2011 from the same quarter a year ago. Shifts in the revenue mix to lower margin revenues lowered EBITDA margin in the first quarter of 2011 to 48.3 per cent, down from 49.2 per cent in the same quarter of 2010, in line with the annual decline expected for 2011.

Capital expenditures in the first quarter of 2011 increased \$25 million (26.7 per cent) from the same quarter a year earlier, driven by the planned expansion of *FibreOP* coverage areas and connecting customers to the FTTH network. Capital expenditures are expected to continue to increase in the coming quarters of 2011 as Bell Aliant executes its plan to pass over 600,000 homes and businesses with *FibreOP* services by the end of 2012.

Free cash flow before a one-time lump sum pension contribution of \$200 million was \$88 million in the first quarter of 2011, up \$31 million from the same quarter a year earlier. The improvement in free cash flow was driven by a \$48 million improvement in non-cash working capital which was offset by the increase in capital expenditures. The lump-sum contribution to the pension plans was funded by a preferred share issue of Bell Aliant's subsidiary, Bell Aliant Preferred Equity Inc., which was completed in March 2011.

#### **Revenue Details**

Local service and long distance revenues declined \$13 million (4.0 per cent) and \$3 million (2.7 per cent), respectively, in the first quarter of 2011 compared to the same quarter in 2010, primarily as a result of 4.7 per cent lower NAS than a year earlier. Selected pricing actions somewhat offset the revenue effects of NAS declines.

Internet revenue grew by \$8 million (7.0 per cent) in the first quarter of 2011 compared to the same period in 2010. Residential high speed average revenue per customer (ARPC) grew 4.8 percent while high-speed Internet customers grew by 3.8 per cent from the same period a year earlier. Customer demand for more bandwidth and premium services continued to move customers to higher value services like *FibreOP* which, along with selected pricing action, pushed ARPC in the first quarter of 2011 to its highest level to date.

Bell Aliant passed an incremental 40,000 homes and business with *FibreOP* services in the first quarter of 2011, bringing homes and businesses passed with FTTH at the end of March 2011 to 178,000. Growth in the *FibreOP* coverage area drove substantially all of the IPTV net customer additions in the first quarter of 2011 as IPTV revenues reached \$9 million with a total of 54,000 IPTV customers at the end of March 2011.

Other data revenue declined \$3 million (3.8 per cent) in the first quarter of 2011 from the same quarter a year earlier as a result of competitive pressures and migration to alternate technologies.

Wireless revenues increased \$2 million (11.0 per cent) in the first quarter of 2011 from the same quarter in 2010, driven by subscriber growth of 10.8 per cent compared to the end of March 2010.

Other revenues decreased \$3 million (6.0 per cent) in the first quarter of 2011 compared to the same quarter in 2010 driven by lower product sales.

#### **Medium Term Notes Issued**

On April 26, 2011 Bell Aliant LP issued \$300 million of 7-year medium term notes (MTN) at a rate of 4.88 per cent, the proceeds of which will be used on May 6, 2011 to partially redeem 4.72 per cent medium term notes due September 26, 2011 (the "2011 Notes"). Following the redemption, \$105 million of the 2011 Notes will remain outstanding, which Bell Aliant LP expects to repay with free cash flow and/or short term borrowing at maturity.

"We are pleased that we have been able to successfully execute on our financing plans by completing two attractive financing deals so far this year," said Glen LeBlanc, executive vice president and chief financial officer, Bell Aliant. "With our preferred share offering and recent MTN issue, we are reducing our financial risk profile and securing attractive financing rates for the future, all while giving investors alternative ways to invest in Bell Aliant."

#### **Declared Dividends**

Bell Aliant's Board of Directors declared a quarterly dividend of \$0.4750 per common share, payable on June 30, 2011 to shareholders of record at the close of business on June 15, 2011. The expected annual dividend of \$1.90 per share represents a yield of 7.0 per cent based on the May 5, 2011 closing price.

Bell Aliant Preferred Equity Inc. also declared the first dividend on its Series A Preferred Shares of \$0.35545 per share to be paid on June 30, 2011 to shareholders of record as of June 15, 2011. This initial dividend on the preferred shares covers the period from March 15, 2011 to June 30, 2011. Future dividends on the Series A Preferred Shares are expected to be \$0.303125 quarterly or \$1.2125 per share paid annually, for the initial 5 year period, which ends on March 31, 2016.

Unless otherwise stated, dividends paid by Bell Aliant and Bell Aliant Preferred Equity Inc. to Canadian residents are "eligible dividends" as defined by the Canadian Income Tax Act and corresponding provincial legislation.

#### **Supplementary Financial Information**

More information on Bell Aliant's and Bell Aliant GP's first quarter 2011 results can be found in Bell Aliant's first quarter 2011 supplementary information package and Bell Aliant GP's first quarter 2011 Management's Discussion and Analysis (MD&A), available at [www.bellaliant.ca/investors](http://www.bellaliant.ca/investors).

#### **Analyst conference call**

A conference call discussing first quarter results with the financial community was held on May 6, 2011. A replay of the conference call will be available on our website, [www.bellaliant.ca](http://www.bellaliant.ca), for one year.

*1. See Notes section at the end of this release for definitions of the non-International Financial Reporting Standard (IFRS) financial metrics.*

*2. Bell Aliant converted from an income trust to a corporate structure on January 1, 2011. Prior year net earnings and earnings per share metrics of the trust structure are not meaningful or comparable to 2011 results.*

## Notes

The information contained in this news release is unaudited.

- (1) Bell Aliant derives virtually all of its income from its ownership in Bell Aliant GP. Bell Aliant GP's results consolidate the results of Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Télébec, Limited Partnership (Télébec) and NorthernTel, Limited Partnership (NorthernTel).
- (2) Percentage changes quoted in this release related to dollar values are based on amounts rounded to the nearest hundred-thousand, consistent with disclosure in Bell Aliant's supplementary information package and Bell Aliant GP's MD&A for the first quarter of 2011. Dollar values quoted in this release are rounded to the nearest million unless otherwise stated.
- (3) Definitions of non-IFRS measures:
  - a. Adjusted earnings per share: Bell Aliant defines adjusted earnings per share as fully diluted earnings per share adjusted for the after-tax per share impact of amortizing purchase price allocations (PPA) amounts, which represent the adjustments to historical cost of tangible and intangible assets acquired in business combinations.
  - b. EBITDA: Bell Aliant defines EBITDA as operating revenue less expenses (earnings) before interest, income taxes, depreciation and amortization expense, severance and other charges.
  - c. EBITDA margin: Bell Aliant defines EBITDA margin as EBITDA as a percentage of operating revenue.
  - d. Free Cash Flow: Bell Aliant defines free cash flow as cash generated from operating activities less capital expenditures. Free cash flow includes the operations of Bell Aliant and Bell Aliant GP on a combined basis.

For a reconciliation of these non-IFRS measures to the most closely comparable IFRS measures, please refer to Bell Aliant GP's MD&A for the first quarter of 2011.

## Forward-looking Information

This news release contains forward-looking statements concerning anticipated future events, results, circumstances or expectations, in particular as described in the "Medium Terms Notes Issued" and "Declared Dividends" sections of this news release. Unless otherwise indicated, such forward-looking statements describe management's expectations at May 5, 2011. These statements are based on management's beliefs regarding future events, many of which, by their nature are inherently uncertain and beyond management's control. These statements are not guarantees of future performance and are subject to assumptions which may prove to be inaccurate and numerous risks and uncertainties which are difficult to predict.

## About Bell Aliant

Bell Aliant (TSX: BA) is one of North America's largest regional communications providers and the first company in Canada to cover an entire city with fibre-to-the-home (FTTH) technology with its *FibreOP* services. Through its operating entities it serves customers in six Canadian provinces with innovative information, communication and technology services including voice, data, Internet, video and value-added business solutions. Bell Aliant's employees deliver the highest quality of customer service, choice and convenience.



## Bell Aliant Inc.

### Management's Discussion and Analysis

#### First Quarter 2011

*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, 2011, compared to the corresponding period in 2010. This MD&A should be read together with our unaudited interim financial statements and accompanying notes for the period ended March 31, 2011, (interim financial statements), the unaudited interim consolidated financial statements and accompanying notes and MD&A of Bell Aliant Regional Communications Inc. (Bell Aliant GP) for the period ended March 31, 2011, the audited consolidated financial statements and accompanying notes and MD&A of Bell Aliant Regional Communication Income Fund's (the Fund) for the year ended December 31, 2010, and the audited consolidated financial statements and accompanying notes and MD&A of Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP) for the year ended December 31, 2010. All amounts in this document are in millions of Canadian dollars, except where noted. Our interim financial statements, including the information for the prior year comparative period presented therein, have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting" and International Financial Reporting Standard (IFRS) 1, First-time adoption of IFRS.*

*On January 1, 2011, 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 GP is the successor corporation to Bell Aliant Holdings LP. Throughout this document, all references to "we", "us" and "our" refer to Bell Aliant Inc. for 2011 and to the Fund and its subsidiaries prior to January 1, 2011.*

*Additional information about us and Bell Aliant GP, including annual reports, quarterly financial statements and MD&As, supplementary financial information, as well as annual information forms and information circulars, can be found under "financial reports" 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 May 5, 2011, 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 "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 2011 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 GP operate and our beliefs and assumptions regarding these markets. Unless otherwise indicated, forward-looking information in this MD&A describes our expectations at May 5, 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: our economic dependence on Bell Aliant GP, and therefore all of the risks and uncertainties to which its operations are subject, including increasing competition and ability to achieve strategies and plans; general economic conditions and changing regulations; the unpredictability and volatility of our share price; and the provisions we make in respect of certain taxes which could materially change. 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 "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 the MD&A of Bell Aliant Holdings LP 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 hold an investment in Bell Aliant GP, which operates one of the largest regional communications service providers in North America.

We own all but one voting common share of Bell Aliant GP, with BCE Inc. (BCE) indirectly owning the remaining voting common share. Bell Aliant GP consolidates the financial results of Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Télébec, Limited Partnership (Télébec), NorthernTel, Limited Partnership (NorthernTel) and Bell Aliant Preferred Equity Inc. We account for our investment in Bell Aliant GP 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. Under a securityholders' agreement, BCE has certain governance rights that give it control over Bell Aliant GP, so long as their ownership interest in us is 30.0 per cent or greater and certain commercial agreements are in place with Bell Aliant LP.

We are economically dependent on Bell Aliant GP to provide the cash flow we require to pay dividends to our shareholders. As we are affected by the events and transactions, financial and capital management, and risks and uncertainties of Bell Aliant GP, these factors could materially influence the dividends we receive from it, and in turn, our ability to pay dividends.

## CORPORATE CONVERSION

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

As part of the Conversion, the Fund's unitholders received one common share of Bell Aliant Inc. for each Fund unit held. BCE and Bell Canada exchanged 100 per cent of their class B exchangeable limited partnership units issued by Bell Aliant LP, 100 per cent of their class 1 exchangeable limited partnership units issued by Bell Aliant Holdings LP, 100 per cent of their special voting units issued by the Fund, and all but one of their voting common shares of Bell Aliant GP for common shares in Bell Aliant Inc. Through a series of steps, the Fund's assets and liabilities were transferred to Bell Aliant Inc. and the Fund was dissolved and terminated. As well, Bell Aliant Holdings LP transferred its assets to Bell Aliant GP, which in turn assumed Bell Aliant Holdings LP's liabilities. Bell Aliant Holdings LP was then dissolved, cancelling all of its units. Bell Aliant Regional Communications Holdings Inc. and the predecessor to Bell Aliant GP then amalgamated.

Unitholders' proportionate ownership interests in Bell Aliant Inc. were effectively unchanged by the Conversion.

These 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. Our ownership interest in Bell Aliant GP increased from indirectly owning 82.5 per cent of Bell Aliant Holdings LP before the Conversion, to directly owning over 99.9 per cent of Bell Aliant GP upon completion of the Conversion.

The Conversion had no impact on Bell Aliant GP's underlying business model or operating plans, but is expected to reduce administrative costs previously associated with the more complex trust structure, improve comparability of our financial condition and results of operations to our peers, and broaden our potential investor base.

Bell Aliant Inc.'s common shares began trading on the Toronto Stock Exchange on January 4, 2011, under the trading symbol "BA".

## SUMMARY OF RESULTS

The following table shows selected consolidated financial results for the most recent eight quarters. This quarterly information is unaudited and is prepared on an IFRS basis, except where otherwise noted. The comparability of results between periods before and after January 1, 2011, is significantly affected by the effects of the Conversion.

<i>For the eight quarters ended March 31, 2011 (millions of dollars, except per share / unit amounts)</i>	2011	2010				2009 <sup>(1)</sup>		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Income (loss) from equity investments and other revenues	\$88.2	(\$1395.3)	(\$0.5)	\$47.9	\$301.9	\$80.2	\$80.7	\$76.3
Net earnings (loss) from continuing operations	87.5	(1396.2)	(1.0)	46.5	301.3	79.4	80.0	74.8
Net earnings (loss) from discontinued operations	(3.4)	(0.7)	0.6	-	-	(2.1)	(5.7)	(3.4)
Net earnings (loss)	\$84.1	(\$1396.9)	(\$0.4)	\$46.5	\$301.3	\$77.3	\$74.3	\$71.4
Basic earnings (loss) per share / unit from continuing operations	0.38	(10.96)	(0.01)	0.37	2.37	0.63	0.63	0.59
Basic earnings (loss) per share / unit from discontinued operations	(0.01)	(0.01)	0.01	-	-	(0.02)	(0.05)	(0.03)
Basic earnings (loss) per share / unit	\$0.37	(\$10.97)	-	\$0.37	\$2.37	\$0.61	\$0.58	\$0.56
Diluted earnings (loss) per share / unit from continuing operations	0.38	(10.96)	(0.01)	0.37	0.49	0.55	0.58	0.55
Diluted earnings (loss) per share / unit from discontinued operations	(0.01)	(0.01)	0.01	-	-	(0.01)	(0.05)	(0.03)
Diluted earnings (loss) per share / unit	\$0.37	(\$10.97)	-	\$0.37	\$0.49	\$0.54	\$0.53	\$0.52
Dividends / distributions declared	\$108.2	\$92.4	\$92.4	\$92.3	\$92.3	\$92.3	\$92.3	\$92.3

<sup>(1)</sup> Financial results for the quarters of 2009 are presented on a Canadian GAAP basis.

### *Net earnings (loss)*

Net earnings (loss) represents equity income from our investment in Bell Aliant GP. Our net earnings also include an immaterial amount of interest income earned on cash and cash equivalents, operating expenses and deferred income tax recovery. Our net earnings are dependent upon the results of operations of Bell Aliant GP. Prior to the Conversion, the Fund's income from equity investments also included the change in fair value net of distributions of the class 1 exchangeable limited partnership units issued by Bell Aliant Holdings LP. The financial performance of Bell Aliant GP for the three months ended March 31, 2011, compared to the same period in 2010, is discussed in its first quarter 2011 MD&A.

Current year net earnings are not directly comparable to the prior period due to the effect of the Conversion. Net earnings from continuing operations decreased \$213.8 million, or 71.0 per cent, for the first quarter of 2011, compared to the same period in 2010. The decrease is largely attributable to Bell Aliant GP recording in the first quarter of 2010 a \$189.2 million gain on the fair value re-measurement of the class B exchangeable limited partnership units issued by Bell Aliant LP, offset somewhat by a \$52.3 million expense related to distributions declared on these exchangeable limited partnership units. The re-measurement and distributions did not recur in the first quarter of 2011, as these units were transferred to Bell Aliant GP as part of the Conversion, and thus are now eliminated upon consolidation of Bell Aliant LP. In addition, during the first quarter of 2010, the Fund recorded in income from equity investments a \$73.8 million gain on the re-measurement of the class 1 exchangeable limited partnership units issued by Bell Aliant Holdings LP, offset somewhat by a \$20.5 million expense related to distributions declared on these exchangeable limited partnership units, with no similar transaction occurring in 2011. The quarter-over-quarter decline was partially offset by the increase in our percentage equity ownership interest in Bell Aliant GP as a result of the Conversion.

In the first quarter of 2011, net loss from discontinued operations of \$3.4 million represents our proportionate share of the loss on Bell Aliant GP's sale of the xwave business which was completed on January 1, 2011. There were no discontinued operations in the quarter ended March 31, 2010.

#### *Dividends /distributions declared*

During the first quarter of 2011, we declared dividends of \$108.2 million, or \$0.475 per share, compared to declaring distributions totalling \$92.3 million, or \$0.725 per unit, in the first quarter of 2010. With the Conversion, we have significantly more shares outstanding than the Fund had units outstanding. This is due to the exchange of exchangeable limited partnership units for our shares by BCE and Bell Canada in the Conversion. For comparison purposes, the combined distributions declared by the Fund on its units and by Bell Aliant Holdings LP and Bell Aliant LP on exchangeable limited partnership units in the first quarter of 2010 were \$165.1 million.

We are entirely dependent on dividends from Bell Aliant GP to pay our dividends. A further discussion of dividends paid by Bell Aliant GP can be found in its MD&A for the three months ended March 31, 2011.

## **FINANCIAL AND CAPITAL MANAGEMENT**

The following table summarizes our financial position as at March 31, 2011, as compared to December 31, 2010.

<i>(millions of dollars)</i>	<b>As at March 31, 2011</b>	<b>As at December 31, 2010</b>
Total assets	<b>\$3,537.1</b>	\$1,012.6
Total liabilities	-	30.9
Shareholders' / unitholders' equity	<b>\$3,537.1</b>	\$981.7

#### *Assets and liabilities*

At March 31, 2011, our total assets increased \$2,524.5 million from the balances at December 31, 2010, and mainly consisted of our investment in, and other amounts receivable from, Bell Aliant GP. The carrying value of our investments have increased by \$2,556.0 million since December 31, 2010, primarily as a result of the Conversion as our ownership interest in Bell Aliant GP has increased by 17.4 percentage points to over 99.9 per cent, or \$2,608.5 million representing the value of BCE and Bell Canada's interest in Bell Aliant Holdings LP, Bell Aliant LP, all but one common share of Bell Aliant GP, less \$39.3 million of other conversion related adjustments.

We generally consolidate our excess cash with that of Bell Aliant LP and invest it together in marketable, short-term money market instruments. As such, the balance due from related parties and our cash and cash equivalent balance will fluctuate over time depending on our cash requirements. At March 31, 2011, these assets decreased \$2.8 million from the balances at December 31, 2010. As well, distributions receivable from Bell Aliant Holdings LP decreased by \$29.6 million from December 31, 2010, due to a change in the timing of when Bell Aliant GP dividends are declared and paid in 2011.

Our liabilities consist mainly of dividends payable to our shareholders if, as, and when declared by the board of directors. At March 31, 2011, there were no declared dividends payable to our shareholders, compared to distributions payable to unitholders of \$30.9 million as at December 31, 2010, due to a change in the timing of when we declare and pay dividends.

#### *Common shares*

At March 31, 2011, there were 227,786,584 common shares outstanding. There were also 1,609,760 deferred shares issued under our deferred share plan. Only 927,385 of the deferred share are considered dilutive, as the vesting of the remainder is subject to prescribed performance targets being met. Accordingly, there were 228,712,702 common shares outstanding on a fully diluted basis as at March 31, 2011.

At April 29, 2011, there were 227,786,579 common shares outstanding.

## RELATED PARTY TRANSACTIONS

As previously discussed in the “Our business” section, we own over 99.9 per cent equity interest in Bell Aliant GP. BCE and Bell Canada own one voting common share and we own the remaining voting common shares. During the first quarter of 2011, upon completion of the Conversion, the securityholders’ agreement with BCE and Bell Canada was amended and restated to reflect the Conversion and the continuation of their governance and other rights in the new corporate structure.

Refer to note 10 of our interim financial statements for information on our related party transactions with Bell Aliant GP.

## SIGNIFICANT ACCOUNTING POLICIES

### International financial reporting standards (IFRS)

Our interim financial statements represent the initial presentation of our results and financial position under IFRS and have been prepared in accordance with IAS 34, *Interim Financial Reporting*, and with IFRS 1, *First-time Adoption of IFRS*, as issued by the International Accounting Standards Board (IASB) 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. Previously, our annual and interim consolidated financial statements were prepared in accordance with Canadian Generally Accepted Accounting Policies (Canadian GAAP). The adoption of IFRS has not had a material impact on our overall performance, strategic decisions, or underlying trends of our operations.

#### *Impact of transition to IFRS*

IFRS 1, *First-time adoption of international financial reporting standards* sets forth guidance for the initial adoption of IFRS. Our analysis of IFRS and comparison to our accounting policies under Canadian GAAP determined that we were generally aligned with IFRS in many areas, but also identified some key differences. In addition, as we equity account for our investment in Bell Aliant GP, our IFRS transition is affected by the accounting policy choices made by them. Refer to Bell Aliant Holdings LP’s MD&A for the year ended December 31, 2010, and Bell Aliant GP’s interim financial statements for the period ended March 31, 2011, for explanations of these differences and adjustments.

IFRS 1 provides both mandatory exceptions and optional exemptions. In general, we have chosen to apply certain optional exemptions to reduce the complexity involved in transitioning to IFRS, as the cost of not applying the exemptions would far outweigh the benefit to the users of our financial statements. Refer to note 11 of our interim financial statements for the period ended March 31, 2011, for more detail on the significant IFRS 1 exemptions we have taken and reconciliations between our 2010 Canadian GAAP results and the 2010 IFRS results. The reconciliations include Total equity as at January 1, 2010, March 31, 2010, and December 31, 2010, and Net earnings (loss) and Comprehensive income (loss) for the three months ended March 31, 2010, and year ended December 31, 2010. Our IFRS accounting policies are provided in note 2 to our interim financial statements for the period ended March 31, 2011.

### Future changes in accounting policies

A number of new standards, amendments to standards, and interpretations are not yet effective for the year ending December 31, 2011, and have not been applied in preparing our financial statements for the period ended March 31, 2011. They are set out as follows:

#### *IFRS 7, Financial Instruments: Disclosure*

The IASB issued IFRS 7, *Financial Instruments: Disclosure*, which requires increased disclosure surrounding the transfer of financial assets, particularly where there is a disproportionate amount of

transfer transactions that take place at the end of a reporting period. The amendments to IFRS 7 come into effect for periods beginning on or after July 1, 2011.

#### *IFRS 9, Financial Instruments*

The IASB issued IFRS 9, *Financial Instruments*, which is the first phase of the IASB's three phase project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. It is applicable to financial assets and requires classification and measurement in either the amortized cost or the fair value category. IFRS 9 comes into effect for periods beginning on or after April 1, 2013.

#### *IAS 12, Income Taxes*

The IASB issued IAS 12, *Income Taxes*, which sets presumptions for the recovery of certain assets and is relevant in those cases where different tax consequences can arise depending on how the carrying amounts are recovered. The amendments to IAS 12 come into effect for periods beginning on or after January 1, 2012.

We are evaluating the effect, if any, that these new standards will have on our financial results.

## **RISK MANAGEMENT**

During the first quarter of 2011, we have not identified any significant changes to the nature of the risks that we are exposed to in our business.

## **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 internal control framework is based on the criteria published in the report Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The CEO and CFO evaluated the design of our internal control over financial reporting as at March 31, 2011, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There have been no changes in our internal control over financial reporting during the three months ended March 31, 2011, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## BELL ALIANT INC.

### Income statement (Unaudited)

For the three months ended March 31

<i>(in millions of Canadian dollars, except earnings per share / unit)</i>	Notes	2011	2010
Income from equity investments	3	88.2	301.9
Operating expenses		1.0	0.6
Earnings before income tax		87.2	301.3
Deferred income tax recovery	4	(0.3)	-
Net earnings from continuing operations		87.5	301.3
Net loss from discontinued operations of equity investments	3	(3.4)	-
<b>Net earnings</b>	11	<b>84.1</b>	<b>301.3</b>
<b>Earnings per share / unit</b>	6		
Basic from continuing operations		0.38	2.37
Basic from discontinued operations		(0.01)	-
Basic		0.37	2.37
Diluted from continuing operations		0.38	0.49
Diluted from discontinued operations		(0.01)	-
Diluted		0.37	0.49

See accompanying notes to the financial statements

### Statements of comprehensive income (Unaudited)

For the three months ended March 31

<i>(in millions of Canadian dollars)</i>	Note	2011	2010
Net earnings	11	84.1	301.3
Other comprehensive income (loss)	3		
Actuarial gains (losses) on defined benefit pension (DB) and other post-employment benefits (OPEB) plans		10.2	(144.6)
Reclassification of losses on derivatives to finance expense		0.8	0.9
		11.0	(143.7)
<b>Comprehensive income (loss)</b>		<b>95.1</b>	<b>157.6</b>

See accompanying notes to the financial statements

## BELL ALIANT INC.

### Statements of financial position (Unaudited)

<i>(in millions of Canadian dollars)</i>	Notes	As at March 31, 2011	As at December 31, 2010	As at January 1, 2010
<b>Assets</b>				
Current assets				
Cash and cash equivalents	10	5.1	5.3	2.6
Distributions receivable	10	-	29.6	31.1
Due from related parties	10	24.8	27.4	25.2
		29.9	62.3	58.9
Non-current assets				
Deferred charges		0.1	-	-
Deferred income tax asset	4	0.8	-	-
Investments	3	3,506.3	950.3	2,577.1
		3,507.2	950.3	2,577.1
<b>Total assets</b>		<b>3,537.1</b>	<b>1,012.6</b>	<b>2,636.0</b>
<b>Liabilities and shareholders' / unitholders' equity</b>				
Current liabilities				
Payables and accruals		-	0.1	-
Distributions payable		-	30.8	30.8
		-	30.9	30.8
Shareholders' / unitholders' equity	11	3,537.1	981.7	2,605.2
<b>Total liabilities and shareholders' / unitholders' equity</b>		<b>3,537.1</b>	<b>1,012.6</b>	<b>2,636.0</b>

*See accompanying notes to the financial statements*

**BELL ALIANT INC.**

**Statements of cash flows**  
(Unaudited)

For the three months ended March 31

<i>(in millions of Canadian dollars)</i>	Notes	2011	2010
<hr/>			
Cash from (used in) operating activities			
Net earnings from continuing operations		87.5	301.3
Adjustments to reconcile net earnings to cash from operating activities			
Income from equity investments	3	(88.2)	(301.9)
Change in operating assets and liabilities	7	1.0	0.6
Deferred income tax recovery	4	(0.3)	-
		-	-
<hr/>			
Cash from (used in) financing activities			
Issuance of shares / units on exercise of deferred share plan units	5	0.1	0.4
Redemption of shares / units	5	-	(0.1)
Purchase of shares / units for dividend / distribution reinvestment	5	(4.1)	(4.1)
Cash distributions paid to unitholders		(29.4)	(88.2)
Cash dividends paid to shareholders		(105.5)	-
		(138.9)	(92.0)
<hr/>			
Cash from investing activities			
Cash dividends / distributions received from equity investments	3	138.7	93.3
		138.7	93.3
<hr/>			
Net increase (decrease) in cash from continuing operations		(0.2)	1.3
Cash and cash equivalents, beginning of year		5.3	2.6
<b>Cash and cash equivalents, end of year</b>		<b>5.1</b>	<b>3.9</b>

*See accompanying notes to the financial statements*

**BELL ALIANT INC.**

**Statements of changes in equity**  
(Unaudited)

For the three months ended March 31, 2011

(in millions of Canadian dollars)	Notes	Issued capital	Contributed surplus	Accumulated deficit	Accumulated comprehensive loss	Accumulated other comprehensive loss	Total accumulated deficit and other comprehensive loss	Total shareholders' equity
Balance December 31, 2010	5, 11	4,195.6	47.5	(3,238.7)	(22.7)	(3,261.4)	981.7	
Conversion to a corporation	5	2,606.8	(22.8)	(16.5)	-	(16.5)	2,567.5	
Net earnings		-	-	84.1	-	84.1	84.1	
Dividends declared	8	-	-	(108.2)	-	(108.2)	(108.2)	
Deferred share plan	5, 9	0.4	0.6	-	-	-	1.0	
Other comprehensive income of equity investments	3	-	-	10.2	0.8	11.0	11.0	
<b>Balance March 31, 2011</b>		<b>6,802.8</b>	<b>25.3</b>	<b>(3,269.1)</b>	<b>(21.9)</b>	<b>(3,291.0)</b>	<b>3,537.1</b>	

For the three months ended March 31, 2010

(in millions of Canadian dollars)	Notes	Issued capital	Contributed surplus	Accumulated deficit	Accumulated comprehensive loss	Accumulated other comprehensive loss	Total accumulated deficit and other comprehensive loss	Total unitholders' equity
Balance January 1, 2010	5, 11	4,192.2	45.7	(1,605.7)	(27.0)	(1,632.7)	2,605.2	
Net earnings		-	-	301.3	-	301.3	301.3	
Distributions declared	8	-	-	(92.3)	-	(92.3)	(92.3)	
Redemption of units	5	(0.1)	-	-	-	-	(0.1)	
Deferred unit plan	5, 9	0.4	(3.1)	-	-	-	(2.7)	
Other comprehensive income (loss) of equity investments	3	-	-	(144.6)	0.9	(143.7)	(143.7)	
<b>Balance March 31, 2010</b>	<b>11</b>	<b>4,192.5</b>	<b>42.6</b>	<b>(1,541.3)</b>	<b>(26.1)</b>	<b>(1,567.4)</b>	<b>2,667.7</b>	

See accompanying notes to the financial statements

## 1. DESCRIPTION OF BUSINESS

Bell Aliant Inc. (previously 7538502 Canada Inc.) was incorporated on April 30, 2010, under the laws of Canada to facilitate the conversion of Bell Aliant Regional Communications Income Fund (the Fund) from an income trust structure into a corporate structure (the Conversion). As of December 31, 2010, Bell Aliant Inc. had not carried on any active business.

