Bell Aliant

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Bell Aliant

News Release

Bell Aliant reports third quarter 2010 results

- Consistent financial results with improving NAS trends
- *FibreOP*™ coverage reaches 106,000 homes with strong bundle adoption
- 2010 Guidance revised for xwave sale

Halifax, NS – Wednesday, November 03, 2010 – Bell Aliant Regional Communications Income Fund (Bell Aliant or the Fund) (TSX: BA.UN) today announced its third quarter 2010 financial results for the Fund and Bell Aliant Regional Communications Holdings, LP (Bell Aliant Holdings LP).

"Our third quarter results are consistent with our experience in the first half of 2010, with improving NAS trends," said Karen Sheriff, president and chief executive officer.

"I am very pleased with our expanding *FibreOP* service and the strong bundle adoption we are experiencing as we work toward our goal of providing all communications services to our customers' homes and businesses," continued Sheriff. "Our rollout of this best-in-class technology as we face the challenges of an increasingly competitive marketplace, along with our cost management progress, improvements in NAS declines, and our continued focus on strong customer service, all give me confidence that we are pursuing the right strategy to ensure a solid, sustainable business for our customers, investors and employees."

Third quarter 2010 results

Highlights

Bell Aliant announced on October 26, 2010 that it had reached an agreement with Bell whereby Bell has agreed to purchase Bell Aliant's IT services division xwave in its entirety. As a result, Bell Aliant has reclassified the operations of xwave to discontinued operations. Accordingly the financial results below reflect Bell Aliant's telecom performance, excepting distributable cash which includes the effects of discontinued operations.

Operating revenues were down $27 million (3.7 per cent) in the third quarter of 2010 compared to the third quarter of 2009. The decline was driven by declines in local and long distance revenues associated with lower network access services (NAS) and lower data revenues. These decreases were partially offset by increases in Internet revenues.

The cable telephony competitive footprint increased marginally during the third quarter to reach 69 per cent of homes in Bell Aliant's territory. This slowdown in competitive expansion and improved bundling and retention programs resulted in lower NAS declines in both the residential and business markets than occurred in the same quarter in 2009.

Operating expense reductions continued, with a $16 million (4.6 per cent) decline from the third quarter of 2009 driven by labour-related cost reductions and other cost containment initiatives. These expense reductions mitigated the effects on EBITDA of lower revenues, with EBITDA decreasing by $10 million (2.7 per cent) in the third quarter of 2010 compared to the same period in 2009. Because of the larger percentage improvement in operating expenses relative to the decline in operating revenues, EBITDA margin improved to 51.9 per cent in the third quarter of 2010, up from 51.4 per cent in the same quarter of 2009.

Expansion of Bell Aliant's fibre-to-the-home coverage continued in the third quarter of 2010, with *FibreOP* service now available in the cities of Fredericton, Saint John, and Moncton, New Brunswick and Sydney, Nova Scotia. Bell Aliant now passes over 106,000 homes with this advanced technology and is on track to pass over 140,000 homes and business by the end of 2010.

Bell Aliant Holdings LP's third quarter financial highlights are summarized as follows:

(In millions of dollars)	Q3 2010	Q3 2009	Percentage Change	YTD 2010	YTD 2009	Percentage Change
Operating Revenue	698	725	(3.7)%	2,076	2,151	(3.5)%
EBITDA	363	373	(2.7)%	1,071	1,093	(2.0)%
Capital Expenditures	113	114	(0.8)%	332	342	(3.0)%
Distributable Cash	194	208	(6.8)%	570	591	(3.5)%

Results

Local service revenue declined $17 million (4.8 per cent) in the third quarter of 2010 compared to the same quarter in 2009 as a result of NAS declines and a $5 million decrease in competitor contribution subsidies. Residential and business NAS were 6.0 per cent and 2.3 per cent lower, respectively, than a year earlier primarily as a result of increased competitive activity. Total NAS declines in the quarter improved by approximately 7,000 over the third quarter of 2009 with improvements in both residential and business NAS declines.

Long distance revenue declined $9 million (7.9 per cent), in the third quarter of 2010 compared to the same quarter in 2009 as a result of NAS declines and migration to bundled and flat rate long distance plans.

Internet revenue grew by $7 million (6.0 per cent) in the third quarter of 2010 compared to the same period in 2009, with the number of high-speed Internet customers 5.2 per cent higher than a year ago and growth in Bell Aliant TV subscribers. Residential High Speed average revenue per customer (ARPC) reached its highest point to date, increasing 5.1 per cent over the same quarter in 2009 as a result of pricing action and customer migration to higher value services.

Other data revenues declined $6 million (6.0 per cent) compared to the same quarter in 2009 as a result of competitive pressure and migration to alternate technologies.

Other revenues declined $2 million (4.6 per cent) compared to the same quarter in 2009 mainly as a result of lower outsourcing and rental revenues.

Capital expenditures of $113 million in the third quarter of 2010 were on par with the third quarter of 2009. Distributable cash decreased $14 million (6.8 per cent) in the third quarter of 2010 from the same period in 2009, largely driven by lower EBITDA and lower cash from discontinued operations.

Update to 2010 Guidance

As a result of the reclassification of the operations of xwave to discontinued operations, Bell Aliant's 2010 reported revenues and capital intensity are affected. In July, Bell Aliant also announced a planned pole purchase in the Province of Newfoundland that, should it occur in 2010, will affect reported capital expenditures, thereby affecting its capital intensity ratio and distributable cash.

Bell Aliant's Guidance for 2010 is as follows:

	Before xwave reclassification		Updated for xwave reclassification	
2010 Guidance	No pole purchase	With pole purchase	No pole purchase	With pole purchase
Operating Revenues	$3,050 – $3,150 million	$3,050 – $3,150 million	$2,750 – $2,800 million	$2,750 – $2,800 million
Capital Intensity	14% – 15%	16% – 17%	15.5% – 16.0%	17.5% – 18.0%
Distributable Cash	$750 – $790 million	$690 – $730 million	$750 – $790 million	$690 – $730 million

International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board has set January 1, 2011 as the date that IFRS will replace Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises, including Canadian reporting issuers. Bell Aliant will prepare its financial statements in accordance with IFRS commencing January 1, 2011. Financial reporting under IFRS differs from Canadian GAAP in a number of respects, some of which are significant. IFRS on the date of adoption is also expected to differ from current IFRS due to new standards that are expected to be issued before the changeover date.

Preliminary draft reconciliations between Canadian GAAP and IFRS for our opening balance sheet at January 1, 2010 and consolidated statement of operations for the nine month period ended September 30, 2010 are provided in our Third Quarter MD&A dated November 3, 2010. The adoption of IFRS led to an overall reduction of $545 million in our asset base, mainly related to capital asset and defined benefit plans adjustments. In addition, the adoption of IFRS has had only minimal impacts on our consolidated statement of operations as net earnings before minority interest for the nine month period ended September 30, 2010 improved by $9.1 million.

Supplementary financial information

More information on the Fund's and Bell Aliant Holdings LP's third quarter 2010 results can be found in Bell Aliant's third quarter 2010 supplementary information package and the Fund's and Bell Aliant Holdings LP's third quarter 2010 financial statements and management's discussion and analysis ("MD&A"), available at www.bellaliant.ca/investors.

Analyst conference call

A conference call discussing third quarter results with the financial community was held on Wednesday, November 3, 2010. A replay of the call will be available on our website, www.bellaliant.ca, for one year.

Notes

The information contained in this news release is unaudited.

(1) Bell Aliant derives virtually all of its income from its indirect ownership in Bell Aliant Holdings LP. Bell Aliant Holdings LP's results combine the results of Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Télébec, Limited Partnership (Télébec) and NorthernTel, Limited Partnership (NorthernTel).
(2) Percentage changes quoted in this release related to dollar values are based on amounts rounded to the nearest hundred-thousand, consistent with disclosure in the Fund's supplementary information package and Bell Aliant Holdings LP's MD&A for the third quarter of 2010. Dollar values quoted in this release are rounded to the nearest million unless otherwise stated.
(3) Bell Aliant Holdings LP defines EBITDA, a non-GAAP measure, as operating revenue less expenses (earnings) before interest, income taxes, depreciation and amortization expense, net benefit plans cost, and restructuring and other charges. For a reconciliation of EBITDA to the most closely comparable GAAP measure, please refer to Bell Aliant Holdings LP's MD&A for the third quarter of 2010.
(4) Bell Aliant defines EBITDA margin as EBITDA as a percentage of operating revenue.
(5) Bell Aliant defines capital intensity as capital expenditures as a percentage of operating revenue.
(6) Bell Aliant defines distributable cash, a non-GAAP measure, as cash from operating activities of continuing and discontinued operations of Bell Aliant Holdings LP and of the Fund, plus operating items funded through cash reserves or borrowings, such as working capital, pension deficit funding, restructuring and other charges and cash capital taxes in excess of normalized levels, plus amounts for current income tax provisions plus other elements of working capital changes that do not affect cash flow, less capital expenditures. For a reconciliation of distributable cash to the most closely comparable GAAP measure, please refer to Bell Aliant Holdings LP's MD&A for the third quarter of 2010.

Forward-looking Statements

This news release contains forward-looking statements concerning anticipated future events, results, circumstances or expectations, including, but not limited to statements concerning the capital expenditures in late 2010 or early 2011 in connection with the purchase of an interest in utility poles in Newfoundland, the sale of xwave, and Bell Aliant's updated financial guidance for 2010, as more particularly described in the "Third Quarter 2010 Results – Highlights" and "Update to 2010 Guidance" sections of this news release. Unless otherwise indicated, such forward-looking statements describe management's expectations at November 3, 2010. These statements are based on management's beliefs regarding future events, many of which, by their nature are inherently uncertain and beyond management's control. Therefore, actual results may differ materially from what is predicted.

Assumptions made and risk factors considered in preparing our forward-looking statements are discussed in detail in Bell Aliant's 2009 earnings results and 2010 guidance news release dated February 3, 2010, as updated in Bell Aliant's second quarter 2010 news release dated July 28, 2010, as well as in the Fund's and Bell Aliant Holdings LP's 2009 annual MD&As and annual information forms, and first, second and third quarter 2010 MD&As. These documents are available at www.bellaliant.ca or at www.sedar.com.

All forward-looking statements in this news release are qualified by these cautionary statements, and there can be no assurance that the results or events predicted will be realized. Except as may be required by Canadian securities laws, Bell Aliant disclaims any intention and assumes no obligation to update or revise any forward-looking statement 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 statements.

About Bell Aliant

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

Bell Aliant Regional Communications Income Fund

Management's Discussion and Analysis

Third Quarter 2010

This document provides management's discussion and analysis (MD&A) of our financial condition as at, and results of operations for, the three and nine months ended September 30, 2010, compared to the corresponding periods in 2009. This MD&A should be read together with our unaudited interim consolidated financial statements and accompanying notes for the period ended September 30, 2010, our audited consolidated financial statements and accompanying notes for the year ended December 31, 2009, and related MD&A, along with the unaudited interim consolidated financial statements and accompanying notes of Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP) for the period ended September 30, 2010, and related MD&A. Our consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All amounts in this document are in millions of Canadian dollars, except where otherwise stated.

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

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

Forward-looking information

This MD&A is dated November 3, 2010, and is current to that date unless otherwise stated. It contains forward-looking information related to our future financial condition and results of operations and anticipated future events and circumstances, including in particular under the heading "Conversion transaction" and "Future changes in accounting policies". The purpose of this forward-looking information is to provide the reader with information about our expectations and plans for the remainder of 2010 or other future periods. Readers are cautioned that such information may not be appropriate for other purposes. This information is based on our current expectations and estimates about the markets in which we and Bell Aliant Holdings LP operate and our beliefs and assumptions regarding these markets. Unless otherwise indicated, forward-looking information in this MD&A describes our expectations at November 3, 2010. In some cases, forward-looking information may be identified by words such as "anticipate", "believe", "could", "expect", "plan", "seek", "may", "intend", "will", "forecast" and similar expressions. This information is subject to important risks and uncertainties, which are difficult to predict, and assumptions, which may prove to be inaccurate. Some of the risk factors which could cause results or events to differ materially from current expectations include but are not limited to: our dependence on Bell Aliant Holdings LP, and therefore all of the risks and uncertainties to which its operations are subject, including increasing competition and ability to achieve strategies and plans; general economic conditions; unpredictability and volatility of our unit price; the nature of Fund units; cash distributions are not guaranteed and will fluctuate with

the performance of the business; structural subordination of Fund units; the timing and amount of capital investments made by Bell Aliant Holdings LP; limitations on non-resident ownership; redemption rights of unitholders; loss of mutual fund trust status; dilution through issuance of additional units; and tax related risks including changing tax rates and taxation rules for income trusts and, with respect to the conversion, the risks referred to under "Risk Factors – Risk Factors Relating to Bell Aliant Inc. and the Arrangement" in Appendix "F" to our information circular dated May 7, 2010, which are incorporated herein by reference. Some of these risk factors are largely beyond our control. Refer to the "Risk management" section of this MD&A and our MD&A for the year ended December 31, 2009, for further discussion of these and other risk factors.

Should any risk factor affect us in an unexpected manner, or should assumptions underlying the forward-looking information prove incorrect, the actual results or events may differ materially from the results or events predicted. Unless otherwise indicated, forward-looking information does not take into account the effect that transactions or non-recurring or other special items announced or occurring after this information is provided may have on our business. All of the forward-looking information reflected in this document and the documents referred to within are qualified by these cautionary statements. There can be no assurance that the results or developments anticipated will be realized or, even if substantially realized, that they will have the expected consequences for us. Except as may be required by Canadian securities laws, we disclaim any intention and assume no obligation to update or revise any forward-looking information, even if new information becomes available, as a result of future events or for any other reason. Readers should not place undue reliance on any forward-looking information.

See also the "Forward-looking information" section of our news release dated February 3, 2010, relating to our 2009 earnings results and 2010 financial guidance for the Fund and Bell Aliant Holdings LP, as well as the updates and revisions to such financial guidance as contained in our news releases dated July 28, 2010, and November 3, 2010, which is available at www.bellaliant.ca as well as www.sedar.com and incorporated by reference herein.

Our business

We are an unincorporated, open-ended, limited purpose trust governed by the laws of the Province of Ontario. We hold investments in subsidiaries that operate one of the largest regional communications service providers in North America.

We indirectly own an 82.5 per cent equity interest in Bell Aliant Holdings LP, which in turn consolidates the financial results of Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Télébec, Limited Partnership (Télébec) and NorthernTel, Limited Partnership (NorthernTel). We account for this investment on an equity basis as we exercise significant influence over the operating, investing and financial policies of this entity, but we do not control it. BCE Inc. (BCE) and Bell Canada own the remaining 17.5 per cent equity interest in Bell Aliant Holdings LP. Bell Canada also owns a 37.9 per cent equity interest in Bell Aliant LP (36.1 per cent on a proportionate cash distribution basis). BCE's and Bell Canada's interests are exchangeable into Fund units, which give BCE an effective 44.07 per cent combined voting interest in us (43.94 per cent on a fully-diluted basis) as at September 30, 2010. Under a securityholders' agreement, BCE has certain governance rights that give it control over Bell Aliant Holdings LP so long as its fully diluted Fund ownership interest is 30.0 per cent or greater and certain commercial agreements are in place with Bell Aliant LP.

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

Summary of results

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

For the eight quarters ended September 30, 2010 *(millions of dollars, except per unit amounts)*	2010 Q3	2010 Q2	2010 Q1	2009 Q4	2009 Q3	2009 Q2	2009 Q1	2008 Q4
Equity income from investments and other revenues	$61.4	$73.3	$63.8	$80.2	$80.7	$76.3	$66.4	$66.0
Net earnings from continuing operations	60.9	71.9	63.2	79.4	80.0	74.8	65.4	65.5
Net earnings (loss) from discontinued operations	0.5	-	-	(2.1)	(5.7)	(3.4)	0.6	0.1
Net earnings	$61.4	$71.9	$63.2	$77.3	$74.3	$71.4	$66.0	$65.6
Basic earnings per unit from continuing operations	$0.48	$0.56	$0.50	$0.63	$0.63	$0.59	$0.51	$ 0.51
Basic earnings per unit from discontinued operations	-	-	-	(0.02)	(0.05)	(0.03)	0.01	0.01
Basic earnings per unit	$0.48	$0.56	$0.50	$0.61	$0.58	$0.56	$0.52	$0.52
Diluted earnings per unit from continuing operations	$0.47	$0.53	$0.48	$ 0.55	$ 0.58	$ 0.55	$0.51	$ 0.41
Diluted earnings per unit from discontinued operations	-	-	-	(0.01)	(0.05)	(0.03)	-	0.01
Diluted earnings per unit	$0.47	$0.53	$0.48	$0.54	$0.53	$0.52	$0.51	$0.42
Distributions declared	$92.4	$92.3	$92.3	$92.3	$92.3	$92.3	$92.1	$92.1

Net earnings

Net earnings represent equity income from our indirect ownership in the earnings of our investments. This includes future tax recovery (expense) related to our proportionate share of temporary differences between the carrying amounts of assets and liabilities reported on the balance sheets of our subsidiaries and their corresponding tax values. Our net earnings also include an immaterial amount of interest income earned on cash and cash equivalents and operating expenses. Our net earnings are substantially dependent upon the results of operations of our subsidiary investments. The financial performance of Bell Aliant Holdings LP for the three and nine month periods ended September 30, 2010, compared to the same periods in 2009, is discussed in its third quarter 2010 MD&A.

Net earnings from continuing operations decreased $19.1 million, or 23.9 per cent, for the third quarter of 2010 and decreased $24.2 million, or 11 per cent, on a year-to-date basis, compared to the same periods in 2009. This is primarily due to a decrease in equity income from our investment in Bell Aliant Holdings LP in the third quarter of 2010 of $19.3 million, or 23.9 per cent, and $24.9 million, or 11 per cent, on a year-to-date basis, compared to the corresponding periods in 2009. Equity income also includes future income tax expense relating to temporary differences that are expected to reverse after January 1, 2011. For each of the three and nine months ended September 30, 2010, equity income includes $0.2 million of future tax expense, compared to $0.3 million expense in the third quarter of 2009 and $1.3 million on a year-to-date basis in 2009.

Net earnings from discontinued operations for the three and nine months ended September 30, 2010, include our proportionate share of the results of operations of the xwave business of Bell Aliant Holdings LP. On October 26, 2010, Bell Aliant Holdings LP announced that it had signed an asset purchase agreement, subject to certain conditions, under which Bell Canada will acquire its xwave business for proceeds of approximately $40.0 million, plus certain post-closing working capital adjustments. The transaction has an anticipated effective date of January 1, 2011. Net loss from discontinued operations in the three and nine months ended September 30, 2009, includes our proportionate share of the results of operations of Innovatia Inc., a subsidiary of Bell Aliant Holdings

LP, which was sold in the third quarter of 2009. It also includes our proportionate share of xwave's professional services operations in New England and xwave's defence, security and aerospace (DSA) business, which were both sold in the second quarter of 2009.

Distributions declared

During the third quarter of 2010, we declared distributions of $92.4 million, or $0.7251 per unit, compared to $92.3 million, or $0.7251 per unit, in the third quarter of 2009. On a year-to-date basis in 2010, we declared distributions of $277.0 million, or $2.1753 per unit to our unitholders, compared to $276.7 million, or $2.1753 per unit, for the same period in 2009. Our monthly distribution rate remained unchanged on a quarter-over-quarter basis; however, we had a slight increase in the number of Fund units outstanding for the nine months ended September 30, 2010, compared to the same period in 2009.

We are entirely dependent on distributions from Bell Aliant Holdings LP to make our distributions. A further discussion of distributions made by Bell Aliant Holdings LP can be found in its MD&A for the three and nine month periods ended September 30, 2010.

Conversion transaction

As a result of the federal government's previously announced changes to income tax legislation affecting publicly listed or traded income trusts such as us, starting January 1, 2011, we will be taxed as if we were a corporation.

