

Bell Aliant Regional Communications Income Fund

# Management's discussion and analysis

*For the year ended December 31, 2007*

March 4, 2008



# MD&A

*This document provides management's discussion and analysis (MD&A) of our financial condition as at, and results of operations for, the year ended December 31, 2007, compared to 2006. This MD&A should be read together with our consolidated financial statements and accompanying notes for the year ended December 31, 2007, and the consolidated financial statements and accompanying notes and MD&A of Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP) for the year ended December 31, 2007. Our consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All amounts in this document are in millions of Canadian dollars, except where otherwise noted.*

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

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

## **Forward-looking information**

*This MD&A is dated March 4, 2008, and is current to that date unless otherwise stated. It contains forward-looking information related to our future financial condition and results of operations. The purpose of forward-looking information is to provide the reader with information about management's expectations and plans for 2008. Readers are cautioned that such information may not be appropriate for other purposes. This information is based on current expectations and estimates about the markets in which we operate and management's beliefs and assumptions regarding these markets. Unless otherwise indicated, forward-looking information in this MD&A describes our expectations at March 4, 2008. In some cases, forward-looking information may be identified by words such as "anticipate", "believe", "could", "expect", "plan", "seek", "may", "intend", "will" and similar expressions. This information is subject to important risks and uncertainties, which are difficult to predict, and assumptions, which may prove to be inaccurate. Some of the factors which could cause results or events to differ materially from current expectations include but are not limited to: our dependence on Bell Aliant Holdings LP, and therefore all of the risks and uncertainties to which its operations are subject; stock market volatility; market or business conditions; and changing laws and regulations. Some of these factors are largely beyond our control. Refer to the "Risk management" section of this MD&A for further discussion of these and other risk factors. Should any factor affect us in an unexpected manner, or should assumptions underlying the forward-looking information prove incorrect, the actual results or events may differ materially from the results or events predicted. Unless otherwise indicated, forward-looking information does not take into account the effect that transactions or non-recurring or other special items announced or occurring after this information is provided may have on our business. All of the forward-looking information reflected in this document and the documents referred to within are qualified by these cautionary statements. There can be no assurance that the results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences for us.*

*Except as may be required by Canadian securities laws, we disclaim any intention and assume no obligation to update or revise any forward-looking information, even if new information becomes available, as a result of future events or for any other reason. Readers should not place undue reliance on any forward-looking information.*

*See also our Notice concerning forward-looking information dated February 5, 2008, which is available at [www.bell.aliant.ca](http://www.bell.aliant.ca) as well as [www.sedar.com](http://www.sedar.com).*

## **ABOUT OUR BUSINESS**

We are an unincorporated, open-ended limited purpose trust governed by the laws of the province of Ontario pursuant to a Declaration of Trust dated March 30, 2006, as amended and restated on July 6, 2006. We did not engage in any activities for the period from establishment on March 30, 2006, to July 6, 2006. Accordingly, the comparative information is for the period beginning on July 7, 2006.

On July 7, 2006, the Plan of Arrangement (the Arrangement) to combine Aliant's wireline telecommunications operation in Atlantic Canada, information technology operation and other related operations with Bell Canada's wireline telecommunications operation in certain of its regional territories in Ontario and Quebec (the Combined Business) and Bell Canada's then 63.4 per cent indirect interest in NorthernTel, Limited Partnership (NorthernTel) and Télébec, Limited Partnership (Télébec) was completed as described in Aliant's management information circular dated April 14, 2006.

On January 30, 2007, we acquired the remaining 36.7 per cent indirect interest in NorthernTel and Télébec through privatizing Bell Nordiq Income Fund. The transaction involved Bell Nordiq Income Fund paying its unitholders of record at close of business on January 26, 2007, a special distribution of \$4.00 per unit in cash on January 29, 2007. On January 30, 2007, we acquired the assets and liabilities of Bell Nordiq Income Fund, in exchange for 13,467,791 Fund units. On January 30, 2007, Bell Nordiq Income Fund redeemed its units, exchanging 0.4113 Fund units for each outstanding Bell Nordiq Income Fund unit. Bell Nordiq Income Fund units were subsequently de-listed from the Toronto Stock Exchange.