On January 1, 2011, as part of the Conversion, BCE Inc. (BCE) and Bell Canada exchanged their interests in Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP) and in Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP), 100 per cent of special voting units issued by the Fund, and all but one of their voting common shares of Bell Aliant Regional Communications Holdings Inc. (Bell Aliant Holdings GP) for our common shares. Fund unitholders exchanged their units for our common shares. Refer to note 5 for further details.

As a result of these transactions, on January 1, 2011, BCE and Bell Canada owned 43.88 per cent of common shares of Bell Aliant Inc. on a fully diluted basis and one common share of Bell Aliant Regional Communications Inc. (Bell Aliant GP), with the remaining common shares of Bell Aliant GP owned by Bell Aliant Inc. BCE and Bell Canada retained certain rights in respect of the board of Bell Aliant GP, as provided in the securityholders' agreement as further discussed in note 2. The securityholders' agreement with BCE and Bell Canada was also amended to reflect the Conversion and the continuation of BCE's and Bell Canada's governance rights in the new corporate structure. Bell Aliant Inc. continues to exercise significant influence over the 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. Bell Aliant GP consolidates its operating subsidiaries. These unaudited interim financial statements should be read in conjunction with the unaudited consolidated interim financial statements of Bell Aliant GP as at March 31, 2011.

As the original unitholders of the Fund and Bell Aliant Holdings LP have an interest in essentially the same underlying assets and liabilities, but through different legal structures of Bell Aliant Inc. and Bell Aliant GP, the Conversion has been accounted for on a continuity of interests basis. Accordingly, the financial statements of Bell Aliant Inc. reflect the financial position, results of operations and cash flows as if it had always carried on the business of the Fund. Comparative amounts in these financial statements are those of the Fund and they are presented on a consolidated basis.

All references to "we", "us" or "our" refer to Bell Aliant Inc. for 2011 and to the Fund and its subsidiaries for prior periods.

We hold an investment in entities whose operations are primarily focused on the provision of regional telecommunications services in Atlantic Canada, Ontario and Quebec. We are incorporated and domiciled in Canada. The address of our registered office is 1505 Barrington Street, Halifax, Nova Scotia, B3J 2W3. These interim financial statements were approved and authorized for issue by the board of directors on May 5, 2011. The consolidated financial statements of the Fund for the year ended December 31, 2010, prepared using Canadian generally accepted accounting principles (GAAP), were approved by the board of directors and authorized for issue on March 9, 2011.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance and conversion to International Financial Reporting Standards (IFRS)

As these unaudited interim financial statements (interim financial statements) represent the initial presentation of our results and financial position under IFRS, they were prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting* and IFRS 1, *First-time Adoption of IFRS*, using accounting policies consistent with IFRS as issued by the International Accounting Standards Board (IASB) and interpretations of the IFRS Interpretations Committee. They are prepared in accordance with the accounting policies we expect to adopt in our December 31, 2011, financial statements, but do not include all of the information required for full annual financial statements. Previously, our annual and interim consolidated financial statements were prepared in accordance with Canadian GAAP.

### Basis of preparation

These unaudited interim financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets and liabilities, which are measured at their fair value, as discussed further under "Financial instruments" and "Investments".

The accounting policies set out below have been applied consistently to all periods presented in these interim consolidated financial statements, including comparative periods. They have also been applied in preparing a statement of financial position at January 1, 2010, for the purposes of the transition to IFRS, as required by IFRS 1. The effect of the transition from Canadian GAAP to IFRS is explained in note 11.

### *Use of accounting estimates*

Management is required 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 LP as described in note 10, all of which are readily convertible to cash and subject to insignificant risk of change in fair value, liquidity and credit risk.

### *Dividends / Distributions*

Dividends / distributions receivable from our investment in Bell Aliant GP and dividends / distributions payable to our shareholders are recorded when declared.

### *Investments*

#### *Common shares of Bell Aliant GP*

We equity account for our over 99.99 per cent investment in common shares of Bell Aliant GP, as we exercise significant influence over the operating, investing and financial policies but do not control this entity.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *Investments (continued)*

#### *Common shares of Bell Aliant GP (continued)*

BCE and Bell Canada own one common share of Bell Aliant GP. Under a securityholders' agreement, BCE has certain rights in respect of the board of Bell Aliant 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 shares 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 shares.

As a result of these rights, BCE controls the board of directors of Bell Aliant GP.

#### *Class 2 limited partnership units issued by Bell Aliant Holdings LP (class 2 units)*

In 2010, and prior periods, we equity account for our investment in class 2 units, as we exercise significant influence over the operating, investing and financial policies but do not control Bell Aliant Holdings LP.

On January 1, 2011, as part of the Conversion, the class 2 units were cancelled.

#### *Class 1 exchangeable limited partnership units issued by Bell Aliant Holdings LP (class 1 units)*

In 2010, and prior periods, the class 1 units held by BCE and Bell Canada are classified as financial liabilities, as discussed in note 11. As a result, we equity account for 100 per cent of the net earnings of Bell Aliant Holdings LP. We also recognize the fair value of the class 1 units as a reduction to our investment in Bell Aliant Holdings LP, and record the changes in the fair value of the class 1 units in income from equity investments. As the class 1 units are intended to be, to the greatest extent practicable, the economic equivalents of the Fund units, the fair value of the class 1 units is established based on the quoted market price of the Fund units at the reporting period date. Distributions declared by Bell Aliant Holdings LP on the class 1 units are recognized as a decrease to income from equity investments.

On January 1, 2011, as part of the Conversion, the class 1 units were cancelled.

### *Functional currency*

These interim financial statements are presented in Canadian dollars, which is our functional and presentation currency. All financial information presented is in millions of dollars, except as otherwise noted.

### *Income taxes*

Income tax expense represents current income tax and deferred income tax. Current and deferred income tax are recognized as an expense or recovery in net earnings, except when they relate to items that are recognized outside net earnings (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside net earnings. In the case of a business combination, the tax effect is included in the accounting for the business combination.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *Income taxes (continued)*

Current tax is the tax currently payable based on taxable earnings for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Taxable earnings differs from earnings as reported in the income statement because of items of income or expense that are taxable or deductible in years other than the current reporting period or items that are never taxable or deductible.

In 2010, we qualified as a mutual fund trust for purposes of the Income Tax Act (Canada) and as such, were only taxable on any amounts not allocated to unitholders. On January 1, 2011, we are taxable on all income earned.

Deferred tax is recognized using the liability method. Under this method, deferred tax is recognized on the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial statement reporting purposes and their corresponding tax basis used in the computation of taxable earnings, as well as the benefit of losses that are probable to be realized and are available for carry forward to future years to reduce income taxes. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable earnings will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable earnings or loss nor the accounting earnings or loss. Deferred tax is not recognized for differences relating to investments in subsidiaries to the extent that we are able to control the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates enacted by tax law, or substantively enacted, that are expected to be in effect when the underlying items of income and expense are to be realized for tax purposes. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which we expect, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

The effect of a change in tax rates on deferred tax assets and liabilities is included in earnings in the period that the change is substantively enacted, except to the extent it relates to items previously recognized outside earnings in which case the rate change impact is recognized in a manner consistent with how the items were originally recognized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority, and we intend to settle our current tax assets and liabilities on a net basis.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *Financial instruments*

Financial instruments are recognized when we become a party to the contractual provisions of a financial instrument or 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:

Statement of financial position account	Classification	Subsequent measurement
Cash and cash equivalents	At fair value through profit or loss	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

#### At fair value through profit or loss

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 operating expenses as incurred.

#### Loans and receivables

Loans and receivables are not traded in an active market and 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. Gains and losses are recognized in operating expenses in the period that the asset is derecognized or impaired.

#### Other liabilities

Other liabilities include all financial liabilities other than derivative contracts or liabilities that have been classified as financial liabilities at fair value through profit or loss.

#### 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:

- At fair value through profit or loss - 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *Revenue recognition*

Income from equity investments is recorded based on our percentage ownership in the net earnings and comprehensive earnings (loss) of investments over which we exercise significant influence over the operating, investing and financial policies but do not control.

Interest income is recorded as it is earned.

### *Earnings per share / unit*

Basic earnings per share (EPS) is calculated by dividing the net earnings (loss) attributable to our common shares/units by the weighted average number of common shares/units outstanding during the period. Diluted EPS is determined by adjusting the net earnings (loss) attributable to common shares/units and the weighted average number of common shares/units outstanding for the effects of all potentially dilutive common shares/units.

### *Share-based compensation plans*

We maintain employee stock savings plans, a deferred share plan for certain employees of Bell Aliant GP, and a directors' deferred share unit plan for eligible members of our board of directors, which are described in note 9. Compensation expense related to the employee stock savings plans and the deferred share plan is recorded in Bell Aliant GP. For the directors' deferred share unit plan, we recognize a portion of compensation expense related to our proportionate share of the directors' services provided to us. Bell Aliant GP also recognizes its portion of compensation expense related to its share of the directors' services. At the end of each reporting period, we re-assess our estimates of the number and fair value of awards that are expected to vest in our deferred share plan and recognize the effect of the revisions in contributed surplus.

### *Economic dependence*

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

### *New accounting standards not yet adopted*

A number of new standards, amendments to standards, and interpretations are not yet effective for the year ended December 31, 2011, and have not been applied in preparing these financial statements. They are set out as follows:

#### *IFRS 7, Financial Instruments: Disclosure*

The IASB issued IFRS 7, *Financial Instruments: Disclosure*, which requires increased disclosure surrounding the transfer of financial assets, particularly where there is a disproportionate amount of transfer transactions that take place at the end of a reporting period. The amendments to IFRS 7 come into effect for periods beginning on or after July 1, 2011.

#### *IFRS 9, Financial Instruments*

The IASB issued IFRS 9, *Financial Instruments*, which is the first phase of the IASB's three phase project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. It is applicable to financial assets and requires classification and measurement in either the amortized cost or the fair value category. IFRS 9 comes into effect for periods beginning on or after April 1, 2013.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *New accounting standards not yet adopted (continued)*

#### *IAS 12, Income Taxes*

The IASB issued IAS 12, *Income Taxes*, which sets presumptions for the recovery of certain assets and is relevant in those cases where different tax consequences can arise depending on how the carrying amounts are recovered. The amendments to IAS 12 come into effect for period beginning on or after January 1, 2012.

We are currently evaluating the effect, if any, that these new standards will have on our financial results.

## 3. INVESTMENTS

The following table provides details of the change in our investments:

For the three months ended March 31	2011	2010
Investments, beginning of period	950.3	2,577.1
Income from equity investments	88.2	301.9
Net loss from discontinued operations of equity investments	(3.4)	-
Dividends / distributions declared	(109.0)	(93.4)
Other comprehensive income (loss)	11.0	(143.7)
Common shares issued in exchange for class B exchangeable limited partnership units of Bell Aliant LP, class 1 exchangeable limited partnership units of Bell Aliant Holdings LP, special voting units of the Fund and all but one of BCE and Bell Canada's voting common shares of Bell Aliant Holdings GP (note 5)	2,608.5	-
Share issue costs recognized by Bell Aliant GP	(1.3)	-
Reduction in deferred income tax assets recorded by Bell Aliant GP (note 5)	(21.5)	-
De-recognition of the notional deferred tax recovery (note 5)	(16.5)	-
Investments, end of period	3,506.3	2,641.9

Dividends / distributions received for the three months ended March 31, 2011 were \$138.7 million (three months ended March 31, 2010 - \$93.3 million).

Other comprehensive income (loss) relates to Bell Aliant GP's reclassification to net earnings of amortization of losses on forward fixed-floating interest rate swaps that were settled in 2007 by Bell Aliant Holdings LP, as well as the actuarial gains (losses) on defined benefit pension and other post-employment employee benefit plans and adjustments in connection with asset limitations.

#### 4. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying value and income tax basis of assets and liabilities as well as the benefit of losses that are probable to be realized and carried forward to future years to reduce income taxes. The income tax effects of temporary differences that give rise to significant portions of the deferred income tax asset as at March 31, 2011, were as follows:

Share issue costs related to the Conversion (note 5)	0.5
Loss carryforwards	0.3
Deferred income tax asset	0.8

The deferred tax asset of \$0.8 million includes \$0.7 million, which is expected to be recovered in more than one year.

Deferred income tax recovery of \$(0.3) million for the period ended March 31, 2011, arose from changes in temporary differences.

The provision for income taxes differs from the amount that would have resulted by applying the statutory Canadian income tax rates to income from continuing operations before income taxes as follows for the three months ended March 31, 2011:

Earnings before income tax	87.2		
Income tax expense (recovery):			
Combined statutory income tax	28.3	32.50	%
Effects of income from equity investments	(28.6)	(32.80)	
Deferred income tax recovery	(0.3)	(0.30)	%

At March 31, 2011, we had \$1.0 million in non-capital tax losses available to reduce taxable income in future years for which we recognize a tax benefit as part of the future tax asset. These losses expire in 2031.

#### 5. SHAREHOLDERS' CAPITAL

##### *Authorized*

Our shareholders' capital is authorized to include an unlimited numbers of common shares and preferred shares, which are issuable in series.

Holders of each class of shares have such rights, privileges, restrictions and conditions as determined by our board of directors prior to the issuance thereof. Holders of each series of preferred shares will generally not be entitled to vote at meetings of our shareholders. With respect to the payment of dividends and in the distribution of assets in the event of our liquidation, dissolution or winding-up, whether voluntary or involuntary, the preferred shares of each series shall rank on parity with the preferred shares of every other series and are entitled to preference over the common shares.

##### *Issued and outstanding*

	As at March 31, 2011		As at December 31, 2010	
	Number of shares	Issued capital	Number of units	Issued capital
Common shares	227,786,584	6,802.8	-	-
Units	-	-	127,394,907	4,195.6
Special voting units	-	-	100,373,827	-
	227,786,584	6,802.8		4,195.6

## 5. SHAREHOLDERS' CAPITAL (Continued)

### *Issued and outstanding (continued)*

As at March 31, 2011, there were no preferred shares issued and outstanding.

### *Conversion to a corporation*

On January 1, 2011, as part of the Conversion, BCE and Bell Canada exchanged 100 per cent, or 72,205,024, 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 of the voting common shares of Bell Aliant Holdings GP that they held for 100,373,827 Bell Aliant Inc. common shares. Fund unitholders exchanged 100 per cent, or 127,394,907 units, for Bell Aliant Inc. common shares. Bell Aliant Inc. became the successor company of the Fund.

Through a series of steps, the assets of Bell Aliant Holdings LP were transferred to its subsidiary, Bell Aliant GP, which in turn assumed Bell Aliant Holdings LP's liabilities. Bell Aliant Holdings LP then 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.

The carrying value of \$2,608.5 million assigned to the common shares issued in exchange for class B exchangeable limited partnership units of Bell Aliant LP (class B units), class 1 exchangeable limited partnership units of Bell Aliant Holdings LP (class 1 units), special voting units of the Fund and all but one of BCE and Bell Canada's voting common shares of Bell Aliant Holdings GP, was determined based on the following:

- The carrying value of the financial liability of \$732.1 million for class 1 units, which was recognized as a decrease to the investment in Bell Aliant Holdings LP in our statement of financial position as at December 31, 2010,
- The carrying value of the financial liability of \$1,876.6 million assigned to the common shares of Bell Aliant GP issued in exchange for class B units, and
- The carrying value of \$(0.2) million of BCE and Bell Canada's investment in Bell Aliant Holdings GP as at December 31, 2010.

We also recognized \$1.7 million in share issue costs, net of tax of \$0.5 million, as a reduction in stated capital when the common shares were issued on Conversion.

As part of the Conversion, we recorded a \$21.5 million decrease to contributed surplus to correspond with the reduction, of the same amount, in deferred income tax assets reported by Bell Aliant GP. The reduction in deferred income tax assets recorded by Bell Aliant GP is the result of Bell Aliant GP reporting, as part of the Conversion, the expected future tax consequences of temporary differences between the reported carrying amounts and corresponding tax values of assets and liabilities previously attributed to BCE and Bell Canada's interest in the class B exchangeable limited partnership units of Bell Aliant LP and the Fund's non-controlling interest in Télébec Limited Partnership and NorthernTel Limited Partnership. We also de-recognized \$16.5 million notional deferred tax recovery recorded in prior periods as part of the income from equity investments in relation to our proportionate share of temporary differences discussed above, as this amount was included in the \$21.5 million decrease recognized by Bell Aliant GP. These transactions were recorded with a corresponding decrease in the investment in Bell Aliant GP, as discussed in note 3.

In addition, we recorded \$1.3 million decrease in contributed surplus with the corresponding decrease in the investment in Bell Aliant GP, in relation to share issue costs recognized by Bell Aliant GP as part of the Conversion.

5. SHAREHOLDERS' CAPITAL (Continued)

*Common shares*

The following table provides details of the change in our issued and outstanding common shares for the three months ended March 31, 2011.

	Number of shares	Issued capital
Effect of the Conversion:		
Common shares issued in exchange for class B exchangeable limited partnership units of Bell Aliant LP, class 1 exchangeable limited partnership units of Bell Aliant Holdings LP, special voting units of the Fund and all but one of BCE and Bell Canada's voting common shares of Bell Aliant Holdings GP (note 3)	100,373,827	2,608.5
Common shares issued in exchange for issued and outstanding Fund units	127,394,907	4,195.6
Share issue costs related to the Conversion, net of tax	-	(1.7)
Shares issued on exercise of deferred share plan units (note 9)	17,857	0.4
Fractional share adjustments	(7)	-
Common shares outstanding as at March 31, 2011	227,786,584	6,802.8

On December 31, 2010, Bell Aliant Inc. had 10 common shares outstanding that were repurchased and cancelled during the Conversion.

The value of shares issued on exercise of deferred share plan units was recorded net of tax withheld of \$0.3 million.

*Units*

On January 1, 2011, 127,394,907 Fund units, representing 100 per cent of the Fund units outstanding at December 31, 2010, were exchanged for our common shares at their carrying value of \$4,195.6 million, and then cancelled.

The following table provides details of the change in our issued and outstanding units for the three months ended March 31, 2010.

	Number of units	Issued capital
Units outstanding, December 31, 2009	127,264,016	4,192.2
Deferred unit plan units exercised (note 9)	13,462	0.4
Redemption of units	(959)	(0.1)
Fractional unit adjustment	(6)	-
Units outstanding, March 31, 2010	127,276,513	4,192.5

*Dividend reinvestment and optional share purchase plan*

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

BELL ALIANT INC.  
Notes to the financial statements  
(Unaudited)  
March 31, 2011

5. SHAREHOLDERS' CAPITAL (Continued)

*Dividend reinvestment and optional share purchase plan (continued)*

For the three months ended March 31, 2011, we bought 162,222 common shares (three months ended March 31, 2010 - 168,900 Fund units) on the open market for shareholders participating in the dividend reinvestment and optional share purchase plan. This was in lieu of paying \$2.7 million in cash dividends and \$1.4 million in cash distributions (three months ended March 31, 2010 - \$4.1 million in cash distributions) and, in respect of the optional share purchase plan, cash payments received of \$0.2 million (three months ended March 31, 2010 - \$0.3 million).

6. EARNINGS PER SHARE / UNIT

For the three months ended March 31	2011	2010
<b>Basic:</b>		
Net earnings from continuing operations	87.5	301.3
Net loss from discontinued operations	(3.4)	-
Net earnings	84.1	301.3
Weighted average number of shares / units outstanding	227,775,748	127,270,942
Basic earnings per share / unit from continuing operations	0.38	2.37
Basic earnings per share / unit from discontinued operations	(0.01)	-
Basic earnings per share / unit	0.37	2.37
<b>Diluted:</b>		
Net earnings from continuing operations	87.5	301.3
Distributions to holders of Class 1 exchangeable partnership units issued by Bell Aliant Holdings LP	-	20.5
Increase in value of Class 1 exchangeable partnership units issued by Bell Aliant Holdings LP	-	(73.8)
Distributions to holders of Class B exchangeable partnership units issued by Bell Aliant LP	-	52.3
Increase in value of Class B exchangeable partnership units issued by Bell Aliant LP	-	(189.2)
Net loss from discontinued operations	(3.4)	-
Diluted net earnings	84.1	111.1
Weighted average number of shares / units outstanding	227,775,748	127,270,942
Add exchangeable limited partnership units:		
Class 1 exchangeable limited partnership units of Bell Aliant Holdings LP	-	28,168,803
Class B exchangeable limited partnership units of Bell Aliant LP	-	72,205,024
Deferred shares / units under share-based compensation plan (note 9)	927,385	741,970
Total	228,703,133	228,386,739
Diluted earnings per share / unit from continuing operations	0.38	0.49
Diluted earnings per share / unit from discontinued operations	(0.01)	-
Diluted earnings per share / unit	0.37	0.49

## 7. CHANGE IN OPERATING ASSETS AND LIABILITIES

For the three months ended March 31	2011	2010
Due from related parties	1.2	0.5
Deferred charges	(0.1)	-
Payables and accruals	(0.1)	0.1
	1.0	0.6

The change in operating assets and liabilities is net of the changes in amounts receivable from the deferred share plan, as discussed in note 9. Changes in the amounts receivable caused by share issuance, as discussed in note 5, are reflected as financing activities in the statements of cash flows when the deferred shares are exercised.

## 8. DIVIDENDS DECLARED TO SHAREHOLDERS

Subject to Board approval, we pay quarterly dividends from all dividends received from Bell Aliant GP, less normal operating expenses, for or in respect of the relevant period. Shareholders can elect to receive additional shares in lieu of receiving cash dividends, as discussed in note 5. For the three months ended March 31, 2011, we declared and paid a quarterly dividend for \$0.475 per share, or \$108.2 million.

For the three months ended March 31, 2010, we declared monthly distributions to unitholders of \$0.2417 per unit, for a total of \$0.725 per unit, or \$92.3 million.

## 9. SHARE-BASED COMPENSATION PLANS

### Employee stock savings plans

On January 1, 2011, as part of the Conversion, our two employee unit purchase plans for eligible employees of certain subsidiaries of Bell Aliant Holdings LP became employee stock savings plans for eligible employees of certain subsidiaries of Bell Aliant GP, with substantially the same terms as before the Conversion. Holders of Fund units through the employee unit purchase plans received our common shares in exchange for such Fund units on a one-for-one basis.

Under the terms of the plans, employees can choose each year to have a portion of their annual base earnings withheld to purchase our common shares. Bell Aliant GP also contributes to the plan on behalf of participants based upon employee contributions. The purchase price of the Bell Aliant Inc. common shares is the average cost of the common shares purchased on the Toronto Stock Exchange (TSX) for credit to participants' accounts on the investment date. Participants in the plans receive additional common shares in lieu of receiving cash dividends from us. To satisfy employee purchases of our common shares under these plans, we may issue up to 2,079,527 additional common shares out of treasury or purchase the required common shares on the open market.

The total number of our common shares bought on the open market for our employee stock savings plans for the three months ended March 31, 2011, was 533,655 (three months ended March 31, 2010 - 537,210 Fund units). Compensation expense related to the employee stock savings plans of \$2.4 million was recorded by Bell Aliant GP for the three months ended March 31, 2011 (three months ended March 31, 2010 - \$2.3 million).

### Deferred share plan

On January 1, 2011, as part of the Conversion, our deferred unit plan (DUP) became a deferred share plan (DSP). The deferred units, issued under the DUP, were converted to deferred shares, entitling plan members to one of our common shares or its cash equivalent for every vested deferred share held, carrying the same vesting and performance criteria as the deferred units.