On June 16, 2010, at our annual and special meeting, unitholders approved a plan of arrangement to convert our income trust structure into a public corporation to be named Bell Aliant Inc. As part of the conversion, our unitholders will receive, on a tax-deferred basis, one common share of Bell Aliant Inc. for each Fund unit held. The conversion is subject to certain conditions, including obtaining regulatory and other approvals, and is expected to be completed on January 1, 2011.

The conversion will have no impact on our underlying business model or operating plans, but is expected to reduce administrative costs associated with our existing more complex trust structure, improve comparability of our financial condition and results of operation to our peers, and broaden our potential investor base. Following the conversion, BCE and Bell Canada will have the same governance rights and economic interests in us as immediately before the conversion.

We anticipate that we (or our successor company) will be taxed at a blended federal / provincial rate of 29 per cent of taxable income in 2011, dropping to 27 per cent of taxable income by 2013.

Dividend policy

In considering an appropriate dividend policy for the new corporation for 2011 and onward, our objectives are to seek to ensure dividend sustainability while maintaining a high dividend payout to our shareholders.

Beginning in 2011, the new corporation will target a payout ratio of 75 to 85 percent of free cash flow. Our dividend policy is expected to result in an initial annual dividend of $1.90 per share, to be paid quarterly at a rate of $0.475 per share beginning in March 2011. For taxable retail investors resident in Canada, dividends paid by a corporation are taxed at lower rates than the distributions paid by us as an income trust prior to January 1, 2011. As such, under a corporate structure, the dividend tax credit mechanism can be expected to mitigate, in large part, the after-tax effect of a lower dividend for those investors.

We expect to continue to declare and pay monthly distributions at the current annual rate of $2.90 per unit throughout 2010.

Financial and capital management

The following table summarizes our financial position as at September 30, 2010, as compared to December 31, 2009.

(millions of dollars)	**As at September 30, 2010**	**As at December 31, 2009**
Total assets	**$4,076.2**	$4,151.6
Total liabilities	**$30.9**	$30.8
Unitholders' equity	**$4,045.3**	$4,120.8

Assets and liabilities

At September 30, 2010, our assets mainly consisted of our indirect investment in, and distributions and other amounts receivable from, Bell Aliant Holdings LP. The carrying value of our investments has decreased by $78.7 million since December 31, 2009, as our equity income was less than the distributions declared to us by our equity investee. As well, we generally consolidate our excess cash with that of Bell Aliant LP and invest it together in marketable, short-term money market instruments. As such, the balance due from (to) related parties and our cash and cash equivalent balance will fluctuate over time depending on our cash requirements. At September 30, 2010, these assets increased $3.2 million from the balances at December 31, 2009.

Our liabilities, consisting mainly of distributions payable to our unitholders, were unchanged as at September 30, 2010, compared to December 31, 2009.

Fund units

At September 30, 2010, there were 127,384,917 Fund units outstanding, 100,373,827 exchangeable limited partnership units and 1,365,365 Fund units notionally issued under our deferred unit plan. Only 666,248 of the units notionally issued under our deferred unit plan are considered dilutive, as the remainder are subject to prescribed performance targets being met. Accordingly, there were 228,424,992 Fund units outstanding on a fully diluted basis as at September 30, 2010.

At October 26, 2010, there were 127,384,917 Fund units outstanding.

Stability ratings

Our stability rating as at September 30, 2010, was STA-2 (high) from DBRS Limited, which is unchanged from 2009.

On June 30, 2010, Standard & Poor's announced that it had withdrawn its remaining Canadian stability ratings and retired its Canadian stability ratings coverage due to the pending conversion of many income trusts to corporations by January 1, 2011.

A stability rating measures an income trust's stability of distributions relative to other rated Canadian income trusts. A rating is not a recommendation to buy, sell or hold Fund 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 "Our business" section, we indirectly own an 82.5 per cent equity interest in Bell Aliant Holdings LP. As well, BCE and Bell Canada own 43.94 per cent of our units on a fully-diluted basis. There was no change to the securityholders' agreement with BCE during the third quarter of 2010.

Refer to note 8 of our unaudited interim consolidated financial statements for the period ended September 30, 2010, for further information on our related party transactions with Bell Aliant Holdings LP.

Significant accounting policies and critical accounting estimates

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

Future changes in accounting policies

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

Business combinations, Consolidated financial statements and Non-controlling interests

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

International financial reporting standards (IFRS)

In April 2008, the CICA's Accounting Standards Board released an exposure draft, Adopting IFRSs in Canada, which proposes to fully converge Canadian GAAP with IFRS effective January 1, 2011. The convergence will occur over a transitional period, with certain standards adopted prior to 2011 and other standards at the date of transition. The International Accounting Standards Board is continually mandating projects and making pronouncements to evolve IFRS, and as a result, IFRS at the transition date is expected to differ from its current form.

We will prepare our financial statements in accordance with IFRS commencing January 1, 2011.

IFRS changeover plan and progress towards completion

Our IFRS changeover plan consists of a four-phase approach, which includes:

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

We have substantially completed the first three phases and are currently focusing our efforts on implementation, the fourth phase. Refer to the Bell Aliant Holdings LP MD&A for the quarter ended September 30, 2010, and the year ended December 31, 2009, and our MD&A for the year ended December 31, 2009, for a detailed description of our changeover plan.

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

Risk management

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

In stating that the expected 2011 dividend rate of our anticipated successor corporation, Bell Aliant Inc., will be $1.90 per share annually following conversion to a corporate structure, we have made certain tax assumptions, and assumptions regarding the operational and financial performance of ourselves and Bell Aliant Holdings LP (or its successor). Refer to the Bell Aliant Holdings LP MD&A for the period ended September 30, 2010, for further information on these assumptions and risks.

Controls and procedures

Internal control over financial reporting

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

There have been no changes in our internal control over financial reporting during the three months ended September 30, 2010, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND
Consolidated balance sheets
(Unaudited)

(millions of dollars)	Notes		As at September 30, 2010		As at December 31, 2009
Assets					
Current assets					
Cash and cash equivalents	8	$	6.2	$	2.6
Distributions receivable	8		31.2		31.1
Due from related parties	8		24.8		25.2
			62.2		58.9
Investments	2		4,014.0		4,092.7
Total assets		$	4,076.2	$	4,151.6
Liabilities and unitholders' equity					
Current liabilities					
Payables and accruals		$	0.1	$	-
Distributions payable	6		30.8		30.8
			30.9		30.8
Unitholders' equity			4,045.3		4,120.8
Total liabilities and unitholders' equity		$	4,076.2	$	4,151.6

See accompanying notes to the consolidated financial statements

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND
Consolidated statements of earnings
(Unaudited)

For the period ended September 30

(millions of dollars, except earnings per unit)	Notes	Three months 2010	Three months 2009	Nine months 2010	Nine months 2009
Equity income from investments	2	$ **61.4**	$ 80.7	$ **198.5**	$ 223.4
Operating expenses		**0.5**	0.7	**2.5**	3.2
Net earnings from continuing operations		**60.9**	80.0	**196.0**	220.2
Net earnings (loss) from discontinued operations	2	**0.5**	(5.7)	**0.5**	(8.5)
Net earnings		$ **61.4**	$ 74.3	$ **196.5**	$ 211.7
Earnings per unit	4				
Basic from continuing operations		$ **0.48**	$ 0.63	$ **1.54**	$ 1.73
Basic from discontinued operations		**-**	(0.05)	**-**	(0.07)
Basic		$ **0.48**	$ 0.58	$ **1.54**	$ 1.66
Diluted from continuing operations		$ **0.47**	$ 0.58	$ **1.48**	$ 1.64
Diluted from discontinued operations		**-**	(0.05)	**-**	(0.07)
Diluted		$ **0.47**	$ 0.53	$ **1.48**	$ 1.57

See accompanying notes to the consolidated financial statements

Consolidated statements of comprehensive earnings
(Unaudited)

For the period ended September 30

(millions of dollars)	Note	Three months 2010	Three months 2009	Nine months 2010	Nine months 2009
Net earnings		$ **61.4**	$ 74.3	$ **196.5**	$ 211.7
Other comprehensive earnings	2	**1.2**	0.8	**2.8**	12.0
Comprehensive earnings		$ **62.6**	$ 75.1	$ **199.3**	$ 223.7

See accompanying notes to the consolidated financial statements

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND
Consolidated statements of unitholders' equity
(Unaudited)

For the nine month period ended September 30, 2010

(millions of dollars)	Notes	Stated capital	Contributed surplus	Accumulated deficit	Accumulated other comprehensive loss	Total accumulated deficit and other comprehensive loss	Total unitholders' equity
Balance December 31, 2009		$ 4,192.2	$ 45.7	$ (95.3)	$ (21.8)	$ (117.1)	$ 4,120.8
Net earnings		-	-	196.5	-	196.5	196.5
Distributions declared	6	-	-	(277.0)	-	(277.0)	(277.0)
Redemption of units	3	(0.1)	-	-	-	-	(0.1)
Deferred unit plan	3, 7	3.2	(0.9)	-	-	-	2.3
Other comprehensive earnings of equity investee	2	-	-	-	2.8	2.8	2.8
Balance September 30, 2010		**$ 4,195.3**	**$ 44.8**	**$ (175.8)**	**$ (19.0)**	**$ (194.8)**	**$ 4,045.3**

For the nine month period ended September 30, 2009

(millions of dollars)	Notes	Stated capital	Contributed surplus	Accumulated deficit	Accumulated other comprehensive loss	Total accumulated deficit and other comprehensive loss	Total unitholders' equity
Balance December 31, 2008		$ 4,184.9	$ 45.7	$ (15.3)	$ (34.6)	$ (49.9)	$ 4,180.7
Net earnings		-	-	211.7	-	211.7	211.7
Distributions declared	6	-	-	(276.7)	-	(276.7)	(276.7)
Redemption of units	3	(0.1)	-	-	-	-	(0.1)
Deferred unit plan	3, 7	7.1	(1.4)	-	-	-	5.7
Other comprehensive earnings of equity investee	2	-	-	-	12.0	12.0	12.0
Balance September 30, 2009		$ 4,191.9	$ 44.3	$ (80.3)	$ (22.6)	$ (102.9)	$ 4,133.3

See accompanying notes to the consolidated financial statements

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND
Consolidated statements of cash flows
(Unaudited)

For the period ended September 30

(millions of dollars)	Notes	Three months 2010	Three months 2009	Nine months 2010	Nine months 2009
Cash from (used in) operating activities					
Net earnings from continuing operations		$ **60.9**	$ 80.0	$ **196.0**	$ 220.2
Adjustments to reconcile net earnings to cash from operating activities					
Income from equity investments	2	**(61.4)**	(80.7)	**(198.5)**	(223.4)
Change in operating assets and liabilities	5	**(0.6)**	(2.0)	**(0.4)**	(11.8)
		(1.1)	(2.7)	**(2.9)**	(15.0)
Cash from (used in) financing activities					
Issuance of units	3	**-**	0.4	**3.2**	7.1
Redemption of units	3	**-**	-	**(0.1)**	(0.1)
Purchase of units for distribution reinvestment	3	**(4.1)**	(3.8)	**(12.2)**	(10.8)
Cash distributions paid to unitholders		**(88.3)**	(88.5)	**(264.8)**	(265.8)
		(92.4)	(91.9)	**(273.9)**	(269.6)
Cash from investing activities					
Cash distributions received from equity investment	2	**93.5**	93.6	**280.4**	280.6
		93.5	93.6	**280.4**	280.6
Net increase (decrease) in cash from continuing operations		**-**	(1.0)	**3.6**	(4.0)
Cash and cash equivalents, beginning of period		**6.2**	3.2	**2.6**	6.2
Cash and cash equivalents, end of period		$ **6.2**	$ **2.2**	$ **6.2**	$ **2.2**

See accompanying notes to the consolidated financial statements

Bell Aliant Regional Communications Income Fund was established in 2006 and is an unincorporated, open-ended, limited purpose trust governed by the laws of Ontario, pursuant to a Declaration of Trust. All references to "we", "us", "our" or the "Fund" refer to Bell Aliant Regional Communications Income Fund and its subsidiaries. We hold investments in entities whose operations are primarily focused on the provision of regional telecommunications services in Atlantic Canada, Ontario and Quebec. Our principal investment is an 82.5 per cent equity interest in Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP), which consolidates its operating subsidiaries.

1. SIGNIFICANT ACCOUNTING POLICIES

Consolidated financial statements

We have prepared these unaudited interim consolidated financial statements in accordance with Canadian generally accepted accounting principles using the same basis of presentation and accounting policies as our audited consolidated financial statements for the year ended December 31, 2009. These financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2009, along with Bell Aliant Holdings LP's audited consolidated financial statements for the year ended December 31, 2009, and unaudited interim consolidated financial statements for the nine months ended September 30, 2010.

Future changes in accounting policies

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

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

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

2. INVESTMENTS

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

For the period ended September 30	Three months		Nine months	
(millions of dollars)	**2010**	2009	**2010**	2009
Equity income – continuing operations	**$ 61.4**	$ 80.7	**$ 198.5**	$ 223.4
Net earnings (loss) – discontinued operations	**0.5**	(5.7)	**0.5**	(8.5)
Other comprehensive earnings	**1.2**	0.8	**2.8**	12.0
Distributions declared	**93.5**	93.4	**280.5**	280.5
Distributions received	**93.5**	93.6	**280.4**	280.6

2. INVESTMENTS (Continued)

For both the three and nine months ended September 30, 2010, equity income from continuing operations includes $0.2 million of future income tax expense (September 30, 2009 - $0.3 million and $1.3 million, respectively) relating to our proportionate share of temporary differences between the reported carrying amounts and corresponding tax values of assets and liabilities in certain subsidiaries of Bell Aliant Holdings LP, which are expected to reverse after January 1, 2011.

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

3. UNITHOLDERS' CAPITAL

Issued and outstanding

	As at September 30, 2010		As at December 31, 2009	
(millions of dollars, except as otherwise noted)	**Number of units**	**Stated Capital**	Number of units	Stated Capital
Units	**127,384,917**	**$ 4,195.3**	127,264,016	$ 4,192.2
Special voting units	**100,373,827**	**-**	100,373,827	-
		$ 4,195.3		$ 4,192.2

Units

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

For the nine months ended September 30	2010		2009	
(millions of dollars, except as otherwise noted)	**Number of units**	**Stated Capital**	Number of units	Stated Capital
Units, beginning of period	**127,264,016**	**$ 4,192.2**	126,983,707	$ 4,184.9
Deferred unit plan units exercised (note 7)	**122,030**	**3.2**	273,238	7.1
Redemption of units	**(1,115)**	**(0.1)**	(1,880)	(0.1)
Fractional unit adjustment	**(14)**	**-**	(10)	-
Units, end of period	**127,384,917**	**$ 4,195.3**	127,255,055	$ 4,191.9

Distribution reinvestment and optional unit purchase plan

For the three and nine months ended September 30, 2010, we bought 171,783 units and 509,873 units, respectively (September 30, 2009 – 155,879 units and 459,802 units, respectively) on the open market for unitholders participating in the distribution reinvestment and optional unit purchase plan. This was in lieu of paying $4.1 million and $12.2 million in cash distributions, respectively (September 30, 2009 - $3.8 million and $10.8 million, respectively), and in respect of optional unit purchase plans cash payments received of $0.3 million and $1.0 million, respectively (September 30, 2009 – $0.3 million and $0.9 million, respectively).

4. EARNINGS PER UNIT

For the period ended September 30	Three months		Nine months	
(millions of dollars, except as otherwise noted)	**2010**	2009	**2010**	2009
Basic				
Net earnings from continuing operations	**$ 60.9**	$ 80.0	**$ 196.0**	$ 220.2
Net earnings (loss) from discontinued operations	**0.5**	(5.7)	**0.5**	(8.5)
Net earnings	**$ 61.4**	$ 74.3	**$ 196.5**	$ 211.7
Weighted average number of units outstanding	**127,384,921**	127,247,247	**127,339,137**	127,194,555
Basic earnings per unit from continuing operations	**$ 0.48**	$ 0.63	**$ 1.54**	$ 1.73
Basic earnings per unit from discontinued operations	**-**	(0.05)	**-**	(0.07)
Basic earnings per unit	**$ 0.48**	$ 0.58	**$ 1.54**	$ 1.66
Diluted				
Net earnings from continuing operations	**$ 60.9**	$ 80.0	**$ 196.0**	$ 220.2
Add non-controlling interest of holders of exchangeable units:				
Bell Aliant Holdings LP	**13.5**	17.7	**43.5**	49.2
Bell Aliant LP	**33.6**	34.1	**99.3**	104.2
	108.0	131.8	**338.8**	373.6
Net earnings (loss) from discontinued operations	**0.5**	(5.7)	**0.5**	(8.5)
Add non-controlling interest of holders of exchangeable units:				
Bell Aliant LP	**0.1**	(1.3)	**0.1**	(2.0)
	0.6	(7.0)	**0.6**	(10.5)
Diluted net earnings	**$ 108.6**	$ 124.8	**$ 339.4**	$ 363.1
Weighted average number of units outstanding	**127,384,921**	127,247,247	**127,339,137**	127,194,555
Add exchangeable limited partnership units:				
Class 1 exchangeable limited partnership units of Bell Aliant Holdings LP	**28,168,803**	28,168,803	**28,168,803**	28,168,803
Class B exchangeable limited partnership units of Bell Aliant LP	**72,205,024**	72,205,024	**72,205,024**	72,205,024
Deferred units under unit-based compensation plan	**666,248**	431,871	**666,248**	431,871
	228,424,996	228,052,945	**228,379,212**	228,000,253
Diluted earnings per unit from continuing operations	**$ 0.47**	$ 0.58	**$ 1.48**	$ 1.64
Diluted earnings per unit from discontinued operations	**-**	(0.05)	**-**	(0.07)
Diluted earnings per unit	**$ 0.47**	$ 0.53	**$ 1.48**	$ 1.57

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

5. CHANGES IN OPERATING ASSETS AND LIABILITIES

For the period ended September 30	Three Months		Nine Months	
(millions of dollars)	2010	2009	2010	2009
Due from related parties	$ (0.6)	$ (2.0)	$ (0.5)	$ (11.6)
Payables and accruals	-	-	0.1	(0.2)
	$ (0.6)	$ (2.0)	$ (0.4)	$ (11.8)

The change in operating assets and liabilities is net of the changes caused by unit issuances under the deferred unit plan (DUP), as described in note 7, which are reflected as financing activities in the consolidated statement of cash flows.

6. DISTRIBUTIONS DECLARED TO UNITHOLDERS

Distributions declared were as follows:

	2010		2009		
(millions of dollars, except per unit amounts)	Monthly distributions	Distributions per unit		Monthly distributions	Distributions per unit
Record date:			Record date:		
January 29	$ 30.7	$ 0.2417	January 30	$ 30.7	$ 0.2417
February 26	30.8	0.2417	February 27	30.7	0.2417
March 31	30.8	0.2417	March 31	30.7	0.2417
April 30	30.7	0.2417	April 30	30.7	0.2417
May 31	30.8	0.2417	May 29	30.8	0.2417
June 30	30.8	0.2417	June 30	30.8	0.2417
July 30	30.8	0.2417	July 31	30.7	0.2417
August 31	30.8	0.2417	August 31	30.8	0.2417
September 30	30.8	0.2417	September 30	30.8	0.2417
	$ 277.0	$ 2.1753		$ 276.7	$ 2.1753

7. UNIT-BASED COMPENSATION PLANS

Employee unit purchase plans

For the three and nine months ended September 30, 2010, we bought 444,189 units and 1,474,127 units, respectively (September 30, 2009 – 441,292 units and 1,551,011 units, respectively), at a total cost of $11.4 million and $38.2 million, respectively (September 30, 2009 - $11.7 million and $39.3 million, respectively), on the open market for employees of certain subsidiaries of Bell Aliant Holdings LP participating in the employee unit purchase plans. Of these totals, $2.2 million and $6.8 million, respectively (September 30, 2009 - $2.1 million and $6.9 million, respectively) was recorded as compensation expense in Bell Aliant Holdings LP, and the remainder was contributed by employees through payroll deduction, interest earned or distributions reinvested in employee plan accounts.