As a result of these transactions, we indirectly own an 81.5 per cent equity interest in Bell Aliant Holdings LP, which in turn consolidates subsidiaries that hold the operations of the Combined Business, including Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP) and the 63.3 per cent interest in NorthernTel and Télébec. We also indirectly own an equity investment in the remaining 36.7 per cent of NorthernTel and Télébec. We equity account for these investments as we exercise significant influence over the operating, investing and financial policies of these entities, but we do not control them. BCE Inc. (BCE) and Bell Canada own the remaining 18.5 per cent interest in Bell Aliant Holdings LP, and Bell Canada owns a 37.9 per cent interest in Bell Aliant LP. Under a Securityholders' Agreement, BCE has certain rights, which give it control over Bell Aliant Holdings LP.

On January 1, 2008, we transferred our 36.7 per cent ownership interest in NorthernTel and Télébec to Bell Aliant Holdings LP in return for 8,246,429 class 2 limited partnership units of Bell Aliant Holdings LP. Since there is no substantive change in ownership of our 36.7 per cent ownership interest in NorthernTel and Télébec, the transfer was accounted for at carrying value.

### Privatization of BCE

Our significant stakeholder, BCE, has announced that it has entered into a definitive agreement to be acquired by an investment group led by Teachers Private Capital, the private investment arm of the Ontario Teachers Pension Plan, Providence Equity Partners Inc., Madison Dearborn Partners, LLC, and Merrill Lynch Global Private Equity. On September 21, 2007, the transaction received BCE shareholder approval but remains subject to regulatory approval. We are not a party to the transaction and cannot predict the effect that a change of ownership of BCE may have on our organization.

### Enactment of tax changes for publicly-listed income trusts

As a result of the June 2007 enactment of Bill C-52, the Budget Implementation Act 2007, we will, beginning in 2011, be subject to tax as if we were a corporation. Therefore, we account for income taxes using the asset and liability method. Under this method, our proportionate share of equity income from investments is reduced (increased) for future tax expense (recovery) that reflects the expected future tax consequences of our proportionate share of the temporary differences between the carrying amounts of assets or liabilities for financial reporting purposes and their corresponding tax values, as well as the benefit of any losses that will, more likely than not, be realized and carried forward to future years to reduce income taxes and which flow to us from our investment in NorthernTel and Télébec.

## SUMMARY FINANCIAL INFORMATION

For the six quarters and period ended December 31 (millions of dollars, except per unit amounts)	2007					2006 <sup>(1)(2)</sup>		
	Q1 <sup>(1)</sup>	Q2	Q3	Q4	Total	Q3	Q4	Total
Equity income from investments and other revenues	74.8	48.7	69.9	106.8	300.2	45.1	75.4	120.5
Net earnings from continuing operations	72.8	45.5	68.8	105.6	292.7	45.1	74.4	119.5
Net earnings (loss) from discontinued operations	4.4	212.2	0.4	(0.5)	216.5	4.1	4.6	8.7
Net earnings	77.2	257.7	69.2	105.1	509.2	49.2	79.0	128.2
Basic earnings per unit from continuing operations	0.55	0.34	0.54	0.83	2.24	0.37	0.60	0.96
Basic earnings (loss) from discontinued operations	0.03	1.59	0.00	(0.00)	1.66	0.03	0.04	0.07
Basic earnings per unit	0.58	1.93	0.54	0.83	3.90	0.40	0.64	1.03
Diluted earnings per unit from continuing operations	0.57	0.25	0.49	0.72	2.03	0.40	0.58	0.98
Diluted earnings per unit from discontinued operations	0.02	1.11	0.00	0.00	1.15	0.02	0.03	0.05
Diluted earnings per unit	0.59	1.36	0.49	0.72	3.18	0.42	0.61	1.03
Cash distributions declared	96.0	92.9	90.5	89.5	368.9	77.9	85.1	163.0

(1) The financial information for 2006 and Q1 2007 have been restated to reflect the correction of an error as described in note 2 to our consolidated financial statements as at December 31, 2007.