9. SHARE-BASED COMPENSATION PLANS (Continued)

Deferred share plan (continued)

The DSP is intended to further align the long-term incentive compensation of certain of our executives and senior management with the drivers of long-term shareholder value. Under the DSP, we may grant deferred shares to eligible plan members in such number and at such times as is determined by the board of directors as a bonus or in respect of services rendered by the plan member or otherwise as compensation. On the grant date, plan members are credited with the deferred shares granted to them. Grantees are also entitled to receive additional deferred shares based on dividends that would have been received had the deferred shares been converted to actual common shares. The deferred shares vest equally over a period of three years, subject to attaining certain financial performance criteria and continued employment throughout the vesting period. Plan members have the option to receive either one of our common shares or its cash equivalent for each vested deferred share upon qualifying for payout under the terms of the grant. There is no exercise price paid by the grantee for deferred shares. We may issue up to 3,125,765 additional common shares out of treasury to satisfy awards under the DSP. Any deferred shares that do not vest due to failure to achieve prescribed performance targets are forfeited, and any unvested deferred shares of a plan member are forfeited upon their departure (in certain circumstances of departure, a portion of the unvested deferred shares may vest on a prorated basis to the end of employment date, subject to actual performance results on the financial performance criteria).

A summary of the status of the deferred shares and changes during the period are as follows:

For the three months ended March 31	2011	2010
Deferred shares / units outstanding, beginning of period	1,380,567	1,293,699
Granted:		
January 2011 - Service period fiscal 2011 to 2013	321,949	-
Reinvested dividends / distributions during the period	38,508	30,058
	360,457	30,058
Forfeited	(78,704)	(233,204)
Exercised	(52,560)	(13,462)
Deferred shares / units outstanding, end of period	1,609,760	1,077,091
Deferred shares / units vested, end of period	927,385	741,970

The fair value of the 360,457 deferred shares granted or credited on reinvestment of notional distributions and dividends for the three months ended March 31, 2011 (three months ended March 31, 2010 - 30,058 deferred units granted or credited) was \$9.6 million, or \$26.52 per deferred share (three months ended March 31, 2010 - \$0.8 million, or \$26.34 per deferred unit).

As the deferred shares may be settled with our common shares when exercised, for the three months ended March 31, 2011, we have recorded in contributed surplus the equivalent of the compensation expense increase (decrease) that was recorded by Bell Aliant GP of \$1.8 million (three months ended March 31, 2010 - \$(2.6) million plus \$(0.1) million of other adjustments). This amount is equal to the cost of the deferred shares, recognized over the vesting period, and the change in the quoted market price of our common shares between the grant date and the reporting period date.

## 9. SHARE-BASED COMPENSATION PLANS (Continued)

### Deferred share plan (continued)

Of the 52,560 deferred shares exercised during the three months ended March 31, 2011, we issued 17,857 common shares from treasury as discussed in note 5, and the remainder were settled in cash by Bell Aliant GP, including amounts withheld for income taxes (three months ended March 31, 2010, - 13,462 Fund units issued from treasury and none cash settled). The 17,857 common shares (three months ended March 31, 2010 - 13,462 units) we issued out of treasury had an average market value of \$26.61 per share (three months ended March 31, 2010 - \$26.92 per unit). When exercised, the corresponding value of \$0.7 million (three months ended March 31, 2010 - \$0.4 million) was reclassified from contributed surplus to issued capital (note 5). We also recorded a reversal of \$0.5 million (three months ended March 31, 2010 - nil) in contributed surplus related to deferred shares settled in cash by Bell Aliant GP in the period.

### Directors' Deferred Share Unit Plan

We adopted a Directors' Deferred Share Unit Plan (DDSUP) as part of the Conversion, to further align the compensation of our directors with the interests of our shareholders. The DDSUP is a cash-settled plan for our eligible directors who are not employees of Bell Aliant Inc., its subsidiaries, BCE or Bell Canada, under which a portion of annual directors' fees will be credited in notional share units. The directors may elect to receive 25 per cent, 50 per cent, 75 per cent or 100 per cent of their annual directors' fees in the form of deferred share units under the DDSUP. There are no vesting criteria for the grants and the deferred share units vest immediately. Directors are only eligible to redeem the deferred share units upon termination of their duties as directors of Bell Aliant Inc. The redemption payment amount is equal to value of the deferred share units calculated as the average closing price of our common shares traded on the TSX on the last five days preceding the redemption date.

For the three months ended March 31, 2011, 3,629 deferred share units were granted. The fair value of the 3,629 deferred share units granted or credited on reinvestment of notional dividends for the three months ended March 31, 2011, was \$0.1 million, or \$26.82 per deferred share unit.

Director compensation expense related to the DDSUP of \$0.1 million was recorded by Bell Aliant GP for the three months ended March 31, 2011, related to the deferred share units' costs, recognized in connection with receiving directors' services for the period, and the change in the quoted market price of our common shares between the grant date and the reporting period date. We recognize an immaterial amount for the director compensation expense related to the DDSUP for the three months ended March 31, 2011.

## 10. RELATED PARTY TRANSACTIONS

### *Bell Aliant GP*

We receive dividends from Bell Aliant GP, as discussed in note 3, which allow us to make our dividend payments, as discussed in note 8. There were no dividends receivable at March 31, 2011 (December 31, 2010 - \$29.6 million distributions receivable).

At March 31, 2011, \$24.8 million was due from Bell Aliant LP and its subsidiaries (December 31, 2010 - \$27.4 million), which relates to the net of operating expenses payable as well as amounts receivable from the deferred share plan, as discussed in note 9.

## 10. RELATED PARTY TRANSACTIONS (Continued)

### *Bell Aliant GP (continued)*

We loan our excess cash to Bell Aliant LP through a series of promissory notes, and request repayments as required for operating purposes. The \$5.3 million promissory note that was receivable from Bell Aliant LP at December 31, 2010, was repaid on January 31, 2011. Subsequently issued promissory notes carried a rate of interest of 1.30 per cent per annum, resulting in an immaterial amount of interest revenue being earned during the three months ended March 31, 2011 (three months ended March 31, 2010 - immaterial amount). At March 31, 2011, \$4.9 million in promissory notes were receivable from Bell Aliant LP, each bearing interest at 1.30 per cent per annum and maturing on dates up to April 29, 2011.

There is minimal credit risk associated with balances receivable from related parties at March 31, 2011.

## 11. TRANSITION TO IFRS

### Impact of transition to IFRS

#### *First time adoption of IFRSs*

IFRS 1, *First-time Adoption of International Financial Reporting Standards*, sets forth guidance for the initial adoption of IFRS. This guidance requires us to establish our IFRS accounting policies in accordance with standards in effect on our first annual reporting date, December 31, 2011, and apply these policies retrospectively to determine the IFRS opening statement of financial position at our date of transition, January 1, 2010. In addition, IFRS 1 provides both mandatory exceptions and optional exemptions to this general rule. We have chosen to apply certain optional exemptions to reduce the complexity involved in transitioning to IFRS, as the cost of not applying the exemptions would far outweigh the benefit to the users of our financial statements.

The significant optional exemptions and mandatory exceptions we applied upon adoption are summarized below.

#### Business combinations

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3, *Business combinations*, retrospectively to business combinations that occurred before the date of transition to IFRS. We have elected to apply IFRS 3 to business combinations that occur on or after January 1, 2010.

#### Share-based payment transactions

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2, *Share-based payment*, to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002, and vested before the later of the date of transition to IFRS and January 1, 2005. We have elected not to apply IFRS 2 to grants that vested prior to January 1, 2010.

#### Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. Our IFRS estimates as of January 1, 2010, are consistent with our Canadian GAAP estimates for the same date.

## 11. TRANSITION TO IFRS (Continued)

### Impact of transition to IFRS (continued)

#### *Key accounting differences and anticipated effect on financial results*

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement, and disclosure. While adoption of IFRS has not changed our actual cash flows, it has resulted in changes to our reported financial position and results of operations. Set out below are the key accounting differences that impact our interim financial statements.

#### *Reconciliation of Canadian GAAP to IFRS*

##### Reconciliation of equity

Total equity at January 1, 2010, December 31, 2010, and March 31, 2010, under Canadian GAAP has been reconciled to amounts reported under IFRS as follows:

	Note	At December 31, 2010	At March 31, 2010	At January 1, 2010
Total equity under Canadian GAAP		3,355.8	4,089.7	4,120.8
Investments	A	(2,374.1)	(1,422.0)	(1,515.6)
<b>Total equity under IFRS</b>		<b>981.7</b>	<b>2,667.7</b>	<b>2,605.2</b>

##### Reconciliation of total comprehensive income (loss)

Net earnings (loss) and comprehensive income (loss) for the three months ended March 31, 2010, and year ended December 31, 2010, under Canadian GAAP have been reconciled to amounts reported under IFRS as follows:

	Note	Year ended December 31, 2010	Three months ended March 31, 2010
Net earnings (loss) under Canadian GAAP		(404.5)	63.2
Income from equity investments	A	(645.0)	238.1
<b>Net earnings (loss) under IFRS</b>		<b>(1,049.5)</b>	<b>301.3</b>

	Note	Year ended December 31, 2010	Three months ended March 31, 2010
Comprehensive income (loss) under Canadian GAAP		(400.8)	64.0
Change in net earnings (loss)		(645.0)	238.1
Other comprehensive loss	A	(213.5)	(144.5)
<b>Comprehensive income (loss) under IFRS</b>		<b>(1,259.3)</b>	<b>157.6</b>

#### (A) Income from equity investments

Under Canadian GAAP, the class 1 units of Bell Aliant Holdings LP, held by BCE and Bell Canada, were considered to be equity instruments and included in non-controlling interest of Bell Aliant Holdings LP. As such, we equity accounted for our 82.46 per cent investment in Bell Aliant Holdings LP.

Under IFRS, the terms and conditions of the exchange and liquidity rights issued in connection with the class 1 units allow for the class 1 units to be exchanged for Fund units or cash at the option of the holder, and are therefore considered to be a financial liability. As a result of this change in presentation, we equity accounted for 100 per cent of the net assets and net earnings (loss) of Bell Aliant Holdings LP.

## 11. TRANSITION TO IFRS (Continued)

### Impact of transition to IFRS (continued)

#### *Reconciliation of Canadian GAAP to IFRS (continued)*

Upon transition to IFRS at January 1, 2010, the fair value of the class 1 units of \$789.6 million was recorded which increased equity and decreased our investment. Changes in the fair value of the class 1 units are recorded in income from equity investments and amounted to \$73.8 million and \$57.5 million for the three months ended March 31, 2010, and year ended December 31, 2010, respectively. As the class 1 units were intended to be, to the greatest extent practicable, the economic equivalents of the Fund units, the fair value of the class 1 units was established based on the quoted market price of the Fund units at the reporting period date.

Distributions declared by Bell Aliant Holdings LP on the class 1 units in the amount of \$20.5 million and \$81.7 million for the three months ended March 31, 2010, and year ended December 31, 2010, respectively, were recognized as a decrease to income from equity investments.

For a complete description of the differences and adjustments to the net assets and net earnings (loss) recognized by Bell Aliant GP upon transition to IFRS at January 1, 2010, for the three months ended March 31, 2010, and for the year ended December 31, 2010, refer to note 25 of Bell Aliant GP's unaudited interim consolidated financial statements for the three months ended March 31, 2011.



## Bell Aliant Regional Communications Inc. Management's Discussion and Analysis First Quarter 2011

*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, 2011, compared to the corresponding period in 2010. This MD&A should be read together with our unaudited consolidated interim financial statements and accompanying notes for the period ended March 31, 2011, (interim financial statements) and the audited consolidated financial statements and accompanying notes of Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP) for the year ended December 31, 2010, and related MD&A. All amounts in this document are in millions of Canadian dollars, except where noted. Our interim financial statements, including the information for the prior year comparative period presented therein, have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting and International Financial Reporting Standard (IFRS) 1, First-time adoption of IFRS.*

*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 for 2011 or the context otherwise indicates, "we", "us" and "our" refer to Bell Aliant GP and its subsidiaries and to Bell Aliant Holdings LP and its subsidiaries prior to January 1, 2011.*

*Additional information about us and Bell Aliant Inc., including annual reports, quarterly financial statements and MD&As, supplementary financial information, as well as annual information forms and information circulars, can be found under "financial reports" 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 May 5, 2011, 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 sections "Cash requirements" and "Regulatory developments". The purpose of this forward-looking information is to provide the reader with information about our expectations and 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 current expectations and estimates about the markets in which we operate and our beliefs and assumptions regarding these markets. Unless otherwise indicated, forward-looking information in this MD&A describes our expectations at May 5, 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 fibre-to-the-home (FTTH) and managing the cost structure; general economic conditions; pension valuation and investment risk; reliance on systems; changing technology; required operating and capital expenditures, and demand for our products and services; our business relationship with BCE Inc. (BCE) and Bell Canada, including the allocation of business opportunities; 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; legal contingencies and changes in laws, including laws pertaining to privacy and security of customer information; success of acquisitions and dispositions; 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 are qualified by these cautionary statements. There can be no assurance that the results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences for us. Except as may be required by Canadian securities laws, we disclaim any intention and assume no obligation to update or revise any forward-looking information, even if new information becomes available, as a result of future events or for any other reason. Readers should not place undue reliance on any forward-looking information.*

*See also the "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 are the first company in Canada to cover an entire city with fibre-to-the-home (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.

As part of the Conversion, Fund unitholders received one common share of Bell Aliant Inc. for each Fund unit held. BCE and Bell Canada exchanged 100 per cent of their class B exchangeable limited partnership units issued by Bell Aliant LP, 100 per cent of their class 1 exchangeable limited partnership units issued by Bell Aliant Holdings LP, 100 per cent of their special voting units issued by the Fund, and all but one of their voting common shares of Bell Aliant GP for common shares in Bell Aliant Inc. Through a series of steps, Bell Aliant Holdings LP transferred its assets to Bell Aliant GP, which in turn assumed Bell Aliant Holdings LP's liabilities. Bell Aliant Holdings LP was then dissolved, cancelling all of its units. Bell Aliant Regional Communications Holdings Inc. and the predecessor to Bell Aliant GP then amalgamated.

Unitholders' proportionate ownership interests in Bell Aliant Inc. were effectively unchanged by the Conversion.

These 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.

The Conversion had no impact on our underlying business model or operating plans, but is expected to reduce administrative costs previously associated with our more complex trust structure, improve comparability of our financial condition and results of operations to our peers, and broaden our potential investor base.

Bell Aliant Inc. common shares began trading on the Toronto Stock Exchange on January 4, 2011, under the trading symbol "BA".

## **FIRST QUARTER IN REVIEW**

Although intense competitive activity and technology substitution continue to exert pressure on our overall operating revenues, for the fourth consecutive quarter our net local network access service (NAS) customer declines were lower than those experienced in the same period a year earlier. We have experienced steady growth in our Internet, Internet Protocol TV (IPTV), and wireless customer bases, which mitigated the effects of NAS customer declines. We continue to pro-actively manage our operating costs to reduce the effects of local, long distance and other data revenue declines on EBITDA and to preserve strong EBITDA margins. In combination, these achievements contributed to our successful delivery of \$88.1 million in free cash flow, before a \$200 million lump sum pension contribution, for the first quarter of 2011. The following table provides a summary of our operating results for the first quarter of 2011.

## Summary of operating results

<i>For the three months ended March 31</i> <i>(millions of dollars, except as otherwise noted)</i>	<b>20 11</b>	<b>20 10</b>	<b>% change</b>
Operating revenues	<b>\$681.6</b>	\$688.7	(1.0)
EBITDA <sup>(1)</sup>	<b>\$329.3</b>	\$338.7	(2.8)
EBITDA margin <sup>(1)</sup>	<b>48.3%</b>	49.2%	(1.8)
Operating income	<b>\$171.0</b>	\$156.8	9.1
Net earnings from continuing operations	<b>\$88.8</b>	\$248.0	(64.2)
Net earnings (loss) from discontinued operations	<b>(3.4)</b>	\$0.6	n.m.
Net earnings	<b>\$85.4</b>	\$248.6	(65.6)

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.

Operating revenues decreased 1.0 per cent, or \$7.1 million, in the first quarter of 2011, compared to the first quarter of 2010. The decrease was driven by declines in local and access, long distance, and other revenues, which were only partially offset by growth in our data and wireless revenue. Lower voice revenues are primarily attributable to the decline in NAS customers due to competitive losses and a reduction in primary lines as customers adopt wireless and Voice over Internet Protocol (VoIP) technologies. Other revenues also decreased primarily as a result of a decline in telecommunications equipment sales and rental revenue. Growth in our high-speed Internet, IPTV and wireless customer bases contributed to higher revenues from these services. The trajectory of operating revenues for our Atlantic residential market has improved, with an increase in operating revenues of approximately 3 per cent in the first quarter of 2011, compared to the same quarter in 2010, after a period of decline. Refer to our "Results of operations" section for additional details.

EBITDA decreased by 2.8 per cent, or \$9.4 million, in the first quarter of 2011, compared to the first quarter of 2010. The decline in EBITDA was primarily driven by a change in the mix of operating revenues towards those with lower margins, together with a \$2.3 million increase in operating expense, which was mainly due to an increase in pension current service costs and higher expense from share-based compensation adjustments compared to the same quarter in 2010. Savings from ongoing procurement initiatives and operating efficiencies continue to mitigate cost pressures in 2011, but were offset by these costs and expense increases associated with the ramp-up of our *FibreOP* rollout.

EBITDA margin was 48.3 per cent in the first quarter of 2011, a decline of 0.9 percentage points from the same period in 2010.

Operating income increased 9.1 per cent, or \$14.2 million, during the first quarter of 2011, compared to the first quarter of 2010. The decrease in EBITDA was offset by a \$16.9 million decline in depreciation and amortization, reflecting a decline in our depreciable asset base primarily due to the impairment charge recorded on certain of our finite-life intangible assets in the fourth quarter of 2010, combined with a \$6.7 million decrease in severance and other charges due to the timing of productivity initiatives.

Net earnings decreased 65.6 per cent, or \$163.2 million, in the first quarter of 2011, compared to the first quarter of 2010. This decrease is made up of a \$159.2 million reduction in net earnings from continuing operations and a \$4.0 million reduction in net earnings from discontinued operations.

Current year net earnings from continuing operations are not directly comparable to the prior period due to the effect of the Conversion. The quarter-over-quarter decline is largely attributable to recording in the first quarter of 2010 a \$189.2 million gain on the fair value re-measurement of the class B exchangeable limited partnership units issued by Bell Aliant LP, offset somewhat by a \$52.3 million expense related to distributions declared on these exchangeable limited partnership units. The re-measurement and distribution did not recur in the first quarter of 2011, as these units were transferred to us as part of the Conversion and thus are now eliminated upon consolidation of Bell Aliant LP. Additionally, the decrease in net earnings from continuing operations includes \$43.6 million higher income tax expense in the first quarter of 2011, compared to the same period in 2010, due mainly to the effect of the Conversion, combined with higher earnings before tax. This was slightly offset by a \$4.6 million reduction in net finance expense.

Net loss from discontinued operations was \$3.4 million in the first quarter of 2011, compared to net earnings of \$0.6 million in the same period of 2010, which reflects the loss on the sale of our xwave business.

### Free cash flow

The following table provides a summary reconciliation of cash from operating activities to free cash flow, along with cash dividends declared (distributions declared in 2010), for the three months ended March 31, 2011, and the corresponding period in 2010. Since our operations support cash dividends to Bell Aliant Inc. shareholders, free cash flow combines our cash performance with that of Bell Aliant Inc. We have also included the adjusted earnings per share (EPS) of Bell Aliant Inc. as we believe this to be a meaningful measure when assessing our overall performance.

<i>For the three months ended March 31</i>			
<i>(millions of dollars, except per share amounts)</i>	<b>2011</b>	<b>2010</b>	<b>% change</b>
Cash from operating activities	<b>\$7.6</b>	\$151.0	(95.0)
Capital expenditures	<b>(119.5)</b>	(94.3)	26.7
Free cash flow <sup>(1)</sup>	<b>(\$111.9)</b>	\$56.7	n.m.
Lump sum pension contribution	<b>\$200.0</b>	-	n.m.
Free cash flow <sup>(1)</sup> before lump sum pension contribution	<b>\$88.1</b>	\$56.7	55.4
Cash dividends / distributions declared <sup>(2)</sup>	<b>\$108.2</b>	\$165.1	(34.5)
Adjusted earnings per share of Bell Aliant Inc. <sup>(1)</sup>	<b>\$0.44</b>	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 the three months ended March 31, 2011, we had negative free cash flow of \$111.9 million, compared to positive free cash flow of \$56.7 million for the same period in 2010, mainly attributable to the \$200.0 million lump sum pension contribution made in the first quarter of 2011, as discussed further in the "Financial and capital management" section. Normalizing for this amount, free cash flow before the lump sum pension contribution was \$88.1 million, an increase of \$31.4 million, or 55.4 per cent, compared to the same period in 2010.

For the three months ended March 31, 2011, cash dividends declared by Bell Aliant Inc. were \$0.475 per common share of Bell Aliant Inc., and represented 122.8 per cent of our combined free cash flow before the lump sum pension contribution. This elevated payout ratio is attributable to the seasonally low free cash flow in the first quarter, and is not indicative of our full year expectations. Free cash flow is historically lowest in the first quarter of the year, as we pay amounts related to prior year

annual incentives, semi-annual interest payments and prepaid property taxes for the year. Refer to the “Summary of cash flows” section for additional information on cash from operating activities.

For the three months ended March 31, 2010, cash distributions declared were 291.2 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, as discussed in the “Free cash flow” section of our MD&A for the year ended December 31, 2010.

Adjusted EPS of Bell Aliant Inc. was \$0.44 in the first quarter of 2011, which is the first time we have presented this non-IFRS financial measure following the Conversion. The amortization of certain finite-life intangible customer relationship assets acquired in previous business combinations 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 and 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 earnings per share. Refer to the “Non-IFRS financial measures” section for more details.

## OUR COMPETITIVE LANDSCAPE

Cable companies remain our most significant competitive threat. They continue to expand their local service areas in our regions, although at a slower rate of expansion from what we have seen in recent years. At the end of March 2011, the competitive footprint overlap with cable companies was approximately 69 per cent of residential households in our territories, representing a 2 percentage point increase from a year ago and unchanged from the end of 2010.

During the first quarter of 2011, we have seen cable companies aggressively market price-discounted bundled service offerings especially in the communities where we are providing, or have announced we will provide, our *FibreOP* services. In response to these pressures, we remain committed to delivering the highest quality customer service, choice and convenience to our customers. We continue to focus on making significant investments in fibre optic technology to expand our FTTH network, promote our competitively priced bundles and provide our customers with the most innovative products and enhanced technology to meet all their needs. Refer to our accomplishments as discussed in the “Strategy” section for further details.

## STRATEGY

Highlights of strategic achievements in the first quarter of 2011

Progress during the first quarter of 2011 on our five strategic objectives is as follows:

### *Improve the customer experience*

Delivering a superior customer experience continues to be our goal. Our service fundamentals are core to achieving our strategy and have ensured our success in maintaining service levels. In the first quarter of 2011, we continued to drive performance and improve the customer experience by keeping a determined and consistent focus on making it easy for customers to do business with us, by meeting our commitments, and by doing things right the first time.

### *Retain our customers*

Bundles continue to be instrumental in our strategy for retaining customers and owning the whole home. Bundles allow us to remain competitive and relevant in the marketplace, offering a complete and integrated communications, Internet and entertainment solution.

In the first quarter of 2011, we continued to promote bundle offers across all our markets. In *FibreOP* markets, bundles are the primary sales tool and customers seek to purchase additional, high-value services in their bundles, such as higher Internet speed, high-definition (HD) TV programming and personal video recorder (PVR) services. In addition, customers are much less likely to leave us for a competitor as they subscribe to bundles with a greater number of services.

We believe that continuously evolving our products and services to deliver best in class is important to retaining customers. During the first quarter of 2011, we evolved our business voicemail to include our new voicemail-to-email service offering. We are confident that product advancement and innovation will keep us competitive in the marketplace and improve customer satisfaction.

#### *Grow broadband*

Our FTTH network has given us a clear advantage that our competitors cannot easily match. Accelerating our investment in our *FibreOP* services allows us to give customers access to leading edge technology, including the fastest Internet speeds and an exceptional TV experience.

We are continuing on the path to expand *FibreOP* services to more than 600,000 homes and businesses by the end of 2012, as the successful execution of our FTTH rollout supports all other strategic objectives of our company. In the first quarter of 2011, we passed an additional 40,000 homes and businesses with *FibreOP* services, bringing the total homes and businesses passed to 178,000. As well, we announced expansion of *FibreOP* service to:

- Halifax Regional Municipality - we are investing \$55 million to serve approximately 160,000 homes and businesses in our largest and most competitive market.
- Truro, Nova Scotia - we are making a \$7 million investment to serve approximately 14,000 homes and businesses.
- St. John's, Newfoundland - we are investing \$22 million to serve approximately 60,000 homes and businesses, representing our first *FibreOP* investment in Newfoundland and Labrador.

Expansion into these important markets not only represents the introduction of our *FibreOP* service to all four Atlantic Canadian provinces but also keeps us on course to passing approximately 300,000 additional homes and business with *FibreOP* by the end of 2011.

In early April 2011, we announced the launch of *FibreOP 2.0* - the next generation in *FibreOP* services. With *FibreOP 2.0*, customers will experience increased Internet speeds and the ability to upload as fast as they download - a first in Canada for any major service provider. *FibreOP 2.0* provides enhanced TV functions and features including whole home PVR, whole home HDTV, video-on-demand service and a next generation interactive guide, with easy-to-use features like picture-in-picture browsing, advanced search capability and the ability to pause a TV program in one room and resume in another.

While *FibreOP* is our premier service, we also expanded digital subscriber line and fixed wireless broadband services to an additional 30,875 homes and businesses in the first quarter of 2011. We have now passed approximately 84.5 per cent of homes in our operating territory with high-speed Internet service.

#### *Reset our cost structure*

In an intensely competitive market, a disciplined approach to cost reduction is critical. The major cost reduction initiatives for 2011 continue to focus on making our business more efficient through enhanced workforce productivity, controlling discretionary spending and through optimizing the benefits of our commercial agreements with Bell Canada.

In the first quarter of 2011, we continued to see the benefits of the limited retirement offers and the management reductions from the previous year. Workforce management initiatives are continuously used to achieve the optimal size and configuration of our operations. We continue to move employees to higher value-add work, most notably to our rapidly expanding *FibreOP* program, in an ongoing effort to reset our cost structure.

Discretionary and other spending controls continued into the first quarter of 2011. We attained considerable savings through vendor negotiations. As well, a large portion of our maintenance contracts were successfully renegotiated, resulting in better rates and a reduction in contractor cost. Finally, further cost savings were achieved through our commercial agreements with Bell Canada.