7. UNIT-BASED COMPENSATION PLANS (Continued)

Deferred unit plan

In February 2010, the Fund trustees approved amendments to the DUP to allow plan members to receive one unit or the cash equivalent of one unit for each vested deferred unit upon qualifying for payout under the terms of the grant. Previously, plan members were only permitted to receive one unit upon qualification for payout. There is no exercise price paid by the grantee for deferred units. We may issue up to 3,154,120 (December 31, 2009 – 3,276,150) additional units out of treasury to satisfy awards under this DUP. Any deferred units that do not vest due to failure to achieve prescribed performance targets are forfeited. Further, any unvested deferred units of a plan member are forfeited upon their departure.

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

For the nine months ended September 30	2010	2009
Deferred units outstanding, beginning of period	1,293,699	1,181,958
Granted:		
February 2009 – Service period fiscal 2009 to 2011	-	350,492
June 2010 – Service period fiscal 2010 to 2012	369,784	-
Reinvested distributions	91,102	97,934
	460,886	448,426
Forfeited	(267,190)	(66,501)
Exercised (note 3)	(122,030)	(273,238)
Deferred units outstanding, end of period	1,365,365	1,290,645
Deferred units vested, end of period	666,248	431,871

For the nine months ended September 30, 2010, the fair value of the 460,886 deferred units granted or credited on reinvestment of notional distributions (September 30, 2009 – 448,426 deferred units granted or credited) was $11.9 million, or $25.86 per deferred unit (September 30, 2009 – $11.7 million, or $26.09 per deferred unit).

As the deferred units may be settled with our units when exercised, for the nine months ended September 30, 2010, we have recorded in contributed surplus the equivalent of the compensation expense that was recorded in Bell Aliant Holdings LP of $2.2 million plus $0.1 million of other adjustments (September 30, 2009 - $5.9 million less $0.2 million of other adjustments). We issued 122,030 units (September 30, 2009 – 273,238 units) out of treasury at an average market value of $25.98 per unit (September 30, 2009 – $26.11 per unit) related to the deferred units exercised in the period. When exercised, the corresponding value of $3.2 million (September 30, 2009 - $7.1 million) was reclassified from contributed surplus to stated capital.

8. RELATED PARTY TRANSACTIONS

Bell Aliant Holdings LP

We receive distributions from Bell Aliant Holdings LP, as described in note 2, which allow us to make our distributions, as described in note 6. At September 30, 2010, $31.2 million (December 31, 2009 - $31.1 million) was included in distributions receivable.

At September 30, 2010, $24.8 million was due from Bell Aliant Holdings LP and its subsidiaries (December 31, 2009 - $25.2 million), which relates to the net of operating expenses payable as well as amounts receivable from the deferred unit plan as described in note 7.

We loan our excess cash to Bell Aliant LP through a series of promissory notes. Payments are requested as required for operating purposes. The $2.6 million promissory note that was receivable from Bell Aliant LP at December 31, 2009, was repaid on January 15, 2010. Subsequently issued promissory notes carried rates of interest from 0.50 per cent to 1.28 per cent per annum, resulting in an immaterial amount of interest revenue being earned during the nine months ended September 30, 2010 (September 30, 2009 – immaterial amount). At September 30, 2010, a $6.2 million promissory note was receivable from Bell Aliant LP, which carries interest at 1.28 per cent per annum and matures on October 15, 2010. This balance is included in cash and cash equivalents.

There is minimal credit risk associated with balances receivable from related parties at September 30, 2010.

Bell Aliant

Bell Aliant Regional Communications Holdings, Limited Partnership

Management's Discussion and Analysis

Third Quarter 2010

This document provides management's discussion and analysis (MD&A) of our financial condition as at, and results of operations for, the three and nine months ended September 30, 2010, compared to the corresponding periods in 2009. This MD&A should be read together with our unaudited interim consolidated financial statements and accompanying notes for the period ended September 30, 2010, and our audited consolidated financial statements and accompanying notes for the year ended December 31, 2009, and related MD&A. Our consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All amounts in this document are in millions of Canadian dollars, except where otherwise stated.

Throughout this document, unless otherwise specified or the context otherwise indicates, "we", "us", "our" and "Bell Aliant Holdings LP" refer to Bell Aliant Regional Communications Holdings, Limited Partnership and its subsidiaries.

Additional information about us and Bell Aliant Regional Communications Income Fund (the Fund), including annual and quarterly reports, supplementary financial information, as well as annual information forms and information circulars, can be found under "financial reports" on the Fund's website at www.bellaliant.ca. These and other continuous disclosure documents are also available at www.sedar.com.

Forward-looking information

This MD&A is dated November 3, 2010, and is current to that date unless otherwise stated. It contains forward-looking information related to our future financial condition and results of operations, and anticipated future events and circumstances, including in particular under the sections "Conversion transaction", "Our business environment – competitive landscape", "Cash requirements", "International financial reporting standards" and "Revised guidance". The purpose of this forward-looking information is to provide the reader with information about our expectations and plans and priorities for the remainder of fiscal 2010 or other future periods. Readers are cautioned that such information may not be appropriate for other purposes. This information is based on our current expectations and estimates about the markets in which we operate and our beliefs and assumptions regarding these markets. Unless otherwise indicated, forward-looking information in this MD&A describes our expectations at November 3, 2010. In some cases, forward-looking information may be identified by words such as "anticipate", "believe", "could", "expect", "plan", "seek", "may", "intend", "will", "forecast" and similar expressions.

This information is subject to important risks and uncertainties, which are difficult to predict, and assumptions, which may prove to be inaccurate. Some of the risk factors which could cause results or events to differ materially from current expectations include but are not limited to: increasing competition; our ability to achieve strategies and plans; general economic conditions; reliance on systems; changing technology; required operating and capital expenditures and demand for our services; our business relationship with Bell Canada; pension plan funding; changing regulations; dependence on key suppliers; maintenance of credit ratings; leverage and

restrictive covenants; BCE Inc.'s (BCE) governance rights; reliance on key personnel and labour relations; legal contingencies and changes in laws; the success of acquisitions and dispositions; certain tax related risks and the risks referred to herein under the heading "Risk management – Proposed conversion". Some of these risk factors are largely beyond our control. In addition, a number of assumptions were made by us in providing forward-looking information in this MD&A, such as certain Canadian economic assumptions, market assumptions, and financial and operational assumptions. Refer to the "Assumptions made in the preparation of forward-looking information and risks that could affect our business and results" section of this MD&A for further discussion of these and other assumptions and risk factors.

Should any risk factor affect us in an unexpected manner, or should assumptions underlying the forward-looking information prove incorrect, the actual results or events may differ materially from the results or events predicted. Unless otherwise indicated, forward-looking information does not take into account the effect that transactions or non-recurring or other special items announced or occurring after this information is provided may have on our business. All of the forward-looking information reflected in this document and the documents referred to within are qualified by these cautionary statements. There can be no assurance that the results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences for us. Except as may be required by Canadian securities laws, we disclaim any intention and assume no obligation to update or revise any forward-looking information, even if new information becomes available, as a result of future events or for any other reason. Readers should not place undue reliance on any forward-looking information.

See also the "Forward-looking information" section of our news release dated February 3, 2010, relating to our 2009 earnings results and 2010 financial guidance for the Fund and Bell Aliant Holdings LP, as well as the updates and revisions to such financial guidance as contained in our news releases dated July 28, 2010, and November 3, 2010, which is available at www.bellaliant.ca as well as www.sedar.com.

OUR BUSINESS

We are one of North America's largest regional communications service providers and have been serving customers for over a century. We offer a complete range of voice and data communications services to approximately 5.3 million customers across Atlantic Canada, Ontario and Quebec. Communications services we provide include local telephone, long distance, data and Internet, TV, wireless and other products and services.

We offer infrastructure management, information technology consulting, product fulfillment and advanced technology solutions through our xwave division. On October 26, 2010, we announced that we had entered into an asset purchase agreement with Bell Canada who will acquire our xwave business, and as such have restated our results to reflect our xwave business in discontinued operations. Refer to the "Net earnings (loss) from discontinued operations" section for further information.

Our principal operations are carried on by Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Télébec, Limited Partnership (Télébec) and NorthernTel, Limited Partnership (NorthernTel). We consolidate these and other subsidiary entities in our financial statements. We operate as one reportable segment, which represents the manner in which we are organized and managed for planning, assessing performance and making resource allocation decisions.

THIRD QUARTER IN REVIEW

Although competitive coverage in our operating territories continued in the third quarter, the rate of competitor expansion has slowed considerably from that experienced in 2008 and 2009, which has resulted in having lower net local network access service (NAS) customer declines in the third quarter and first nine months of 2010 than those experienced in the same periods in 2009. We also have seen steady growth in our Internet, wireless and TV customer base. We continue to pro-actively manage our

operating and capital costs, contributing to our distributable cash of $193.7 million for the third quarter of 2010.

Summary of results

For the period ended September 30	Three months			Nine months[2]		
(millions of dollars)	**2010**	**2009[2]**	**% change**	**2010**	**2009**	**% change**
Operating revenues	**$698.2**	$724.7	(3.7)	**$2,075.8**	$2,151.2	(3.5)
EBITDA [1]	**$362.5**	$372.7	(2.7)	**$1,071.1**	$1,092.7	(2.0)
EBITDA margin [1]	**51.9%**	51.4%	1.0	**51.6%**	50.8%	1.6
Operating income	**$161.8**	$163.7	(1.2)	**$462.4**	$475.9	(2.8)
Net earnings from continuing operations	**$75.2**	$98.5	(23.7)	**$244.0**	$274.3	(11.0)
Net earnings (loss) from discontinued operations	**$0.6**	($6.7)	n.m.	**($1.1)**	($10.7)	89.7
Net earnings	**$75.8**	$91.8	(17.4)	**$242.9**	$263.6	(7.9)

n.m. not meaningful

[1] EBITDA and EBITDA margin are non-GAAP financial measures. Refer to the "Non-GAAP financial measures" section for more details.

[2] Financial results for all prior periods have been restated to reflect our xwave business as discontinued operations.

Operating revenues in the third quarter of 2010 decreased by 3.7 per cent, or $26.5 million, and by 3.5 per cent, or $75.4 million, on a year-to-date basis compared to the same periods in 2009. We continue to experience revenue erosion in local and access, long distance, and other revenues due to competitive losses and a decline in contribution subsidies. Continued growth in our high-speed Internet, wireless and TV customer bases has resulted in increases in the respective revenues for those services and has helped offset voice revenue declines. Refer to the "Results of operations" section for additional details.

EBITDA decreased by 2.7 per cent, or $10.2 million, for the third quarter of 2010, and by 2.0 per cent, or $21.6 million, on a year-to-date basis compared to the same periods in 2009. Operating expense reductions mitigated the effect of the decline in operating revenues on EBITDA and improved EBITDA margin. EBITDA margin increased 0.5 percentage points to 51.9 per cent during the third quarter of 2010 and by 0.8 percentage points to 51.6 per cent on a year-to-date basis, compared to the same periods in 2009. Our consistent, diligent focus on labour-related cost reductions and other cost containment initiatives continues to be reflected in our results. Also, in 2009, we recorded a one-time $3.0 million adjustment that reduced senior management long-term incentive plan expenses which contributed to the year-over-year EBITDA decline on a year-to-date basis.

Operating income decreased by 1.2 per cent, or $1.9 million, in the third quarter of 2010, compared to the third quarter of 2009. This decline was driven by the $10.2 million decrease in EBITDA, along with minor increases in both depreciation and amortization expense and net cost of benefit plans expense, which was almost entirely offset by a $12.1 million decrease in restructuring and other charges. On a year-to-date basis, operating income decreased 2.8 per cent, or $13.5 million, compared to the same period in 2009. The $21.6 million EBITDA decline along with a small increase in net cost of benefit plans expense was only partially offset by $9.5 million less restructuring and other charges and a slight decline in depreciation and amortization expense.

Net earnings decreased by 17.4 per cent, or $16.0 million, for the third quarter of 2010 when compared to the third quarter of 2009, driven by a $23.3 million reduction in net earnings from continuing operations but offset by a $7.3 million improvement in the net loss from discontinued operations reported in the same period in 2009. On a year-to-date basis, net earnings decreased by 7.9 per cent, or $20.7 million, compared to the same period in 2009, which reflected a $30.3 million reduction in net earnings from continuing operations and a $9.6 million improvement in net loss from discontinued operations.

Net earnings from continuing operations decreased 23.7 per cent, or $23.3 million, in the third quarter of 2010 compared to the third quarter of 2009. This reflects lower operating income combined with a lower income tax recovery, slightly higher interest charges and a $14.0 million increase in other expenses in the third quarter of 2010, compared to the same period in 2009. The increase in other expenses relates mainly to a $12.1 million loss arising from the early partial redemption of medium-term notes in September 2010, which did not occur in 2009. On a year-to-date basis, net earnings from continuing operations decreased 11.0 per cent, or $30.3 million, reflecting similar trends in expenses seen in the third quarter of 2010. Year-to-date net earnings from continuing operations in 2009 also includes the recognition of a net loss of $13.3 million arising on the settlement of interest rate derivative contracts terminated when we repaid variable interest debt and issued fixed rate long-term debt in May 2009.

Net earnings (loss) from discontinued operations improved $7.3 million in the third quarter of 2010 and $9.6 million on a year-to-date basis, compared to the same periods in 2009. Discontinued operations in 2009 included the operating results of Innovatia Inc. (Innovatia), xwave New England Corp (xwave New England) and our Defence, Security and Aerospace (DSA) business. The improvement in 2010 over the same periods in the prior year is primarily due to the write-down of Innovatia's net assets in 2009, which was not repeated in 2010.

Distributable cash

The following table provides a summary reconciliation of cash from operating activities to standardized distributable cash and distributable cash for the three and nine months ended September 30, 2010, and 2009, and additional information on the relationship between cash from operating activities, net earnings and cash distributions declared. Since our operations ultimately support distributions to Fund unitholders, distributable cash combines our cash performance with that of the Fund.

For the period ended September 30		Three months			Nine months[4]		
(millions of dollars)		**2010**	**2009**[4]	**% change**	**2010**	**2009**	**% change**
Cash from operating activities		**$258.2**	$279.2	(7.5)	**$715.8**	$799.2	(10.4)
Deduct:	Cash from operating activities of the Fund and discontinued operations	**(10.6)**	13.9	n.m.	**(13.3)**	(23.6)	(43.6)
	Capital expenditures	**(113.4)**	(114.3)	(0.8)	**(332.0)**	(342.4)	(3.0)
Standardized distributable cash [1]		**$134.2**	$178.8	(24.9)	**$370.5**	$433.2	(14.5)
Add (deduct):	Operating items funded through cash reserves or borrowing	**54.5**	24.2	n.m.	**193.2**	149.0	29.7
	Other adjustments	**5.0**	4.8	n.m.	**6.5**	8.7	(25.3)
Distributable cash [1]		**$193.7**	$207.8	(6.8)	**$570.2**	$590.9	(3.5)
Net earnings		**$75.8**	$91.8	(17.4)	**$242.9**	$263.6	(7.9)
Cash distributions declared [2]		**$165.1**	$165.1	-	**$495.3**	$495.1	-
Excess of cash from operating activities over cash distributions declared [3]		**$82.5**	$128.0	(35.5)	**$207.2**	$280.5	(26.1)
Shortfall of net earnings over cash distributions declared		**($89.3)**	($73.3)	21.8	**($252.4)**	($231.5)	9.0

n.m. not meaningful

[1] Standardized distributable cash and distributable cash are non-GAAP measures. Refer to the "Non-GAAP financial measures" section for further detail.

[2] Distributions declared include amounts declared by the Fund to unitholders and by Bell Aliant Holdings LP and Bell Aliant LP to Bell Canada and BCE on units that are exchangeable into Fund units.

[3] Cash from operating activities includes cash generated by the Fund and discontinued operations.

[4] Financial results for all prior periods have been restated to reflect our xwave business as discontinued operations.

Standardized distributable cash for the third quarter of 2010 was $134.2 million, which represents a decrease of $44.6 million, or 24.9 per cent, when compared to the same period in 2009. This is mainly due to a decrease in cash from operating activities of $21.0 million and a decrease in standardized distributable cash from discontinued operations and operating activities of the Fund of $24.5 million. Cash from operating activities declined mainly due to a $15.6 million higher cash requirement to fund changes in operating assets and liabilities (working capital), $4.4 million higher pension funding in addition to the $10.2 million reduction in EBITDA for the current quarter. When comparing the year-to-date results for 2010 with the same period in 2009, standardized distributable cash decreased $62.7 million, or 14.5 per cent. This is attributed to lower EBITDA of $21.6 million, higher pension funding of

$8.0 million and higher cash requirements to fund changes in working capital of $57.0 million, offset partially by lower capital spending of $10.4 million and higher standardized distributable cash from discontinued operations and operating activities of the Fund of $10.3 million. Refer to the "Summary of cash flows" section for additional information on cash from operating activities, cash from discontinued operations and spending on capital investments.

In contrast to standardized distributable cash, our calculation of distributable cash excludes cash requirements to fund working capital, restructuring charges and certain other items we fund through cash reserves or short-term borrowings. On this basis, distributable cash for the third quarter of 2010 was $193.7 million, which represents a decrease $14.1 million, or 6.8 per cent, when compared to the same period in 2009. The decrease mainly reflects lower EBITDA, which is reflected in the decline in cash from operating activities. On a year-to-date basis, distributable cash was $570.2 million, which represents a decrease of $20.7 million, or 3.5 per cent, as reduced capital spending was more than offset by a decline in EBITDA.

For the three months ended September 30, 2010, cash distributions declared were 85.2 per cent of distributable cash, compared to 79.5 per cent for the comparable period in 2009. The increase in the distributable cash payout ratio is due to the level of distributions being held consistent with the level of 2009 payouts, while distributable cash has decreased in the third quarter of 2010 compared to the same period in 2009. For the nine months ended September 30, 2010, cash distributions declared were 86.9 per cent of distributable cash, compared to 83.8 per cent for the comparable period in 2009.

CONVERSION TRANSACTION

As a result of the federal government's previously announced changes to income tax legislation affecting publicly listed or traded income trusts, the Fund will be taxed as if it were a corporation starting on January 1, 2011.

On June 16, 2010, at the Fund's annual and special meeting, unitholders approved a plan of arrangement to convert the Fund's income trust structure into a public corporation to be named Bell Aliant Inc. As part of the conversion, Fund unitholders will receive, on a tax-deferred basis, one common share of Bell Aliant Inc. for each unit held. On October 29, 2010, the CRTC provided Bell Aliant with the Broadcasting Act approvals necessary to implement the arrangement. No additional CRTC approvals are required to implement the arrangement. The conversion is subject to certain conditions and other approvals, and is expected to be completed on January 1, 2011.

The conversion will have no impact on our underlying business model or operating plans, but is expected to reduce administrative costs associated with our existing more complex trust structure, improve comparability of our financial condition and results of operations to our peers, and broaden our potential investor base. Following the conversion, BCE and Bell Canada will have the same governance rights and economic interests in us as immediately before the conversion.

We anticipate that Bell Aliant Inc. will be taxed at a blended federal / provincial rate of 29 per cent of taxable income in 2011, dropping to 27 per cent of taxable income by 2013.

Dividend policy

In considering an appropriate dividend policy for Bell Aliant Inc. for 2011 and onward, the Fund's objectives are to seek to ensure dividend sustainability while maintaining a high dividend payout to shareholders.