(2) Comparative information represents the active operations of the Fund from July 7, 2006, to December 31, 2006.

### Net earnings

Net earnings represent equity income from our percentage ownership in the earnings of Bell Aliant Holdings LP, NorthernTel and Télébec, and interest income, less \$5.5 million in expenses in 2007, compared to \$1.0 million in expenses in 2006. As such, we are entirely dependent upon the results of operations within those investments. Our net earnings in 2007 are significantly higher as the comparative information is reflective of the period from July 7, 2006, to December 31, 2006, as opposed to a full year. The net earnings from discontinued operations include our proportionate share of the results of operations of Aliant Directory Services (ADS) up until April 2007 when an after-tax gain of \$258.2 million was recorded on the disposal of its net assets and operations, and SalesBridge Canada Corp., which is being wound up. The financial performance of Bell Aliant Holdings LP, which consolidates NorthernTel and Télébec, for the year ended December 31, 2007, compared to 2006 is discussed in its MD&A.

### *Distributions declared*

We make monthly cash distributions to our unitholders. During 2007, we declared distributions totalling \$368.9 million, or \$2.813 per unit, compared to \$163.0 million, or \$1.313 per unit, in 2006. The year-over-year increase reflects the commencement of our distributions on July 7, 2006, a higher average outstanding Fund unit balance due to issuing units as part of the privatization of Bell Nordiq Income Fund in January 2007, and an increase to our monthly distribution rate since February 2007. On a quarterly basis, our distributions have decreased after the first quarter as we repurchased units under our normal course issuer bid (NCIB).

The distributions we make are generally taxable to the recipient unitholder. The tax attributes of our distributions may change from year to year. The following table reflects the taxable and non-taxable breakdown of distributions for 2007 and 2006:

<i>For the period ended December 31</i>	2007	2006
<b>Taxable portion</b>		
Other investment income	89.77%	73.10%
Dividend income	8.88	26.70
Capital gains	0.05	—
<b>Non-taxable portion</b>		
Return of capital	1.25	0.20
Capital gains	0.05	—
	<b>100.00%</b>	<b>100.00%</b>

We are entirely dependent on distributions from Bell Aliant Holdings LP and our indirect interest in NorthernTel and Télébec to make our distributions. A complete discussion of distributions made by Bell Aliant Holdings LP can be found in its MD&A for the year ended December 31, 2007.

*As at December 31*  
*(millions of dollars)*

	2007	2006
Total assets	4,324.1	4,135.3
Total liabilities	30.2	29.4
Unitholders' equity	4,293.9	4,105.9

### *Assets and liabilities*

At December 31, 2007, our assets mainly consisted of our indirect investment in, and distributions and other amounts receivable from, Bell Aliant Holdings LP, NorthernTel and Télébec. During 2007, we assumed a loan of \$131.0 million owed to Bell Aliant LP as part of the Bell Nordiq Income Fund privatization transaction. In addition, we borrowed \$69.9 million from Bell Aliant LP primarily for the repurchase of units under our NCIB, which commenced on February 28, 2007. Both of these advances were repaid using the funds we received from a return of capital from Bell Aliant Holdings LP in the amount of \$460.9 million. A portion of the remaining funds received from the return of capital were temporarily loaned to Bell Aliant LP as we generally consolidate our excess cash with theirs and invest it together in marketable, short-term money market instruments. The balance receivable from or payable to Bell Aliant LP will fluctuate over time depending on these cash balances. As required, during 2007, we requested the funds back from Bell Aliant LP to enable us to repurchase units under our NCIB. At December 31, 2007, there remains \$1.9 million in promissory notes receivable from Bell Aliant LP. These notes are receivable, together with interest calculated thereon at 4.68 per cent per annum, and are included in cash and cash equivalents.

Our liabilities consist mainly of distributions payable to our unitholders, which were \$29.8 million as at December 31, 2007, and \$28.3 million as at December 31, 2006.