### Engage employees

Fully engaged and high performing employees are essential to our success. We continue to promote a high performance culture, enhance leadership development and improve communication with employees.

In the first quarter of 2011, we continued to reinforce our business strategy and goals through multiple communications channels. In February, we shared our 2010 financial results and 2011 priorities with all Bell Aliant employees through a webcast hosted by our senior executive. We believe that when our employees understand our business strategy, including its challenges, opportunities and priorities, they are highly motivated to help us succeed.

Having strong leadership in our organization is critical. We continue to educate our leaders of people and develop their talents to enable them to motivate, inspire and challenge every member of their teams to bring forward their best performance, their highest commitment and their will to win.

We are creating development opportunities for our top talent and ensuring succession plans are in place for senior leaders and employees with critical skills. Our ability to attract and retain high performing and fully engaged employees is essential to outperforming our competitors and building a strong future.

## RESULTS OF OPERATIONS

<i>For the three months ended March 31</i>			
<i>(millions of dollars)</i>	<b>2011</b>	<b>2010</b>	<b>% change</b>
Local and access	<b>\$310.0</b>	\$322.9	(4.0)
Data	<b>212.7</b>	204.0	4.3
Long distance	<b>94.5</b>	97.1	(2.7)
Wireless	<b>23.3</b>	21.0	11.0
Other revenues	<b>41.1</b>	43.7	(6.0)
Operating revenues	<b>\$681.6</b>	\$688.7	(1.0)
Operating expenses	<b>352.3</b>	350.0	0.7
EBITDA <sup>(1)</sup>	<b>\$329.3</b>	\$338.7	(2.8)
Depreciation and amortization	<b>153.8</b>	170.7	(9.9)
Severance and other charges	<b>4.5</b>	11.2	(59.8)
Operating income	<b>\$171.0</b>	\$156.8	9.1
Net finance expense	<b>42.2</b>	46.8	(9.8)
Distributions to holders of class B exchangeable partnership units issued by Bell Aliant LP	-	52.3	n.m.
Gain on the re-measurement of the class B exchangeable partnership units issued by Bell Aliant LP	-	(189.2)	n.m.
Other expense	<b>0.1</b>	2.6	n.m.
Income tax expense (recovery)	<b>39.9</b>	(3.7)	n.m.
Net earnings from continuing operations	<b>\$88.8</b>	\$248.0	(64.2)
Net earnings (loss) from discontinued operations	<b>(3.4)</b>	0.6	n.m.
Net earnings for the period	<b>\$85.4</b>	\$248.6	(65.6)

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*

Our local and access revenue is earned primarily through the provision of NAS, along with enhanced service features, contribution revenues and competitor network access revenues. Local and access revenue declined 4.0 per cent, or \$12.9 million, in the first quarter of 2011, compared to the same period in 2010, largely driven by a 4.7 per cent drop in our total NAS customers at March 31, 2011, compared to March 31, 2010. Revenue losses continued to be mitigated through programs targeted at retaining our highest value customers and selected price increases that reflect the higher value provided through our bundled packages.

During the first quarter of 2011, our total net NAS declines were approximately 33,000, representing an improvement of approximately 5,400 in net NAS declines compared to those experienced in the same period of 2010. This improvement was driven by a greater number of customers choosing our enhanced bundles, focused customer retention programs and by an easing of the pace of competitive footprint growth.

At March 31, 2011, the number of residential NAS customers was 6.1 per cent lower than at March 31, 2010, and the number of business NAS customers was 2.0 per cent lower than at March 31, 2010. In our residential market, we are continuing to experience NAS losses due to increased competitive intensity and a continued advance of competitive footprint overlap with cable companies, as well as substitution of traditional wireline service by other services, including wireless and VoIP services.

### *Data*

Data revenue is earned through the provision of data access, data circuits, high-speed and dial-up Internet services, managed network services, IPTV and enhanced services and applications. Revenue from these services increased 4.3 per cent, or \$8.7 million, in the first quarter of 2011, compared to the same period in 2010. Internet revenues grew by \$7.8 million, or 7.0 per cent, and IPTV revenues grew by \$4.2 million, or 84.0 per cent, in the first quarter of 2011, compared to the first quarter of 2010. These increases more than offset the decline in other data revenues of \$3.3 million, or 3.8 per cent, which was driven by customer losses and migration from a legacy data network to a more IP-based network, only partially offset by increased data product sales.

At March 31, 2011, the number of IPTV subscribers reached approximately 54,000, up 49.9 per cent from the same period in 2010. Our IPTV customer base continues to expand rapidly, as we expand our IPTV footprint and consumers choose more advanced and innovative TV services.

In addition, our high-speed Internet customer base was 3.8 per cent higher than at March 31, 2010, with growth in both the residential and business markets. We have experienced steady growth in our high-speed Internet customers, although at a lower rate of increase compared to the prior year, consistent with industry trends. Internet revenue growth has been mainly driven by price increases, the growth of bundles and customer migration to our higher value services, like *FibreOP*. These actions have resulted in our highest residential high-speed Internet average monthly revenue per customer (ARPC) to date of \$40.94 in the first quarter of 2011, up 4.8 per cent from \$39.05 in the first quarter of 2010.

### *Long distance*

Long distance revenue, earned through toll and long distance terminating services, declined by 2.7 per cent, or \$2.6 million, in the first quarter of 2011, compared to the first quarter of 2010, due to customer losses and substitution of traditional wireline service by email, cellular calling and VoIP services. One-time favourable billings adjustments and a reduction in long distance promotional plans in the first quarter of 2011 improved the year-over-year decline relative to recent quarters. Although on a quarter-over-quarter basis our average revenue per long distance minute increased by 1.1 per cent as result of network access fees and other price increases, we experienced a 4.4 per cent decline in long distance minutes. Generally, revenue from long distance services will decrease as customers

migrate from legacy long distance plans to our new more price competitive plans that are essential to maintaining our customer base.

#### Wireless

Wireless revenue is earned through the provision of cellular, paging and mobile radio services over digital wireless networks in our Télébec, NorthernTel and KMTS branded territories in Ontario and Quebec. Wireless revenue increased by 11.0 per cent, or \$2.3 million, in the first quarter of 2011, compared to the first quarter of 2010, mainly due to a 10.8 per cent increase in the number of wireless customers at March 31, 2011. Wireless ARPC increased marginally by 0.4 per cent, or \$0.25, in the first quarter of 2011, compared to the first quarter of 2010, due to our use of promotional pricing to acquire and retain customers in the face of aggressive competitive offers.

#### Other revenues

Other revenues consist mainly of terminal rentals and sales, pole attachment revenue, personal computer sales, telecommunication equipment sales, custom work completed for large customers, and revenue generated by our outsourcing arrangement with Bell Mobility. Other revenues declined 6.0 per cent, or \$2.6 million, in the first quarter of 2011, compared to the same period in 2010. Although pole attachment revenue rose due to price increases in late 2010, the overall decline was largely driven by decreases in telecommunication equipment sales, other rental revenue and outsourcing revenues.

#### Expenses

##### Operating expenses

<i>For the three months ended March 31</i>			
<i>(millions of dollars)</i>	2011	2010	% change
Labour costs			
Wages, salaries and related taxes and benefits	\$130.5	\$136.3	(4.3)
Current service costs of post-employment benefit plans	15.5	13.1	18.3
Share-based compensation plan expense	4.2	(0.3)	n.m.
Contractor, outsourcing and other labour costs	16.5	12.5	32.0
Capitalized labour	(34.4)	(33.0)	4.2
<b>Total labour costs</b>	<b>132.3</b>	<b>128.6</b>	<b>2.9</b>
Cost of sales, content costs and payments to other carriers	166.6	165.8	0.5
Real estate expenses	10.4	10.4	-
Operating taxes	9.9	10.9	(9.2)
Bad debt expense	6.3	6.7	(6.0)
Other operating expenses	26.8	27.6	(2.9)
<b>Operating expenses</b>	<b>\$352.3</b>	<b>\$350.0</b>	<b>0.7</b>

Operating expenses were relatively consistent in the first quarter of 2011 with the same period in 2010, increasing by 0.7 per cent, or \$2.3 million.

Total labour costs increased by 2.9 per cent, or \$3.7 million, in the first quarter of 2011 compared to the first quarter of 2010. Contributing to this was a \$2.4 million increase in pension current service costs, a \$4.5 million increase in share-based compensation costs, and a \$4.0 million increase in contractor, outsourcing and other labour costs. 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 defined benefit (DB) pension and other post employment benefit (OPEB) plans, offset to a certain degree by the effect of having fewer active members in these plans. The current service costs of our

defined contribution (DC) plans were consistent with the prior year. Share-based compensation plan expense for the first quarter of 2010 included a reduction in compensation expense related to forfeitures and mark-to-market adjustments of the liability under our executive share-based incentive plan, which were not as significant in the first quarter of 2011. Contractor, outsourcing and other labour costs in the first quarter of 2011 reflected escalating resource needs for our *FibreOP* service expansion and TV demand, including increased contractor costs related to outsourcing arrangements. These increases were partially offset by a decline in wages, salaries and related taxes and benefits expense of \$5.8 million mainly due to the continued efficiencies achieved as a result of our productivity initiatives.

Cost of sales, content costs and payments to other carriers increased by 0.5 per cent, or \$0.8 million, in the first quarter of 2011, compared to the same period in 2010. This was mainly attributable to higher product cost of goods sold associated with higher product revenues, higher hardware subsidies driven by increased wireless activations and renewals, and higher IPTV content costs resulting from growth in our IPTV subscribers. These increases were partially offset by cost savings we achieved through our commercial agreements with Bell Canada, as well as the elimination of pole attachment fees due to our repurchase of an interest in poles in Newfoundland.

Operating taxes decreased 9.2 per cent, or \$1.0 million, in the first quarter of 2011, compared to the first quarter of 2010. This is primarily due to lower provincial capital taxes and to a lesser extent, lower property tax expense.

Bad debt expense decreased 6.0 per cent, or \$0.4 million, in the first quarter of 2011, compared to the same period in 2010, which reflects our continued improvement in accounts receivable management.

Other operating expenses decreased 2.9 per cent, or \$0.8 million, in the first quarter of 2011, compared to the first quarter of 2010. This is mainly attributable to reduced discretionary spending on general and administrative expenses and lower professional fees.

#### *Depreciation and amortization*

Depreciation and amortization decreased 9.9 per cent, or \$16.9 million, when comparing the first quarter of 2011 to the same period in 2010. This decrease is primarily the result of the impairment charge recorded on certain of our finite-life intangible assets in the fourth quarter of 2010, which resulted in a significantly lower intangible asset base, offset slightly by shorter estimated useful lives of these intangible assets.

#### *Severance and other charges*

Severance and other charges decreased by 59.8 per cent, or \$6.7 million, in the first quarter of 2011, compared to the corresponding period in 2010. During the first quarter of 2011, the continuation of our productivity initiatives resulted in a \$1.6 million severance and benefit charge and a \$2.9 million real estate rationalization charge. In the first quarter of 2010, there were large productivity initiatives underway, including voluntary retirement incentives offered to a limited number of unionized employees in Ontario and Quebec.

#### *Net finance expense*

In the first quarter of 2011, net finance expense decreased \$4.6 million, or 9.8 per cent, compared to the same period in 2010. This decline is made up of a \$0.6 million increase in finance expense, which was more than offset by a \$5.2 million increase in finance income.

Finance expense increased slightly in the first quarter of 2011, compared to the same period in 2010, primarily reflecting a higher level of short-term debt at March 31, 2011.

Finance income includes interest earned and the expected returns on pension plan assets. The increase in finance income was driven by higher expected returns on DB pension plan assets as a result of a higher pension asset base.

#### *Distributions to holders of class B exchangeable partnership units issued by Bell Aliant LP*

In the first quarter of 2010, distributions to holders of class B exchangeable partnership units issued by Bell Aliant LP of \$52.3 million were expensed 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 thus are now eliminated upon consolidation of Bell Aliant LP.

#### *Gain on the re-measurement of the class B exchangeable partnership units issued by Bell Aliant LP*

In 2010, Bell Aliant LP's outstanding class B exchangeable limited partnership units were classified as a financial liability, and were marked-to-market at each reporting date, with any changes in value being recognized directly in net earnings for the period. During the first quarter of 2010, we recognized a gain of \$189.2 million, with no similar amount recognized in 2011, as these units were transferred to us as part of the Conversion and thus are now eliminated upon consolidation of Bell Aliant LP.

#### *Other expense*

Other expense was \$0.1 million in the first quarter of 2011, representing a decrease of \$2.5 million, from \$2.6 million in the first quarter of 2010. This is primarily due to a reduction in losses on fixed asset retirements, a decrease in foreign exchange losses and a \$0.8 million gain recognized on the sale of land in the first quarter of 2011, with no similar transaction occurring in 2010.

#### *Income tax expense (recovery)*

The income tax expense in the first quarter of 2011 was \$39.9 million, compared to a recovery of \$3.7 million in the first quarter of 2010. This increase was a result of various factors, including:

- A higher current income tax recovery of \$1.4 million in the first quarter of 2011 resulting from the settlement of prior years' income tax audit issues;
- A lower deferred tax expense of \$2.7 million as a result of a reduction in our blended weighted average federal and provincial effective tax rate as compared to the same period in 2010; offset by
- A higher deferred income tax expense of \$6.3 million due to higher earnings before tax in the first quarter of 2011, as compared to the first quarter of 2010 after eliminating from 2010 earnings the impact of distributions and gain on re-measurement of the class B exchangeable partnership units issued by Bell Aliant LP; and
- An increase of \$42.2 million in deferred tax expense stemming from: (i) 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; and (ii) 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.

#### *Net earnings (loss) from discontinued operations*

In the first quarter of 2011, net loss from discontinued operations of \$3.4 million mainly represents the after-tax loss on the sale of our xwave business on January 1, 2011. In the first quarter of 2010, the operating results of our xwave business contributed \$0.6 million to net earnings from discontinued operations.

## 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 March 31 (millions of dollars, except per share / unit amounts)	2011	2010				2009 <sup>(2)</sup>		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Operating revenues	\$681.6	\$714.9	\$703.7	\$700.1	\$688.7	\$719.0	\$724.7	\$720.3
EBITDA <sup>(1)</sup>	\$329.3	\$345.1	\$349.3	\$343.0	\$338.7	\$364.8	\$372.7	\$365.0
Operating income (loss)	\$171.0	(\$1,569.6)	\$175.5	\$163.8	\$156.8	\$145.8	\$163.7	\$163.9
Net earnings (loss):								
Continuing operations	\$88.8	(\$1,388.5)	\$32.5	\$71.0	\$248.0	\$96.5	\$98.5	\$93.0
Discontinued operations	(3.4)	(0.7)	0.6	(2.3)	0.6	(3.9)	(6.7)	(3.7)
Net earnings (loss)	\$85.4	(\$1,389.2)	\$33.1	\$68.7	\$248.6	\$92.6	\$91.8	\$89.3
Basic earnings (loss) per share / unit:								
Continuing operations	\$0.87	(\$8.65)	\$0.20	\$0.44	\$1.54	\$0.60	\$0.61	\$0.58
Discontinued operations	(0.03)	-	0.01	(0.01)	0.01	(0.02)	(0.04)	(0.02)
Basic earnings (loss) per share / unit	\$0.84	(\$8.65)	\$0.21	\$0.43	\$1.55	\$0.58	\$0.57	\$0.56
Diluted earnings (loss) per share / unit:								
Continuing operations	\$0.87	(\$8.65)	\$0.20	\$0.44	\$0.48	\$0.60	\$0.61	\$0.58
Discontinued operations	(0.03)	(0.01)	-	(0.01)	-	(0.02)	(0.04)	(0.02)
Diluted earnings (loss) per share / unit	\$0.84	(\$8.66)	\$0.20	\$0.43	\$0.48	\$0.58	\$0.57	\$0.56

<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 quarters of 2009 are presented on a Canadian GAAP basis.

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

- In general, the consolidated revenue trend reflects year-over-year growth in Internet and TV revenues generated from an increasing customer base, which has been more than offset by declines in local, long distance and data service revenues.
- In 2009, as part of our organizational productivity initiatives to create a more efficient cost structure as well as improve our service to customers, we offered limited voluntary retirement incentives to our unionized employees in Atlantic Canada, Ontario and Quebec. We also announced an operational consolidation of certain contact centres in Atlantic Canada and streamlined our management workforce. We recognized severance charges related to these initiatives of \$2.5 million, \$12.1 million and \$13.7 million in the second, third and fourth quarters of 2009, respectively. In 2010, we continued our productivity initiatives which included a further limited voluntary retirement incentive to a number of our unionized employees in Ontario and Quebec, streamlining of our management workforce and real estate rationalization, which resulted in recognizing related severance and other charges of \$10.7 million, \$3.3 million, \$0.5 million and \$12.5 million in the first, second, third and fourth quarters, respectively. In the first quarter of 2011, we continued to streamline our management workforce and rationalize our real estate, recognizing related severance and other charges of \$4.5 million.
- On May 1, 2009, we concluded an asset purchase agreement whereby CAE Professional Services (Canada) Inc. (CAE) acquired our defence, security and aerospace business, which operated under the xwave brand. The proceeds on closing were \$16.3 million in cash and \$7.6 million in receivables from CAE related to post-closing balance sheet adjustments, with an additional \$8.5 million of proceeds contingent upon the occurrence of certain future events, for potential total proceeds of \$32.4 million. A pre-tax gain on sale of \$1.7 million was recorded in the second quarter of 2009, which was reflected in net loss from discontinued operations. In

December 2010, we decreased the \$7.6 million receivable by \$4.6 million to \$3.0 million to recognize a provision for estimated loss on settlement of the post-closing balance sheet adjustments, and accordingly, reduced the gain recognized on sale by an equivalent amount. During the first quarter of 2011, \$1.7 million of this receivable was collected.

- On June 1, 2009, we concluded a share purchase agreement whereby Abilis Solutions Inc. acquired all of the outstanding shares of xwave New England Inc. The proceeds on closing were \$4.9 million, resulting in a pre-tax loss on sale of \$3.5 million being recognized during the second quarter of 2009.
- On November 1, 2009, we concluded a share purchase agreement under which the senior leaders of Innovatia Inc. acquired all of its outstanding shares. In anticipation of the disposal, we recorded a write-down of net assets in the third quarter of 2009 of \$6.1 million. The proceeds on closing were \$1.5 million, resulting in a pre-tax loss on sale of \$1.5 million being recognized in the fourth quarter of 2009.
- In the fourth quarter of 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.
- On October 26, 2010, we announced that we had 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. An after-tax loss on sale of \$3.4 million, which is net of \$8.9 million allocated to goodwill, has been recorded in net loss from discontinued operations in the first quarter of 2011.

Additional details regarding our results for the first quarter of 2011 are discussed throughout this document. Further information on our prior quarterly results, as previously reported under Canadian Generally Accepted Accounting Principles (GAAP), can be found in the respective quarterly financial statements and related MD&As.

## FINANCIAL AND CAPITAL MANAGEMENT

### Summary of cash flows

<i>For the three months ended March 31</i>			
<i>(millions of dollars)</i>	<b>2011</b>	<b>2010</b>	<b>% change</b>
Cash from (used in):			
Operating activities	<b>\$7.6</b>	\$151.0	(95.0)
Financing activities	<b>32.2</b>	(60.0)	n.m.
Investing activities	<b>(118.4)</b>	(94.3)	25.6
Net decrease in cash from continuing operations	<b>(\$78.6)</b>	(\$3.3)	n.m.
Net increase (decrease) in cash from discontinued operations	<b>38.4</b>	(5.8)	n.m.
Net decrease in cash for the period	<b>(\$40.2)</b>	(\$9.1)	n.m.

n.m. - not meaningful

We used net cash of \$40.2 million in the first quarter of 2011, compared to using net cash of \$9.1 million in the first quarter of 2010. This quarter-over-quarter decrease of \$31.1 million is the result of

lower cash from continuing operations of \$75.3 million, partially offset by higher cash flow from discontinued operations of \$44.2 million. The higher cash flow from discontinued operations reflects the \$38.4 million proceeds realized from the sale of our xwave business.

#### *Operating activities*

Cash generated from operating activities decreased 95.0 per cent, or \$143.4 million, in the first quarter of 2011, compared to the same period in 2010. Contributing to this decline was a \$195.8 million increase in funding of DB pension and OPEB plans, reflecting the \$200.0 million lump sum pension contribution. This use of cash was partially offset by a \$1.4 million increase in net earnings from continuing operations net of non-cash and other adjustments and a \$47.8 million increase in cash flow from changes in operating assets and liabilities, or working capital.

Cash flow used to fund working capital changes was \$28.8 million in the first quarter of 2011, compared to \$76.6 million in the first quarter of 2010. In the first quarter of 2011, we saw significant improvement in cash flow from accounts receivable over the first quarter in 2010. Our cash flow from accounts receivable contributed \$13.7 million to our cash flows in the first quarter of 2011, but used \$9.6 million in the first quarter of 2010. Cash flow from working capital changes generated \$14.1 million more cash from a reduction in inventory purchases in the first quarter of 2011, compared to the first quarter in 2010. The first quarter of both 2011 and 2010 included large reductions in accounts payable and accruals, \$37.0 million and \$46.9 million, respectively, which are typical for the first quarter of the year as we make large cash outlays for prior year employee incentive plan payments and previously accrued severance charges. In the first quarter of 2011, we used \$9.9 million less cash to reduce payables and accruals in large part due to \$6.6 million lower payments made on previously accrued severance and other charges, as well as lower payments related to our short-term incentive plan, due to a reduction in management headcount and lower incentive payouts.

Pension plan funding is included in the use of cash from operating activities. On March 15, 2011, we made a \$200.0 million lump sum cash contribution to our DB pension plans. Excluding this lump sum pension contribution, cash funding for our DB pension plans for the first quarter of 2011 was \$27.4 million, compared to \$31.6 million for the same period in 2010. In 2011, these amounts included \$12.5 million of current service contributions and \$14.9 million of special deficit funding, compared to \$12.9 million and \$18.7 million in 2010, respectively. The \$0.4 million decline in current service contributions is due to fewer active participants in the plans in 2011, compared to the prior year. Excluding the \$200.0 million lump sum pension contribution, special deficit funding declined by \$3.8 million in the first quarter of 2011, compared to the first quarter in 2010. We plan to apply a portion of our lump sum pension contribution against our required special deficit funding throughout 2011, as discussed below in the "Cash requirement" section.

We are in the process of updating the actuarial valuations of our pension plans as of December 31, 2010. We expect these to be completed and filed by the end of the second quarter of 2011, and we will adjust our 2011 contributions to the plans as necessary based on the valuation results.

Contributions to our OPEB plans to fund benefits were \$2.0 million in the first quarter of 2011, compared to \$1.9 million in the same period of 2010.

#### *Financing activities*

Cash generated from financing activities was \$32.2 million for the first quarter of 2011, compared to using cash of \$60.0 million the same period in 2010, resulting in a \$92.2 million increase in cash flows.

In the first quarter of 2011, we had net repayments of debt (including short and long-term debt, capital leases and notes payable to related parties) of \$83.3 million, compared to net proceeds of \$106.1 million in the same period of 2010. We had net repayments of short-term promissory notes under our commercial paper program of \$31.2 million in the first quarter of 2011, while for the same period in 2010 we had net proceeds of \$110.1 million from short-term debt facilities. The repayments in the first quarter of 2011 were facilitated in part by the proceeds from disposition received on our sale of the xwave business and in part from proceeds of the preferred share issue, described below. In

the first quarter of 2010 net proceeds were required to fund higher working capital requirements. Also, in the first quarter of 2011, we repaid a \$43.3 million note payable to a related Bell Aliant entity that represented final distributions under the income trust structure.

We had total gross proceeds on the preferred share issuance by Bell Aliant Preferred Equity Inc. (Prefco) of \$287.5 million in the first quarter of 2011, with no similar transaction in 2010. Share issue costs of \$9.1 million were incurred, resulting in net proceeds of \$278.4 million. These proceeds were used to make the \$200.0 million lump sum pension contribution previously referred to, as well as to repay short-term debt as discussed above.

In the first quarter of 2011, financing activities also included total dividends of \$109.0 million, paid to Bell Aliant Inc. and total distributions of \$53.9 million, which represented the final disbursements required for distributions under the income fund structure. For the first quarter of 2010, total distributions paid to the Fund and to holders of class B exchangeable partnership units issued by Bell Aliant LP were \$166.1 million.

#### *Investing activities*

Cash used in investing activities increased by 25.6 per cent, or \$24.1 million, in the first quarter of 2011, compared to the first quarter of 2010. Purchases of property, plant and equipment were \$119.5 million in the first quarter of 2011, compared to \$94.3 million in the same period in 2010, representing an increase of 26.7 per cent, or \$25.2 million. Consistent with our strategic priority to grow broadband, specifically related to FTTH, we continue to accelerate the rollout of our *FibreOP* network. Capital expenditures were 17.5 per cent of operating revenues in the first quarter of 2011, which is in line with our annual target of 17.5 per cent to 18.0 per cent.

#### 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>	<b>March 31, 2011</b>		<b>December 31, 2010</b>	
Shareholders' / partners' capital	<b>\$3,505.7</b>	50.7%	\$1,666.0	34.6%
Non-controlling interest	<b>281.9</b>	4.1%	-	-
Net debt	<b>3,118.4</b>	45.2%	3,148.8	65.4%
Total capital	<b>\$6,906.0</b>	100.0%	\$4,814.8	100.0%

##### *Shareholders' capital*

###### Common shares

As at March 31, 2011, our 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. Non-voting common shares have not been issued.

For further details of these common shares, refer to note 14 of our interim financial statements.

The number of common shares issued and outstanding at March 31, 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.

### *Partners' capital*

As at December 31, 2010, we had an unlimited number authorized of each of the 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 earlier in the "Corporate conversion" section.

### *Non-controlling interests*

Preferred shares issued by a subsidiary

On January 31, 2011, Prefco was incorporated under the Canada Business Corporations Act for the sole purpose of being the issuer of preferred shares. We own 100 per cent of Prefco's common shares.

On March 15, 2011, Prefco issued 10,000,000 Cumulative 5-Year Rate Reset Series A Preferred Shares (the Series A Preferred Shares) at a price of \$25.00 per Series A Preferred Share. On March 25, 2011, Prefco closed the sale of an additional 1,500,000 Series A Preferred Shares at the same price, following the exercise in full by the underwriters of the over-allotment option. The Series A Preferred Shares will pay cumulative dividends, if, as and when declared by the board of directors, of \$1.2125 per share per annum, yielding 4.85 per cent, payable quarterly (with the first quarterly dividend to be paid June 30, 2011), for the initial five year period ending March 31, 2016. For further details concerning the offering of these preferred shares, refer to note 15 of our interim financial statements and Bell Aliant Inc.'s press release dated February 22, 2011. Non-controlling interests at March 31, 2011, represents the Series A Preferred Shareholders' ownership interest in Prefco.