Beginning in 2011, Bell Aliant Inc. will target a payout ratio of 75 to 85 percent of free cash flow. Bell Aliant Inc.'s dividend policy is expected to result in an initial annual dividend rate of $1.90 per share, to be paid quarterly at a rate of $0.475 per share beginning in March 2011. For taxable retail investors resident in Canada, dividends paid by a corporation are taxed at lower rates than the distributions paid by the Fund, prior to January 1, 2011, as an income trust. As such, under a corporate structure, the dividend tax credit mechanism can be expected to mitigate, in large part, the after-tax effect of a lower dividend for those investors.

The Fund is expected to continue to declare and pay monthly distributions at the current annual rate of $2.90 per unit throughout 2010.

Free cash flow

As we prepare for conversion to a corporate structure and a dividend policy based on free cash flow, we anticipate the distributable cash financial measure will be less meaningful starting in 2011. The main differences between distributable cash and free cash flow are the distributable cash from discontinued operations and the items we state as being funded through cash reserves and short-term borrowing, such as restructuring charges, pension deficit funding and working capital changes. The following table provides a summary reconciliation of cash from operating activities to free cash flow, along with cash distributions declared, for the three and nine months ended September 30, 2010 and the corresponding periods in 2009. Since our operations ultimately support distributions to Fund unitholders, free cash flow combines our cash performance with that of the Fund.

For the period ended September 30	Three months			Nine months[3]		
(millions of dollars)	**2010**	**2009[3]**	**% change**	**2010**	**2009**	**% change**
Cash from operating activities	**$258.2**	$279.2	(7.5)	**$715.8**	$799.2	(10.4)
Cash used in operating activities of the Fund	**(1.1)**	(2.7)	n.m.	**(2.9)**	(15.0)	(80.7)
Total cash from operating activities	**257.1**	276.5	(7.0)	**712.9**	784.2	(9.1)
Capital expenditures	**(113.4)**	(114.3)	(0.8)	**(332.0)**	(342.4)	(3.0)
Free cash flow [1]	**$143.7**	$162.2	(11.4)	**$380.9**	$441.8	(13.8)
Add: Changes in operating assets and liabilities (working capital)	**17.0**	1.4	n.m.	**105.0**	48.0	n.m.
Change in operating assets and liabilities (working capital) of the Fund	**0.6**	2.0	n.m.	**0.4**	11.8	n.m.
Free cash flow before changes in working capital	**$161.3**	$165.6	(2.6)	**$486.3**	$501.6	(3.1)
Cash distributions declared [2]	**$165.1**	$165.1	-	**$495.3**	$495.1	-

n.m. not meaningful

[1] Free cash flow is a non-GAAP measure. Refer to the "Non-GAAP financial measures" section for further detail.

[2] Distributions declared include amounts declared by the Fund to unitholders and by Bell Aliant Holdings LP and Bell Aliant LP to Bell Canada and BCE on units that are exchangeable into Fund units.

[3] Financial results for all prior periods have been restated to reflect our xwave business as discontinued operations.

Free cash flow for the third quarter of 2010 was $143.7 million, a decrease of $18.5 million, or 11.4 per cent, from the same period in 2009, mainly due to the increased cash requirement to fund our and the Fund's working capital changes in the quarter of $14.2 million and higher pension funding of $4.4 million. Year-to-date results reflected a similar trend. Free cash flow was $380.9 million on a year-to-date basis, compared to $441.8 million during the same period in 2009, a decrease of $60.9 million. Working capital changes are normally a use of cash in the first quarter of the year, as we pay amounts related to annual incentives and interest that were accrued in the fourth quarter of the previous year, as well as large payments for property taxes. The effects of working capital on free cash flow typically reverse in later quarters, except for the payment of items such as previously accrued restructuring charges, to the extent they do not recur annually, and interest payments on our long-term debt which are predominantly made in the first and third quarters of the year. On a year-to-date basis, there was an increase in the cash requirement to fund our and the Fund's working capital changes of $45.6 million. As well, on a year-to-date basis, there was $8.0 million higher pension funding in 2010 compared to 2009.

OUR BUSINESS ENVIRONMENT

Competitive landscape

Our most significant competitive threat continues to be from cable companies as they expand their local service areas and provide bundled service offerings in our regions. The competitive footprint overlap with cable companies was 69 per cent of households in our territories at the end of September 2010, representing a 4 percentage point increase from a year ago. Although competitive coverage continues to expand, the rate of expansion has slowed significantly from what we have experienced in

prior years. We expect that the cable companies will continue to increase their competitive coverage over the next several years and that competitive coverage will peak in the mid to high 70's per cent range. We expect our market share in local and long distance voice services, and to a lesser extent Internet services, will be negatively affected for the next several years by further expansion into our territories and intensity of competition. We anticipate that our market share in TV services will grow against the cable companies as our footprint for offering these services expands.

In response to these competitive pressures, we have maintained our commitment to provide innovative product offerings and the highest quality of service to our customers. Our focus remains on investing heavily in fibre technology to build our network capacity, continually promoting our bundles and further enhancing our products and services. We draw on our local presence to guide community investment and to support activities that are important to our customers and employees. We conduct our business with a clear and consistent vision of the successful execution of our strategic objectives. Refer to our accomplishments as discussed in the "Strategy" section for further details.

Regulatory landscape

Our business is affected by decisions made by the Canadian Radio-television and Telecommunications Commission (CRTC or the Commission), pursuant to the Telecommunications Act, the Broadcasting Act and the Radiocommunication Act. The CRTC is an independent agency of the Government of Canada and is responsible for regulating Canada's telecommunications and broadcasting industries.

The CRTC is expected to rely on market forces to the maximum extent feasible when making policy decisions, and should use regulation that interferes with market forces to the minimum extent necessary. As an interested party, we frequently participate in the public processes leading up to these decisions, submitting evidence, opinions and comments to the CRTC. We also work with other industry and interested parties in pressing for regulatory reform, where we feel necessary and warranted, while similarly opposing those parties seeking to gain unfair competitive advantages or raise the regulatory burdens in our industry.

For a discussion of these and other reforms, refer to the "Regulatory developments" section.

STRATEGY

Highlights of strategic achievements in the third quarter of 2010

Our five strategic objectives that we implemented in 2009 remain our focus as we believe they are vital to our future success. Despite challenging economic times and a changing competitive environment, our strategy has proven resilient, enabling a critical balance between improving services, increasing productivity and offering advanced solutions to our customers. Our five strategic objectives are as follows:

1. Improve the customer experience;
2. Retain our customers;
3. Grow broadband;
4. Reset our cost structure; and
5. Engage employees.

Improve the customer experience

Delivering a superior customer experience continues to be our goal. This requires a consistent and determined vision of making it easier for our customers to do business with us. We are dedicated to not only meeting our customer commitments, but keeping them informed along the way, and delivering quality service the right way the first time. These service fundamentals are core to achieving our strategy and have ensured our success in maintaining our high-calibre service levels over the past year.

Retain our customers

We believe bundles are instrumental in retaining customers. During the third quarter of 2010, we introduced new *FibreOP*™ bundles, offered in areas with access to our fibre-to-the-home (FTTH)

service. This new bundle structure places greater emphasis on higher-speed Internet, high definition TV programming and our personal video recorder services. We believe these new offerings, in addition to our other bundles, will allow us to stay both competitive and relevant in the marketplace.

Grow broadband

Our focus on the expansion of *FibreOP* continued during the third quarter of 2010 with several announcements.

On August 26, 2010, we announced the launch of *FibreOP* services in the Greater Moncton Area. Customers in Dieppe are the first in the area to have access to *FibreOP* services and bundles, with the communities of Riverview and Moncton to closely follow this fall. This expansion will allow us to build on the success we have already experienced with our *FibreOP* services in New Brunswick.

On September 2, 2010, in partnership with Killam Properties Inc., we announced the achievement of a significant milestone in fibre-optic technology. Forest Hill Towers, a newly renovated building in Fredericton, New Brunswick, has been retrofitted with our *FibreOP* technology and will become the first *FibreOP* enabled multi-residential building in Atlantic Canada.

On September 29, 2010, with the support of the Government of Prince Edward Island, we announced our plan to invest $20 million to bring *FibreOP* products and services to Prince Edward Island. By the end of 2011, approximately 30,000 homes and businesses in Charlottetown and Summerside will have the opportunity to connect to our *FibreOP* network. Charlottetown will be the first community in the province to have access to *FibreOP* service, beginning in early spring, with Summerside to follow shortly thereafter. This investment is part of our almost half billion dollar planned investment in FTTH, to expand *FibreOP* services to more than 600,000 homes and businesses by the end of 2012.

Digital subscriber line (DSL) and fixed wireless broadband expansion also continued in the quarter with an additional 32,000 homes passed, resulting in over 80 per cent of homes in our territory now passed with high-speed Internet service.

Reset our cost structure

Cost structure improvement remains essential to the achievement of our corporate strategy. Aggressive, company-wide management of our expenses continues to generate significant cost reductions, primarily from optimizing our workforce productivity, controlling discretionary spending, and through our commercial agreements with Bell Canada.

We remain focused on managing our labour costs and continue to seek additional workforce productivity opportunities. On September 15, 2010, our Atlantic Canadian union announced that it had accepted an early collective agreement. This will allow us to achieve certainty in our labour costs and to realize significant efficiencies, which enables us to protect jobs and benefits. The new agreement replaces the current collective agreement, set to expire on December 31, 2011, with the changes effective from October 1, 2010, until December 31, 2014.

Our efforts to manage discretionary spending continue to produce significant savings. During the third quarter of 2010, we were successful in negotiating improved rates with our vendors, specifically in the areas of communications and maintenance. We achieved significant savings through volume reductions and the optimization of corporate cellular plans from Bell Mobility. We have also been able to further align consulting and advertising spending to business requirements, improving on value we get out of every dollar spent.

Finally, further cost reductions have been realized through our commercial agreements with Bell Canada.

Engage employees

We continue to focus on providing clear direction on our strategy and helping employees understand the link between their work and the organization's objectives, while promoting a high performance culture. The ratification of the Atlantic union agreement is a significant step in engaging our unionized

workforce in moving forward with addressing the challenges we have in our business. We are continuing to focus on the development of our employees, by refining tools that will simplify the talent management process for our leaders of people and provide us with a more accurate view of our needs and strengths. We are also following through on development initiatives agreed on during employee reviews, particularly for top performers and talent identified for succession to key roles.

RESULTS OF OPERATIONS

For the period ended September 30	Three months			Nine months[2]		
(millions of dollars)	**2010**	**2009[2]**	**% change**	**2010**	**2009**	**% change**
Local and access	**$325.3**	$341.8	(4.8)	**$973.2**	$1,020.9	(4.7)
Long distance	**102.6**	111.4	(7.9)	**298.7**	324.1	(7.8)
Data & Internet	**208.4**	207.8	0.3	**619.6**	615.2	0.7
Wireless	**24.3**	24.3	-	**67.3**	65.3	3.1
Other revenues	**37.6**	39.4	(4.6)	**117.0**	125.7	(6.9)
Operating revenues	**$698.2**	$724.7	(3.7)	**$2,075.8**	$2,151.2	(3.5)
Operating expenses	**335.7**	352.0	(4.6)	**1,004.7**	1,058.5	(5.1)
EBITDA[1]	**$362.5**	$372.7	(2.7)	**$1,071.1**	$1,092.7	(2.0)
Net cost of benefit plans	**22.0**	20.0	10.0	**66.4**	64.6	2.8
Depreciation and amortization	**177.9**	176.1	1.0	**526.2**	526.6	(0.1)
Restructuring and other charges	**0.8**	12.9	(93.8)	**16.1**	25.6	(37.1)
Operating income	**$161.8**	$163.7	(1.2)	**$462.4**	$475.9	(2.8)
Other expenses (income)	**12.8**	(1.2)	n.m.	**13.3**	12.8	3.9
Interest charges	**41.4**	40.0	3.5	**120.9**	116.5	3.8
Income tax recovery	**(1.2)**	(7.7)	(84.4)	**(15.1)**	(31.9)	(52.7)
Non-controlling interest	**33.6**	34.1	(1.5)	**99.3**	104.2	(4.7)
Net earnings from continuing operations	**$75.2**	98.5	(23.7)	**$244.0**	$274.3	(11.0)
Net earnings (loss) from discontinued operations	**0.6**	(6.7)	n.m.	**(1.1)**	(10.7)	(89.7)
Net earnings	**$75.8**	$91.8	(17.4)	**$242.9**	$263.6	(7.9)

n.m. not meaningful

[1] EBITDA is a non-GAAP financial measure. Refer to the "Non-GAAP financial measures" section for more details.

[2] Financial results for all prior periods have been restated to reflect our xwave business as discontinued operations.

Operating revenues

Local and access

Our local and access revenue is earned primarily through the provision of NAS, along with enhanced service features, contribution revenues and competitor network access revenues. Local and access revenue decreased 4.8 per cent, or $16.5 million, in the third quarter of 2010, and 4.7 per cent, or $47.7 million, on a year-to-date basis, compared to the same periods in 2009. This was consistent with the 4.8 per cent NAS customer decline on a year-over-year basis. The revenue decrease includes a $5.1 million and $15.5 million decline in contribution subsidy revenue for the third quarter and year-to-date in 2010, respectively, compared to the same periods in 2009. This was primarily caused by the effect of 2009 cost deflation used in the formula for contribution subsidy calculation purposes. Revenue losses continued to be mitigated through programs targeted at retaining our highest value customers and selective pricing increases.

At September 30, 2010, the number of residential NAS customers and business NAS customers were 6.0 per cent and 2.3 per cent lower, respectively, than at September 30, 2009. In our residential market, we continue to experience customer losses due to continued competitive intensity and the expansion in the competitive footprint overlap with cable companies, as well as substitution of traditional wireline service by other services as customers adopt wireless and voice over Internet protocol (VoIP)

technologies. In our business market, we are not experiencing the same degree of contract losses as we saw in Atlantic Canada in the second quarter of 2009.

During the third quarter of 2010, our net NAS customer declines were 35,446. Despite the overall decline in NAS customers in the third quarter and year-to-date in 2010, both residential and business NAS declines are lower in 2010 than the same periods in 2009. Net NAS customer declines improved by approximately 6,700 customers over the declines experienced in the third quarter of 2009, and 14,000 over the declines during the first nine months of 2009. The lower declines are a result of improved retention programs, slowing competitive growth and the non-recurrence of business contract losses from 2008 and 2009.

Long distance

Long distance revenue, earned through toll and long distance terminating services, decreased by 7.9 per cent, or $8.8 million, in the third quarter of 2010, and 7.8 per cent, or $25.4 million, on a year-to-date basis, compared to the same periods in 2009. This was mainly a result of a decline in long distance minutes of 6.2 per cent for both the current quarter and year-to-date, attributable to customer losses and substitution of traditional wireline service by email, cellular calling and VoIP services. Average revenue per minute remained unchanged for the third quarter of 2010, compared to the same period in 2009. On a year-to-date basis, average revenue per minute declined 1.1 per cent, due to customers shifting from per-minute to flat-rate and lower yielding plans. As long distance service is bundled with high-speed Internet and TV to make attractive packages for customers, revenue from this service decreases while the bundles serve to increase our overall revenue per customer as they subscribe to more of our services.

Data and Internet

Data and Internet revenue is earned through the provision of data access, data circuits, high-speed and dial-up Internet services, managed network services, Internet protocol television (IPTV) and enhanced services and applications, such as security services and music download service. Revenue from these services remained stable in the third quarter of 2010, increasing 0.3 per cent, or $0.6 million, compared to the same period in 2009. Internet revenue grew 6.0 per cent, or $6.5 million, in the third quarter of 2010 compared to the third quarter of 2009, due to continued migration of our customers to higher-speed and value-added services. This growth was largely offset by declines in other data revenues of 6.0 per cent, or $5.9 million, over the same period mainly as a result of customer losses and transitions from a legacy network to a more competitively priced IP-based framework. Year-to-date results reflected a similar trend. Data and Internet revenue increased 0.7 per cent, or $4.4 million, as a $17.9 million decline in other data revenues was more than offset by $22.3 million of growth in Internet revenue.

At September 30, 2010, our high-speed Internet customer base was 5.2 per cent higher than at September 30, 2009, with growth in both our residential and business markets. As well, selected price increases and growth in value-added services to customers have contributed to our highest residential high-speed Internet average monthly revenue per customer (ARPC) to date of $40.13 in the third quarter of 2010. ARPC is up 5.1 per cent, or $1.93, from $38.20 in the third quarter of 2009, and represents an increase of $1.91, or 5.1 per cent, to $39.59 on a year-to-date basis.

Wireless

Wireless revenue is earned through providing cellular, paging and mobile radio services over digital wireless networks in our Télébec, NorthernTel and Kenora Municipal Telephone Services (KMTS)-branded territories in Quebec and Ontario. Wireless revenue remained unchanged in the third quarter of 2010, and increased $2.0 million, or 3.1 per cent, on a year-to-date basis, compared to the same periods in 2009. This was mainly due to strong data roaming results and a 7.6 per cent increase in wireless customers at September 30, 2010, compared to September 30, 2009, despite a decline in wireless ARPC. For the quarter ended September 30, 2010, wireless ARPC declined 7.0 per cent and on a year-to-date basis, 3.6 per cent, as we continued to employ aggressive promotional pricing in order to acquire and retain customers in the face of competitive offers.

Other revenues

Other revenues consist mainly of terminal rentals and sales, personal computer sales, equipment sales, custom work completed for large customers, and revenue generated by our outsourcing arrangement with Bell Mobility. Other revenues declined 4.6 per cent, or $1.8 million, in the third quarter of 2010, compared to the same period in 2009. Although equipment sales increased during the quarter, the overall decline was largely driven by a repatriation of services associated with our outsourcing arrangements with Bell Mobility, as well as a decrease in rental revenue. On a year-to-date basis, other revenues declined by 6.9 per cent, or $8.7 million, reflecting similar trends seen in the third quarter of 2010, offset by growth in custom work predominantly generated from the G8 Summit.

Expenses

Operating expenses

For the period ended September 30	Three months			Nine months[1]		
(millions of dollars)	**2010**	**2009[1]**	**% change**	**2010**	**2009**	**% change**
Cost of sales	**$95.5**	$90.0	6.1	**$279.9**	$271.4	3.1
Salaries, benefits, contract labour and consulting	**116.8**	125.5	(6.9)	**343.8**	369.2	(6.9)
Selling, general and administrative	**122.4**	135.1	(9.4)	**377.9**	412.2	(8.3)
Capital taxes	**1.0**	1.4	(28.6)	**3.1**	5.7	(45.6)
Operating expenses	**$335.7**	$352.0	(4.6)	**$1,004.7**	$1,058.5	(5.1)

[1] Financial results for all prior periods have been restated to reflect our xwave business as discontinued operations.

Operating expenses decreased by 4.6 per cent, or $16.3 million, in the third quarter of 2010, and 5.1 per cent, or $53.8 million, on a year-to-date basis, compared to the same periods in 2009, reflecting a marked improvement in most operating expense categories.

Cost of sales increased 6.1 per cent, or $5.5 million, in the third quarter of 2010, compared to the same period in 2009. This is primarily due to increased content costs, driven by a higher number of TV subscribers, and higher product cost of goods sold associated with increased product revenues. On a year-to-date basis, cost of sales increased 3.1 per cent, or $8.5 million, compared to the same period in 2009, reflecting similar trends experienced in the third quarter of 2010, including a year-over-year increase in network service cost of goods sold primarily related to the G8 Summit hosted in our Ontario region.

Salaries, benefits, contract labour and consulting expenses decreased 6.9 per cent, or $8.7 million, in the third quarter of 2010, and 6.9 per cent, or $25.4 million, on a year-to-date basis, compared to the same periods in 2009, due to the continuance of productivity efficiencies related to our restructuring initiatives.

Selling, general and administrative expenses decreased 9.4 per cent, or $12.7 million, in the third quarter of 2010, and 8.3 per cent, or $34.3 million, on a year-to-date basis, compared to the same periods in 2009. Perseverance in streamlining our operations through various cost containment measures resulted in lower real estate expenses, property and municipal taxes, bad debt expense and other discretionary expenses.