#### Fund units

We commenced our NCIB on February 28, 2007. The NCIB allowed us to purchase, from time to time during a one year period, up to 13,738,000 of our outstanding units, representing approximately 10.0 per cent of our public float outstanding on February 26, 2007. Purchases under the NCIB were made with cash, at market prices, through the facilities of the TSX. The NCIB expired on February 27, 2008. For the year ended December 31, 2007, we purchased for cancellation 10,630,000 units for an aggregate price of \$330.2 million, which reduced our stated capital by \$350.5 million and increased contributed surplus by \$20.3 million. There were no purchases made under the NCIB after December 31, 2007.

At December 31, 2007, there were 126,949,663 Fund units outstanding, and the weighted average number of units during 2007 was 130,431,180. There were 100,373,827 exchangeable limited partnership units outstanding and 794,980 units notionally issued under our deferred unit plan. Only 324,655 of the deferred units are considered dilutive, as the remainder are subject to certain performance criteria being met. Therefore, there were 227,648,145 Fund units outstanding on a fully diluted basis as at December 31, 2007.

At February 29, 2008, there were 126,951,047 Fund units outstanding.

#### PRO FORMA SUMMARY FINANCIAL INFORMATION

Bell Aliant Holdings LP controls NorthernTel and Télébec through its 63.3 per cent ownership interest and therefore, NorthernTel and Télébec's results of operations are consolidated in the Bell Aliant Holdings LP financial statements with a non-controlling interest of 36.7 per cent recorded, reflecting our indirect equity investment.

The following pro forma summary financial information reflects our financial results had we been able, under Canadian GAAP, to consolidate our equity investments in Bell Aliant Holdings LP, NorthernTel and Télébec:

For the period ended December 31 (millions of dollars)	2007				2006 <sup>(1)</sup>			
	Bell Aliant Income Fund	Bell Aliant Holdings LP	Pro forma adjust- ments	Pro forma Fund consoli- dated	Bell Aliant Income Fund	Bell Aliant Holdings LP	Pro forma adjust- ments	Pro forma Fund consoli- dated
Operating revenues	300.2	3,373.4	(300.2)	3,373.4	120.5	1,601.7	(120.5)	1,601.7
Net earnings from continuing operations	292.7	318.7	(318.7)	292.7	119.5	147.8	(147.8)	119.5
Net earnings	509.2	584.3	(584.3)	509.2	128.2	158.5	(158.5)	128.2
Current assets	33.6	503.7	(33.4)	503.9	29.2	814.0	(29.4)	813.8
Non-current assets	4,290.5	9,969.2	(3,852.1)	10,407.6	4,106.1	9,878.5	(4,106.1)	9,878.5
Current liabilities	30.2	725.2	(33.4)	722.0	29.4	559.3	(29.4)	559.3
Non-current liabilities	—	3,401.7	—	3,401.7	—	3,377.5	—	3,377.5

(1) Comparative information represents the active operations of the Fund and Bell Aliant Holdings LP from July 7, 2006 to December 31, 2006.

The pro forma adjustments represent the elimination of the Fund's investments in Bell Aliant Holdings LP, Télébec and NorthernTel as well as intercompany receivables and payables. The difference between the cost of the investment plus transaction costs of \$5.3 million and the net book value of the assets and liabilities purchased is \$224.3 million, which is included in the cost of the investment. The notional purchase price allocation was final on December 31, 2007, with no material change to the investment.

### STABILITY RATINGS

Our stability ratings as at December 31, 2007, were SR-2, stable (moderate) outlook from Standard and Poor's and STA-2 (high) from DBRS Limited, unchanged from the previous year.

A rating is not a recommendation to buy, sell or hold units and may be revised or withdrawn at any time. Stability ratings do not take into consideration such factors as pricing or stock market risk.

### RELATED PARTY TRANSACTIONS

As previously discussed in the "About our business" section, we indirectly own an 81.5 per cent equity interest in Bell Aliant Holdings LP, and a 36.7 per cent equity interest in NorthernTel and Télébec. During the year ended December 31, 2007, we entered into a series of loans and promissory notes with Bell Aliant Holdings LP and its subsidiaries. All of these loans and promissory notes were subsequently repaid, with interest calculated thereon from 4.40 to 5.14 per cent per annum, with the exception of the \$1.9 million that was loaned by us to Bell Aliant LP as discussed in the "Assets and liabilities" section.

