

BELL ALIANT REGIONAL COMMUNICATIONS INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)

March 31, 2011

BellAliant

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
Operating income		171.0	156.8
Finance expense	7	87.3	86.7
Finance income	7	(45.1)	(39.9)
Net finance expense		42.2	46.8
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
Earnings before income tax		128.7	244.3
Current income tax recovery		(1.4)	-
Deferred income tax expense (recovery)		41.3	(3.7)
Income tax expense (recovery)		39.9	(3.7)
Net earnings from continuing operations		88.8	248.0
Net earnings from discontinued operations	9	(3.4)	0.6
Net earnings		85.4	248.6
Attributable to:			
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
Earnings per share / unit:	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
Attributable to:			
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
Current assets				
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
		504.6	653.8	539.7
Assets classified as held for sale		-	107.1	-
		504.6	760.9	539.7
Non-current assets				
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
		7,512.7	7,618.8	9,373.8
Total assets		8,017.3	8,379.7	9,913.5

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
Current liabilities				
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
		1,059.5	1,400.3	696.3
Liabilities directly associated with assets classified as held for sale		-	44.2	-
		1,059.5	1,444.5	696.3
Non-current liabilities				
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
		3,170.2	5,269.2	5,850.0
Total liabilities		4,229.7	6,713.7	6,546.3
Equity attributable to shareholders/unitholders				
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
Total equity attributable to shareholders/unitholders		3,505.7	1,666.0	3,367.2
Non-controlling interests				
Preferred shares issued by a subsidiary	15	281.9	-	-
Total non-controlling interests		281.9	-	-
Total equity		3,787.6	1,666.0	3,367.2
Total equity and liabilities		8,017.3	8,379.7	9,913.5

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
Cash from (used in) operating activities			
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)
Operating cash flows before change in operating assets and liabilities		36.4	227.6
Change in operating assets and liabilities	19	(28.8)	(76.6)
		7.6	151.0
Cash from (used in) investing activities			
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	-
		(118.4)	(94.3)
Cash from (used in) financing activities			
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)
		32.2	(60.0)
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		25.2	18.0
Supplementary disclosure			
Cash and cash equivalents, end of period			
Cash		24.6	17.6
Cash equivalents		0.6	0.4
		25.2	18.0

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

<i>(in millions of Canadian dollars)</i>	Notes	Attributable to shareholders/unitholders						Attributable to non-controlling interests		
		Share capital	Partners' capital	Contributed surplus	Accumulated earnings	Accumulated other comprehensive loss	Accumulated total comprehensive income (loss)	Total	Preferred shares issued by a subsidiary	Total equity
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

<i>(in millions of Canadian dollars)</i>	Notes	Attributable to unitholders						Total equity
		Partners' capital	Contributed surplus	Accumulated earnings	Accumulated other comprehensive loss	Accumulated total comprehensive income		
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. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes (continued)

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.

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)
Total labour costs	132.3	128.6
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
Total operating expenses	352.3	350.0

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
Net cost of benefit plans	12.4	3.7	1.8	17.9

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
Net cost of benefit plans	14.8	3.6	1.9	20.3

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)
Liability as at March 31, 2011	12.1

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)
Net finance expense	42.2	46.8

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)

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10. EARNINGS PER SHARE/UNIT

For the three months ended March 31	2011	2010
Basic:		
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
Basic:		
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
Diluted:		
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		
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		
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	-
		3,651.8		2,061.5

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)
Common shares outstanding as at March 31, 2011	101,373,833	3,651.8

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
Total operating facilities	1,250.2	1,255.3

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
Total operating facilities	1,250.2	1,255.3

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
	(28.8)	(76.6)

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
	343.7	383.7	365.6	344.6	300.4	1,470.3	3,208.3

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
Total equity under IFRS		1,666.0	3,358.2	3,367.2

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
Net earnings (loss) under IFRS		(1,038.8)	248.6

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)
Comprehensive income (loss) under IFRS		(1,248.6)	104.9

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.

(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.

22. TRANSITION TO IFRS (Continued)

Impact of transition to IFRS (continued)

Explanations of differences and adjustments (continued)

(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
Cost					
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
Accumulated depreciation					
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
Net Book Value					
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.

22. TRANSITION TO IFRS (Continued)

Additional disclosures (continued)

Property, plant and equipment (continued)

	Cost	Accumulated depreciation	Net book value
Facilities and equipment acquired under finance lease			
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
Cost					
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
Accumulated amortization					
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

	Computer software	Customer relationships	Bilateral license agreement	Roaming agreements	Total
Net Book Value					
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
Deferred income tax assets	145.4

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
	134.7
Taxable temporary differences:	
Property, plant and equipment	426.8
Deferred charges	31.1
	457.9

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.