Net cost of benefit plans

Net cost of defined benefit (DB) and other post employment benefit (OPEB) plans was $20.4 million in the third quarter of 2010, and $61.0 million on a year-to-date basis, compared to $18.3 million and $59.0 million for the same periods in 2009. The size of the DB and OPEB obligations has increased in 2010, compared to the prior year, resulting in higher amortization and interest costs. Increases in these costs have been largely offset by higher expected returns on DB plan assets, with our asset base increasing from strong returns and contributions made in 2009. Current service costs have remained relatively stable, as natural rising costs of benefits are offset by fewer active employees in these plans.

Defined contribution (DC) pension costs were $1.7 million in the third quarter of 2010, and $5.6 million on a year-to-date basis, consistent with the prior year.

Depreciation and amortization

Depreciation and amortization increased 1.0 per cent, or $1.8 million, in the third quarter of 2010, compared to the third quarter of 2009, resulting from an alignment of the estimated useful lives of certain intangible assets. On a year-to-date basis, depreciation and amortization expense decreased 0.1 per cent, or $0.4 million, which is generally a result of a declining and aging depreciable asset base when comparing year over year.

Restructuring and other charges

Restructuring and other charges for the third quarter of 2010 were $0.8 million, compared to $12.9 million in the same period of 2009. In the third quarter of 2009, we announced a plan to consolidate certain contact centres in Atlantic Canada. The affected unionized employees were offered relocation to the remaining contact centres, resulting in the recognition of severance and related costs, with no corresponding expense occurring in the third quarter of 2010. On a year-to-date basis, restructuring and other charges were $16.1 million in 2010, compared to $25.6 million in the same period of 2009. Both years include employee severance and benefit costs incurred for voluntary retirement incentives offered to certain unionized staff, streamlining of our management workforce and real estate rationalization costs, with 2009 also including those charges related to the consolidation of certain contact centres.

Other expenses (income)

Other expenses were $12.8 million in the third quarter of 2010, compared to other income of $1.2 million in the same period in 2009. In 2010, we recognized a $12.1 million loss, which includes $1.1 million for recognition of previously unamortized costs, on early redemption of medium-term notes in September 2010, with no similar transaction recorded in the third quarter of 2009. On a year-to-date basis, other expenses have remained stable, increasing by only $0.5 million, compared to the same period in 2009. The second quarter of 2009 included $13.3 million reclassified from other comprehensive earnings for net losses on interest rate hedges that were settled in May 2009, with no such transactions occurring in 2010.

Interest charges

Interest charges increased 3.5 per cent, or $1.4 million, in the third quarter of 2010, and 3.8 per cent, or $4.4 million, on a year-to-date basis, compared to the same periods in 2009. Total debt levels are slightly higher year over year due to new capital lease agreements entered into during 2009 and 2010 and higher short-term working capital financing. The higher interest expense reflects this increase to our debt level as well as higher interest rates on long-term debt issued in May 2009, the proceeds of which were used to repay lower rate short-term debt. Approximately 90 per cent of our debt is effectively subject to fixed rates of interest.

Income tax recovery

The income tax recovery decreased 84.4 per cent, or $6.5 million, in the third quarter of 2010 compared to the third quarter of 2009. This is mainly due to the recognition in the third quarter of 2010 of $2.9 million higher current income tax expense related to prior period tax amounts owed by certain of our corporate subsidiaries, with no similar amount reported in the third quarter of 2009. It also reflects the recognition of $9.0 million in higher income tax recoveries in 2009, compared to the same period in 2010, related to blended federal and provincial tax rate reductions and changes to temporary difference reversal patterns, offset by a $5.3 million higher recovery for the third quarter of 2010 due to lower earnings before tax compared to the same period in 2009.

On a year-to-date basis, income tax recovery decreased by 52.7 per cent, or $16.8 million, compared to the same period in 2009. This is mainly due to the recognition in 2009 of $18.0 million in higher income tax recoveries related to blended federal and provincial tax rate reductions and changes to

temporary difference reversal patterns and a $2.0 million current income tax recovery reported in 2009 related to a settlement of prior period audit issues with Canada Revenue Agency (CRA), compared to a current tax provision of $2.9 million recorded for the same period in 2010. These were offset by a $4.0 million higher tax recovery due to lower earnings before tax in the current year-to-date period, as compared to the same period in 2009, as well as a $3.5 million tax recovery recorded in the second quarter of 2010 related to the introduction of a cash settlement option in an equity-based incentive plan.

Non-controlling interest

Non-controlling interest at September 30, 2010, represents Bell Canada's 37.9 per cent ownership interest in our subsidiary, Bell Aliant LP (36.1 per cent on a proportionate cash distribution basis).

Non-controlling interest in our earnings decreased by 1.5 per cent, or $0.5 million, in the third quarter of 2010, and 4.7 per cent, or $4.9 million on a year-to-date basis, compared to the same periods in 2009, which reflects Bell Canada's proportionate share of the decrease in net income of Bell Aliant LP for the period.

Net earnings (loss) from discontinued operations

Discontinued operations in 2010 and 2009 reflect the operating results of our xwave business while 2009 also includes the operating results of Innovatia, xwave New England and our DSA business.

On October 26, 2010, we announced that we had signed an asset purchase agreement, subject to certain conditions, under which Bell Canada will acquire our xwave business for proceeds of approximately $40.0 million, plus certain post-closing adjustments. The transaction has an anticipated closing date of January 1, 2011. As a result, we have reclassified the results of our xwave business operations as discontinued operations. Accordingly, prior period consolidated statements of earnings and cash flows have been restated to reflect this change and the net assets of our xwave business have been reflected as discontinued operations on the consolidated balance sheet as at September 30, 2010. In 2010, our xwave business generated income of $0.6 million in the third quarter and a loss of $1.1 million in the first nine months.

In 2009, xwave, Innovatia, xwave New England and our former DSA business had a combined net loss of $6.7 million in the third quarter and $10.7 million in the first nine months.

Selected quarterly financial information

The following table shows selected unaudited consolidated financial results by quarter for the most recent eight quarters, prepared on the same basis as our annual consolidated financial statements.

For the eight quarters ended September 30	2010			2009[3]				2008[3]
(millions of dollars, except per unit amounts)	Q3	Q2[3]	Q1[3]	Q4	Q3	Q2	Q1	Q4
Operating revenues	$698.2	$694.5	$683.1	$719.0	$724.7	$720.3	$706.2	$744.9
EBITDA[1]	$362.5	$356.9	$351.7	$364.8	$372.7	$365.0	$355.0	$368.0
Operating income	$161.8	$153.6	$147.0	$145.8	$163.7	$163.9	$148.3	$120.4
Net earnings (loss):								
Continuing operations	$75.2	$91.6	$77.2	$96.5	$98.5	$93.0	$82.8	$87.0
Discontinued operations	0.6	(2.3)	0.6	(3.9)	(6.7)	(3.7)	(0.3)	(7.0)
Net earnings	$75.8	$89.3	$77.8	$92.6	$91.8	$89.3	$82.5	$80.0
Basic and diluted earnings (loss) per unit:								
Continuing operations	$0.47	$0.57	$0.48	$0.60	$0.61	$0.58	$0.52	$0.54
Discontinued operations	-	(0.01)	-	(0.02)	(0.04)	(0.02)	(0.01)	(0.04)
Basic and diluted earnings per unit	$0.47	$0.56	$0.48	$0.58	$0.57	$0.56	$0.51	$0.50
Distributable cash[1]	$193.7	$176.2	$200.3	$182.5	$207.8	$186.6	$196.5	$146.2
Cash distributions declared[2]	$165.1	$165.1	$165.1	$165.1	$165.1	$165.1	$164.9	$164.8

(1) EBITDA and distributable cash are non-GAAP measures. Refer to the "Non-GAAP financial measures" section for more details.
(2) Cash distributions declared include amounts declared by the Fund to unitholders and by Bell Aliant Holdings LP and Bell Aliant LP to Bell Canada and BCE on units that are exchangeable into Fund units.
(3) Financial results for all prior periods have been restated to reflect our xwave business as discontinued operations.

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

- In general, we have seen a decline in revenues from local and access, long distance, and other revenues over the past eight quarters, while revenues earned from wireless, data and Internet have increased.
- A restructuring initiative was launched in 2008 with a $56.7 million charge recorded in the fourth quarter to facilitate a new organizational structure. As part of our productivity initiatives in 2009 to create a more efficient cost structure as well as improve our service to customers, we offered a voluntary retirement incentive to a limited number of our unionized employees in Atlantic Canada, Ontario and Quebec. We also announced an operational consolidation of certain contact centres in Atlantic Canada and streamlined our management workforce. We recognized restructuring charges related to these initiatives of $9.3 million, $2.5 million, $12.1 million and $13.7 million in the first, second, third and fourth quarters of 2009, respectively. In 2010, we continued our organizational restructuring initiatives which resulted in recognizing related restructuring charges of $10.7 million, $4.0 million and $0.6 million in the first, second and third quarters, respectively.
- Cost containment and other expense reduction initiatives implemented during 2009 in response to our strategic objectives reduced our selling, general and administrative expenses by $39.3 million, or 6.7 per cent, in 2009 compared to 2008. In the first, second and third quarters of 2010, this trend continued, as selling, general and administrative expenses declined $7.7 million, $13.9 million and $12.7 million, respectively, compared to the same periods in 2009.
- On May 1, 2009, we concluded an asset purchase agreement whereby CAE Professional Services (Canada) Inc. (CAE) acquired our DSA business, which operated under the xwave brand. The proceeds on closing were $16.3 million in cash and $7.6 million in receivables from CAE related to post-closing balance sheet adjustments, with an additional $8.5 million of proceeds contingent upon the occurrence of certain future events, for potential total proceeds of $32.4

million. A pre-tax gain on sale of $1.7 million was recorded in the second quarter of 2009, which was reflected in the net loss from discontinued operations.

- On June 1, 2009, we concluded a share purchase agreement whereby Abilis Solutions Inc. acquired all of the outstanding shares of xwave New England. The proceeds on closing were $4.9 million, resulting in a pre-tax loss on sale of $3.5 million being recognized during the second quarter of 2009.
- On November 1, 2009, we concluded a share purchase agreement under which the senior leaders of Innovatia acquired all of its outstanding shares. In anticipation of the disposal, we recorded a write-down of net assets in the third quarter of 2009 of $6.1 million. The proceeds on closing were $1.5 million, resulting in a pre-tax loss on sale of $1.5 million being recognized in the fourth quarter of 2009.

Additional details regarding our results for the third quarter of 2010 are discussed throughout this document. Further information on our prior quarterly results can be found in the respective quarterly financial statements and related MD&A on our website at www.bellaliant.ca, and filed on SEDAR at www.sedar.com.

FINANCIAL AND CAPITAL MANAGEMENT

Summary of cash flows

For the period ended September 30	**Three months**			**Nine months[1]**		
(millions of dollars)	**2010**	**2009[1]**	**% change**	**2010**	**2009**	**% change**
Cash from (used in):						
Operating activities	**$258.2**	$279.2	(7.5)	**$715.8**	$799.2	(10.4)
Financing activities	**(59.7)**	(171.9)	(65.3)	**(312.8)**	(458.4)	(31.8)
Investing activities	**(186.1)**	(114.3)	62.8	**(404.7)**	(342.4)	18.2
Net increase (decrease) in cash from continuing operations	**$12.4**	($7.0)	n.m.	**($1.7)**	($1.6)	6.3
Net increase (decrease) in cash from discontinued operations	**(9.5)**	18.9	n.m.	**(10.4)**	14.4	n.m.
Net increase (decrease) in cash for the period	**$2.9**	$11.9	(75.6)	**($12.1)**	$12.8	n.m.

n.m. - not meaningful

[1] Financial results for all prior periods have been restated to reflect our xwave business as discontinued operations.

We generated cash of $2.9 million in the third quarter of 2010, compared to generating cash of $11.9 million in the third quarter of 2009. On a year-to-date basis, we used cash of $12.1 million compared to generating cash of $12.8 million for the same period in 2009. This decrease in cash of $24.9 million in the first nine months of 2010 is primarily the result of lower cash from discontinued operations of $24.8 million. It reflects a $15.2 million year-over-year decrease in cash generated from our xwave business, as well as the proceeds realized from the sale of our DSA and xwave New England businesses in 2009, with no similar transaction occurring in 2010.

Operating activities

Cash generated from operating activities decreased 7.5 per cent, or $21.0 million, in the third quarter of 2010, compared to the same period in 2009, as net earnings from continuing operations net of non-cash adjustments decreased $1.0 million and cash flows from changes in operating assets and liabilities (working capital) decreased $15.6 million. In addition, funding of DB pension and OPEB plans increased $4.4 million in the third quarter of 2010 due to the payment of $5.6 million in contributions accrued during the second quarter of 2010.

Cash used to fund working capital changes was $17.0 million in the third quarter of 2010, compared to $1.4 million in the third quarter of 2009. Our management of accounts receivable contributed $7.6 million to our cash flows in the third quarter of 2010, compared to contributing $22.7 million in the third quarter of 2009. Although there was continued improvement in accounts receivable management, it was not to the same extent as in 2009. Cash generated from deferred charges decreased $6.0 million largely due to an increase in 2010 for deferred costs related to the upcoming corporate conversion, long-term prepayments for procurement contracts and new customer acquisition costs. Cash flow used to fund working capital changes was positively affected quarter-over-quarter by a $9.4 million decline in inventory purchases as 2009 and the first half of 2010 involved a build-up of inventory for our *FibreOP* program, which is now being deployed as our *FibreOP* customer base expands.

On a year-to-date basis, cash generated from operating activities was 10.4 per cent, or $83.4 million, lower than the same period in 2009, as net earnings from continuing operations net of non-cash adjustments decreased $18.4 million, cash flows from changes in working capital decreased $57.0 million, and funding of DB pension and OPEB increased $8.0 million.

During the first nine months of 2010, cash used to fund working capital changes was $105.0 million compared to using $48.0 million in the same period in 2009. Similar to trends seen on a quarterly basis, accounts receivable and deferred charges generated $33.4 million and $14.1 million less cash, respectively. On a year-to-date basis, income tax receivable used $8.1 million more cash in 2010 compared to 2009 as we made a payment in the first quarter of 2010 resulting from an audit of our scientific research and experimental development tax credits, which remains under appeal. Inventory used $5.7 million more cash on a year-to-date basis which reflects elevated inventory purchases during the first six month of 2010, to support our FibreOP program. These were partially offset by $21.8 million less cash used for payables and accruals as there were $15.8 million lower payments made on previously accrued restructuring charges.

Funding for our DB pension plans for the third quarter and year-to-date 2010 was $33.4 million and $97.3 million, respectively, compared to $34.3 million and $89.3 million for the same periods in 2009. Actuarial valuations of our DB pension plans as of December 31, 2009, were filed in the third quarter of 2010. Required contributions to DB pension plans for 2010 are expected to total approximately $139.0 million, including $54.0 million in current service contributions and $85.0 million in deficit funding.

Contributions to our OPEB plans to fund benefit payments were $1.9 million in the third quarter of 2010, a slight decrease from $2.2 million paid in the third quarter of 2009, due to the timing of benefit payments. Year-to-date contributions were $6.0 million, consistent with the prior year.

Financing activities

Cash used in financing activities decreased 65.3 per cent, or $112.2 million, for the third quarter of 2010, compared to the same period in 2009. On a year-to-date basis, we used cash of $312.8 million in our financing activities compared to using cash of $458.4 million for the same period in 2009.

In the third quarter of 2010, we had net proceeds of debt (including short and long-term debt, capital leases and notes payable to related parties) of $33.9 million, compared to net repayments of $5.5 million in same period in 2009. On a year-to-date basis, we had net proceeds of $128.2 million in 2010 compared to net proceeds of $56.0 million in 2009. We had net proceeds of long-term debt issuance of $348.7 million in the third quarter of 2010, with no long-term debt issuance during the same period of

2009. Those proceeds, together with incremental short-term borrowing, were used to make a partial redemption of medium-term notes which were due to mature in September of 2011. We repaid $345.0 million of the principal amount and paid an $11.0 million prepayment penalty on redemption, resulting in $356.0 million total settlement payment for the partial redemption.

Amounts drawn under short-term credit facilities increased to $187.8 million at September 30, 2010, compared to $40.0 million at December 31, 2009. We issued $47.2 million of short-term promissory notes during the quarter and $147.8 million year-to-date, respectively, under our commercial paper program in 2010.

Refer to the "Financing and liquidity" section for further discussion on our short-term and long-term debt.

We also used cash of $15.0 million in the second quarter of 2010 to repurchase accounts receivable from the securitization trust, with no similar activity occurring under the program in the same period of 2009. We increase or decrease the amount of accounts receivable we sell to the securitization trust based on the amount of our eligible accounts receivable and our determination of the cost effectiveness of this program.

Financing activities also include total distributions paid to the Fund and non-controlling interests, which were $93.6 million in the third quarter of 2010 and $166.4 million in the same period in 2009. This decrease of $72.8 million is the result of BCE and Bell Canada's election to defer payment of their distributions declared related to their interest in exchangeable limited partnership units of Bell Aliant Holdings LP and Bell Aliant LP from June 2010 up to and including December 2010. The deferred distributions are anticipated to be paid to BCE and Bell Canada on January 1, 2011. In the interim, BCE and Bell Canada receive the equivalent amount of these distributions in the form of a loan, as discussed under "Investing activities". On a year-to-date basis, total distributions were $426.0 million, compared to $499.0 million in the same period in 2009.

Investing activities

Cash used in investing activities increased by $71.8 million in the third quarter of 2010, and $62.3 million on a year-to-date basis, compared to the same periods in 2009.

In the third quarter of 2010, BCE and Bell Canada elected to be loaned an amount equal to their deferred distributions, in the form of non-interest bearing notes receivable with a maturity date of January 1, 2011. As a result, notes receivable from related parties included $72.8 million, with no corresponding transaction occurring in the comparative period of 2009.

Capital investments were $113.4 million in the third quarter of 2010, compared to $114.3 million in the same period in 2009, representing a decrease of $0.9 million, or 0.8 per cent. On a year-to-date basis capital investments decreased $10.4 million, or 3.0 per cent, compared to the same period of 2009. The first quarter of 2009 included incremental spending for the Bell Mobility backhaul project which was not incurred in 2010.

Capital expenditures were 16.2 per cent of operating revenues in the third quarter of 2010, and 16.0 per cent on a year-to-date basis. Our revised annual target of 17.5 per cent to 18.5 per cent contemplates the anticipated effect on capital intensity by the end of 2010 of reclassifying xwave as discontinued operations and the successful completion of the pole purchase opportunity, as further discussed in the "Revised guidance" section.

Financing and liquidity

Sources of liquidity

We derive most of our liquidity from cash from operating activities, as well as bank credit facilities, a commercial paper program, and our accounts receivable securitization program. We anticipate generating enough cash from our operating activities to pay for capital investments, distributions and other commitments as they arise.

Our capital structure is as follows:

(millions of dollars, except as otherwise noted)	**September 30, 2010**		**December 31, 2009**	
Partners' equity	**$4,703.9**	51.1%	$4,799.4	52.3%
Non-controlling interest	**1,530.2**	16.6%	1,587.9	17.3%
Net debt	**2,969.0**	32.3%	2,792.6	30.4%
Total capital	**$9,203.1**	100.0%	$9,179.9	100.0%

Partners' capital

We have an unlimited number authorized of each of the three classes of partnership units, which are not publicly traded. The number of units issued and outstanding at September 30, 2010, which is unchanged from December 31, 2009, is as follows:

- 28,168,803 class 1 exchangeable limited partnership units;
- 132,367,606 class 2 limited partnership units; and
- 54,000 general partnership units.

Debt

We have a total of $2.6 billion in unsecured and unsubordinated medium-term notes outstanding under Bell Aliant LP's trust indenture dated September 14, 2006. In April of 2009, we filed a new medium-term note shelf prospectus that is available to cover future medium-term note issuances for a 25-month period.