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

These services are recorded at their exchange amounts as follows:

*For the periods ended December 31  
 (millions of dollars)*

	2007	2006
Management salaries	0.8	0.4
General and administrative	4.7	0.6
Operating expenses	5.5	1.0

Management salaries are allocated based on billable hours spent on our matters. General and administrative expenses are based on actual expenses that we incur.

Effective July 7, 2006, we commenced two employee unit purchase plans having similar terms for eligible full-time employees of certain subsidiaries of Bell Aliant Holdings LP. For the year ended December 31, 2007, we bought 1,766,276 units (July 7, 2006, to December 31, 2006 – 461,924 units) on the open market for these employees. Compensation expense in an amount equal to the employer's portion of the cash contributions required under the plans was recorded in these subsidiaries. Further details of the employee purchase plans are discussed in note 7 to our consolidated financial statements.

During 2007, we implemented a deferred unit plan for certain executives and senior management of certain subsidiaries of Bell Aliant Holdings LP to further align their long-term incentive compensation with total unitholder returns. As the deferred units will be settled with our units when exercised, for the year ended December 31, 2007, we have recorded in contributed surplus the equivalent of the compensation expense that was recorded in certain subsidiaries of Bell Aliant Holdings LP of \$11.3 million. We issued 4,380 units out of treasury at an average market value of \$31.69 per unit related to the deferred units exercised in the year. When exercised an amount of \$0.1 million was added to stated capital. Compensation expense and the amounts credited to contributed surplus and stated capital are based on the fair value of the units on the dates of the grants or exercise dates, as applicable. Further details of the deferred unit plans are discussed in note 7 to our consolidated financial statements.

At December 31, 2007, due from related parties was \$3.0 million, which relates to these operating expenses as well as the employee unit purchase plans and deferred unit plans. Interest will be charged on the balance owing in accordance with the policies established from time to time by our administrator.

BCE and Bell Canada own, directly and indirectly, 44.15 per cent (2006 – 44.71 per cent) of the Fund units on a fully diluted basis at December 31, 2007. There have been no changes to the Securityholders' Agreement or to BCE's rights under it during 2007. There were no transactions between the Fund and BCE or Bell Canada during the year.

#### SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

Our consolidated financial statements as at December 31, 2007, have been prepared in accordance with Canadian GAAP. Our accounting policies and methods and critical accounting estimates and assumptions are consistent with those in effect in 2006, except for the adoption of new accounting standards discussed herein. Further information on our significant accounting policies can be found in note 1 to our consolidated financial statements for the year ended December 31, 2007.

Commencing January 1, 2007, we adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA):

- Section 1530, Comprehensive Income;
- Section 3251, Equity;
- Section 3855, Financial Instruments – Recognition and Measurement;
- Section 3865, Hedges;
- Section 3862, Financial Instruments – Disclosures; and
- Section 3863, Financial Instruments – Presentation.

The new standards require that we present a consolidated statement of comprehensive earnings that reflects changes in accumulated other comprehensive earnings (losses), which is shown as a separate component of unitholders' equity.

The following table summarizes the January 1, 2007, reclassification adjustments on our balance sheet to adopt the new standards:

<b>Consolidated balance sheet</b> <i>(millions of dollars)</i>	Increase (decrease)
Investments	(32.2)
Accumulated earnings	0.6
Accumulated other comprehensive losses	(32.8)

Prior period consolidated financial statements have not been restated and the above changes did not have any effect on our consolidated statement of earnings.

Our financial instruments are classified as loans and receivables and other liabilities with the exception of the cash on hand or balances with banks, which are classified as held for trading. The carrying values of our financial instruments approximate fair values due to their short-term nature.

The adoption of these sections did not have any direct effect on the way we recognize and measure our financial assets and liabilities. Bell Aliant Holdings LP recorded a reclassification adjustment in accumulated other comprehensive earnings (losses) and opening accumulated earnings, which related to the adoption of the standards, as well as other comprehensive earnings during the year ended December 31, 2007. As a result of our equity investment in Bell Aliant Holdings LP, we have recorded our indirect interest in these amounts.