### *Debt*

We have a total of \$2,605.0 million in unsecured and unsubordinated medium-term notes outstanding under Bell Aliant LP's trust indenture dated September 14, 2006.

Our long-term debt has not significantly changed during the first quarter of 2011 and primarily reflects scheduled debt repayments. In April 2011, we issued \$300.0 million of medium-term notes, as discussed below in the "Cash requirements" section.

During the first quarter of 2011, we decreased the total amount available for use under our short-term operating credit facilities by \$5.1 million, resulting in an amount available of \$1,250.2 million. The commercial terms of our available short-term credit facilities have not changed significantly since December 31, 2010, although certain amendments were required in relation to the Conversion. We continue to maintain a \$400.0 million commercial paper program, supported by unused capacity on our revolving operating facilities.

Amounts drawn under our short-term credit facilities decreased to \$344.0 million at March 31, 2011, compared to \$377.2 million at December 31, 2010. We repaid \$31.2 million of short-term promissory notes under our commercial paper program during the first quarter of 2011. We also repurchased \$2.0 million under the revolving accounts receivable securitization program. In addition, during the first quarter of 2011, the amount of issued letters of credit decreased by \$11.0 million, to a total of \$275.1 million. Included in the letters of credit at December 31, 2010, is \$11.1 million for discontinued operations, with no such amount at March 31, 2011. Refer to our "Summary of cash flows" section for additional details.

As of March 31, 2011, there have been no changes to the covenants and provisions contained in our credit facilities as disclosed in our MD&A for the year ended December 31, 2010, except for amendments required relating to the Conversion.

## Ratings

There were no changes to our debt ratings in the first quarter of 2011, however, at our request in April 2011, the debt ratings for Télébec and NorthernTel have been withdrawn by S&P and DBRS as these entities will not be issuing public debt in the future.

	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 the first quarter of 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 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 in the discretion of the directors) is estimated to be in the range of \$432 million to \$435 million for 2011. For the three months ended March 31, 2011, we paid \$109.0 million in dividends to enable Bell Aliant Inc. to fund its dividends and expenses. In addition, we paid \$53.9 million in settlement of amounts that represented the final distribution to unitholders under the income fund structure.
- We anticipate 2011 capital expenditures to be in the range of \$520 million to \$560 million. For the three months ended March 31, 2011, capital expenditures were \$119.5 million, or 17.5 per cent of operating revenues.
- 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. We have \$405.0 million outstanding principal amount of medium-term notes due to mature on September 26, 2011. On April 26, 2011, we issued \$300.0 million of 7-year unsecured medium-term notes and on the same day we gave notice of our intention to redeem, on May 6, 2011, the same amount of the Bell Aliant LP notes due to mature in September 2011. We anticipate we will repay the remaining balance of the September 2011 notes outstanding with cash flow or short-term borrowing.
- 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, we anticipate that the discount rates utilized to calculate our solvency funding liabilities for active employees at December 31, 2010, will be lower than those used at December 31, 2009. In addition, our December 31, 2010, funding requirements will reflect increased liabilities resulting from early retirements in 2010. We estimate that required cash funding of our DB pension deficits for 2011 will be in the range of approximately \$100 to \$120 million, compared to \$86.3 million for 2010. However, as part of our 2011 financing plans, on March 15, 2011, we used a portion of the proceeds from the issuance of Series A Preferred Shares, described above in the "Preferred shares issued by a subsidiary" section 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 removes 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 million to \$50 million in cash deficit funding payments, which approximates our going concern funding requirements, will be contributed to the pension plans in 2011. We will continue to use

letters of credit to fund solvency special payments as required under the 2006 and 2009 solvency relief regulations.

- Productivity initiatives, announced during 2010, 2009 and 2008, are expected to result in the use of cash for severance, benefits and real estate rationalization costs of approximately \$10 million to \$15 million in 2011. For the three months ended March 31, 2011, we paid \$9.3 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

### *Contractual obligations*

We have various operating leases for equipment and other network infrastructure, and purchase commitments under various service and commercial agreements, including our commercial agreements with Bell Canada. Further details of these commitments are described in notes 22 and 25 to our audited consolidated financial statements for the year ended December 31, 2010, and in note 20 to our interim financial statements.

## 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 21 of our interim financial statements.

## SIGNIFICANT ACCOUNTING POLICIES

### International financial reporting standards (IFRS)

Our interim financial statements represent the initial presentation of our results and financial position under IFRS and have been prepared in accordance with IAS 34, *Interim Financial Reporting*, and with IFRS 1, *First-time Adoption of IFRS*, as issued by the International Accounting Standards Board (IASB) 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. Previously, our consolidated annual and interim financial statements were prepared in accordance with Canadian GAAP. The adoption of IFRS has not had a material impact on our overall performance, strategic decisions or underlying trends of our operations.

### *Impact of transition to IFRS*

IFRS 1, *First-time adoption of international financial reporting standards* sets forth guidance for the initial adoption of IFRS. Our analysis of IFRS and comparison to our accounting policies under Canadian GAAP determined that we were generally aligned with IFRS in many areas, but also identified a number of key differences. Refer to our interim financial statements and our MD&A for the year ended December 31, 2010, for explanations of these differences and adjustments.

IFRS 1 provides both mandatory exceptions and optional exemptions. In general, we have chosen to apply certain optional exemptions to reduce the complexity involved in converting to IFRS, as the cost of not applying the exemptions would far outweigh the benefit to the users of our financial statements. Refer to note 22 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 the Total equity as at January 1, 2010, March 31, 2010, and December 31, 2010, and Net earnings (loss) and Comprehensive income (loss), for the three months ended March 31, 2010, and year ended December 31, 2010. Our IFRS accounting policies are provided in note 2 to our interim financial statements.

## Future changes in accounting policies

A number of new standards, amendments to standards, and interpretations are not yet effective for the year ending December 31, 2011, and have not been applied in preparing our financial statements as at March 31, 2011, as follows:

### *IFRS 7, Financial Instruments: Disclosure*

The IASB issued IFRS 7, *Financial Instruments: Disclosure*, which requires increased disclosure surrounding the transfer of financial assets, particularly where there is a disproportionate amount of transfer transactions that take place at the end of a reporting period. The amendments to IFRS 7 come into effect for periods beginning on or after July 1, 2011.

### *IFRS 9, Financial Instruments*

The IASB issued IFRS 9, *Financial Instruments*, which is the first phase of the IASB's three phase project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. It is applicable to financial assets and requires classification and measurement in either the amortized cost or the fair value category. IFRS 9 comes into effect for periods beginning on or after April 1, 2013.

### *IAS 12, Income Taxes*

The IASB issued IAS 12, *Income Taxes*, which sets presumptions for the recovery of certain assets and is relevant in those cases where different tax consequences can arise depending on how the carrying amounts are recovered. The amendments to IAS 12 come into effect for periods beginning on or after January 1, 2012.

We are evaluating the effect, if any, that these new standards will have on our financial results.

## 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.

For a discussion of regulatory proceedings underway in 2011 which are, or may be, significant to our business, see the Regulatory Developments section of our 2010 annual MD&A dated March 9, 2011. The following is an update to certain proceedings described in that document to reflect developments which have occurred since that date:

- *Review of usage-based billing (UBB)*

On March 17, 2011, the CRTC expanded its review proceeding to include an online consultation, an interrogatory process, and a public hearing in July 2011. On March 28, 2011, Bell Canada and Bell Aliant LP filed their initial submission in that proceeding, proposing a new aggregate volume pricing model for their residential wholesale Gateway Access Service.

- *Customer transfer process*

On March 18, 2011, the CRTC issued Broadcasting and Telecom Regulatory Policy 2011-191 which simplified the transfer process when customers wish to change the provider from which they receive telecommunications and/or broadcasting services. The existing customer transfer processes for local, long distance and wireless services will be extended to Internet and television services such that the customer's new service provider will be able to cancel service from the current provider on the customer's behalf if the customer so authorizes.

- *Review of local, wireless, and toll interconnection regimes*

On March 23, 2011, the CRTC initiated a proceeding to review the local, wireless, and toll interconnection regulatory regimes. This will be a broad policy review of network interconnection matters aimed at determining to what extent existing interconnection regimes can be simplified and consolidated. The CRTC will also be considering whether changes are

necessary to enhance competition, benefit consumers and to ensure technological neutrality. This proceeding will include a public hearing which will begin on October 24, 2011. It is not known at this time what impact the review will have on us.

- *Canadian broadcasting in new media*

On March 24, 2011, the Supreme Court of Canada granted leave to appeal the Federal Court of Appeal's decision which had concluded that Internet service providers (ISPs) do not carry on, in whole or in part, broadcasting undertakings when, in their role as ISPs, they provide access through the Internet to "broadcasting" requested by end-users.

- *Petition regarding CRTC deferral account mechanism*

As discussed in our annual MD&A dated March 7, 2011, Rogers Communications Partnership Inc. (Rogers) submitted a petition to the Governor-in-Council concerning Telecom Decision 2010-805, *Bell Canada - Applications to review and vary certain determinations in Telecom Decision CRTC 2010-637 concerning the use of high-speed packet access wireless technology and the deferral account balance*. Until October 29, 2011, the Governor-in-Council may choose to vary or rescind the decision or refer it back to the CRTC for reconsideration. On March 28, 2011, Bell Canada challenged the legality of Rogers' petition and sought an order from the Federal Court to prohibit Cabinet from considering the petition on the grounds that it addresses issues that were not part of the original decision that Rogers is challenging. We do not expect the outcome of the CRTC's decision or of Rogers' petition to materially affect our financial results in light of our arrangement with Bell Canada, as described in note 22 to our audited consolidated financial statements for the year ended December 31, 2010.

- *Support structure rates*

As discussed in our annual MD&A dated March 7, 2011, on December 2, 2010, the CRTC approved new support structure rates, retroactive to July 21, 2009, resulting in net revenue increases for us. On March 30, 2011, a consortium of cable companies filed a review and variance application seeking to reduce the rates established in the December decision.

- *Télébec toll interconnection rates*

On February 14, 2011, MTS Allstream Inc. (MTS Allstream) filed an application with the Commission seeking reductions in the toll interconnection rates charged by Télébec and TELUS Communications Company in the province of Quebec. Télébec filed its response on March 16, 2011, and the parties await the Commission's decision. The outcome of this proceeding is not known at this time.

- *Review of unbundled local loop rates*

As discussed in our annual MD&A dated March 7, 2011, in Telecom Decision 2011-24, the CRTC approved revised monthly recurring rates for certain unbundled loops and revised service charge rates for other unbundled local loops. These rates apply retroactively to the date of the CRTC's prior interim approval, December 14, 2009. On March 7, 2011, MTS Allstream filed a review and variance application in connection with Telecom Decision 2011-24, arguing that the rates should be even lower than they were before the December 2009 interim approval date. On April 26, 2011, Bell Canada and Bell Aliant LP also filed a review and variance application seeking approval of rates, on a final basis, for each of Bell Canada and Bell Aliant LP that reflect certain adjustments discussed in the application, effective on the date the unbundled local loop rates were made interim. On May 4, 2011, Primus Telecommunications Canada Inc. filed a further application asking that the Commission review and vary and stay its determinations related to the retroactive application of the rates set out in Decision 2011-24. In light of the small volume of this service for Bell Aliant, the effect on us is not expected to be material.

- *Obligation to serve*

On May 3, 2011, the CRTC released Telecom Regulatory Policy 2011-291, *Obligation to serve and other matters*. In this proceeding, the CRTC reviewed the current contribution regime and

whether it should be changed or expanded to include broadband, and considered to whom and for what services the obligation to serve should apply. The Commission also considered whether and on what terms competition should be allowed in small incumbent local exchange carrier (SILEC) territories. In the Policy, the Commission determined to retain the basic service obligation for incumbent local exchange carriers (ILECs) in regulated exchanges, subject to minor modifications to reduce print directory distribution requirements. In regulated high-cost serving areas, the Commission determined that only ILECs should receive subsidy, as they are the only carriers with an obligation to serve. In forborne exchanges, the Commission generally eliminated the ILECs' obligation to serve, but retained the obligation for ILECs to provide stand-alone primary exchange service (which includes unlimited local calling at a flat monthly rate and a choice of long distance service provider), which can be satisfied by mobile wireless voice services. In forborne high-cost serving areas, the subsidy regime was eliminated, except in the case of SILECs, and no subsidies will be available effective June 1, 2011. The Commission retained the current subsidy regime and invited ILECs to update their costing information. It also determined that it was no longer appropriate to impute a continuing increase in efficiency to ILECs in computing the cost component of the subsidy calculation. Therefore, the Commission eliminated the productivity offset factor from ILECs' subsidy calculations effective June 1, 2011. Prices in regulated high-cost serving areas can increase over a three-year period to the lower of \$30 or the amount required to eliminate the subsidy; in forborne areas, the price ceiling has been relaxed to permit prices to rise over a three-year period to \$30 and thereafter by the annual rate of inflation. The Commission declined to extend the obligation to serve to broadband internet services, indicating that the expansion of such services has been successful through a combination of market forces and targeted government funding and public-private partnerships. However, the Commission set universal target speeds of 5 megabits per second downstream and 1 megabit per second upstream that should be available to all Canadian internet customers by the end of 2015, either through wireline, wireless or satellite technology. The CRTC will monitor progress towards achieving these targets and may revisit this issue over time. Finally, in connection with the SILEC regulatory regime, the Commission determined to allow local competition to continue to be introduced, subject to the continuation of the subsidy mechanism and a cost recovery measure applicable to SILECs serving 3,000 NAS or fewer. We are still godanalysing the impacts of this complex policy document.

## **ASSUMPTIONS MADE IN THE PREPARATION OF FORWARD-LOOKING INFORMATION AND RISKS THAT COULD AFFECT OUR BUSINESS AND RESULTS**

### **Assumptions made in the preparation of forward-looking information**

Forward-looking statements made in our MD&A for the year ended December 31, 2010, and in this MD&A are based on a number of assumptions that we believe were reasonable on the day we made the forward-looking statements. In our MD&A for the year ended December 31, 2010, we outlined the principal assumptions that we made in the preparation of our forward-looking statements relating to our expected financial and operational performance in 2011. These assumptions include economic, market, financial and operational and transaction assumptions, and have not changed significantly up to May 5, 2011.

### **Risk management**

Risk management is fundamental to the long-term success of any organization. For us, risk is defined as the level of exposure to uncertainties that the organization must understand and effectively manage as we execute our strategies to achieve our business objectives and create value for our unitholders. We employ an integrated, enterprise-wide framework to identify, assess and manage the risks across the organization.

We recognize that we are exposed to a number of risks in the normal course of business that could have a negative effect on our financial condition or results of operations. Refer to our MD&A for the year ended December 31, 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 quarter 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 earnings per share (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 three months ended March 31</i>		
<i>(millions of dollars)</i>	<b>2011</b>	<b>2010</b>
<b>Net earnings</b>	<b>\$85.4</b>	<b>\$248.6</b>
Add: Net finance expense	<b>42.2</b>	46.8
Distributions to holders of class B exchangeable partnership units issued by Bell Aliant LP	-	52.3
Gain on the re-measurement of the class B exchangeable partnership units issued by Bell Aliant LP	-	(189.2)
Other expense	<b>0.1</b>	2.6
Income tax expense (recovery)	<b>39.9</b>	(3.7)
Net earnings (loss) from discontinued operations	<b>3.4</b>	(0.6)
<b>Operating income</b>	<b>\$171.0</b>	<b>\$156.8</b>
Add: Depreciation and amortization	<b>153.8</b>	170.7
Severance and other charges	<b>4.5</b>	11.2
<b>EBITDA</b>	<b>\$329.3</b>	<b>\$338.7</b>

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 the first quarter of 2011 as the contribution was exceptional and funded from proceeds of a preferred share issue of a subsidiary and not cash from operating activities.

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.

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

<i>For the three months ended March 31</i>		
<i>(millions of dollars)</i>	<b>2011</b>	<b>2010</b>
Cash from operating activities	<b>\$7.6</b>	\$151.0
Capital expenditures	<b>(119.5)</b>	(94.3)
<b>Free cash flow</b>	<b>(\$111.9)</b>	\$56.7
Lump sum pension contribution	<b>200.0</b>	-
<b>Free cash flow before lump sum pension contribution</b>	<b>\$88.1</b>	\$56.7

#### 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 three months ended March 31, 2011</i>		
<i>(millions of dollars, except per share amounts)</i>	<b>amount</b>	<b>per share</b>
Diluted earnings per share of Bell Aliant Inc.		<b>\$0.37</b>
Purchase price allocation amortization, net of income taxes	<b>\$16.6</b>	<b>0.07</b>
<b>Adjusted earnings per share of Bell Aliant Inc.</b>		<b>\$0.44</b>

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**

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 internal control framework is based on the criteria published in the report Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The CEO and CFO evaluated the design of our internal control over financial reporting as at March 31, 2011, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There have been no changes in our internal control over financial reporting during the three months ended March 31, 2011, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## BELL ALIANT REGIONAL COMMUNICATIONS INC.

### Consolidated income statements (Unaudited)

For the three months ended March 31

<i>(in millions of Canadian dollars, except earnings per share / unit)</i>	Notes	2011	2010
Operating revenues	3	681.6	688.7
Expenses			
Operating expenses	4	352.3	350.0
Depreciation and amortization		153.8	170.7
Severance and other charges	6	4.5	11.2
<b>Operating income</b>		<b>171.0</b>	<b>156.8</b>
Finance expense	7	87.3	86.7
Finance income	7	(45.1)	(39.9)
<b>Net finance expense</b>		<b>42.2</b>	<b>46.8</b>
Distributions to holders of class B exchangeable partnership units issued by Bell Aliant LP	22	-	52.3
Decrease in value of class B exchangeable partnership units issued by Bell Aliant LP	22		(189.2)
Other expense	8	0.1	2.6
<b>Earnings before income tax</b>		<b>128.7</b>	<b>244.3</b>
Current income tax recovery		(1.4)	-
Deferred income tax expense (recovery)		41.3	(3.7)
<b>Income tax expense (recovery)</b>		<b>39.9</b>	<b>(3.7)</b>
Net earnings from continuing operations		88.8	248.0
Net earnings from discontinued operations	9	(3.4)	0.6
<b>Net earnings</b>		<b>85.4</b>	<b>248.6</b>
<b>Attributable to:</b>			
Common shareholders/unitholders			
Net earnings from continuing operations		88.2	248.0
Net earnings (loss) from discontinued operations		(3.4)	0.6
		84.8	248.6
Non-controlling interests	15		
Net earnings from continuing operations			
Preferred shares issued by a subsidiary		0.6	-
Net earnings (loss) from discontinued operations		-	-
		0.6	-
		85.4	248.6
<b>Earnings per share / unit:</b>	10		
Basic from continuing operations		0.87	1.54
Basic from discontinued operations		(0.03)	0.01
Basic		0.84	1.55
Diluted from continuing operations		0.87	0.48
Diluted from discontinued operations		(0.03)	-
Diluted		0.84	0.48

See accompanying notes to the consolidated financial statements

## BELL ALIANT REGIONAL COMMUNICATIONS INC.

### Consolidated statements of comprehensive income (loss) (Unaudited)

For the three months ended March 31

<i>(in millions of Canadian dollars)</i>	Notes	2011	2010
Net earnings		85.4	248.6
Other comprehensive income (loss), net of income taxes	11	11.0	(143.7)
Comprehensive income		96.4	104.9
<b>Attributable to:</b>			
Equity shareholders/unitholders		95.8	104.9
Preferred shares issued by a subsidiary		0.6	-
		96.4	104.9

*See accompanying notes to the consolidated financial statements*

## BELL ALIANT REGIONAL COMMUNICATIONS INC.

### Consolidated statements of financial position (Unaudited)

<i>(in millions of Canadian dollars)</i>	Notes	As at March 31, 2011	As at December 31, 2010	As at January 1, 2010
<b>Current assets</b>				
Cash and cash equivalents		25.2	65.4	27.1
Trade and other receivables		405.1	383.8	469.0
Notes receivable from related parties	21	-	145.6	-
Inventory		14.0	18.0	14.4
Prepayments		27.9	16.0	14.8
Income tax receivable		32.4	25.0	14.4
		<b>504.6</b>	<b>653.8</b>	<b>539.7</b>
Assets classified as held for sale		-	107.1	-
		<b>504.6</b>	<b>760.9</b>	<b>539.7</b>
<b>Non-current assets</b>				
Long-term receivables		19.5	20.4	23.8
Deferred charges		13.7	14.4	13.4
Deferred income tax assets	22	70.7	145.4	-
Property, plant and equipment	22	3,359.2	3,359.5	3,373.3
Finite-life intangible assets	22	1,164.4	1,185.0	3,069.8
Goodwill and indefinite-life intangible assets	13	2,885.2	2,894.1	2,893.5
		<b>7,512.7</b>	<b>7,618.8</b>	<b>9,373.8</b>
<b>Total assets</b>		<b>8,017.3</b>	<b>8,379.7</b>	<b>9,913.5</b>

*See accompanying notes to the consolidated financial statements*

## BELL ALIANT REGIONAL COMMUNICATIONS INC.

### Consolidated statements of financial position (Unaudited)

<i>(in millions of Canadian dollars)</i>	Notes	As at March 31, 2011	As at December 31, 2010	As at January 1, 2010
<b>Current liabilities</b>				
Notes payable to related parties	21	4.9	48.7	2.6
Trade and other payables		274.4	333.5	378.9
Severance and other charges liability	6	9.4	14.1	37.3
Distributions payable		-	199.4	55.3
Short-term debt	16	344.0	377.2	205.0
Long-term debt due within one year		426.8	427.4	17.2
		<b>1,059.5</b>	<b>1,400.3</b>	<b>696.3</b>
Liabilities directly associated with assets classified as held for sale		-	44.2	-
		<b>1,059.5</b>	<b>1,444.5</b>	<b>696.3</b>
<b>Non-current liabilities</b>				
Deferred income tax liabilities	22	-	-	231.3
Long-term debt		2,367.9	2,360.9	2,759.9
Class B exchangeable partnership units issued by Bell Aliant LP	22	-	1,876.6	2,023.9
Post-employment benefits	5	763.4	998.7	800.1
Deferred credits and other long-term liabilities		38.9	33.0	34.8
		<b>3,170.2</b>	<b>5,269.2</b>	<b>5,850.0</b>
<b>Total liabilities</b>		<b>4,229.7</b>	<b>6,713.7</b>	<b>6,546.3</b>
<b>Equity attributable to shareholders/unitholders</b>				
Share capital	14	3,651.8	-	-
Partners' capital	14	-	2,061.5	2,061.5
Contributed surplus		263.9	0.4	0.4
Accumulated total comprehensive income		(410.0)	(395.9)	1,305.3
<b>Total equity attributable to shareholders/unitholders</b>		<b>3,505.7</b>	<b>1,666.0</b>	<b>3,367.2</b>
<b>Non-controlling interests</b>				
Preferred shares issued by a subsidiary	15	281.9	-	-
<b>Total non-controlling interests</b>		<b>281.9</b>	<b>-</b>	<b>-</b>
<b>Total equity</b>		<b>3,787.6</b>	<b>1,666.0</b>	<b>3,367.2</b>
<b>Total equity and liabilities</b>		<b>8,017.3</b>	<b>8,379.7</b>	<b>9,913.5</b>

*See accompanying notes to the consolidated financial statements*

# BELL ALIANT REGIONAL COMMUNICATIONS INC.

## Consolidated statements of cash flows (Unaudited)

For the three months ended March 31

<i>(in millions of Canadian dollars)</i>	Notes	2011	2010
<b>Cash from (used in) operating activities</b>			
Net earnings from continuing operations		88.8	248.0
Adjustments to reconcile net earnings to cash from operating activities:			
Depreciation and amortization		153.8	170.7
Deferred income tax expense (recovery)		41.3	(3.7)
Current service costs of post-employment benefit plans	4, 5	15.5	13.1
Funding of post-employment benefit plans	5	(231.2)	(35.4)
Distributions to holders of class B exchangeable partnership units issued by Bell Aliant LP	22	-	52.3
Decrease in value of class B exchangeable partnership units issued by Bell Aliant LP	22	-	(189.2)
Loss on disposal of property, plant and equipment	8	0.2	2.1
Interest paid		(72.4)	(72.0)
Interest received		0.5	0.3
Net finance expense	7	42.2	46.8
Income taxes received (paid), net		(0.3)	(3.7)
Other		(2.0)	(1.7)
<b>Operating cash flows before change in operating assets and liabilities</b>		<b>36.4</b>	<b>227.6</b>
Change in operating assets and liabilities	19	(28.8)	(76.6)
		<b>7.6</b>	<b>151.0</b>
<b>Cash from (used in) investing activities</b>			
Purchase of property, plant and equipment and finite-life intangible assets		(119.5)	(94.3)
Proceeds on disposal of property, plant and equipment		1.1	-
		<b>(118.4)</b>	<b>(94.3)</b>
<b>Cash from (used in) financing activities</b>			
Net proceeds (repayments) on notes payable to related parties		(43.8)	1.2
Net proceeds (repayments) on short-term debt	16	(33.2)	110.1
Repayment of long-term debt		(1.1)	(1.1)
Repayment of capital lease obligations		(5.2)	(4.1)
Issuance of preferred shares by a subsidiary	15	287.5	-
Commissions and preferred share issue costs, before taxes	15	(9.1)	-
Dividends paid to shareholders	14	(109.0)	-
Distributions paid to unitholders		(36.5)	(113.7)
Distributions paid to holders of class B exchangeable partnership units issued by Bell Aliant LP		(17.4)	(52.4)
		<b>32.2</b>	<b>(60.0)</b>
Decrease in cash from continuing operations		(78.6)	(3.3)
Increase (decrease) in cash from discontinued operations	9	38.4	(5.8)
Cash and cash equivalents, beginning of period		65.4	27.1
Cash and cash equivalents, end of period		<b>25.2</b>	<b>18.0</b>
<b>Supplementary disclosure</b>			
Cash and cash equivalents, end of period			
Cash		24.6	17.6
Cash equivalents		0.6	0.4
		<b>25.2</b>	<b>18.0</b>

See accompanying notes to the consolidated financial statements

**BELL ALIANT REGIONAL COMMUNICATIONS INC.**

**Consolidated statements of changes in equity  
(Unaudited)**

**For the three months ended March 31, 2011**

(in millions of Canadian dollars)	Notes	Share capital	Partners' capital	Contributed surplus	Attributable to shareholders/unitholders			Attributable to non-controlling interests		Total equity
					Accumulated earnings	Accumulated other comprehensive loss	Accumulated total comprehensive income (loss)	Preferred shares issued by a subsidiary	Total	
Balance December 31, 2010		-	2,061.5	0.4	(373.2)	(22.7)	(395.9)	1,666.0	-	1,666.0
Conversion to corporation	14	3,651.8	(2,061.5)	263.5	(0.9)	-	(0.9)	1,852.9	-	1,852.9
Net earnings		-	-	-	84.8	-	84.8	84.8	0.6	85.4
Issuance of preferred shares		-	-	-	-	-	-	-	281.3	281.3
Dividends declared on:										
Common shares	14	-	-	-	(109.0)	-	(109.0)	(109.0)	-	(109.0)
Other comprehensive income	11	-	-	-	10.2	0.8	11.0	11.0	-	11.0
Balance March 31, 2011		3,651.8	-	263.9	(388.1)	(21.9)	(410.0)	3,505.7	281.9	3,787.6

**For the three months ended March 31, 2010**

(in millions of Canadian dollars)	Notes	Partners' capital	Contributed surplus	Attributable to unitholders			Attributable to non-controlling interests		Total equity
				Accumulated earnings	Accumulated other comprehensive loss	Accumulated total comprehensive income	Preferred shares issued by a subsidiary	Total	
Balance January 1, 2010	22	2,061.5	0.4	1,332.3	(27.0)	-	1,305.3	-	3,367.2
Net earnings		-	-	248.6	-	-	248.6	-	248.6
Distributions declared on:									
Class 1 exchangeable limited partnership units	14	-	-	(20.5)	-	-	(20.5)	-	(20.5)
Class 2 limited partnership units	14	-	-	(93.4)	-	-	(93.4)	-	(93.4)
Other comprehensive income (loss)	11	-	-	(144.6)	0.9	-	(143.7)	-	(143.7)
Balance March 31, 2010		2,061.5	0.4	1,322.4	(26.1)	-	1,296.3	-	3,358.2

See accompanying notes to the consolidated financial statements

## 1. DESCRIPTION OF BUSINESS

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).