In September 2010, we issued $350.0 million of unsecured medium-term notes, bearing interest at 4.37 per cent per annum and maturing on September 13, 2017. Debt issue costs of $1.3 million were incurred, resulting in net proceeds of $348.7 million. Proceeds were used to make a partial redemption of the 4.72 per cent medium-term notes maturing on September 26, 2011. We repaid $345.0 million principal amount and paid an $11.0 million penalty on early redemption, recorded in other expenses, resulting in $356.0 million total settlement payment for partial redemption.

Our available short-term credit facilities have not changed significantly since December 31, 2009. We continue to maintain a $400.0 million commercial paper program, supported by unused capacity on our revolving operating facilities. Amounts drawn under our short-term credit facilities are $187.8 million at September 30, 2010, compared to $40.0 million at December 31, 2009. There was $147.8 million issued under our commercial paper program at September 30, 2010, with no amounts issued at December 31, 2009.

As of September 30, 2010, there have been no changes to the covenants and provisions contained in our credit facilities as disclosed in our MD&A for the year ended December 31, 2009.

Ratings

There were no changes to our debt ratings in the third quarter of 2010. In the second quarter of 2010, Standard and Poor's changed its outlook on our senior unsecured debt from negative to stable outlook.

	S&P	**DBRS**
Bell Aliant LP senior unsecured debt	BBB, stable outlook	BBB (high), stable trend
Bell Aliant LP commercial paper	Not rated	R-1 (low), stable trend
Télébec and NorthernTel debentures	BBB, stable outlook	BBB (high), stable trend

Cash requirements

We require a significant amount of cash to execute our business strategy. Our cash requirements for the third quarter of 2010 consisted of distributions to unitholders, investments in capital, pension plan funding, repayment of short and long-term debt, and payments of other commitments. Cash requirements in 2010 are expected to be similar to 2009. Specifically, it is anticipated that these requirements will result in the use of cash as follows:

- The annual cash requirement to make distributions to Fund unitholders and pro-rata distributions (or loans in lieu thereof) to BCE and Bell Canada on exchangeable limited partnership units is estimated to be in the range of $660 million to $665 million for 2010. For the nine months ended September 30, 2010, we paid $426.0 million in distributions and advanced $72.8 million in notes receivable from related parties.
- We anticipate our revised 2010 capital expenditures to be in the range of 17.5 to 18.5 per cent of operating revenues, which includes a potential one-time pole purchase of $55 to $60 million. For the nine months ended September 30, 2010, capital expenditures were $332.0 million, or 16.0 per cent of operating revenues. Refer to the "Revised guidance" section for further discussion on capital intensity.
- We are required to repay short-term and long-term debt according to its terms. We ensure at all times that sufficient undrawn capacity exists on our revolving operating facilities to support the issuance of commercial paper. We have no significant long-term debt maturities in 2010.
- All of our DB pension plans have funding deficits. In 2009, the pension plans achieved a return on assets that was well above our expected rate of return. However, the discount rates utilized to calculate our solvency funding liabilities at December 31, 2009, were lower than those used at December 31, 2008. In addition, our December 31, 2009, funding requirements reflect the application of new pension regulations that were released on June 25, 2010, and which result in a new method for calculating solvency deficits and amortization payments. Our deficit funding for 2010 will be approximately $85.0 million, compared to $73.8 million for 2009. As more information becomes available or regulations are released, we will continue to assess the effects of new legislation to our plans, such as possible use of letters of credit in solvency funding.
- Restructuring initiatives announced during 2010, 2009 and 2008, are expected to result in the use of cash of approximately $50.0 million in 2010. For the nine months ended September 30, 2010, we paid $42.3 million in previously accrued restructuring charges.
- We also expect to use cash for other commitments, such as operating leases and purchase commitments for equipment and other network infrastructure.

Other financial arrangements

Contractual obligations

We have various operating leases for equipment and other network infrastructure, and purchase commitments under various service and commercial agreements, including our commercial agreements with Bell Canada. In the second quarter of 2010, we gave notice of our intention to terminate certain pole use agreements we have with a power utility serving Newfoundland and Labrador, which triggered an obligation to repurchase an interest in the poles previously sold to the utility. Refer to the "Revised guidance" section for further details of this transaction.

Further details of our commitments are described in notes 22 and 25 to our audited consolidated financial statements for the year ended December 31, 2009, and in note 13 to our unaudited interim consolidated financial statements for the period ended September 30, 2010.

Accounts receivable securitization

Under a revolving purchase and sale agreement, we sell certain accounts receivable to a securitization trust. In May 2010, the net cash proceeds under this agreement were reduced by $15.0 million. As at September 30, 2010, our net cash proceeds were $150.0 million, compared to $165.0 million as at December 31, 2009. Further details of these agreements are described in notes 1 and 2 to our annual consolidated financial statements for the year ended December 31, 2009, and in note 2 to our unaudited interim consolidated financial statements for the period ended September 30, 2010.

Use of derivative financial instruments

Periodically, we use derivative financial instruments in the management of interest rate exposures associated with our long and short-term debt and specific firm commitments. We do not use derivative instruments for speculative purposes. Since we do not trade actively in derivative instruments, we are not exposed to any significant liquidity risks relating to them.

At September 30, 2010, we had no derivative financial instruments outstanding, unchanged from December 31, 2009. Further details of our use of derivative financial instruments and the accounting policies we follow are provided in notes 1 and 13 to our audited consolidated financial statements for the year ended December 31, 2009.

RELATED PARTY TRANSACTIONS

Our significant related parties continue to be BCE, Bell Canada and the Fund. For greater detail on our related party transactions and our relationship with BCE and Bell Canada, refer to note 25 to our audited consolidated financial statements for the year ended December 31, 2009, and to note 15 of our unaudited interim consolidated financial statements for the period ended September 30, 2010.

SIGNIFICANT ACCOUNTING POLICIES

Our unaudited interim consolidated financial statements as at and for the three and nine months ended September 30, 2010, have been prepared in accordance with Canadian GAAP. Our accounting policies and methods and critical accounting estimates and assumptions are consistent with those as described in note 1 to our consolidated financial statements for the year ended December 31, 2009.

Future changes in accounting policies

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

Business Combinations, Consolidated Financial Statements, and Non-Controlling Interests

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

International financial reporting standards (IFRS)

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

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

We will prepare our financial statements in accordance with IFRS commencing January 1, 2011.

IFRS changeover plan and progress towards completion

Our IFRS changeover plan consists of a four-phase approach to transitioning to IFRS, which include:

Phase 1 – Raise awareness and initial assessment

Phase 2 – Detailed assessment

Phase 3 – Design

Phase 4 – Implementation

We have substantially completed the first three phases and are currently focusing our efforts on implementation, the fourth phase. Refer to our MD&A for the year ended December 31, 2009, for a detailed description of our changeover plan and our progress to that date.

Phase 4 – Implementation

This phase involves finalizing preliminary accounting policy decisions, preparing our IFRS opening balance sheet at January 1, 2010, preparing our comparative financial statements and notes under IFRS for 2010, implementing the system and process changes identified in the design phase throughout the organization, delivering the required training on new accounting standards, monitoring, refining and testing the effectiveness of the revised internal control over financial reporting processes and disclosure controls and procedures, preparing and delivering external communications plans, and providing quarterly communications to our audit committee.

Phase 4 is currently underway and will carry through to our changeover date of January 1, 2011. We are tracking favourably against our project plan, meeting all plan milestones and deliverables. We have completed the design and testing for system modifications to support dual reporting, and are producing both IFRS and Canadian GAAP accounting records on a recurring transactional level. During 2010, we will continue to report our results under Canadian GAAP but will also internally record preliminary results under IFRS, refining these results throughout the year as processes are improved and accounting policy choices are finalized.

Our analysis of IFRS and comparison to our accounting policies under Canadian GAAP has identified a number of differences, most of which have now been quantified. Many of these differences will not have significant effects on our financial position or results of operations. While we have identified the key differences that will affect our financial statements, we have also determined that we are generally aligned with IFRS in many areas. These key accounting differences are described below to provide a better understanding of the effects of our changeover to IFRS based on our preliminary accounting policy decisions and readers are cautioned that it may not be appropriate to use such information for any other purposes. We will continue to monitor the changes to IFRS throughout 2010, and review and assess accordingly prior to our changeover. We have not yet prepared a full set of annual financial statements under IFRS, therefore amounts discussed below are unaudited. The discussion below should not be regarded as a complete list of changes that will result from our change to IFRS as amounts and policies are subject to change as we continue our analysis of our adoption on January 1, 2011.

First time adoption of IFRSs

IFRS 1, *First-time adoption of international financial reporting standards* sets forth guidance for the initial adoption of IFRS. We are required to establish our IFRS accounting policies in accordance with standards in effect on our first annual reporting date, December 31, 2011. We are required to apply these policies retrospectively to determine the IFRS opening balance sheet at our date of transition, January 1, 2010. In addition, IFRS 1 provides both mandatory and optional exemptions to this general

rule. We, along with many other transitioning companies, have chosen to apply certain exemptions to reduce the complexity involved in converting to IFRS, as the cost of not applying the exemptions would far outweigh the benefit to the users of our financial statements.

The significant exemptions that we expect to apply upon adoption are summarized below.

Business combinations

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3, *Business combinations,* retrospectively to business combinations that occurred before the date of transition to IFRS. Applying IFRS 3 retrospectively would require a significant amount of analysis and work to restate business combination transactions that have occurred since our inception. We will take advantage of this election and 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. Applying IAS 19 retrospectively would result in a significant amount of work to recalculate actuarial gains and losses recorded since the inception of our employee benefit plans. We will take advantage of this election and will recognize all cumulative actuarial gains and losses in relation to employee benefit plans directly in retained earnings 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. Applying IFRS 2 retrospectively would result in a significant amount of work to determine an estimated vesting date for equity instruments as well as adjusting the timing of the expense recognition. We will elect not to apply IFRS 2 to grants that vested prior to January 1, 2010.

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. Applying IAS 23 retrospectively would result in a significant amount of work to determine the borrowing costs to be capitalized. We will elect not to apply IAS 23 to 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.

Expected areas of significance

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 will not change our actual cash flows, it will result in changes to our reported financial position and results of operations. Set out below are the significant accounting differences that will impact our consolidated financial statements. The manner of presentation of certain items under IFRS has not been affected for clarity of this reconciliation only.

The following unaudited reconciliations present the indentified differences between Canadian GAAP and IFRS for our consolidated opening balance sheet at January 1, 2010, and our consolidated statement of earnings for the nine month period ended September 30, 2010. The reconciliations and comments are intended to highlight the most significant areas and should not be regarded as complete or final.

Consolidated Balance Sheet

(unaudited) *(millions of dollars)*	Notes	December 31, 2009 Canadian GAAP	Effect of transition to IFRS	January 1, 2010 IFRS
Assets				
Current assets				
Accounts receivable	H	304.0	165.0	469.0
Future income tax asset	A	57.6	(57.6)	-
Other current assets		70.7	-	70.7
		432.3	107.4	539.7
Capital investments				
Property, plant and equipment	C	3,662.8	(292.0)	3,370.8
Finite-life intangibles		3,069.8	-	3,069.8
		6,732.6	(292.0)	6,440.6
Other assets				
Deferred income tax assets	A	4.2	57.6	61.8
Accrued benefit asset	D	418.0	(418.0)	-
Other assets		2,930.7	-	2,930.7
		3,352.9	(360.4)	2,992.5
Total assets		**$ 10,517.8**	**$ (545.0)**	**$ 9,972.8**
Liabilities and partners' equity				
Current liabilities				
Payables and accruals	F	416.2	(37.3)	378.9
Current provisions	F	-	37.3	37.3
Short-term debt	H	40.0	165.0	205.0
Other current liabilities		75.1	-	75.1
		531.3	165.0	696.3
Future income tax liability	C, D	$ 421.6	$ (256.5)	$ 165.1
Long-term debt		2,759.9	-	2,759.9
Accrued benefit liability	D	382.9	417.2	800.1
Deferred credits and other long-term liabilities	F	34.8	(3.9)	30.9
Long-term provisions	F	-	3.9	3.9
Total liabilities		4,130.5	325.7	4,456.2
Non-controlling interest	C, D	1,587.9	(184.2)	1,403.7
Partners' equity	C, D	4,799.4	(686.5)	4,112.9
Total liabilities and partners' equity		**10,517.8**	**(545.0)**	**9,972.8**

Consolidated statement of earnings
(unaudited)

For the nine months ended September 30, 2010 *(millions of dollars)*	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
Operating revenues	B	$ 2,075.8	$ 16.8	$ 2,092.6
Expenses				
Operating expenses	B, D, I	1,071.1	(9.7)	1,061.4
Depreciation and amortization	C, E	526.2	(8.8)	517.4
Restructuring and other charges	I	16.1	(0.8)	15.3
Operating income		**462.4**	**36.1**	**498.5**
Interest charges	D, E, H	120.9	141.7	262.6
Other expenses (income)	C, D, H	13.3	(116.7)	(103.4)
Earnings before underlisted items		328.2	11.1	339.3
Income taxes		(15.1)	2.0	(13.1)
Net earnings before non-controlling interest		343.3	9.1	352.4
Non-controlling interest	G	99.3	(99.3)	-
Net earnings from continuing operations		**244.0**	**$ 108.4**	**$ 352.4**
Net earnings from discontinued operations		**(1.1)**	**-**	**(1.1)**
Net earnings		**242.9**	**108.4**	**351.3**

Explanations of differences and adjustments

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 will not change our actual cash flows, it will result in changes to the reported financial position and results of operations. In order to allow the users of the financial statements to better understand these changes, our Canadian GAAP consolidated balance sheet will be adjusted to reflect the effect of transition to IFRS as at January 1, 2010, and our consolidated statement of earnings will be reconciled to IFRS, similar to the manner presented above. The effect of transition to IFRS is explained below.

(A) Future income tax asset/liability

Under Canadian GAAP, future income tax assets and liabilities are classified as current or non-current as appropriate. Under IFRS, all future income tax assets and liabilities are classified as non-current. As a result, current future income tax assets of $57.6 million will be reclassified to non-current future income tax assets at January 1, 2010.

(B) Operating revenues and operating expenses

We have a number of joint use pole agreements in place with utility companies, giving us the rights to use space on the poles owned by the utility companies and conversely, the utility companies the right to use space on the poles owned by us. These amounts receivable and payable are not settled in cash, resulting in a non-monetary transaction. Under Canadian GAAP, non-monetary transactions are measured at the fair value of the services given up, while under IFRS they are measured at the fair value of the services received. As a result, for the nine months ended September 30, 2010, under IFRS our operating revenue and operating expenses will both increase by $16.8 million.

(C) Property, plant and equipment

We use the group depreciation method under Canadian GAAP to depreciate our capital assets, where gains and losses on sale or retirement of capital assets are not separately recognized. As this approach is not acceptable under IFRS, we will retrospectively adopt a change in policy to the straight-line method of depreciation, decreasing property, plant and equipment by $292.0 million on our opening balance sheet at January 1, 2010. Accordingly, non-controlling interest decreased by $88.6 million, future income tax liabilities decreased by $52.1 million and retained earnings decreased by $151.3 million, to reflect the net effect of this retrospective adjustment. This change from group to straight-line depreciation will also result in a decrease in depreciation expense of $8.5 million for the nine months ended September 30, 2010. As well, gains and losses on sale or retirement of property, plant and equipment will be separately calculated and recognized, resulting in other expenses increasing by $3.2 million for the nine months ended September 30, 2010.

(D) Employee benefits

Under Canadian GAAP, actuarial gains and losses that arise in calculating 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% corridor are deferred.

Under IFRS, we anticipate electing to recognize all actuarial gains and losses immediately in a separate statement of comprehensive income without recognizing them in the income statement in subsequent periods. As a result, actuarial gains and losses, and any other required adjustments to the minimum liability, will be recorded directly to retained earnings at the end of each period. Our pension expense will also be affected by these policy choices.

The net effect of transition to IFRS at January 1, 2010, will be 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, decrease non-controlling interest by $95.6 million and decrease retained earnings by $535.2 million.

Under Canadian GAAP, total net benefit costs of $66.4 million are included in operating expenses for the nine months ended September 30, 2010. Under IFRS, we will record total net benefit costs of $60.6 million for the same period, which includes $39.1 million in current service costs, presented in operating expenses, $140.4 million in interest expense on plan liabilities, presented in interest charges, and $118.9 million expected return on our plan assets, presented in other expenses (income).

(E) Asset retirement obligations

Under Canadian GAAP, accretion expense relating to asset retirement obligations is presented as a component of depreciation expense. Under IFRS, accretion expense will be presented as a component of interest charges. This change will be reflected in the income statement as a reduction in depreciation and amortization expense and corresponding increase in interest charges of $0.3 million for the nine months ended September 30, 2010.

(F) Provisions

Under Canadian GAAP, accounts payable, accrued liabilities and provisions are combined and disclosed on the balance sheet as a single line item. However, under IFRS provisions are required to be disclosed separately from liabilities and accrued liabilities. Current provisions of $37.3 million will be presented separately from trade and other payables and long-term provisions of $3.9 million will be presented separately from deferred credits and other long-term liabilities in the opening IFRS balance sheet at January 1, 2010.

(G) Non-controlling interest

Under Canadian GAAP, non-controlling interest is classified as a separate component between liabilities and equity in the balance sheet and as a component of net earnings within the income statement. Under IFRS, non-controlling interest will be classified as a component of equity separate from the equity of the parent, and earnings attributable to non-controlling interest will not be deducted from net earnings for the period. As a result, net earnings from continuing operations for the nine months ended September 30, 2010, increased $99.3 million.

(H) Securitization of accounts receivable

Under Canadian GAAP, we account for a transfer of receivables under our securitization program as a sale of assets when we give up control of the accounts receivable in exchange for proceeds other than our retained beneficial ownership interest in those receivables, which are recorded as a reduction of total trade receivables. We recognize a loss on the derecognition of the receivables, calculated as the excess of the carrying value of the receivables over the fair value of the consideration received. Program administration fees are recognized as other expenses.

The sale of the accounts receivable pool to the securitization trust under our securitization program will no longer qualify for derecognition under IFRS. Therefore, the net proceeds from the transfer will be classified as short-term debt, increasing both accounts receivable and short-term debt by $165.0 million at the date of transition. The related program administration fees of $1.0 million for the nine months ended September 30, 2010, will be reclassified as interest charges under IFRS instead of other expenses under Canadian GAAP.

(I) Restructuring charges

There are certain costs under Canadian GAAP which qualify as restructuring charges that are classified as operating expenses under IFRS. These costs will be reflected in the income statement as a reduction in restructuring and other charges and corresponding increase in operating expenses of $0.8 million for the nine months ended September 30, 2010.

REGULATORY DEVELOPMENTS

Regulatory developments in the third quarter of 2010, up to and including November 3, 2010, which are, or may be significant to our business, include the following:

Wholesale high-speed access services

In August, 2010, the CRTC issued its ruling in a proceeding that considered whether telephone companies (including Bell Aliant LP) and cable companies should be required to provide to competitive Internet service providers (ISPs) access to their next-generation high-speed fibre networks. In this decision, the CRTC decided incumbent local exchange carriers (ILECs) must provide competing ISPs with wholesale access to their fibre-to-the-node (FTTN) network at speeds that match their retail service offers. The CRTC allowed ILECs to charge an additional 10% mark-up above cost for access over FTTN compared to similar services providing access over legacy infrastructure. The Governor-in-Council may, until November 29, 2010, choose to overturn this “speed-matching” requirement. However, the CRTC concluded that no new wholesale Internet access services are necessary. The CRTC did not order mandated access to FTTH facilities, although this could be considered in the future.

The CRTC also recognized the need to adopt a regulatory regime that treats cable companies and telephone companies more comparably. The ruling directs cable companies to adjust their wholesale Internet services to provide for a greater degree of service aggregation through as few points of interconnection as possible in order to provide a service that more closely resembles that provided by Bell Canada.