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

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

The CICA issued section 1535, Capital Disclosures, which establishes standards for disclosing information about an entity's capital as well as how the entity manages it. These standards come into effect for fiscal years beginning on or after October 1, 2007, and as they only relate to disclosure requirements, this section will not have any effect on our financial results.

#### **Critical accounting estimates and assumptions**

Under Canadian GAAP, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosures of contingent assets and liabilities in the financial statements. We base our estimates and assumptions on past experience and other factors that we believe are reasonable under the circumstances. This involves varying degrees of judgment about matters that may be inherently uncertain. The amounts currently reported in the financial statements could prove to be inaccurate or are subject to change under different conditions or using different assumptions. We periodically evaluate the reasonableness of these estimates and assumptions.

#### *Investments*

The valuation of our investments in Bell Aliant Holdings LP and Bell Aliant Regional Communications Holdings Inc. (Bell Aliant Holdings GP), and NorthernTel and Télébec will be regularly reviewed by management to ensure that any decline in market value that is considered to be other than temporary will be reflected in the related carrying value of the investment. In making the assessment, several factors will have to be considered including the amount by which the carrying value exceeds the market value, the duration of any market value decline and the expected future cash flows and earnings.

## **RISK MANAGEMENT**

The following is a discussion of risks that are unique to us as an income trust. For a discussion of risks related to the business of Bell Aliant Holdings LP, refer to the "Risk management" section of Bell Aliant Holdings LP's MD&A for the year ended December 31, 2007.

### **Dependence on Bell Aliant Holdings LP, NorthernTel and Télébec**

The Fund is an open-ended, limited purpose trust, and is entirely dependent on distributions it receives from its indirect investments in Bell Aliant Holdings LP, NorthernTel and Télébec to make its distributions to the Fund unitholders. There can be no assurance regarding the Fund's ability to make distributions, which is dependent upon the financial performance of Bell Aliant Holdings LP, NorthernTel and Télébec.

### **Unpredictability and volatility of unit price**

A publicly traded income trust does not necessarily trade at values determined by reference to the underlying value of its business. The prices at which the units trade cannot be predicted. The market price of the units could be subject to significant fluctuations in response to variations in quarterly operating results, distributions, fluctuations in interest rates and other market factors. The annual yield on the units as compared to the annual yield on other financial instruments may also influence the price of units in the public trading markets. In addition, the securities markets have experienced significant price and volume fluctuations from time to time in recent years that often have been unrelated or disproportionate to the operating performance of particular issuers. These broad fluctuations may adversely affect the market price of Fund units.

### **Nature of Fund units**

The Fund units are not "deposits" within the meaning of the Canada Deposit Insurance Corporation Act (the Act) and are not insured under the provisions of the Act or any other legislation. Furthermore, we are not a trust company and, accordingly, are not registered under any trust and loan company legislation as we do not carry on or intend to carry on the business of a trust company. In addition, although we qualify as a mutual fund trust as defined by the Income Tax Act (Canada) (the Tax Act), we are not a mutual fund as defined by applicable securities legislation.

The Fund units do not represent a direct investment in the business of Bell Aliant Holdings LP and should not be viewed by investors as shares or interests in such entity or any other operating company. The Fund units do not represent debt instruments and there is no principal amount owing to unitholders. As holders of Fund units, unitholders do not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. Each Fund unit represents an equal, undivided, beneficial interest in us.

### **Cash distributions are not guaranteed and will fluctuate with the performance of the business**

There can be no assurance regarding the amounts of cash distributions distributed to us by Bell Aliant Holdings LP, NorthernTel and Télébec and, thus, eventually available to us to distribute to our unitholders. The actual amount of distributions paid in terms of the Fund units depends upon numerous factors, all of which are susceptible to a number of risks and other factors beyond our control and that of Bell Aliant Holdings LP, NorthernTel and Télébec. Bell Aliant Holdings LP, NorthernTel and Télébec have the discretion to establish cash reserves (including regulatory capital reserves) for the proper conduct of their businesses. Adding to these reserves in any year would reduce the amount of distributable cash and, hence, of cash available for distributions in that year. Accordingly, there can be no assurance regarding the actual levels of our distributions.