As part of the Conversion, BCE Inc. (BCE) and Bell Canada exchanged their interests in Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP) and in Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP), 100 per cent of the special voting units issued by the Fund, and all but one of their voting common shares of Bell Aliant Regional Communications Holdings Inc. (Bell Aliant Holdings GP) for Bell Aliant Inc. common shares. Fund unitholders exchanged the Fund units for common shares of Bell Aliant Inc.

As well, through a series of steps, Bell Aliant Holdings LP distributed its assets to Bell Aliant Regional Communications Inc. (Bell Aliant GP), which in turn assumed Bell Aliant Holdings LP's liabilities. Bell Aliant Holdings LP then 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 and Bell Aliant Holdings GP.

As a result of these transactions, on January 1, 2011, BCE and Bell Canada owned 44.07 percent of Bell Aliant Inc.'s common shares (43.88 per cent on a fully diluted basis) and one common share of Bell Aliant GP, with over 99.99 per cent of the common shares of Bell Aliant GP owned by Bell Aliant Inc. The securityholders' agreement with BCE and Bell Canada was also amended to reflect the Conversion and the continuation of BCE's governance rights in the new corporate structure. BCE and Bell Canada control Bell Aliant GP and Bell Aliant Inc. continues to exercise significant influence over operating, investing and financial policies of Bell Aliant GP, but does not control it.

As the original unitholders of the Fund and Bell Aliant Holdings LP have an interest in essentially the same underlying assets and liabilities, but through different legal structures of Bell Aliant Inc. and Bell Aliant GP, the Conversion has been accounted for on a continuity of interest basis. Accordingly, the consolidated financial statements of Bell Aliant GP reflect the financial position, results of operations and cash flows as if it had always carried on the business of Bell Aliant Holdings LP. Comparative amounts in these financial statements are those of Bell Aliant Holdings LP.

All references to "we", "us" or "our" refer to Bell Aliant GP and its subsidiaries for 2011 and to Bell Aliant Holdings LP and its subsidiaries for prior periods.

Bell Aliant GP is incorporated under the provisions of the Canada Business Corporations Act. Our operations are principally focused on regional telecommunications services in Atlantic Canada, Ontario and Quebec. We provide a wide range of innovative and traditional voice and data communications services. We are incorporated and domiciled in Canada. The address of our registered office is 1505 Barrington Street, Halifax, Nova Scotia, B3J 2W3. These unaudited interim consolidated financial statements were approved and authorized for issue by the board of directors on May 5, 2011. The consolidated financial statements of Bell Aliant Holdings LP for the year ended December 31, 2010, prepared using Canadian generally accepted accounting principles (GAAP), were approved by the board of directors and authorized for issue on March 9, 2011.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance and conversion to International Financial Reporting Standards (IFRS)

As these unaudited consolidated interim financial statements (interim financial statements) represent the initial presentation of our results and financial position under IFRS, they were prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*, and IFRS 1, *First-time Adoption of International Financial Reporting Standards*, using accounting policies consistent with IFRS as issued by the International Accounting Standards Board (IASB) and interpretations of the IFRS Interpretations Committee. They are prepared in accordance with the accounting policies we expect to adopt in our consolidated financial statements for the year ending December 31, 2011, but do not include all of the disclosure information required for full annual financial statements. Previously, our annual and interim consolidated financial statements were prepared in accordance with Canadian GAAP.

### Basis of preparation

These unaudited consolidated interim financial statements have been prepared on a historical cost basis except for the revaluation of certain financial assets and liabilities, which are measured at their fair value, as discussed further under "Financial instruments".

The accounting policies set out below have been applied consistently to all periods presented in these interim consolidated financial statements, including comparative periods. They have also been applied in preparing a statement of financial position at January 1, 2010, for the purposes of the transition to IFRS, as required by IFRS 1. The effect of the transition from Canadian GAAP to IFRS is explained in note 22.

### Functional currency

These interim financial statements are presented in Canadian dollars, which is our functional and presentation currency. All financial information presented is in millions of dollars, except as otherwise noted.

### Basis of consolidation and subsidiaries

We consolidate the financial statements of all the subsidiaries we control. Control of a subsidiary exists when we have the power to govern the financial and operating policies of that entity to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of our subsidiaries are included in our consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of our subsidiaries align with our accounting policies.

At March 31, 2011, our principal subsidiaries include Bell Aliant LP, Télébec, Limited Partnership (Télébec), NorthernTel, Limited Partnership (NorthernTel) and Bell Aliant Preferred Equity Inc. (Prefco). All transactions and balances between these entities have been eliminated on consolidation.

### Use of accounting estimates

Management is required 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 amount of revenue 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 operating revenues, allowance for doubtful accounts, gain or loss on transfer of receivables, useful life of capital investments, asset impairments, legal and tax contingencies, employee benefit plans, income taxes, severance and other charges, provisions, goodwill and intangible assets.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue recognition

We recognize operating revenues when they are earned, or specifically when services are provided or products are delivered to customers, persuasive evidence of a sale arrangement exists, amounts are fixed or determinable, and collectability is reasonably assured.

In particular, we recognize:

- Fees for local, long distance, data and Internet, wireless, and other services when we provide the services;
- Other fees, such as network access fees, license fees, hosting fees, and maintenance fees over the term of the contract;
- Revenues from the sale of equipment when all the significant risks and rewards of ownership are transferred to the buyer, normally when the equipment is delivered and accepted by customers; and
- Revenues on long-term contractual arrangements based on performance as services are provided or contract milestones are met.

Revenues exclude sales taxes and other taxes and amounts we collect from our customers on behalf of others. We recognize rebates and allowances to customers as a reduction of revenue.

We defer revenue recognition for payments received in advance until we provide the service or deliver the product to customers.

### *Multiple-element arrangements*

For arrangements involving the sale of multiple products or services, we separately account for each product or service if the following conditions are met:

- The product or service has value to our customer on a stand-alone basis;
- There is objective and reliable evidence of the fair value of any undelivered product or service; and
- If the sale includes a general right of return relating to a delivered product or service, the delivery or performance of any undelivered product or service is probable and substantially in our control.

We allocate the consideration from the revenue arrangement to each product or service based on its relative fair value. If the fair value of the delivered item is not available, then revenue is allocated based on the difference between the total arrangement consideration and the fair value of the undelivered product or service.

The revenue allocated to each product or service is then recognized in accordance with our revenue recognition policies, as described above.

### *Long-term contractual agreements*

We recognize revenue from long-term contractual arrangements based on the percentage of completion method. The stage of completion is estimated using an appropriate measure depending on the nature of the contract. For long-term services contracts, revenue is recognized as services are provided, usually on an output or consumption basis. For fixed price contracts revenue is recognized by reference to the stage of completion, as determined by the proportion of cost incurred relative to the estimated total contract costs, or other measures of completion such as the achievement of contract milestones and customer acceptance.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue recognition (continued)

Costs related to delivering services under long-term contractual arrangements are expensed as incurred. If it is determined during the performance of the contract that the actual and estimated costs to completion exceed the estimated revenue for a contract, a provision for the estimated loss is immediately recognized in net earnings for the period.

#### *Subcontracted services*

For arrangements where sub-contractors perform services for our customers, we recognize revenue based on the amount billed to customers when we act as the principal in the arrangement. Otherwise, we recognize revenue based on the net amount that we retain.

### Goodwill and indefinite-life intangible assets

Goodwill represents the excess of the consideration transferred, measured at fair value at the date of acquisition, over the fair value of the net amount assigned to individual assets acquired and liabilities assumed at the date of acquisition. Goodwill is not amortized.

We allocate goodwill to cash-generating units (CGUs) for the purpose of impairment testing based on the level at which our management monitors the CGU, which is not at a more aggregated level than an operating segment. The allocation of goodwill is made to those CGUs, or groups of CGUs, that are expected to benefit from the business combination in which the goodwill arose.

Indefinite-life intangibles, which are not amortized, consist of acquired brands, telecommunications and cable licenses.

We test goodwill and indefinite-life intangibles for impairment as of October 31 on an annual basis, or when events or changes in circumstances indicate that an impairment may exist. An impairment is calculated as described below under "Impairment of long-lived assets".

### Finite-life intangible assets

Finite-life intangibles consist of computer software, customer relationships, bilateral license agreements, and roaming agreements. Computer software includes purchased software as well as internally developed software. Computer software is initially recorded at cost. Customer relationships represent the allocation of the purchase price attributable to the fair value of customers acquired in business combinations. The bilateral licensing agreements include an agreement we entered into with Bell Canada, a related party, for the non-exclusive use of the certain Bell Canada brands within our operating regions. Roaming agreements represent acquired roaming agreements whose rates are favorable to market rates.

We test finite-life intangible assets for impairment when events or changes in circumstances indicate that an impairment may exist. An impairment is calculated as described below under "Impairment of long-lived assets".

Amortization is recognized on a straight-line basis over the estimated useful lives of each component of the finite-life intangible assets. The estimated useful lives assigned to the major classes of intangible assets are:

Computer software	2 - 7 years
Customer relationships	9 - 30 years
Bilateral license agreement with Bell Canada	40 years
Roaming agreements	4.5 years

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of assets. Capitalized costs on self-constructed assets, classified as plant under construction, include contracted costs, direct labour, any other costs directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in the manner in which we intended, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

We recognize borrowing costs as finance expense in the period when incurred, with the exception of borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets that take more than 12 months to be ready for their intended use. The borrowing costs on qualifying assets are capitalized as part of the cost of that asset and depreciated over its estimated useful life. This capitalization ceases once the assets are in operating condition and ready for use.

Government assistance received towards the acquisition of property, plant and equipment is deducted from the cost of the related asset, with depreciation calculated on the net amount.

When major components of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and are recognized on a net basis in other expense (income) in the period of disposal.

The cost of replacing a major component of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to us and the cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of repairing and maintaining property, plant and equipment are recognized in operating expenses as incurred.

We test property, plant and equipment for impairment when events or changes in circumstances indicate that an impairment may exist. An impairment is calculated as described below under "Impairment of long-lived assets".

Depreciation is recognized on a straight-line basis from the time the asset is available for use or when plant under construction becomes operational, over the estimated useful lives of each major component of property, plant and equipment. We review our estimates of the useful lives, residual value and depreciation method on an annual basis at December 31 and adjust them if estimates change. Property, plant and equipment acquired under finance leases are depreciated consistent with their nature. Land is not depreciated.

The estimated useful lives of property, plant and equipment are as follows:

Buildings and towers	10 - 50 years
Network infrastructure and equipment	3 - 40 years

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment of long-lived assets

An impairment loss is the amount by which the carrying amount of a long-lived asset exceeds its estimated recoverable amount. For the purposes of testing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. A group of assets that generate largely independent cash inflows is considered a CGU. We evaluate impairment losses for potential reversals, other than goodwill impairment, when events or changes in circumstances warrant such consideration.

The recoverable amount of a long-lived asset is the greater of its fair value less cost to sell or its value in use. Fair value less costs to sell is the best estimate of the amount obtainable from the sale of an asset in an arms length transaction between knowledgeable, willing parties, less the cost of disposal. In assessing value in use, the estimated future cash flows of the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Cash flows are projected over the estimated useful life of the asset or CGU and reflect management assumptions.

We recognize impairment losses in other expense in the period tested. With the exception of goodwill, previously recorded impairment losses are reversed in subsequent periods if the reasons for recognizing the original impairment loss no longer exist. An impairment loss amount is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Goodwill impairment losses are not reversed in subsequent periods.

### Income taxes

Prior to the Conversion, as described in note 1, as a partnership we were not subject to tax on our income. As a corporation our income is subject to tax. Bell Aliant Holdings LP recognized income tax on the income that was earned through its corporate subsidiaries.

Income tax expense represents current income tax and deferred income tax. Current and deferred income tax are recognized as an expense or recovery in net earnings, except when they relate to items that are recognized outside net earnings (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside net earnings. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Current tax is the tax currently payable based on taxable earnings for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Taxable earnings differs from earnings as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in years other than the current reporting period or items that are never taxable or deductible.

Deferred tax is recognized using the liability method. Under this method, deferred tax is recognized on the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial statement reporting purposes and their corresponding tax basis used in the computation of taxable earnings, as well as the benefit of losses that are probable to be realized and are available for carry forward to future years to reduce income taxes. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable earnings will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable earnings or loss nor the accounting earnings or loss.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Income taxes (continued)

Deferred tax is not recognized for differences relating to investments in subsidiaries to the extent that we are able to control the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates enacted by tax law, or substantively enacted, that are expected to be in effect when the underlying items of income and expense are to be realized for tax purposes. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which we expect, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

The effect of a change in tax rates on deferred tax assets and liabilities is included in earnings in the period that the change is substantively enacted, except to the extent it relates to items previously recognized outside earnings in which case the rate change impact is recognized in a manner consistent with how the items were originally recognized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and Bell Aliant intends to settle its current tax assets and liabilities on a net basis.

### Post-employment benefits

We provide pension plans and other post-employment benefits to qualified employees. These include defined benefit (DB) pension plans, defined contribution (DC) pension plans, retirement savings plans and other post-employment benefit (OPEB) plans such as life insurance and health care plans.

#### *DC pension and other retirement savings plans*

DC pension plan and other retirement savings plan costs are recognized in operating expenses and funded as employees provide services to us during the year.

#### *DB pension and OPEB plans*

Our net obligation under these plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted to arrive at the net benefit obligation or asset. A net benefit asset is only recognized to the extent of the present value of economic benefits available to us and realizable during the life of the plan. This may result in an asset limitation being placed on the recognized changes in status of the plan during the period.

Our actuaries perform annual valuations of each DB pension and OPEB plan to determine the actuarial present value of the accrued benefits.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Post-employment benefits (continued)

#### *DB pension and OPEB plans (continued)*

The costs of DB pensions and OPEBs earned by employees are actuarially determined using:

- The projected benefit method, prorated on years of service, which takes into account future salary levels;
- Management's best estimate of expected salary increases, retirement age of employees and expected health care costs;
- Discount rates that are based on current yields on high quality Canadian corporate bonds that have maturity dates approximating the terms of our obligations; and
- The expected long-term rate of return, which is a weighted average rate of management's forward-looking view of long-term returns on each of the major plan asset categories in our funds.

We value pension plan assets at fair value using current market values.

In Canada, pension regulation subjects us to required minimum funding of pension plan deficits. We assess annually whether any additional minimum liability is required.

We recognize the net cost of benefit plans in our statement of earnings as follows:

- Operating expenses reflect the current service cost which is spread systematically over employees' expected service periods.
- Net finance expense includes the accretion of interest expense on the liabilities of the benefit plans and finance income for the expected return on the DB pension plan assets, based on expectations that existed at the beginning of the year.

Actuarial gains and losses arising from DB pension and OPEB plans are recognized, net of the related income tax effect, in other comprehensive income (loss). Vested past service costs are recognized immediately in operating expenses.

Actuarial gains and losses represent the difference between previous actuarial assumptions of future outcomes and the actual outcome (experience), in addition to the effect of changes in actuarial assumptions and asset limitations.

#### Termination benefits

Termination benefits are recognized as severance charges when we are demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits to encourage voluntary departures are recognized as severance charges if we have made an offer of voluntary departure, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

#### Short-term incentive benefits

Short-term employee incentive benefit obligations are measured on an undiscounted basis and are recognized as operating expense when the related service is provided. We recognize a liability for the amount expected to be paid under our short-term incentive plan if we have a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Deferred charges and credits

Deferred charges and credits mainly include the following and are recognized as noted:

	Recognition period	Recognized as
<i>Deferred charges:</i>		
Long-term customer contract costs, such as bid pursuit and other upfront costs	Length of the customer contract	Operating expense
Costs related to issuing undrawn short-term and long-term debt facilities	Period to maturity of the debt facilities	Finance expense
Prepayments of long-term service contract costs	Length of the contract	Operating expense
Customer loyalty credits	Length of the customer contract	Operating revenue
<i>Deferred credits:</i>		
Deferred revenue	Length of the customer contract	Operating revenue

### Inventory

Inventory represents products or equipment purchased for resale. We measure inventory at the lower of cost and net realizable value, with cost being determined by using the specific identification method for major equipment or items that are not normally interchangeable, and the weighted average cost formula for all other inventory items. Net realizable value represents the estimated selling price for inventory less all estimated costs to sell. We estimate and record an allowance for obsolescence when inventory is slow moving, while inventory which can no longer be sold is written off completely.

### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, and investments in money market instruments with a maturity of less than 90 days and notes receivable from related party, all of which are readily convertible to cash and subject to an insignificant risk of change in fair value.

### Transfer of receivables

Under a revolving purchase and sale agreement, we sell certain accounts receivable to a securitization trust. The gains or losses that result from these transactions and program administration fees are recognized in finance expense when incurred. The gain or loss calculated is partly dependent on the carrying amount of the accounts receivable transferred, which is allocated between the accounts receivable sold and the retained interest based on their relative fair value at the date of the transfer. The fair value of the accounts receivable transferred approximates their carrying value, which reflects management's best estimate of credit losses and other adjustments.

We also have agreements to sell certain of our Ontario and Quebec trade accounts receivable to Bell Canada. We transfer these receivables at their billed amount, less a deduction for defaulted amounts.

### Common shares

Our common shares are classified as equity. Any transaction costs arising on the issuance of common shares are recognized directly in equity, net of tax, as a reduction of the common share proceeds received.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leases

When we assume substantially all the risks and rewards of ownership of assets under a lease, we classify it as a finance lease. Upon initial recognition, the leased asset is capitalized at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Obligations under finance leases are reduced by lease payments net of imputed interest.

When substantially all the risks and rewards of ownership of the assets under a lease are held by the lessor, we classify it as an operating lease. Lease payments are charged to operating expense on a straight line basis over the period of the lease.

### Provisions

#### *General*

A provision is recognized if, as a result of a past event, we have a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money at the risks specific to the liability. Provisions are re-measured at each statement of financial position date using management's best estimate of the amount required to settle the liability and the current discount rate.

#### *Onerous contracts*

We recognize a provision for onerous contracts when the expected benefits of a contract are lower than the unavoidable cost of meeting our obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, we recognize any impairment loss on the assets associated with that contract.

#### *Asset retirement obligations*

We recognize a provision for asset retirement obligations when we have an obligation to dismantle and remove an item of property, plant and equipment and to restore the site on which it is located. Initially, the provision is recognized at the present value of the best estimate of the amount eventually required to settle the obligation in the period in which it is incurred. Upon initial recognition of the liability, the asset retirement obligation is added to the carrying amount of the related asset and the cost is amortized as depreciation expense over the estimated useful life of the asset. Following the initial recognition, the carrying amount of the liability is increased for the passage of time and adjusted through finance expense for changes to the current market-based discount rate, or the amount or timing of the underlying cash flows needed to settle the obligation.

### Share-based compensation plans

Certain employees are eligible to participate in employee stock savings plans and a deferred share plan, which are described in note 18. We also have a deferred share unit plan for eligible members of our board of directors as described further in note 18. Compensation expense is recorded for our contributions to the employee stock savings plans, as deferred shares vest under our deferred share plan and as we receive services from the eligible members of our board of directors. The fair value of the deferred shares granted is determined based on the quoted market price of Bell Aliant Inc.'s common shares at the grant date. At the end of each reporting period, we re-assess our estimates of the number and fair value of awards that are expected to vest in our deferred share plan and recognize the effect of the revisions in operating expenses.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments

Financial assets and financial liabilities, including derivatives, are recognized when we enter into the contractual provisions of a financial instrument or derivative contract. All financial instruments are measured at fair value on initial recognition.

#### *Non-derivative financial instruments*

We classify financial assets and liabilities according to their characteristics and management's intentions. 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.

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

Statement of financial position account	Classification	Subsequent measurement
Cash and cash equivalents	At fair value through profit or loss	Fair value
Trade and other receivables	Loans and receivables	Amortized cost
Notes receivable from related parties	Loans and receivables	Amortized cost
Long-term receivables	Loans and receivables	Amortized cost
Notes payable to related parties	Other liabilities	Amortized cost
Trade and other payables	Other liabilities	Amortized cost
Severance and other charges liability	Other liabilities	Amortized cost
Dividends/distributions payable	Other liabilities	Amortized cost
Short-term debt	Other liabilities	Amortized cost
Long-term debt, including amount due within one year	Other liabilities	Amortized cost
Class B units issued by Bell Aliant LP	At fair value through profit or loss	Fair value

#### *At fair value through profit or loss*

Financial assets at fair value through profit or loss are typically acquired with the objective to generate revenue from short-term fluctuations in price. Interest is recognized in finance income as earned. Gains and losses realized on disposal, and unrealized gains and losses from changes in fair value are recorded in other expense as incurred.

#### *Loans and receivables*

Loans and receivables are not traded in an active market and result from the delivery of cash, products and services or other assets by us to counterparties in return for a promise to repay on demand or on a specified date. Gains and losses are recognized in other expense in the period that the asset is derecognized or impaired.

Trade and other receivables, and notes receivable from related parties are assessed for impairment at each statement of financial position date, and a provision for doubtful accounts is recorded based on individual account circumstances, aging of accounts receivable, historical trends, and general economic conditions. Long-term receivables are periodically assessed for impairment. Where there is objective evidence that an impairment of these assets has occurred, the carrying amount of the asset is reduced with the loss being recognized in operating expenses in the period of assessment. The impairment loss is measured as the difference between the asset's carrying value and the present value of the estimated cash flows, discounted at the original effective rate of interest on the asset.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (continued)

#### *Other liabilities*

Other liabilities include all financial liabilities other than derivatives or liabilities that have been classified as financial liabilities at fair value through profit or loss.

#### *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:

- At fair value through profit or loss - 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.

As it is impracticable to use the effective interest method for transaction costs directly attributable to variable rate revolving debt facilities, which are drawn on or repaid frequently, these transaction costs are deferred and amortized on a straight-line basis over the period to maturity of the debt facilities.

#### *Class B exchangeable limited partnership units issued by Bell Aliant LP (class B units)*

The terms and conditions of the exchange and liquidity rights issued in connection with the class B units originally allowed for the class B units to be exchanged for Fund units or cash at the option of the holder. Although the exchange of the class B units for cash is limited to the amount of proceeds we would receive on a secondary public market offering of Fund units, these units are considered puttable financial instruments that do not qualify to be classified as equity instruments under IFRS. As such, for 2010, and prior periods we reflected these instruments as a financial liability on our statement of financial position. We re-measured this financial liability based on the quoted market price of the Fund units at the end of each reporting period, with any changes recorded in net earnings for the period. Distributions declared on the class B units were recognized as an expense in the period in which they are declared.

On January 1, 2011, as part of the Conversion, the puttable feature of the class B units was cancelled and the class B units were, through a series of steps, exchanged for Bell Aliant Inc. common shares, therefore this financial liability was eliminated.

### **Dividends / Distributions**

Dividends/distributions payable to our shareholders/unitholders are recorded when declared

### **Earnings per share/unit**

Basic earnings per share (EPS) is calculated by dividing the net earnings (loss) attributable to our common shares/units by the weighted average number of common shares/units outstanding during the period. Diluted EPS is determined by adjusting the net earnings (loss) attributable to common shares/units and the weighted average number of common shares/units outstanding for the effects of all potentially dilutive common shares/units.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Regulation of the telecommunications industry

Certain of our subsidiaries, including Bell Aliant LP, Télébec and NorthernTel, are regulated by the Canadian Radio-television and Telecommunications Commission (CRTC) pursuant to the Telecommunications Act and the Broadcasting Act. The CRTC ensures that Canadians have access to reliable telephone and other telecommunications services at affordable prices, and licenses and regulates the activities of broadcasting distribution undertakings. Our business is affected by CRTC decisions over the prices we charge for specific services, primarily local and access telephone service, and other operating requirements.

### New accounting standards not yet adopted

A number of new standards, amendments to standards, and interpretations are not yet effective for the year ended December 31, 2011, and have not been applied in preparing these financial statements. They are set out as follows:

#### *IFRS 7, Financial Instruments: Disclosure*

The IASB issued IFRS 7, *Financial Instruments: Disclosure*, which requires increased disclosure surrounding the transfer of financial assets, particularly where there is a disproportionate amount of transfer transactions that take place at the end of a reporting period. The amendments to IFRS 7 come into effect for periods beginning on or after July 1, 2011.

#### *IFRS 9, Financial Instruments*

The IASB issued IFRS 9, *Financial Instruments*, which is the first phase of the IASB's three phase project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. It is applicable to financial assets and requires classification and measurement in either the amortized cost or the fair value category. IFRS 9 comes into effect for periods beginning on or after April 1, 2013.