Deferral accounts

In August 2010, the Commission issued its decision (Decision 2010-637) on the proposal by Bell Aliant LP and Bell Canada to dispose of the funds remaining in their deferral account. The CRTC approved the use of deferral account funds by ourselves and Bell Canada to expand broadband services to 112 communities in Ontario and Quebec and directed the companies to rebate funds remaining in their deferral account to residential subscribers in non-high-cost serving areas. The Commission approved the accumulated balance in the deferral account at $583.3 million as of May 31, 2010, including $95.0 million associated with interest and other certain other amounts and $25.0 million that was already approved and apportioned to fund initiatives to improve accessibility for persons with disabilities. The Commission approved an amount of $306.3 million for broadband expansion.

In addition, this decision directed Bell Canada and Bell Aliant to provide broadband service using DSL technology rather than the High-Speed Packet Access+ (HSPA+) wireless broadband technology proposed by Bell Canada.

In an application filed on September 13, 2010, Bell Canada requested that the CRTC review and vary the following three elements of the Commission's decision: i) the Commission's calculation of the recurring amount in determining the accumulated balance in Bell Canada's deferral account; ii) the Commission's calculation of interest on Bell Canada's deferral account; and iii) the allowable drawdown from Bell Canada's deferral account to cover the cost of processing a one-time billing adjustment on each eligible residential local exchange service subscriber's monthly bill. In another application filed on the same date, Bell Canada requested the CRTC to rescind the directive requiring that broadband to the approved communities be provided using DSL technology rather than HSPA+ wireless broadband technology and to approve Bell Canada's amended wireless broadband proposal that was filed as part of that application.

On October 29, 2010, in Telecom Decision 2010-805, the CRTC accepted Bell Canada's revised proposal to make use of HSPA+ wireless technology instead of wireline DSL technology for the expansion of broadband to the approved areas. In this same decision, the CRTC confirmed the broadband expansion drawdown, customer rebates and allowable administrative costs amounts established in Decision 2010-637. The Commission also set March 29, 2011, as the date by which Bell Canada must have fully rebated or credited its subscribers.

We do not expect the outcome to materially affect our financial results in light of our arrangement with Bell Canada.

On September 14, 2007, the CRTC directed Télébec to amortize its cumulative deferral account shortfall in equal amounts over a four year period and also approved an exogenous factor of $3.0 million for the recovery of the recurring shortfall each year. As of September 30, 2010, Télébec's cumulative deferral account shortfall was estimated at $0.7 million and the recurring shortfall is now estimated at $0.3 million, considering the rate increase approved by the CRTC on June 1, 2010.

Review of unbundled local loop rates

As discussed in more detail in MD&A for the year ended December 31, 2009, on June 2, 2009, Bell Canada and ourselves proposed changes to the existing rates for their wholesale service that provides unbundled local loops to competitors in their Ontario and Québec serving areas, and requested the CRTC to make the current rates interim until it issues its final determination. The companies filed updated cost studies to support their tariff application. On December 14, 2009, the CRTC issued Telecom Order 2009-775 and made the current loop rates interim, pending a complete review of the

companies' updated cost studies. A decision is expected in the first quarter of 2011, after which it may be possible that the CRTC's newly determined rates will then be retroactively applied to the date of interim approval, December 14, 2009.

Canadian broadcasting in new media

As discussed in more detail in our MD&A for the second quarter ended June 30, 2010, the CRTC referred to the Federal Court of Appeal the legal question of whether ISPs are subject to the Broadcasting Act and therefore subject to broadcasting regulation. The Federal Court of Appeal issued its decision on July 7, 2010, in which it concluded that ISPs "do not carry on, in whole or in part, 'broadcasting undertakings' subject to the Broadcasting Act when, in their role as ISPs, they provide access through the Internet to 'broadcasting' requested by end-users." On September 27, 2010, The Alliance of Canadian Cinema, Television and Radio Artists, the Canadian Media Production Association, the Director's Guild of Canada and the Writers Guild of Canada filed an application to the Supreme Court of Canada seeking leave to appeal the Federal Court of Appeal's July 7, 2010 decision.

Fee-for-carriage

As discussed in more detail in our MD&A for the year ended December 31, 2009, and first quarter ended March 31, 2010, the CRTC has referred to the Federal Court of Appeal the question of its jurisdiction to impose a value for signal (VFS) regime. On September 13 and 14, 2010, the Federal Court of Appeal heard legal arguments on this subject. The VFS regime may not be implemented until the Federal Court of Appeal has decided the issue. A decision is expected shortly.

Contribution subsidy fund

The CRTC has a subsidy (contribution) regime to support local telephone service in high cost, rural and remote areas. This subsidy is funded by a levy on certain industry revenues, which was set at 0.81 per cent of eligible telecommunications revenues in 2009 and 0.73 per cent for 2010. While we draw monies from the contribution subsidy fund, we also pay into the fund. On January 28, 2010, the CRTC initiated a proceeding to review issues associated with access to basic telecommunications service. The proceeding is reviewing the obligation to serve, the basic service objective, and the local service subsidy (contribution) regime, including consideration of the possibility of imposing broadband obligations or including broadband within the scope of the contribution regime. The proceeding also includes a re-examination of the local competition and wireless number portability frameworks in the territories of the small ILECs. On October 26, 2010, a two week oral hearing began as part of the proceeding. Other outcomes of this proceeding may result in changes to various regulatory regimes, which could have an adverse effect on our business and financial results. A final decision is expected in the first quarter of 2011.

On October 25, 2010, Bell Aliant received approval of its application allowing the use of higher costs in the contribution subsidy calculation, resulting in higher expected subsidy revenue receivable by us in 2010 and 2011.

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

Assumptions made in the preparation of forward-looking information

Forward-looking statements made in our MD&A for the year ended December 31, 2009, and in this MD&A are based on a number of assumptions that we believe were reasonable on the day we made the forward-looking statements. In our MD&A for the year ended December 31, 2009, we outlined the principal assumptions that we made in the preparation of our forward-looking statements relating to our expected financial and operational performance in 2010. These assumptions include economic, market, financial and operational and transaction assumptions, and have not changed significantly up to November 3, 2010, except as described below under our "Revised guidance" section.

In stating our expectation that the anticipated 2011 dividend rate of $1.90 per share annually for the new corporation resulting from the Fund's conversion to a corporate structure will be approximately 75

to 85 per cent of free cash flow and that we will invest $350 million to pass over 600,000 homes and businesses with our FTTH network by the end of 2012, we have made certain financial and other market assumptions for the period starting in 2011. We assume that: 1) our operating and financial performance trends will be approximately the same as those in 2009 and 2010; 2) we will be able to defer incurring an obligation to pay cash income taxes until late 2012; 3) income tax rates we will be subject to will be approximately 29 per cent in 2011 and decline to 27 per cent by 2013; and 4) the cost of and returns from our investment in FTTH will continue to make the proposed investment an attractive investment opportunity for us. In addition to all of the risks and uncertainties discussed in the Fund's 2009 earnings results and 2010 guidance news release dated February 3, 2010, as well as in our and the Fund's 2009 annual MD&As and annual information forms, these assumptions are subject to additional risks and uncertainties including: 1) that tax losses we currently have may not be allowed as deductions due to reassessment, changes in laws, or misinterpretation of existing laws; 2) that corporate tax rates to which we will be subject may not decline as previously announced by federal and provincial governments; and 3) that costs of or returns from our investment in FTTH may change due to changes in market conditions.

Revised guidance

We have revised our 2010 guidance for operating revenue and capital intensity as a result of our recently announced divesture of our xwave business. For accounting purposes, this business was reclassified to discontinued operations in our unaudited interim consolidated financial statements for the period ended September 30, 2010.

Also, in the second quarter of 2010, we gave notice of our intention not to renew certain pole use agreements we have with a power utility serving Newfoundland, which triggered an obligation to repurchase an interest in the poles previously sold to the utility. It is expected to reduce our overall annual cash outlays for pole attachment fees, improving our EBITDA and free cash flow going forward. This is anticipated to result in a capital expenditure of approximately $55 to $60 million in late 2010 or early 2011, and is subject to regulatory and other approvals. This transaction is also described in note 13 to our unaudited interim consolidated financial statements for the period ended September 30, 2010. Our revised guidance assumes that the poles repurchase will be completed in 2010.

Our revised guidance for our operating revenue, capital intensity and distributable cash metrics are as follows:

	Before xwave reclassification		**Updated for xwave reclassification**	
2010 Guidance	no pole purchase	with pole purchase	no pole purchase	with pole purchase
Operating Revenue	$3,050 - $3,150 million	$3,050 - $3,150 million	$2,750 - $2,800 million	$2,750 - $2,800 million
Capital Intensity[1]	14.0 to 15.0 percent	16.0 to 17.0 percent	15.5 to 16.0 percent	17.5 to 18.0 percent
Distributable Cash[2]	$750 - $790 million	$690 - $730 million	$750 - $790 million	$690 - $730 million

(1) Capital intensity equals capital expenditures per the statement of cash flows divided by operating revenues.
(2) Distributable cash is a non-GAAP financial measure. Refer to "Non-GAAP financial measures" section for further details.

Risk management

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

We recognize that we are exposed to a number of risks in the normal course of business that could have a negative effect on our financial condition or results of operations. Refer to our MD&A and annual information form for the year ended December 31, 2009, for a list of significant risks to which we believe we are exposed. We have not identified significant changes to the nature of those risks during the first three quarters of 2010, and have provided updates on our regulatory and competitive environments in the "Regulatory developments" and "Our business environment" sections. The risks noted may not be exhaustive as there may be other risks that we are currently unaware of or that we do not presently consider material to our consolidated operations.

Proposed conversion

Below is a discussion of certain risks relating to the proposed conversion of the Fund from an income trust to a corporate structure.

Assessment of fair market value of Fund units and Bell Aliant Inc. common shares

While management of the Fund has advised that it expects that the fair market value of a Fund unit at the time of the disposition will be equal to the fair market value of a Bell Aliant Inc. common share immediately after the disposition, no assurance can be given that CRA will accept this conclusion.

Conditions precedent and consents, exemptions and approvals

The completion of the arrangement in the form contemplated by the arrangement agreement is subject to a number of conditions precedent, some of which are outside the control of the Fund and Bell Aliant Inc., including, without limitation, certain regulatory and third party consents, exemptions and approvals. While the Fund has obtained the final Court order approving the arrangement, CRTC approvals required to implement the arrangement and conditional listing approval from the TSX, there can be no certainty, nor can the Fund provide any assurance, that other conditions will be satisfied or, if satisfied, when they will be satisfied. Any change to the final order on terms not acceptable to the Fund trustees and the directors of Bell Aliant Holdings Inc. would likely result in the decision being made not to proceed with the arrangement. If any consents, exemptions or approvals cannot be obtained on terms satisfactory to the Fund trustees and the directors of Bell Aliant Holdings Inc. or at all, the plan of arrangement may have to be amended in order to mitigate against the negative consequence of the failure to obtain any such consent, exemption or approval, and accordingly, the benefits available to Fund unitholders resulting from the arrangement may be reduced. Alternatively, in the event that the plan of arrangement cannot be amended so as to mitigate against the negative consequences of the failure to obtain a consent, exemption or approval, the arrangement may not proceed at all. If the arrangement is not completed, the market price of the Fund units may be adversely affected.

Realization of anticipated benefits

Management and the Fund trustees believe that the arrangement will result in a number of benefits. However, there is a risk that some or all of the anticipated benefits of the arrangement may fail to materialize, or may not occur within the time or to the extent anticipated. The realization of such benefits may be affected by a number of factors, including the activities of corporate peers, perceptions of participants and analysts in Canadian capital markets, and future trading activity in Bell Aliant Inc. common shares, many of which are beyond the control of the Fund or Bell Aliant Inc.

NON-GAAP FINANCIAL MEASURES

The terms EBITDA (earnings before interest, taxes, depreciation and amortization), standardized distributable cash, distributable cash and free cash flow do not have any standardized meanings prescribed by Canadian GAAP. They are therefore unlikely to be comparable to similar measures presented by other reporting issuers. We present EBITDA, standardized distributable cash, distributable cash and free cash flow on a consistent basis from period to period.

EBITDA

We define EBITDA as operating revenues less operating expenses, which means it represents operating income before depreciation and amortization expense, net cost of benefit plans, and restructuring and other charges. Operating income is calculated before interest and taxes are deducted.

The following table provides a reconciliation of operating income to EBITDA on a consolidated basis.

For the period ended September 30		Three months		Nine months[1]	
(millions of dollars)		**2010**	**2009[1]**	**2010**	**2009**
Net earnings		**$75.8**	$91.8	**$242.9**	$263.6
Add:	Other expenses (income)	**12.8**	(1.2)	**13.3**	12.8
	Interest charges	**41.4**	40.0	**120.9**	116.5
	Future income tax recovery	**(1.2)**	(7.7)	**(15.1)**	(31.9)
	Non-controlling interest	**33.6**	34.1	**99.3**	104.2
	Net (earnings) loss from discontinued operations	**(0.6)**	6.7	**1.1**	10.7
Operating income		**$161.8**	$163.7	**$462.4**	$475.9
Add:	Depreciation and amortization	**177.9**	176.1	**526.2**	526.6
	Restructuring and other charges	**0.8**	12.9	**16.1**	25.6
	Net cost of benefit plans	**22.0**	20.0	**66.4**	64.6
EBITDA		**$362.5**	$372.7	**$1,071.1**	$1,092.7

[1] Financial results for all prior periods have been restated to reflect our xwave business as discontinued operations.

We use EBITDA, among other measures, to assess the operating performance of our ongoing business without the effects of interest, taxes, depreciation and amortization expense, net cost of benefit plans, and restructuring and other charges. We exclude depreciation and amortization expense and net cost of benefit plans because they largely depend on the accounting methods and assumptions a company uses, as well as non-operating factors, such as the historical cost of capital investments and the performance of a company's pension plan assets. We exclude these items because they affect the comparability of our financial results and could potentially distort the analysis of trends in business performance.

EBITDA allows us to compare our operating performance on a consistent basis. We believe that certain investors and analysts use this measure to assess our ability to service debt, make distributions to unitholders and to meet other payment obligations, and as a common valuation measurement in the telecommunications industry.

EBITDA margin is defined as EBITDA as a percentage of our operating revenues.

EBITDA should not be confused with net earnings or operating income, which are the most comparable Canadian GAAP measures.

Standardized distributable cash and distributable cash

Standardized distributable cash and distributable cash are both measures of cash generated from operating activities that may be available for distribution. We calculate standardized distributable cash from a cash flow perspective following CICA guidance, which uses cash from operating activities and adds or deducts the following items that affect cash flow:

(i) Cash from operating activities of discontinued operations and the Fund, as this represents operating cash from activities, other than our continuing operations, which is available for distribution; and

(ii) Capital expenditures.

CICA guidance on the calculation of standardized distributable cash measures would also include deductions related to any restrictions imposed on the amount of cash distributions as a result of

compliance with financial covenants restrictions at the date of calculation. Our credit agreements only impose a restriction that distributions cannot exceed distributable cash over the last year if our credit ratings fall below investment grade. Since our ratings are within the investment grade categories, we are under no such restrictions.

We further adjust standardized distributable cash by the following items to determine our distributable cash:

(i) Operating items funded through cash reserves or borrowings, such as changes in operating assets and liabilities (working capital), pension deficit funding, restructuring charges, and cash capital taxes in excess of normalized levels;

(ii) Current income tax provisions (recoveries) are added back (deducted) as we have tax strategies in place to ensure that they are not payable (receivable) in cash; and

(iii) Other elements of working capital changes that should not result in actual current or future cash flows.

All of these adjustments to determine standardized distributable cash and distributable cash can be found in our consolidated financial statements or records or the Fund's consolidated financial statements or records, with the exception of the normalization of cash capital taxes. This adjustment is a calculation where some management judgment is exercised in estimating the level of capital taxes that we will pay when future tax rate changes come into effect. We have assumed a stable capital base and the future enactment of all previously announced provincial capital tax rate reductions or eliminations by the provinces of Ontario, Quebec, New Brunswick and Nova Scotia. At this point, all of these provinces have announced phased elimination of capital taxes in prior budgets; therefore, our determination of distributable cash includes no cash capital taxes. The actual tax rates may differ materially as they are subject to future enacted tax laws.

The following table provides a reconciliation of cash from operating activities to standardized distributable cash and distributable cash.

For the period ended September 30	Three months		Nine months[1]	
(millions of dollars)	**2010**	**2009[1]**	**2010**	**2009**
Cash from operating activities	**$258.2**	$279.2	**$715.8**	$799.2
Add (deduct):				
Standardized distributable cash of discontinued operations	**(9.5)**	16.6	**(10.4)**	(8.6)
Cash from operating activities of the Fund	**(1.1)**	(2.7)	**(2.9)**	(15.0)
Capital expenditures	**(113.4)**	(114.3)	**(332.0)**	(342.4)
Standardized distributable cash	**$134.2**	$178.8	**$370.5**	$433.2
Add (deduct):				
Operating items funded through cash reserves or borrowing:				
Change in operating assets and liabilties (working capital)	**17.0**	1.4	**105.0**	48.0
Change in operating assets and liabilties (working capital) of the Fund	**0.6**	2.0	**0.4**	11.8
Change in operating assets and liabilties (working capital) and other non-cash items of the discontinued operations	**9.5**	(14.6)	**11.3**	11.1
Pension deficit funding	**25.8**	21.9	**58.1**	48.5
Restructuring charges	**0.6**	12.1	**15.3**	23.9
Cash capital taxes in excess of normalized levels	**1.0**	1.4	**3.1**	5.7
Other adjustments:				
Current income tax recovery	**2.9**	-	**2.9**	(2.0)
Other non-cash items provided for in working capital changes	**2.1**	4.8	**3.6**	10.7
Distributable cash	**$193.7**	$207.8	**$570.2**	$590.9

[1] Financial results for all prior periods have been restated to reflect our xwave business as discontinued operations.

The calculation of standardized distributable cash and distributable cash has been prepared using reasonable and supportable assumptions, all of which reflect our planned courses of action given

management's judgement about the most probable set of economic conditions. Actual results may vary, perhaps materially, from the forward-looking assumptions used.

One of the primary metrics of our financial performance is distributable cash generated in a period. We use distributable cash, among other measures, to assess the financial performance of our ongoing business. We report standardized distributable cash to meet compliance with the CICA guidance for income trusts and other flow-through entities. These measures should not be seen as measures of liquidity or as substitutes for comparable metrics prepared in accordance with Canadian GAAP. We believe that certain investors and analysts use distributable cash to assess our ability and that of the Fund to generate a sustainable return for unitholders. Standardized distributable cash and distributable cash should not be confused with cash from operating activities, which is the most comparable Canadian GAAP financial measure.

Free cash flow

Beginning in 2011, our anticipated dividend policy is expected to target a payout of 75 to 85 per cent of free cash flow. We believe that certain investors and analysts use free cash flow to assess our ability to make distributions to unitholders, service debt, and to meet other payment obligations, and as a common valuation measurement in our industry and will do so following the conversion of the Fund to a corporate structure.

We define free cash flow as cash from operating activities less capital expenditures. Since our operations ultimately support distributions to Fund unitholders, free cash flow combines our cash performance with that of the Fund. We may present free cash flow both including and excluding changes in operating assets and liabilities (working capital) in a period as these changes can be significant given the timing of these cash flows through the year or from one year to the next.

Free cash flow should not be confused with cash from operating activities, which is the most comparable Canadian GAAP financial measure.

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

For the period ended September 30	**Three months**		**Nine months**[1]	
(millions of dollars)	**2010**	**2009**[1]	**2010**	**2009**
Cash from operating activities	**$258.2**	$279.2	**$715.8**	$799.2
Add:				
Cash from operating activities of the Fund	**(1.1)**	(2.7)	**(2.9)**	(15.0)
Capital expenditures	**(113.4)**	(114.3)	**(332.0)**	(342.4)
Free cash flow	**$143.7**	$162.2	**$380.9**	$441.8

(1) Financial results for all prior periods have been restated to reflect our xwave business as discontinued operations.