### **Structural subordination of the Fund units**

The Fund units are subordinated to the existing credit facilities and most of the other indebtedness and liabilities of Bell Aliant Holdings LP.

### **Capital investment**

The timing and amount of capital expenditures by Bell Aliant Holdings LP directly affects the amount of distributable cash available for distribution, including, ultimately, the cash available for distributions to our unitholders. Such distributions may be reduced, or even eliminated, at times when trustees deem it necessary to make significant capital or other expenditures.

### **Limitation on non-resident ownership**

Our Declaration of Trust imposes various restrictions on unitholders. For example, in order to maintain mutual fund trust status under the Tax Act, non-resident unitholders are prohibited from beneficially owning more than 45 per cent of Fund units. In addition, the Declaration of Trust contains a provision entitling the Trustees to use all remedies available under the Broadcasting Act, the Radiocommunication Act, the Telecommunications Act and all related directions to the Canadian Radio-television and Telecommunications Commission to ensure that at no time will Canadians (as defined for purposes of those laws) own and control less than 80 per cent of Fund units (or such other minimum number, if applicable), or the Fund be otherwise controlled by non-Canadians. These restrictions may limit (or inhibit the exercise of) the rights of certain persons, including non-residents and non-Canadians, to acquire Fund units, to exercise their rights as unitholders and to initiate and complete takeover bids for the Fund units. As a result, these restrictions may limit the demand for Fund units from certain unitholders and thereby adversely affect the liquidity and market value of the Fund units held by the public.

### **Redemption right**

The redemption right is available to unitholders, but is not expected to be the primary mechanism for unitholders to liquidate their investment. Upon redemption of Fund units, the Fund trustees may distribute securities or other property held by the Fund to its redeeming unitholders, subject to obtaining any required regulatory approvals and complying with the requisite terms and conditions of such approvals.

The property so distributed may not be qualified investments for trusts governed by certain plans under the Tax Act, depending on the circumstances at the time. Additionally, such securities are not, and are not expected to be, listed on any stock exchange and no established market is expected to develop in such securities and they may be subject to resale restrictions under applicable securities law.

### **Termination of Fund**

Upon termination of the Fund, the Fund trustees may distribute any downstream assets owned directly or indirectly by the Fund (including units of Bell Aliant LP, NorthernTel and Télébec) to the unitholders, subject to obtaining all required regulatory approvals. There is currently no market for such assets. In addition, none of the foregoing assets are freely tradable, nor are any of them currently listed on any stock exchange or qualified investments for trusts governed by certain plans under the Tax Act.

### **Dilution**

Our Declaration of Trust authorizes us to issue an unlimited number of Fund units for the consideration and on those terms and conditions as are established by the trustees without the approval of any unitholders. Any further issuance of Fund units will dilute the interests of existing unitholders.

### **Tax related risks**

#### *Qualified investments for tax deferred plans*

There can be no assurance that Fund units will continue to be qualified investments for certain plans under the Tax Act.

#### *Status as a mutual fund trust*

There can be no assurance that we will continue to qualify as a mutual fund trust for the purposes of the Tax Act. If we cease to qualify as a mutual fund trust, the income tax treatment for us and our unitholders would be materially and adversely different than its current income tax treatment in certain respects.

#### *Enactment into law of federal government's changes to income trusts and partnership taxation*

The federal government's changes to the tax treatment of income trusts received royal assent and were enacted into law on June 22, 2007 (SIFT rules). For income trusts that were publicly traded before November 2006, such as us, these changes, which generally include the taxation of certain trust income at corporate rates and the taxation of certain distributions made to unitholders as if they were dividends from a corporation, will be delayed to 2011. All else being equal, the imposition of this tax will result in us having less cash available to pay distributions. To qualify for the delay, we must comply with the normal growth guidelines regarding equity capital that were issued by the federal Department of Finance on December 15, 2006, as amended from time to time, and are incorporated by reference in the legislation. The normal growth guidelines are intended to ensure that any growth by a trust is reasonable and within the policy objectives of Parliament. The normal growth guidelines provide that our equity can grow by an annual amount equal to 40 per cent of the October 31, 2006, market capitalization, for the period from November 1, 2006, to December 31, 2007, and 20 per cent for each of the 2008 to 2010 calendar years, with such growth rates cumulative during the period. We expect we will be able to operate within these guidelines. However, because there is still uncertainty in the interpretation of these guidelines, there can be no assurance that we will be able to retain the benefit of the deferral of the SIFT rules.