#### *IAS 12, Income Taxes*

The IASB issued IAS 12, *Income Taxes*, which sets presumptions for the recovery of certain assets and is relevant in those cases where different tax consequences can arise depending on how the carrying amounts are recovered. The amendments to IAS 12 come into effect for periods beginning on or after January 1, 2012.

We are currently evaluating the effect, if any, that these new standards will have on our financial results.

## 3. OPERATING REVENUES

For the three months ended March 31	2011	2010
Local and access	310.0	322.9
Data	212.7	204.0
Long distance	94.5	97.1
Wireless	23.3	21.0
Other revenues	41.1	43.7
Total operating revenues	681.6	688.7

Other revenues includes \$6.1 million (March 31, 2010 - \$5.6 million) of non-monetary revenues earned in relation to our joint use pole agreements with various utility companies throughout our operating territory.

BELL ALIANT REGIONAL COMMUNICATIONS INC.  
Notes to the consolidated financial statements  
(Unaudited)  
March 31, 2011

4. OPERATING EXPENSES

For the three months ended March 31	2011	2010
Labour costs		
Wages, salaries and related taxes and benefits	130.5	136.3
Current service costs of post-employment benefit plans (note 5)	15.5	13.1
Share-based compensation plan expense	4.2	(0.3)
Contractor, outsourcing and other labour costs	16.5	12.5
Capitalized labour	(34.4)	(33.0)
<b>Total labour costs</b>	<b>132.3</b>	<b>128.6</b>
Cost of sales, content costs and payments to other carriers	166.6	165.8
Real estate expenses	10.4	10.4
Operating taxes	9.9	10.9
Bad debt expense	6.3	6.7
Other operating expenses	26.8	27.6
<b>Total operating expenses</b>	<b>352.3</b>	<b>350.0</b>

5. POST-EMPLOYMENT BENEFITS

Net cost of benefit plans

The following table shows the net cost of DB and DC pension and OPEB plans.

For the three months ended March 31, 2011	DB pension plans	OPEB plans	DC pension plans	Total
Recognized in operating expenses (note 4)				
Current service costs	13.2	0.5	1.8	15.5
Recognized in net finance expense (note 7):				
Expected return on plan assets	(44.6)	-	-	(44.6)
Interest expense on plan liabilities	43.8	3.2	-	47.0
	(0.8)	3.2	-	2.4
<b>Net cost of benefit plans</b>	<b>12.4</b>	<b>3.7</b>	<b>1.8</b>	<b>17.9</b>

For the three months ended March 31, 2010	DB pension plans	OPEB plans	DC pension plans	Total
Recognized in operating expenses (note 4)				
Current service costs	10.8	0.4	1.9	13.1
Recognized in net finance expense (note 7):				
Expected return on plan assets	(39.6)	-	-	(39.6)
Interest expense on plan liabilities	43.6	3.2	-	46.8
	4.0	3.2	-	7.2
<b>Net cost of benefit plans</b>	<b>14.8</b>	<b>3.6</b>	<b>1.9</b>	<b>20.3</b>

## 5. POST-EMPLOYMENT BENEFITS (Continued)

### Benefit plan funding

Our funding of DB and DC pension plans as well as OPEB plans are as follows:

For the three months ended March 31	2011	2010
DB pension plans contributions	227.4	31.6
OPEB plans contributions	2.0	1.9
Funding of DB pension and OPEB plans	229.4	33.5
DC pension plans contributions	1.8	1.9
Funding of post-employment benefit plans	231.2	35.4

On March 15, 2011, we made a \$200.0 million lump-sum contribution to our DB pension plans. This contribution will be used to offset future required deficit funding contributions.

### Net benefit obligation

The following tables show the status of the DB pension and OPEB plans and changes during the period.

	DB pension plans	OPEB plans	Total
Net benefit obligation as at December 31, 2010	(746.3)	(252.4)	(998.7)
Net cost of benefit plans	(12.4)	(3.7)	(16.0)
Contributions	227.4	2.0	229.4
Actuarial gains (note 11)	18.5	3.5	22.0
Net benefit obligation as at March 31, 2011	(512.8)	(250.6)	(763.4)

	DB pension plans	OPEB plans	Total
Net benefit obligation as at January 1, 2010	(584.7)	(215.4)	(800.1)
Net cost of benefit plans	(14.8)	(3.6)	(18.4)
Contributions	31.6	1.9	33.5
Actuarial losses (note 11)	(174.5)	(15.2)	(189.7)
Net benefit obligation as at March 31, 2010	(742.4)	(232.3)	(974.7)

## 6. SEVERANCE AND OTHER CHARGES

### Severance charges

As part of our organizational productivity initiatives in 2011 we continued to streamline our management workforce. As a result, we estimated and recorded a severance charge of \$1.5 million in employee termination costs, which will be paid as employees retire or depart the organization.

During the three months ended March 31, 2010, severance charges of \$8.8 million included employee severance and benefit costs related to voluntary retirement incentives offered to a limited number of unionized employees in Ontario and Quebec, and to our organizational initiatives to streamline the management workforce. This included \$0.4 million recorded in discontinued operations related to our xwave business (note 9). In addition, we increased the estimated costs of the 2009 restructuring initiative by \$2.2 million to reflect the final costs.

6. SEVERANCE AND OTHER CHARGES (Continued)

Severance charges (continued)

The final cost of the initiatives could be materially different from our estimate as departing employees will have options that could affect their severance.

Other charges

During the three months ended March 31, 2011, we recorded \$2.9 million of real estate rationalization costs (three months ended March 31, 2010 - \$0.1 million) related to closing real estate facilities that are no longer needed because of workforce reductions.

We also incurred an immaterial amount of rebranding and other charges in the three months ended March 31, 2011 (three months ended March 31, 2010 - \$0.5 million).

The liability for severance and other charges is as follows:

	2011
Liability as at December 31, 2010	16.9
Severance charges:	
Employee severance and benefit costs	1.5
Change in the 2010 severance charge estimate	0.1
Other charges:	
Real estate rationalization costs	2.9
	4.5
Cash payments	(9.3)
<b>Liability as at March 31, 2011</b>	<b>12.1</b>

As at March 31, 2011, the severance and other charges liability included \$5.5 million in real estate rationalization costs (at December 31, 2010 - \$3.7 million), of which \$2.7 million are included in non-current liabilities (at December 31, 2010 - \$2.8 million) as they are expected to be drawn down after March 31, 2012.

7. NET FINANCE EXPENSE

For the three months ended March 31	2011	2010
Finance expense		
Interest expense on post-employment benefit plan liabilities (note 5)	47.0	46.8
Interest on long-term debt	37.0	37.2
Amortization of long-term debt issue costs	1.5	1.8
Other interest expense	1.8	0.9
	87.3	86.7
Finance income		
Expected return on post-employment benefit plan assets (note 5)	(44.6)	(39.6)
Interest earned	(0.5)	(0.3)
	(45.1)	(39.9)
<b>Net finance expense</b>	<b>42.2</b>	<b>46.8</b>

## 8. OTHER EXPENSE

For the three months ended March 31	2011	2010
Loss on disposal of property, plant and equipment	0.2	2.1
Foreign exchange loss (gain)	(0.2)	0.6
Miscellaneous expense (income)	0.1	(0.1)
Other expense	0.1	2.6

## 9. DISCONTINUED OPERATIONS

### xwave business

On October 26, 2010, we announced that we had 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 statement of financial position adjustments. A loss on sale of \$3.4 million, which is net of \$8.9 million allocated to goodwill (note 13), has been recorded in net loss from discontinued operations.

### Presentation of discontinued operations

The summarized statements of earnings for discontinued operations are as follows:

For the three months ended	2011	2010
Operating revenues	-	95.5
Operating expenses	-	93.6
Depreciation and amortization	-	1.4
Severance charges (note 6)	-	0.4
Other expenses (income)	(0.3)	0.4
Income tax expense (recovery)	3.7	(0.9)
Net earnings (loss) from discontinued operations	(3.4)	0.6

The summarized statements of cash flows for discontinued operations are as follows:

For the three months ended	2011	2010
Cash from (used in):		
Operating activities	-	(5.4)
Investing activities	38.4	(0.4)
Increase (decrease) in cash from discontinued operations	38.4	(5.8)

BELL ALIANT REGIONAL COMMUNICATIONS INC.  
Notes to the consolidated financial statements  
(Unaudited)  
March 31, 2011

10. EARNINGS PER SHARE/UNIT

For the three months ended March 31	2011	2010
<b>Basic:</b>		
Net earnings from continuing operations attributable to common shareholders/unitholders	88.2	248.0
Net earnings (loss) from discontinued operations attributable to common shareholder/unitholders	(3.4)	0.6
Net earnings	84.8	248.6
<b>Basic:</b>		
Weighted average number of common shares/units outstanding	101,373,833	160,536,409
Basic earnings per share / unit from continuing operations	0.87	1.54
Basic earnings per share / unit from discontinued operations	(0.03)	0.01
Basic earnings per share / unit	0.84	1.55
<b>Diluted:</b>		
Net earnings from continuing operations attributable to common shareholders/unit holders	88.2	248.0
Distributions to holders of class B exchangeable partnership units issued by Bell Aliant LP	-	52.3
Decrease in value of class B exchangeable partnership units issued by Bell Aliant LP	-	(189.2)
Net earnings from continuing operations attributable to common shareholders/unit holders	88.2	111.1
Net earnings (loss) from discontinued operations attributable to common shareholder/unitholders	(3.4)	0.6
Diluted net earnings	84.8	111.7
Weighted average number of shares / units outstanding	101,373,833	160,536,409
Add exchangeable limited partnership units:		
Class B exchangeable limited partnership units of Bell Aliant LP	-	72,205,024
	101,373,833	232,741,433
Diluted earnings per share / unit from continuing operations	0.87	0.48
Diluted earnings per share / unit from discontinued operations	(0.03)	-
Diluted earnings per share / unit	0.84	0.48

There are no potentially dilutive common shares in 2011.

## 11. OTHER COMPREHENSIVE INCOME (LOSS)

Components of other comprehensive income (loss) and the related income tax effects are as follows:

For the three months ended March 31	2011			2010		
	Amount arising	Income tax	Net	Amount arising	Income tax	Net
Actuarial gains (losses) on DB pension and OPEB plans (note 5)	22.0	(6.5)	15.5	(189.7)	45.1	(144.6)
Effect of enacted future tax rates on temporary differences	-	(5.3)	(5.3)	-	-	-
	<u>22.0</u>	<u>(11.8)</u>	<u>10.2</u>	<u>(189.7)</u>	<u>45.1</u>	<u>(144.6)</u>
Reclassification of losses on derivatives to finance expense	1.1	(0.3)	0.8	1.2	(0.3)	0.9
Other comprehensive income (loss)	<u>23.1</u>	<u>(12.1)</u>	<u>11.0</u>	<u>(188.5)</u>	<u>44.8</u>	<u>(143.7)</u>

Actuarial gains (losses) on DB pension and OPEB plans and adjustments in connection with asset limitation are reported net of tax in the statement of comprehensive income without affecting the net earnings.

We incurred losses on forward fixed-floating interest rate swaps designated as cash flow hedges that were settled in 2007. These interest rate swaps were designated to hedge the coupon payments of anticipated long-term debt issuances, and the interest rate swaps were settled as the anticipated long-term debt was issued. As such, the losses are being amortized as finance expense in conjunction with the long-term debt coupon payments in the year, in accordance with the application of hedge accounting.

## 12. GOVERNMENT ASSISTANCE

For the three months ended March 31, 2011, we recognized \$5.9 million in government assistance (three months ended March 31, 2010 - \$nil) as a deduction from the cost of related property, plant and equipment in connection with certain projects for broadband network construction in Ontario and Nova Scotia.

## 13. GOODWILL AND INDEFINITE-LIFE INTANGIBLES

	As at March 31, 2011	As at December 31, 2010	As at January 1, 2010
Goodwill	2,760.0	2,768.9	2,768.3
Indefinite-life intangibles			
Télébec and NothernTel brands	72.8	72.8	72.8
KMTS brand	1.2	1.2	1.2
Telecommunications licenses	35.5	35.5	35.5
Cable licenses	15.7	15.7	15.7
	<u>125.2</u>	<u>125.2</u>	<u>125.2</u>
Total goodwill and indefinite-life intangibles	<u>2,885.2</u>	<u>2,894.1</u>	<u>2,893.5</u>

An impairment test conducted on January 1, 2010, our date of transition to IFRS, indicated no impairment.

Goodwill was reduced by \$8.9 million during the three months ended March 31, 2011 (note 9), which represents the amount allocated to the sale of our xwave business.

## 14. SHARE CAPITAL

### Authorized

Our shareholders' capital is authorized to include an unlimited number of two classes of shares:

- Voting common shares; and
- Non-voting common shares.

### Voting common shares (common shares)

Holders of voting common shares will be entitled to one vote per share at meetings of shareholders of Bell Aliant GP, to receive dividends if, as and when declared by the board of Bell Aliant GP on a pro rata basis with the holders of non-voting common shares and to receive on a pro rata basis with the holders of non-voting common shares the remaining property of Bell Aliant GP upon its liquidation, dissolution or winding-up, whether voluntary or involuntary, subject to the rights of shares having priority over the voting common shares.

### Non-voting common shares

Holders of non-voting common shares are generally not entitled to vote at meetings of shareholders of Bell Aliant GP. Holders of non-voting common shares are entitled to receive dividends if, as and when declared by the board of Bell Aliant GP on a pro rata basis with the holders of voting common shares and to receive on a pro rata basis with the holders of voting common shares the remaining property of Bell Aliant GP upon its liquidation, dissolution or winding-up, whether voluntary or involuntary, subject to the rights of shares having priority over the non-voting common shares.

### Issued and outstanding

As at March 31	2011		2010	
	Number of shares	Issued capital	Number of units	Issued capital
Common shares	101,373,833	3,651.8	-	-
Class 1 exchangeable limited partnership units	-	-	28,168,803	1,017.1
Class 2 limited partnership units	-	-	132,367,606	1,044.4
General partnership units	-	-	54,000	-
		<b>3,651.8</b>		<b>2,061.5</b>

There were no non-voting common shares issued and outstanding at March 31, 2011.

#### 14. SHARE CAPITAL (Continued)

##### Conversion to a corporation

As part of the Conversion, BCE and Bell Canada exchanged 100 per cent, or 72,205,024, 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 of their voting common shares of Bell Aliant Holdings GP for 100,373,827 Bell Aliant Inc. common shares. Fund unitholders exchanged 100 per cent, or 127,394,907, units for Bell Aliant Inc. common shares. Bell Aliant Inc. became the successor company of the Fund.

As well, through a series of steps Bell Aliant Holdings LP distributed its assets to its subsidiary, Bell Aliant GP, which in turn assumed Bell Aliant Holdings LP's liabilities. Bell Aliant Holdings LP then dissolved, cancelling all of its units. Bell Aliant Holdings GP, and Bell Aliant GP then amalgamated. Bell Aliant GP became the successor company of Bell Aliant Holdings LP.

The carrying value of \$732.1 million assigned to the common shares issued in exchange for class 1 exchangeable limited partnership units of Bell Aliant Holdings LP (class 1 units) was determined based on the carrying value of the equivalent financial liability as at December 31, 2010. The difference of \$285.0 million between the carrying value of the common shares and the carrying value of the class 1 units before the Conversion, was recorded in contributed surplus.

The carrying value of \$1,876.6 million assigned to the common shares issued in exchange for class B units represents the carrying value of the financial liability as at December 31, 2010.

As part of the Conversion, we recorded a \$21.5 million decrease to contributed surplus related to temporary differences that are expected to reverse after January 1, 2011, in connection with the transfer to Bell Aliant GP of the investment in Bell Aliant LP from BCE and Bell Canada and the transfer to Bell Aliant GP of the investment in Télébec and NorthernTel LP from the Fund, with a corresponding increase in the future income tax liability balance.

##### Common shares

The following table provides the details of the change in the issued and outstanding common shares for the period ended March 31, 2011.

	Number of shares	Issued capital
Effect of the Conversion:		
Common shares established through share consolidation of Bell Aliant Holdings GP	6	-
Common shares issued in exchange for class 1 units	28,168,803	732.1
Common shares issued in exchange for class B units	72,205,024	1,876.6
Common shares issued in exchange for one unit in each of Télébec and NorthernTel and transfer of Bell Aliant Holdings LP's assets and liabilities	1,000,000	1,044.4
Conversion costs related to common share issue, net of tax	-	(1.3)
<b>Common shares outstanding as at March 31, 2011</b>	<b>101,373,833</b>	<b>3,651.8</b>

On December 31, 2010, Bell Aliant Holdings GP had 152,292,479 common shares outstanding. During the Conversion, its shares were consolidated on a one-for-28,168,803 basis, leaving six shares outstanding. These became the common shares of Bell Aliant GP as part of the amalgamation of Bell Aliant Holdings GP and Bell Aliant GP.

#### 14. SHARE CAPITAL (Continued)

##### Common shares (continued)

Prior to the Conversion, the Fund held a nominal one unit ownership interest in each of Télébec and NorthernTel. This interest was transferred to Bell Aliant Inc. as part of the Conversion along with the assets and liabilities of Bell Aliant Holdings LP, which in turn exchanged them for 1,000,000 common shares of Bell Aliant GP.

We recognized \$1.3 million in share issue costs, net of tax of \$0.2 million, as a reduction in issued capital when the common shares were issued on conversion.

##### Partnership units

The following table provides the details of the change in the issued and outstanding units for the period ended March 31, 2011.

	Class 1 exchangeable limited partnership units		Class 2 limited partnership units		General Partnership Units		Total issued capital
	Number of units	Issued capital	Number of units	Issued capital	Number of units	Issued capital	
Units, as of December 31, 2010	28,168,803	1,017.1	132,367,606	1,044.4	54,000	-	2,061.5
Units cancelled during conversion	(28,168,803)	(1,017.1)	(132,367,606)	(1,044.4)	(54,000)		(2,061.5)
Units, as at March 31, 2011	-	-	-	-	-	-	-

There was no change in the partnership units during the period ended March 31, 2010.

On January 1, 2011, all partnership units issued and outstanding were cancelled as part of the dissolution of Bell Aliant Holdings LP during the Conversion.

##### Dividends declared per common share

On March 15, 2011, we declared a dividend of \$1.075 per common share which amounted to \$109.0 million. For the three months ended March 31, 2010, we declared monthly distributions of \$0.2417 million per unit on our class 1 exchangeable limited partnership units, totaling \$20.5 million, and monthly distributions per unit of \$0.2353 million on our class 2 limited partnership units, totaling \$93.4 million.

#### 15. NON-CONTROLLING INTERESTS

##### Preferred shares

On January 31, 2011, Bell Aliant Preferred Equity Inc. (Prefco) was incorporated under the Canadian Business Corporations Act for the sole purpose of being the issuer of preferred shares. We own 100 per cent of Prefco's common shares.

On March 15, 2011, Prefco issued 10,000,000 Cumulative Rate Reset Preferred Shares, Series A (Series A Preferred Shares), at a price of \$25.00 per Series A Preferred Share. On March 25, 2011, Prefco issued a further 1,500,000 Series A Preferred Shares as the underwriters exercised an over-allotment option bringing the total gross proceeds to \$287.5 million. Prefco recognized \$9.1 million in share issue costs, less the associated income tax of \$2.9 million, as a deduction from proceeds of the share issuance.

## 15. NON-CONTROLLING INTERESTS (Continued)

### Preferred shares (continued)

The Series A Preferred Shares will pay cumulative dividends of \$1.2125 per share per annum, payable quarterly (with the first quarterly dividend to be paid June 30, 2011), for an initial five year period ending March 31, 2016. The dividend rate will be reset on March 31, 2016, and every five years thereafter at a rate equal to the five-year Government of Canada bond yield plus 2.09 per cent. The Series A Preferred Shares will be redeemable by Prefco on or after March 31, 2016, in accordance with their terms.

Holders of the Series A Preferred Shares will have the right, at their option, to convert their shares into Cumulative Floating Rate Preferred Shares, Series B, (Series B Preferred Shares) subject to certain conditions, on March 31, 2016, and on March 31 every five years thereafter. Holders of the Series B Preferred Shares will be entitled to receive cumulative quarterly floating dividends at a rate equal to the three-month Government of Canada Treasury Bill yield plus 2.09 per cent.

## 16. SHORT-TERM DEBT

We have the following operating facilities available to us:

	As at March 31, 2011	As at December 31, 2010
Committed lines of credit:		
Revolving operating facility	550.0	550.0
Non-revolving pension reserve facility	444.5	447.6
Revolving accounts receivable securitization program	126.0	128.0
Dedicated letter of credit facilities	116.7	116.7
Uncommitted operating lines of credit:		
Demand operating facilities	13.0	13.0
<b>Total operating facilities</b>	<b>1,250.2</b>	<b>1,255.3</b>

Our committed revolving operating facility supports our \$400.0 million commercial paper program.

The status of our operating facilities is as follows:

	As at March 31, 2011	As at December 31, 2010
Letters of credit issued	275.1	286.1
Drawn amounts:		
Commercial paper issued	178.0	209.2
Securitization of accounts receivable	126.0	128.0
Non-revolving pension reserve facilities	40.0	40.0
Short-term debt	344.0	377.2
Unused available credit facilities	631.1	592.0
<b>Total operating facilities</b>	<b>1,250.2</b>	<b>1,255.3</b>

### Letters of credit

Included in the letters of credit issued at March 31, 2011, is \$260.8 million (December 31, 2010 - \$260.8 million) related to our post-employment benefit plans funding (note 5). Included in the letters of credit issued at December 31, 2010, is \$11.1 million for discontinued operations with no amounts issued at March 31, 2011.

**16. SHORT-TERM DEBT (Continued)**

**Commercial paper**

We ensure at all times that sufficient undrawn capacity exists on our committed revolving operating facility to support issuances of commercial paper. Short-term promissory notes totaling \$178.0 million, issued under our commercial paper program to fund changes in operating assets and liabilities, carry interest at 1.20 per cent per annum and have maturity dates from April 4, 2011, to May 2, 2011.

**Securitization of accounts receivable**

We have a revolving accounts receivable purchase and sale agreement with a securitization trust to sell an interest in a pool of our trade accounts receivable. At March 31, 2011, \$159.0 million of accounts receivable had been sold to a securitization trust for net cash proceeds of \$126.0 million (\$128.0 million in net cash proceeds at December 31, 2010) under a revolving sales agreement that expires on July 29, 2011. As we retain certain risks related to securitized accounts receivable, and particularly the credit risk, the conditions for recognition as an asset sale are not met. Accordingly, liabilities of the securitization trust of \$126.0 million are included in short-term debt and the related accounts receivable are included in our assets at March 31, 2011 (December 31, 2010 - \$128.0 million).

As part of the securitization agreement, we are required to provide security, currently in the form of additional accounts receivable over and above the net cash proceeds received, which is held and owned by the trust. This security, or retained interest, is transferred back to us upon the expiry of the agreement in July 2011. The retained interest is recorded in trade and other receivables.

We continue to service these accounts receivable and collect the amounts owing, but the trust's interest in the collection of these accounts receivable, including accounts receivable that make up the retained interest, ranks ahead of our interest. We do not recognize a servicing asset or liability separate from the accounts receivable sold. The trust and its investors have no recourse to our other assets for failure of the customer to pay the amounts when due.

**Non-revolving pension reserve facility**

Bankers' acceptance advances of \$40 million outstanding under our non-revolving pension reserve facility carry interest at rates of 1.71 per cent per annum and mature on April 29, 2011.

**17. FAIR VALUE**

For cash and cash equivalents, trade and other receivables, notes receivable from related parties, trade and other payables and short-term debt, the carrying value approximates their fair value due to the short-term maturity of these instruments.

The fair value of our long-term debt has been estimated based on the present value of future cash flows, using the appropriate discount rates in effect at the statement of financial position dates for our long-term debt that is not actively traded, and quoted prices for our long-term debt that is actively traded.

The fair value of our long-term debt is estimated as follows:

	As at March 31, 2011		As at December 31, 2010	
	Fair value	Carrying value	Fair value	Carrying value
Long-term debt	2,856.4	2,794.7	2,878.8	2,788.3

## 18. SHARE-BASED COMPENSATION PLANS

### Employee stock savings plans

On January 1, 2011, as part of the Conversion, our two employee unit purchase plans for eligible employees of certain subsidiaries of Bell Aliant Holdings LP became employee stock savings plans for eligible employees of certain subsidiaries of Bell Aliant GP with substantially the same terms as before the Conversion. Holders of Fund units through the employee unit purchase plans received Bell Aliant Inc. common shares in exchange for such Fund units on a one-for-one basis.

Under the terms of the plans, each year employees can choose to have a portion of their annual base earnings withheld to purchase Bell Aliant Inc. common shares. We will also contribute to the plan on behalf of participants based upon employee contributions. The purchase price of the Bell Aliant Inc. common shares is the average cost of the common shares purchased on the Toronto Stock Exchange (TSX) for credit to participants' accounts on the investment date. Participants in the plans receive additional Bell Aliant Inc. common shares in lieu of receiving cash dividends from Bell Aliant Inc. To satisfy employee purchases of Bell Aliant Inc. common shares under these plans, Bell Aliant Inc. may issue up to 2,079,527 additional Bell Aliant Inc. common shares out of treasury or we purchase the required shares on the open market.

The total number of Bell Aliant Inc. common shares bought on the open market for our employee stock savings plans for the three months ended March 31, 2011, was 533,655 (three months ended March 31, 2010 - 537,210 Fund units). We recorded compensation expense related to the employee stock savings plans of \$2.4 million for the three months ended March 31, 2011 (three months ended March 31, 2010 - \$2.3 million).

### Deferred share plan

On January 1, 2011, as part of the Conversion, our deferred unit plan (DUP) became a deferred share plan (DSP). The deferred units, issued under the DUP, were converted to deferred shares, entitling plan members to one of Bell Aliant Inc.'s common shares, or its cash equivalent, for every vested deferred share held, and carrying the same vesting and performance criteria as the deferred units.

The DSP is intended to further align the long-term incentive compensation of certain of our executives and senior management with the drivers of long-term shareholder value. Under the DSP, Bell Aliant Inc. may grant deferred shares to eligible plan members in such number and at such times as is determined by the board of directors as a bonus or in respect of services rendered by the plan member or otherwise as compensation. On the grant date, plan members are credited with the deferred shares granted to them. Grantees are also entitled to receive additional deferred shares based on dividends that would have been received had the deferred shares been actual Bell Aliant Inc. common shares. The deferred shares vest equally over a period of three years, subject to attaining certain financial performance criteria and continued employment throughout the vesting period. Plan members receive either one of Bell Aliant Inc.'s common shares or its cash equivalent for each vested deferred share upon qualifying for payout under the terms of the grant. There is no exercise price paid by the grantee for deferred shares. Bell Aliant Inc. may issue up to 3,125,765 (December 31, 2010 - 3,143,622 Fund units) additional common shares out of treasury to satisfy awards under the DSP. Any deferred shares that do not vest due to failure to achieve prescribed performance targets are forfeited, and any unvested deferred shares of a plan member are forfeited upon their departure (in certain circumstances of departure, a portion of the unvested deferred shares may vest on a prorated basis to the end of employment date, subject to actual performance results on the financial performance criteria).