#### *Taxation of Bell Aliant Holdings Trust, Bell Nordiq Trust and the Fund*

Interest on the indebtedness of Bell Aliant Regional Communications Inc. and Bell Nordiq Group Inc. (with respect to its taxation years prior to its June 30, 2007, windup) to Bell Aliant Holdings LP will be included in the income of Bell Aliant Holdings LP for Canadian federal income tax purposes on an accrual basis, whether or not actually paid. Bell Aliant Holdings Trust is, in turn, required to include in its income its share of the income of Bell Aliant Holdings LP for each year. A sufficient amount of the annual net income (including net realized capital gains) of Bell Aliant Holdings Trust for each year is intended to be paid or payable in each year to us in order to eliminate Bell Aliant Holdings Trust's liability under Part I of the Tax Act. Such amount will thereby be included in our income as sole unitholder of Bell Aliant Holdings Trust.

Bell Nordiq Trust will be required to include in its income its share of the income of NorthernTel and Télébec for each taxation year. A sufficient amount of the annual net income (including net realized capital gains) of Bell Nordiq Trust for each year is intended to be paid or payable in each year to us, in order to eliminate Bell Nordiq Trust's liability under Part I of the Tax Act. Amounts so paid or payable to us will be included in our income as unitholder of Bell Nordiq Trust.

A sufficient amount of our annual net income (including net realized capital gains) is intended to be paid or payable each year to Fund unitholders in order to eliminate our liability for tax under Part I of the Tax Act. Where such amount of our net income in a taxation year exceeds the cash available for distribution in the year, such excess net income will be distributed to Fund unitholders in the form of additional Fund Units. Fund unitholders will be required to include an amount equal to such excess net income in their income for tax purposes, in circumstances where they do not receive a corresponding cash distribution.

#### *Interest expense deduction*

Income fund structures generally involve significant amounts of inter-company or similar debt, generating substantial interest expense, which serves to reduce earnings and therefore income taxes payable. There can be no assurance that taxation authorities will not seek to challenge the amount of interest expense deducted. If such a challenge were to succeed against Bell Nordiq Group Inc. (with respect to its taxation years prior to its June 30, 2007, windup) or Bell Aliant Regional Communications Inc., it would materially adversely affect the amount of cash available to us for distribution to Fund unitholders. We believe that the interest expense inherent in our organizational structure is supportable and reasonable in light of the terms of the related indebtedness.

#### *Allocation of partnership income*

The general partners of Bell Aliant Holdings LP, Bell Aliant LP, NorthernTel and Télébec allocate the respective incomes of such partnerships among their respective partners in accordance with the terms of the related partnership agreements. The Tax Act contains provisions which permit a reallocation of partnership income or loss among members of a partnership where the agreed-upon allocation is not reasonable in the circumstances. Although such allocations are believed to be reasonable in the circumstances, there can be no assurance that taxation authorities will not seek to challenge such allocation. If such challenge were to succeed, the amount of cash available to us for distribution to Fund unitholders could be adversely affected.

### **CEO AND CFO CERTIFICATION**

Under the supervision and participation of our management, including the chief executive officer (CEO) and the chief financial officer (CFO), we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as of December 31, 2007. Based on the evaluation, the CEO and the CFO concluded that our disclosure controls and procedures are effective in making known to them material information relating to us and our consolidated subsidiaries required to be disclosed in our reports filed or submitted under the Multilateral Instrument.

Management has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

There have been no changes in our internal controls over financial reporting during the year ended December 31, 2007, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.