## 18. SHARE-BASED COMPENSATION PLANS (Continued)

### Deferred share plan (continued)

A summary of the status of the deferred shares and changes during the period are as follows:

For the three months ended March 31	2011	2010
Deferred shares/units outstanding, December 31	1,380,568	1,293,699
Granted:		
January 2010 - Service period fiscal 2011 to 2013	321,949	-
Reinvested dividends/distributions during the period	38,508	30,058
	360,457	30,058
Forfeited	(78,703)	(233,204)
Exercised	(52,560)	(13,462)
Deferred shares/units outstanding, March 31	1,609,762	1,077,091
Deferred shares/units vested, March 31	927,385	741,970

The fair value of the 360,457 deferred shares granted or credited on reinvestment of notional dividends for the three months ended March 31, 2011, (three months ended March 31, 2010 - 30,058 deferred units granted or credited) was \$9.6 million (three months ended March 31, 2010 - \$0.8 million). For the three months ended March 31, 2011, we recorded compensation expense of \$1.8 million (three months ended March 31, 2010 - \$2.6 million reduction to compensation expense), related to the deferred shares' costs, recognized over the vesting period, and the change in the quoted market price of Bell Aliant Inc.'s common shares (2010 - Fund units) between the grant date and the reporting period date.

### Directors' Deferred Share Unit Plan

Bell Aliant Inc. adopted a Directors' Deferred Share Unit Plan (DDSUP) as part of the Conversion to further align the compensation of its board of directors with the interests of shareholders. The DDSUP is a cash-settled plan for eligible directors of Bell Aliant Inc. or its subsidiaries who are not employees of Bell Aliant Inc., its subsidiaries, BCE or Bell Canada, under which a portion of annual directors' fees will be credited in notional share units. The directors may elect to receive 25 per cent, 50 per cent, 75 per cent or 100 per cent of their annual directors' fees in form of deferred share units under the DDSUP. There are no vesting criteria for the grants and the deferred share units vest immediately however, directors are only eligible to redeem the deferred share units upon termination of their duties as directors of Bell Aliant Inc. The redemption payment amount is equal to value of the deferred share units calculated as the arithmetic average of the closing price of Bell Aliant Inc. common shares traded on the TSX on the last five days preceding the redemption date.

For the three months ended March 31, 2011, 3,629 deferred share units were granted.

The fair value of the 3,629 deferred share units granted or credited on reinvestment of notional dividends for the three months ended March 31, 2011, was \$0.1 million, or \$26.82 per deferred share unit.

We recorded director compensation expense related to the DDSUP of \$0.1 million for the three months ended March 31, 2011, related to the deferred share units' costs, recognized in connection with receiving directors' services for the period, and the change in the quoted market price of Bell Aliant Inc.'s common shares between the grant date and the reporting period date.

## 19. CHANGES IN OPERATING ASSETS AND LIABILITIES

For the three months ended March 31	2011	2010
Trade and other receivables	13.7	(9.6)
Inventory	4.0	(10.1)
Prepayments	(13.3)	(14.1)
Long-term receivables	1.0	1.1
Deferred charges	(3.1)	(4.5)
Trade and other payables	(37.0)	(46.9)
Deferred credits	5.9	7.5
	<b>(28.8)</b>	<b>(76.6)</b>

## 20. COMMITMENTS

### Operating leases and purchase commitments

The estimated future minimum lease payments under our contractual obligations are as follows:

	Remainder of 2011	2012	2013	2014	2015	Thereafter	Total
Operating leases	17.9	23.0	22.8	22.2	21.1	67.6	174.6
Operating purchase commitments	269.0	331.3	318.8	304.2	279.3	1,402.7	2,905.3
Capital purchase commitments	56.8	29.4	24.0	18.2	-	-	128.4
	<b>343.7</b>	<b>383.7</b>	<b>365.6</b>	<b>344.6</b>	<b>300.4</b>	<b>1,470.3</b>	<b>3,208.3</b>

Operating purchase commitments primarily relate to various information systems and technology agreements and obligations under service agreements, including a series of long-term commercial agreements with Bell Canada.

Capital purchase commitments primarily relate to certain projects for broadband network construction in Ontario. As well, included in the capital purchases for 2011 is a \$4.5 million commitment related to finalization of the purchase price in the 2010 agreements with Newfoundland Power Inc. and Fortis Inc. to repurchase an interest in poles previously sold to them.

## 21. RELATED PARTY TRANSACTIONS

### Bell Aliant Inc.

Bell Aliant Inc. is entirely dependent on the dividends we pay to them to make their dividend payments. For the three months ended March 31, 2011, we declared dividends to them totaling \$109.0 million (three months ended March 31, 2010 - \$93.4 million in distributions). At March 31, 2011, there were no dividends payable (December 31, 2010 - \$29.6 million distributions payable).

Bell Aliant Inc. loans us their excess cash through a series of promissory notes, and requests repayments as required for operating purposes. The \$5.3 million promissory note that was payable to the Fund at December 31, 2010, was repaid on January 31, 2011. Subsequently issued promissory notes carried a rate of interest of 1.30 per cent per annum, resulting in an immaterial amount of interest expense being incurred during the three months ended March 31, 2011 (three months ended March 31, 2010 - immaterial amount). At March 31, 2011, \$4.9 million in promissory notes were payable to Bell Aliant Inc., carrying interest at 1.30 per cent per annum and maturing on dates up to April 29, 2011.

## 21. RELATED PARTY TRANSACTIONS (Continued)

### Bell Aliant Holdings GP

Bell Aliant Holdings GP loaned \$43.3 million through a demand non-interest bearing note to Bell Aliant LP on December 31, 2010. During the Conversion, Bell Aliant GP acquired the note. On January 14, 2011, Bell Aliant LP repaid the note.

### BCE and Bell Canada

At December 31, 2010, there was \$145.6 million included in notes receivable from related parties which represented amounts that BCE and Bell Canada elected to be loaned related to deferred distributions on their exchangeable limited partnership units. The notes receivable, as well as the deferred distributions of \$169.8 million, were settled on January 1, 2011.

## 22. TRANSITION TO IFRS

### Impact of transition to IFRS

#### *First time adoption of IFRS*

IFRS 1, *First-time Adoption of International Financial Reporting Standards*, sets forth guidance for the initial adoption of IFRS. This guidance requires us to establish our IFRS accounting policies in accordance with standards in effect on our first annual reporting date, December 31, 2011, and apply these policies retrospectively to determine the IFRS opening statement of financial position at our date of transition, January 1, 2010. In addition, IFRS 1 provides both mandatory exceptions and optional exemptions to this general rule. We have chosen to apply certain optional exemptions, summarized below, to reduce the complexity involved in transitioning to IFRS, as the cost of not applying the exemptions would far outweigh the benefit to the users of our financial statements.

#### Business combinations

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3, *Business Combinations*, retrospectively to business combinations that occurred before the date of transition to IFRS. We have elected to apply IFRS 3 to business combinations that occur on or after January 1, 2010.

#### Employee benefits

IFRS 1 indicates that a first-time adopter may elect not to apply IAS 19, *Employee Benefits*, retrospectively to cumulative actuarial gains and losses that existed before the date of transition to IFRS. We have elected to recognize all cumulative actuarial gains and losses in relation to employee benefit plans directly in accumulated total comprehensive income at the date of transition.

#### Share-based payment transactions

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2, *Share-based Payment*, to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002, and vested before the later of the date of transition to IFRS and January 1, 2005. We have elected not to apply IFRS 2 to grants that vested prior to January 1, 2010.

## 22. TRANSITION TO IFRS (Continued)

### Impact of transition to IFRS (continued)

#### *First time adoption of IFRS (continued)*

#### Borrowing costs

IFRS 1 indicates that a first-time adopter may elect to apply the transitional provisions set out in paragraphs 27 and 28 of IAS 23, *Borrowing costs*, which allows a first-time adopter to capitalize the borrowing costs related to all qualifying assets for which the commencement date for capitalization is before January 1, 2010, the effective date of transition to IFRS. We have elected not to capitalize borrowing costs related to qualifying assets with a commencement date that is prior to January 1, 2010, as we believe the effect to be immaterial.

#### Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. Our IFRS estimates as of January 1, 2010, are consistent with our Canadian GAAP estimates for the same date.

#### *First time adoption of IFRS*

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement, and disclosure. While adoption of IFRS has not changed our actual cash flows, it has resulted in changes to our reported financial position and results of operations. Set out below are the key accounting differences that affect equity, net earnings (loss) and total comprehensive income (loss).

#### *Reconciliation of Canadian GAAP to IFRS*

#### Reconciliation of equity

Total equity at January 1, 2010, March 31, 2010, and December 31, 2010, under Canadian GAAP has been reconciled to amounts reported under IFRS as follows:

	Note	At December 31, 2010	At March 31, 2010	At January 1, 2010
Total equity under Canadian GAAP		3,854.0	4,764.2	4,799.4
Employee benefits	A	(1,100.7)	(1,023.0)	(835.2)
Property, plant and equipment	B	(283.2)	(291.1)	(289.5)
Class B exchangeable units	C			
Non-controlling interest		977.1	1,568.3	1,587.9
Fair value of class B exchangeable units		(1,876.6)	(1,834.7)	(2,023.9)
Finite-life intangible assets	D	(187.2)	-	-
Income tax effect of change in inclusion rate for finite-life intangible assets	E	-	-	(127.2)
Income tax effect of above adjustments		282.6	174.5	255.7
<b>Total equity under IFRS</b>		<b>1,666.0</b>	<b>3,358.2</b>	<b>3,367.2</b>

## 22. TRANSITION TO IFRS (Continued)

### Impact of transition to IFRS (continued)

#### *Reconciliation of Canadian GAAP to IFRS (continued)*

#### Reconciliation of net earnings (loss) and comprehensive income (loss)

Net earnings (loss) and comprehensive income (loss) for the three months ended March 31, 2010, and year ended December 31, 2010, under Canadian GAAP have been reconciled to amounts reported under IFRS as follows:

	Note	Year ended December 31, 2010	Three months ended March 31, 2010
Net earnings (loss) under Canadian GAAP		(497.1)	77.8
Employee benefits	A	7.6	1.9
Property, plant and equipment	B	6.3	(1.6)
Non-controlling interests	C	(401.4)	32.7
Class B exchangeable units	C		
Distributions to holders		(209.4)	(52.3)
Decrease in value		147.3	189.2
Finite-life intangible assets	D	(187.2)	-
Other		(0.5)	-
Income tax affect of above adjustments		95.6	0.9
<b>Net earnings (loss) under IFRS</b>		<b>(1,038.8)</b>	<b>248.6</b>

#### Reconciliation of net earnings (loss) and comprehensive income (loss) (continued)

	Note	Year ended December 31, 2010	Three months ended March 31, 2010
Comprehensive income (loss) under Canadian GAAP		(492.8)	78.7
Change in net earnings (loss)		(541.7)	170.8
Actuarial losses on employee benefit obligation, net of tax	A	(214.1)	(144.6)
<b>Comprehensive income (loss) under IFRS</b>		<b>(1,248.6)</b>	<b>104.9</b>

#### *Explanation of differences and adjustments*

##### (A) Employee benefits

Under Canadian GAAP, actuarial gains and losses that arise due to changes in the present value of the defined benefit obligation and the fair value of plan assets are recognized on a systematic and consistent basis, subject to a minimum required amortization based on a "corridor" approach. The "corridor" is 10 per cent of the greater of the accrued benefit obligation at the beginning of the year and the market-related value of plan assets at the beginning of the year. Actuarial gains and losses are deferred, and those in excess of the 10 per cent "corridor" are amortized as a component of pension expense on a straight-line basis over the expected average remaining service life of active employees, or the average remaining lifetime of retired employees. Actuarial gains and losses below the 10 per cent corridor are deferred. Past service costs under Canadian GAAP are also amortized on a straight-line basis over the expected average remaining service life of active employees, or the average remaining lifetime of retired employees.

## 22. TRANSITION TO IFRS (Continued)

### Impact of transition to IFRS (continued)

#### *Explanation of differences and adjustments (continued)*

Under IFRS, we have elected to recognize all actuarial gains and losses immediately in comprehensive income (loss) without recognizing them in net earnings in subsequent periods. As a result, actuarial gains and losses, and any required adjustments to the minimum liability, will be recorded directly to other comprehensive income (loss) at the end of each period. Vested past service costs are recognized immediately in operating expenses. Our net cost of benefit plans will also be affected by this policy choice, as under IFRS there will no longer be an amortization component to our net cost of benefit plans.

IFRS also requires that plan assets be measured using market values instead of market-related values which were used under Canadian GAAP.

The net effect of transition to IFRS at January 1, 2010, was to decrease the accrued benefit asset by \$418.0 million, increase the accrued benefit liability by \$417.2 million, decrease the future income tax liability by \$204.4 million and decrease accumulated total comprehensive income by \$630.8 million.

Under Canadian GAAP, total net benefit costs of \$22.2 million and \$88.7 million were included in operating expenses for the three months ended March 31, 2010, and year ended December 31, 2010, respectively. Under IFRS, total net benefit costs are \$20.3 million and \$81.1 million for the same periods, which include \$13.1 million and \$52.5 million in current service costs, presented in operating expenses, \$46.8 million and \$187.1 million in interest expense on plan liabilities, presented in finance expense, and \$39.6 million and \$158.5 million expected return on our plan assets, presented in finance income.

Actuarial gains and losses and adjustments to our minimum pension liability recorded in 2010 resulted in increases of \$189.7 million and \$273.1 million, respectively, to our accrued benefit liability reported under IFRS at March 31, 2010, and December 31, 2010. As a result, during the same respective periods other comprehensive income (loss) decreased by \$144.6 million and \$214.1 million, and deferred income tax liability decreased by \$45.1 million and \$59.0 million. There were no similar entries under Canadian GAAP.

As a result, the total equity reported at March 31, 2010, and December 31, 2010, related to employee benefits decreased by \$1,023.0 million and \$1,100.7 million, respectively, compared to equity reported under Canadian GAAP.

#### (B) Property, plant and equipment

Under Canadian GAAP, we used the group depreciation method to depreciate our property, plant and equipment, where gains and losses on sale or retirement of property, plant and equipment are not separately recognized. As this approach is not acceptable under IFRS, we have retrospectively adopted a change in policy to the straight-line method of depreciation, which resulted in a decrease to property, plant and equipment by \$289.5 million on our opening statement of financial position at January 1, 2010. Accordingly, future income tax liability decreased by \$51.3 million and accumulated total other comprehensive income decreased by \$238.2 million, to reflect the net effect of this retrospective adjustment.

This change from group to straight-line depreciation has also resulted in a decrease in depreciation expense of \$0.5 million and \$9.9 million for the three months ended March 31, 2010, and year ended December 31, 2010, respectively. As well, gains and losses on sale or retirement of property, plant and equipment have been separately calculated and recognized, resulting in other expenses increasing by \$2.1 million and \$3.6 million for the three months ended March 31, 2010, and year ended December 31, 2010, respectively.

## 22. TRANSITION TO IFRS (Continued)

### Impact of transition to IFRS (continued)

#### *Explanations of differences and adjustments (continued)*

As a result, the total equity reported at March 31, 2010, and December 31, 2010, related to property, plant and equipment decreased by \$291.1 million and \$283.2 million, respectively, compared to equity reported under Canadian GAAP.

#### (C) Classification of Bell Aliant LP class B units

Under Canadian GAAP, the class B units of Bell Aliant LP and held by BCE and Bell Canada, were considered to be equity instruments and represented a non-controlling interest in Bell Aliant LP. Non-controlling interests are classified on the statement of financial position as a separate component between liabilities and equity and as a component of net earnings within the income statement. As such, distributions declared on these units were recognized as a reduction to the non-controlling interests on our statement of financial position, and income attributable to these non-controlling interests was deducted from net earnings for the period.

Under IFRS, non-controlling interests are classified as a component of equity separate from the equity of the shareholders, and earnings attributable to non-controlling interests are not deducted from net earnings for the period. Also, the original terms and conditions of the exchange and liquidity rights issued in connection with the class B units allowed for the class B units to be exchanged for Fund units or cash at the option of the holder, and under IFRS were, for 2010 and prior periods, therefore considered to be a financial liability, eliminating any non-controlling interest effects the units would have previously had on our financial results. We re-measured the financial liability at fair value at each reporting date, with any changes being recognized directly in net earnings for the period. Distributions declared on the class B units were recognized as an expense in the period in which they are declared.

For the three months ended March 31, 2010, net earnings under IFRS increased \$32.7 million compared to net earnings under Canadian GAAP for the same period, reflecting the elimination of any non-controlling interests in our net earnings. For the year ended December 31, 2010, net loss increased \$401.4 million.

As a result of the reclassification of the class B units, discussed above, our equity balance at January 1, 2010, March 31, 2010, and December 31, 2010, decreased \$436.0 million, \$266.4 million, and \$899.5 million, respectively, due to non-controlling interest of \$1,587.9 million, \$1,568.3 million, and \$977.1 million being classified as a component of equity, offset by the recognition of the fair value of the liability of the class B units of \$2,023.9 million, \$1,834.7 million, and \$1,876.6 for the same periods.

For the three months ended March 31, 2010, and year ended December 31, 2010, Bell Aliant declared distributions of \$52.3 million and \$209.4 million, respectively, on its class B units, decreasing our net earnings reported under IFRS. Offsetting these decreases were gains recognized on the re-measurement of the fair value of the liability of \$189.2 million and \$147.3 million, for the same periods.

## 22. TRANSITION TO IFRS (Continued)

### Impact of transition to IFRS (continued)

#### *Explanations of differences and adjustments (continued)*

#### (D) Impairment of finite-life intangible assets

Under both IFRS and Canadian GAAP, an impairment loss is recognized when the carrying amount of the finite-life intangible asset or assets is not recoverable and exceeds its fair value. Under Canadian GAAP, the carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the asset's use and eventual disposition. Under IFRS, the recoverable amount is defined as the higher of fair value less costs to sell and the asset's value in use, which is calculated based on discounted cash flows. For the year ended December 31, 2010, the use of discounted cash flows to determine the recoverable amount of our finite-life intangible assets under IFRS resulted in an increase in the write-down recognized of \$187.2 million.

#### (E) Inclusion rate for finite-life intangible assets

Under Canadian GAAP, we include 25 per cent of the finite-life intangible asset carrying value in the determination of the tax base when determining the temporary difference for future tax purposes. Under IFRS, zero per cent of the finite-life intangible asset carrying value is included when determining the tax base. This change in inclusion resulted in an increase to the future tax liability at January 1, 2010, by \$127.2 million, with a corresponding decrease to accumulated total comprehensive income.

### Additional disclosures

The following IFRS disclosures relating to the year ended December 31, 2010, are presented in our March 31, 2011, financial statements to provide a better understanding of how the adoption of IFRS affected our previously reported annual audited figures for some of our more significant statement of financial position items.

#### *Property, plant and equipment*

	Land	Buildings and towers	Network infrastructure and equipment	Plant under construction	Total
<b>Cost</b>					
As at January 1, 2010	24.4	609.0	7,756.0	131.2	8,520.6
Additions		3.2	101.1	416.5	520.8
Transfers		12.9	342.9	(413.8)	(58.0)
Retirements and disposals	(0.1)	(4.3)	(175.9)	(1.0)	(181.3)
Other		2.8	20.5	(11.9)	11.4
As at December 31, 2010	24.3	623.6	8,044.6	121.0	8,813.5
	Land	Buildings and towers	Network infrastructure and equipment	Plant under construction	Total
<b>Accumulated depreciation</b>					
As at January 1, 2010	-	278.7	4,868.6	-	5,147.3
Depreciation	-	18.2	460.6	-	478.8
Retirements and disposals	-	(2.9)	(172.0)	-	(174.9)
Other	-	(2.5)	5.3	-	2.8
As at December 31, 2010	-	291.5	5,162.5	-	5,454.0

## 22. TRANSITION TO IFRS (Continued)

### Additional disclosures (continued)

#### *Property, plant and equipment (continued)*

<b>Net Book Value</b>					
As at January 1, 2010	24.4	330.4	2,887.3	131.2	3,373.3
As at December 31, 2010	24.3	332.0	2,882.2	121.0	3,359.5

The cost of property, plant and equipment at January 1, 2010, our date of transition to IFRS, was determined by reference to our historical cost at that date.

	Cost	Accumulated depreciation	Net book value
<b>Facilities and equipment acquired under finance lease</b>			
As at December 31, 2010	87.5	21.5	66.0
As at January 1, 2010	59.6	16.0	43.6

#### *Finite-life intangible assets*

	Computer software	Customer relationships	Bilateral license agreement	Roaming agreements	Total
<b>Cost</b>					
As at January 1, 2010	456.4	2,877.0	464.5	11.0	3,808.9
Additions	52.0	-	-	-	52.0
Transfers	-	(1.4)	-	1.4	-
Retirements and disposals	(96.5)	(0.3)	-	-	(96.8)
Impairment loss	-	(2,238.0)	-	-	(2,238.0)
As at December 31, 2010	411.9	637.3	464.5	12.4	1,526.1

	Computer Software	Customer relationships	Bilateral license agreement	Roaming agreements	Total
<b>Accumulated amortization</b>					
As at January 1, 2010	274.5	414.9	40.5	9.2	739.1
Amortization	74.0	119.0	11.6	3.1	207.7
Retirements and disposals	(95.6)	-	-	-	(95.6)
Impairment loss	-	(510.1)	-	-	(510.1)
As at December 31, 2010	252.9	23.8	52.1	12.3	341.1

<b>Net Book Value</b>					
As at January 1, 2010	181.8	2,460.7	424.0	3.2	3,069.8
As at December 31, 2010	161.4	611.1	412.4	0.1	1,185.0

An impairment test conducted on January 1, 2010, our date of transition to IFRS, indicated no impairment.

22. TRANSITION TO IFRS (Continued)

Additional disclosures (continued)

*2010 Income Taxes*

In 2010, prior to conversion to a corporation (note 1), we recognized a provision for income taxes for our corporate subsidiaries that are subject to tax. Deferred income taxes reflect the net tax effects of temporary differences between the carrying value and income tax basis of assets and liabilities as well as the benefit of losses that are probable to be realized and carried forward to future years to reduce income taxes. The income tax effects of temporary differences in our corporate subsidiaries that give rise to significant portions of the deferred income tax assets (liabilities) as at December 31, 2010, were as follows:

Property, plant and equipment	22.9
Goodwill and other intangible assets	(205.4)
Pension and other post-employment benefits	213.5
Deferred charges	8.1
Loss carryforwards	200.2
Partnership income deferral	(104.4)
Derivative liabilities and debt issue costs	(0.4)
Severance and benefits	2.5
Other	8.4
<b>Deferred income tax assets</b>	<b>145.4</b>

The partnership income deferral is a result of the taxation year end for certain of our corporate subsidiaries differing from the partnership year end.

In 2010, a portion of our income was earned through partnerships. Therefore, that portion of our income was not subject to tax at the partnership level and the taxable income was allocated directly to our respective partners. These partnerships had temporary differences between the carrying value and income tax basis of assets and liabilities which flowed to the partners and would result in deferred tax assets and liabilities if the partnerships were subject to income tax.

Our portion of these temporary differences as at December 31, 2010, was as follows:

Deductible temporary differences:	
Pension and other post-employment benefits	86.7
Derivative liabilities and debt issue costs	12.6
Severance and benefits	9.0
Other	26.4
	<b>134.7</b>
Taxable temporary differences:	
Property, plant and equipment	426.8
Deferred charges	31.1
	<b>457.9</b>

## 22. TRANSITION TO IFRS (Continued)

### Additional disclosures (continued)

#### 2010 Income Taxes (continued)

Significant components of income tax recovery for the year ended December 31, 2010, were as follows:

Current tax expense	3.1
Deferred expense (recovery):	
Change in temporary differences	(377.0)
Change in rate and reversal pattern	61.7
	(315.3)
Income tax recovery	(312.2)

The provision for income taxes differs from the amount that would have resulted by applying the statutory Canadian income tax rates to income from continuing operations before income taxes as follows for the year ended December 31, 2010:

Loss before income tax	(1,349.2)		
Notional income tax recovery calculated at combined statutory income tax rate	(423.7)	31.40	%
Effects of:			
Inter-company interest income earned in non-taxable entities	(123.4)		
Distributions to holders of class B units	65.9		
Gain on re-measurement of the class B units	(46.3)		
Income allocated to non-controlling interest	119.4		
Enacted future tax rates on temporary differences	61.7		
Non-deductible goodwill, amortization of intangible assets	23.6		
Other permanent differences	10.6		
Income tax recovery	(312.2)	23.14	%

At December 31, 2010, our corporate subsidiaries had \$714.8 million in non-capital tax losses available to reduce taxable income in future years. The tax benefit associated with \$671.6 million of these losses has been recognized as part of the future tax asset. These losses expire in varying annual amounts from 2023 to 2030. No tax benefit has been recognized for \$43.2 million of these losses. The losses for which no tax benefit has been recognized expire in varying annual amounts from 2011 to 2026.

At December 31, 2010, our corporate subsidiaries had no capital losses available to be carried forward to reduce capital gains in future years.

At December 31, 2010, our corporate subsidiaries had no deductible temporary differences for which no tax benefit has been recognized.

## 23. SUBSEQUENT EVENTS

On April 26, 2011, we issued \$300.0 million of unsecured medium-term notes, bearing interest at 4.88 per cent per annum and maturing on April 26, 2018. Debt issue costs of \$1.1 million were incurred, resulting in net proceeds of \$298.9 million.

The net proceeds will be used to make a partial redemption of the 4.72 per cent medium-term notes maturing on September 26, 2011, in May 2011.

This page intentionally left blank.

This page intentionally left blank.

For income-oriented investors, we aim to provide regular, sustainable dividends through strong cash flow generation.

Bell Aliant shares trade on the Toronto Stock Exchange under the symbol BA.

Bell Aliant  
1 877 248-3113  
investors@bellaliant.ca  
www.bellaliant.ca

**Bell**Aliant



Our first quarter report is printed on Forest Stewardship Council® (FSC®) certified paper containing 50 per cent post-consumer fibres. Our printer, Lowe-Martin, is FSC certified and a recognized leader for environmental practices.

Please recycle.