CONTROLS AND PROCEDURES

Internal control over financial reporting

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

There have been no changes in our internal control over financial reporting during the three months ended September 30, 2010, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP
Consolidated balance sheets
(Unaudited)

(millions of dollars)	Notes	As at September 30, 2010	As at December 31, 2009
Assets			
Current assets			
Cash and cash equivalents		$ 15.0	$ 27.1
Accounts receivable	2	221.4	304.0
Notes receivable from related parties	15	72.8	-
Inventory		21.4	14.4
Prepayments		25.9	14.8
Future income tax asset		76.2	57.6
Income tax receivable		26.0	14.4
Current assets of discontinued operations	3	69.1	-
		527.8	432.3
Capital investments			
Property, plant and equipment		3,618.0	3,662.8
Finite-life intangibles		2,945.4	3,069.8
		6,563.4	6,732.6
Other assets			
Long-term receivables		20.9	23.8
Deferred charges		21.0	13.4
Future income tax asset		4.2	4.2
Accrued benefit asset	4	451.6	418.0
Indefinite-life intangibles		125.2	125.2
Goodwill		2,768.9	2,768.3
Non-current assets of discontinued operations	3	7.1	-
		3,398.9	3,352.9
Total assets		$ 10,490.1	$ 10,517.8
Liabilities and partners' equity			
Current liabilities			
Notes payable to related parties	15	$ 6.3	$ 2.6
Payables and accruals	5	287.3	416.2
Distributions payable	15	128.2	55.3
Short-term debt	6	187.8	40.0
Long-term debt due within one year	7	424.3	17.2
Current liabilites of discontinued operations	3	25.3	-
		1,059.2	531.3
Future income tax liability		419.5	421.6
Long-term debt	7	2,365.6	2,759.9
Accrued benefit liability	4	374.2	382.9
Deferred credits and other long-term liabilities	5	37.5	34.8
Total liabilities		4,256.0	4,130.5
Non-controlling interest		1,530.2	1,587.9
Partners' equity		4,703.9	4,799.4
Total liabilities and partners' equity		$ 10,490.1	$ 10,517.8

See accompanying notes to the consolidated financial statements

BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP
Consolidated statements of earnings
(Unaudited)

For the period ended September 30

(millions of dollars, except earnings per unit)	Notes	Three months 2010	Three months 2009	Nine months 2010	Nine months 2009
Operating revenues		$ 698.2	$ 724.7	$ 2,075.8	$ 2,151.2
Expenses					
Operating expenses		357.7	372.0	1,071.1	1,123.1
Depreciation and amortization		177.9	176.1	526.2	526.6
Restructuring and other charges	5	0.8	12.9	16.1	25.6
		536.4	561.0	1,613.4	1,675.3
Operating income		161.8	163.7	462.4	475.9
Other expenses (income)					
Loss on long-term debt redemption	7, 11	12.1	-	12.1	-
Financial derivatives loss	11	-	-	-	13.3
Other expenses (income)		0.7	(1.2)	1.2	(0.5)
		12.8	(1.2)	13.3	12.8
Interest charges					
Interest on long-term debt		38.4	37.5	113.1	108.3
Other interest expense	11	3.0	2.5	7.8	8.2
		41.4	40.0	120.9	116.5
Earnings before underlisted items		107.6	124.9	328.2	346.6
Income taxes					
Current tax expense (recovery)		2.9	-	2.9	(2.0)
Future tax recovery		(4.1)	(7.7)	(18.0)	(29.9)
		(1.2)	(7.7)	(15.1)	(31.9)
Earnings before non-controlling interest		108.8	132.6	343.3	378.5
Non-controlling interest		33.6	34.1	99.3	104.2
Net earnings from continuing operations		75.2	98.5	244.0	274.3
Net earnings (loss) from discontinued operations	3	0.6	(6.7)	(1.1)	(10.7)
Net earnings		$ 75.8	$ 91.8	$ 242.9	$ 263.6
Earnings per unit	10				
Basic from continuing operations		$ 0.47	$ 0.61	$ 1.52	$ 1.71
Basic from discontinued operations		-	(0.04)	(0.01)	(0.07)
Basic		$ 0.47	$ 0.57	$ 1.51	$ 1.64

See accompanying notes to the consolidated financial statements

Consolidated statements of comprehensive earnings
(Unaudited)

For the period ended September 30

(millions of dollars)	Note	Three months 2010	Three months 2009	Nine months 2010	Nine months 2009
Net earnings		$ 75.8	$ 91.8	$ 242.9	$ 263.6
Other comprehensive earnings, net of tax	11	1.5	0.9	3.4	14.7
Comprehensive earnings		$ 77.3	$ 92.7	$ 246.3	$ 278.3

See accompanying notes to the consolidated financial statements

BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP
Consolidated statements of partners' equity
(Unaudited)

For the nine month period ended September 30, 2010

(millions of dollars)	Notes	Partners' capital	Contributed surplus	Accumulated earnings	Accumulated other comprehensive loss	Total accumulated earnings and other comprehensive loss	Total partners' equity
Balance December 31, 2009		$ 2,061.5	$ 0.4	$ 2,764.5	$ (27.0)	$ 2,737.5	$ 4,799.4
Net earnings		-	-	242.9	-	242.9	242.9
Distributions declared on:							
Class 1 exchangeable limited partnership units		-	-	(61.3)	-	(61.3)	(61.3)
Class 2 limited partnership units	15	-	-	(280.5)	-	(280.5)	(280.5)
Other comprehensive earnings, net of tax	11	-	-	-	3.4	3.4	3.4
Balance September 30, 2010		**$ 2,061.5**	**$ 0.4**	**$ 2,665.6**	**$ (23.6)**	**$ 2,642.0**	**$ 4,703.9**

For the nine month period ended September 30, 2009

(millions of dollars)	Notes	Partners' capital	Contributed surplus	Accumulated earnings	Accumulated other comprehensive loss	Total accumulated earnings and other comprehensive loss	Total partners' equity
Balance December 31, 2008		$ 2,061.5	$ 0.4	$ 2,863.7	$ (42.7)	$ 2,821.0	$ 4,882.9
Net earnings		-	-	263.6	-	263.6	263.6
Distributions declared on:							
Class 1 exchangeable limited partnership units		-	-	(61.3)	-	(61.3)	(61.3)
Class 2 limited partnership units	15	-	-	(280.5)	-	(280.5)	(280.5)
Other comprehensive earnings, net of tax	11	-	-	-	14.7	14.7	14.7
Balance September 30, 2009		$ 2,061.5	$ 0.4	$ 2,785.5	$ (28.0)	$ 2,757.5	$ 4,819.4

See accompanying notes to the consolidated financial statements

BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP
Consolidated statements of cash flows
(Unaudited)

For the period ended September 30

(millions of dollars)	Notes	Three months 2010	Three months 2009	Nine months 2010	Nine months 2009
Cash from (used in) operating activities					
Net earnings from continuing operations		$ **75.2**	$ 98.5	$ **244.0**	$ 274.3
Adjustments to reconcile net earnings to cash from operating activities					
Depreciation and amortization		**177.9**	176.1	**526.2**	526.6
Gain on disposal of assets		**0.1**	-	**0.1**	0.1
Future income tax recovery		**(4.1)**	(7.7)	**(18.0)**	(29.9)
Net cost of benefit plans	4	**20.4**	18.3	**61.0**	59.0
Funding of defined benefit pension and other post-employment benefit plans	4	**(40.9)**	(36.5)	**(103.3)**	(95.3)
Non-controlling interest		**33.6**	34.1	**99.3**	104.2
Financial derivatives loss	11	**-**	-	**-**	13.3
Loss on long-term debt redemption	7	**12.1**	-	**12.1**	-
Change in operating assets and liabilties	12	**(17.0)**	(1.4)	**(105.0)**	(48.0)
Other		**0.9**	(2.2)	**(0.6)**	(5.1)
		258.2	279.2	**715.8**	799.2
Cash from (used in) financing activities					
Repurchase of accounts receivable	2	**-**	-	**(15.0)**	-
Net proceeds (repayments) of short-term debt	6	**47.2**	(1.3)	**147.8**	(130.7)
Net proceeds (repayments) of notes payable to related party		**0.1**	(0.9)	**3.7**	(3.9)
Proceeds of long-term debt	7	**348.7**	-	**348.7**	348.6
Repayment of long-term debt	7	**(357.0)**	(0.9)	**(358.3)**	(152.0)
Repayment of capital lease obligations		**(5.1)**	(2.4)	**(13.7)**	(6.0)
Net settlement of financial derivatives	11	**-**	-	**-**	(15.4)
Distributions paid by subsidiaries to non-controlling interest	15	**-**	(52.4)	**(104.7)**	(157.1)
Distributions paid	15	**(93.6)**	(114.0)	**(321.3)**	(341.9)
		(59.7)	(171.9)	**(312.8)**	(458.4)
Cash from (used in) investing activities					
Increase in notes receivable from related parties	15	**(72.8)**	-	**(72.8)**	-
Purchase of capital investments		**(113.4)**	(114.3)	**(332.0)**	(342.4)
Proceeds on sale of capital investments		**0.1**	-	**0.1**	-
		(186.1)	(114.3)	**(404.7)**	(342.4)
Net increase (decrease) in cash from continuing operations		**12.4**	(7.0)	**(1.7)**	(1.6)
Net increase (decrease) in cash from discontinued operations	3	**(9.5)**	18.9	**(10.4)**	14.4
Cash and cash equivalents, beginning of period		**12.1**	15.5	**27.1**	14.6
Cash and cash equivalents, end of period		$ **15.0**	$ 27.4	$ **15.0**	$ 27.4
Supplementary disclosure					
Cash and cash equivalents, end of period					
Cash				$ **14.7**	$ 6.3
Cash equivalents				**0.3**	21.1
				$ **15.0**	$ 27.4
Interest paid		$ **72.3**	$ 66.3	$ **148.8**	$ 137.6
Income taxes paid, net		$ **0.4**	$ 0.3	$ **4.5**	$ 1.0

See accompanying notes to the consolidated financial statements

Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP) was established in 2006 under the laws of the Province of Quebec, and holds the principal operations of Bell Aliant Regional Communications Income Fund (the Fund). All references to "we", "us" or "our" refer to Bell Aliant Holdings LP and its subsidiaries.

Our operations are principally focused on regional telecommunications services in Atlantic Canada, Quebec and Ontario. We provide a wide range of innovative and traditional voice and data communications services.

1. SIGNIFICANT ACCOUNTING POLICIES

Consolidated financial statements

We have prepared these unaudited interim consolidated financial statements in accordance with Canadian generally accepted accounting principles, using the same basis of presentation and accounting policies as our audited consolidated financial statements for the year ended December 31, 2009. These unaudited interim consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2009.

Comparative figures

Certain comparative financial information has been reclassified to be consistent with the presentation adopted for 2010 related to discontinued operations, as discussed in note 3.

Future changes in accounting policies

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

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

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

2. TRANSFER OF RECEIVABLES

In May 2010, we reduced the net cash proceeds under our revolving accounts receivable purchase and sale agreement with a securitization trust by $15.0 million. At September 30, 2010, our net cash proceeds under the agreement were $150.0 million. The security required under the agreement recorded as retained interest was $39.2 million at September 30, 2010 (December 31, 2009 - $43.0 million).

3. DISCONTINUED OPERATIONS

xwave business

On October 26, 2010, Bell Aliant Holdings LP announced that it had signed an asset purchase agreement, subject to certain conditions,under which Bell Canada will acquire our xwave business for proceeds of approximately $40.0 million, plus certain post-closing adjustments. As a result, we have reclassified the results of our xwave business operations as discontinued operations. Accordingly, prior period consolidated statements of earnings and cash flows have been restated to reflect this change and the net assets of our xwave business have been reclassified as discontinued operations on the consolidated balance sheet as at September 30, 2010.

Innovatia Inc. (Innovatia)

On November 1, 2009, Bell Aliant Holdings LP concluded a share purchase agreement under which the senior leaders of Innovatia acquired all of the outstanding shares of Innovatia.

xwave New England Corp. (xwave NE)

On June 1, 2009, Bell Aliant Holdings LP and Abilis Solutions Inc. (Abilis) concluded a share purchase agreement under which Abilis acquired all of the outstanding shares of xwave NE.

Defence, Security and Aerospace (DSA) business

On May 1, 2009, Bell Aliant Holdings LP and CAE Professional Services (Canada) Inc. (CAE) concluded an asset purchase agreement under which CAE acquired our DSA business, which operated under the xwave brand.

Presentation of discontinued operations

The net assets of our xwave business are presented in the consolidated balance sheet as at September 30, 2010, as assets and liabilities of discontinued operations at their carrying amounts. The following table shows the major categories of the assets and liabilities of discontinued operations:

(millions of dollars)		As at September 30, 2010
Current assets of discontinued operations		
Accounts receivable	$	67.7
Prepayments		1.2
Inventory		0.2
	$	69.1
Non-current assets of discontinued operations		
Property, plant and equipment	$	2.9
Finite-life intangibles		3.7
Deferred charges		0.5
	$	7.1
Current liabilities of discontinued operations		
Payables and accruals	$	25.3

3. DISCONTINUED OPERATIONS (Continued)

Presentation of discontinued operations (continued)

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

For the three months ended September 30 *(millions of dollars)*		**2010** **xwave**		2009 xwave	Innovatia	xwave NE	DSA	Total
Operating revenues	$	**64.5**	$	61.1	5.1	-	-	66.2
Operating expenses		**63.6**		58.9	4.5	-	0.2	63.6
Depreciation and amortization		**0.9**		1.3	0.4	-	-	1.7
Restructuring charges		**1.7**		0.9	-	-	-	0.9
Other expenses (income)		**(0.6)**		0.4	0.3	-	-	0.7
Write-down of net assets		**-**		-	6.1	-	-	6.1
Loss on sale		**-**		-	-	0.3	0.1	0.4
Income tax expense (recovery)		**(1.7)**		(0.7)	0.2	-	-	(0.5)
Net earnings (loss) from discontinued operations	$	**0.6**	$	0.3	(6.4)	(0.3)	(0.3)	(6.7)

For the nine months ended September 30 *(millions of dollars)*		**2010** **xwave**		2009 xwave	Innovatia	xwave NE	DSA	Total
Operating revenues	$	**218.6**	$	237.4	15.8	5.6	9.0	267.8
Operating expenses		**215.6**		229.4	17.2	6.5	9.7	262.8
Depreciation and amortization		**3.5**		4.2	1.2	0.8	-	6.2
Restructuring and other charges		**2.4**		1.0	0.7	0.1	-	1.8
Other expenses (income)		**0.8**		(0.6)	(0.3)	0.5	-	(0.4)
Write-down of net assets		**-**		-	6.1	-	-	6.1
Loss (gain) on sale		**-**		-	-	2.9	(1.9)	1.0
Income tax expense (recovery)		**(2.6)**		(0.2)	0.6	-	0.6	1.0
Net earnings (loss) from discontinued operations	$	**(1.1)**	$	3.6	(9.7)	(5.2)	0.6	(10.7)

3. DISCONTINUED OPERATIONS (Continued)

Presentation of discontinued operations (continued)

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

For the three months ended September 30		**2010**				2009		
(millions of dollars)		**xwave**		xwave	Innovatia	xwave NE	DSA	Total
Cash from (used in):								
Operating activities	$	**(8.6)**	$	18.9	(1.2)	(0.1)	(0.3)	17.3
Investing activities		**(0.9)**		(0.3)	(0.3)	2.2	-	1.6
Net increase (decrease) in cash from discontinued operations	$	**(9.5)**	$	18.6	(1.5)	2.1	(0.3)	18.9

For the nine months ended September 30		**2010**				2009		
(millions of dollars)		**xwave**		xwave	Innovatia	xwave NE	DSA	Total
Cash from (used in):								
Operating activities	$	**(8.4)**	$	4.3	1.1	(4.6)	(7.3)	(6.5)
Investing activities		**(2.0)**		0.5	(0.8)	4.9	16.3	20.9
Net increase (decrease) in cash from discontinued operations	$	**(10.4)**	$	4.8	0.3	0.3	9.0	14.4

4. POST-EMPLOYMENT BENEFITS

Accrued benefit asset (liability)

The following table shows the status of the defined benefit (DB) pension and other post employment benefit (OPEB) plans and changes during the period.

(millions of dollars)		DB pension plans		OPEB plans		Total
Accrued benefit asset (liability) as at December 31, 2009	$	255.7	$	(220.6)	$	35.1
Net cost of benefit plans		(55.0)		(6.0)		(61.0)
Contributions		97.3		6.0		103.3
Accrued benefit asset (liability) as at September 30, 2010	$	298.0	$	(220.6)	$	77.4
Accrued benefit asset	$	451.6	$	-	$	451.6
Accrued benefit liability		(153.6)		(220.6)		(374.2)
	$	298.0	$	(220.6)	$	77.4

4. POST-EMPLOYMENT BENEFITS (Continued)

Net cost of benefit plans

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

For the period ended September 30 *(millions of dollars)*	Three months **2010**	 2009	Nine months **2010**	 2009
DB pension plans				
Current service cost	**$ 10.9**	$ 10.3	**$ 32.6**	$ 33.7
Interest on the accrued benefit obligation	**41.8**	39.6	**125.4**	119.5
Expected return on plan assets	**(40.8)**	(38.5)	**(122.9)**	(115.6)
Amortization of deferred amounts:				
Past service costs	**1.3**	1.4	**4.1**	4.1
Net actuarial losses	**5.3**	4.0	**15.8**	12.8
	$ 18.5	$ 16.8	**$ 55.0**	$ 54.5
OPEB plans				
Current service cost	**$ 0.4**	$ 0.4	**$ 1.2**	$ 1.3
Interest on the accrued benefit obligation	**3.0**	2.7	**9.1**	8.1
Amortization of deferred amounts:				
Past service costs	**(2.0)**	(2.0)	**(6.0)**	(6.1)
Net actuarial losses	**0.5**	0.4	**1.7**	1.2
	$ 1.9	$ 1.5	**$ 6.0**	$ 4.5
Total net cost of DB pension and OPEB plans	**$ 20.4**	$ 18.3	**$ 61.0**	$ 59.0

Benefit plan contributions

Our contributions to DB pension and OPEB plans, as well as defined contribution (DC) pension plans are as follows:

For the period ended September 30 *(millions of dollars)*	Three months **2010**	 2009	Nine months **2010**	 2009
DB pension plans contributions	**$ 33.4**	$ 34.3	**$ 97.3**	$ 89.3
OPEB plans contributions	**1.9**	2.2	**6.0**	6.0
Funding of DB pension and OPEB plans	**$ 35.3**	$ 36.5	**$ 103.3**	$ 95.3
DC pension plans contributions for continuing operations	**1.6**	1.7	**5.4**	5.6
DC pension plans contributions for discontinued operations	**0.1**	-	**0.2**	0.1
Total contributions	**$ 37.0**	$ 38.2	**$ 108.9**	$ 101.0

Included in the DB pension plans contributions for the nine months ended September 30, 2010, is an amount of $5.6 million that was accrued at June 30, 2010, but was paid in July 2010.

5. RESTRUCTURING AND OTHER CHARGES

Restructuring charges

As part of our organizational productivity initiatives, during the first nine months of 2010, we offered a voluntary retirement incentive to a limited number of our unionized employees in Ontario and Quebec, and continued to streamline our management workforce. As a result, during the three and nine months ended September 30, 2010, we estimated and recorded a restructuring charge of $0.6 million and $12.8 million, respectively, in employee severance and benefit costs which will be paid as employees retire or leave the organization as well as real estate rationalization costs.

5. RESTRUCTURING AND OTHER CHARGES (Continued)

Restructuring charges (continued)

In addition, in the first and second quarters of 2010, we increased the estimated costs of our 2009 restructuring initiative by $2.5 million in total, to reflect the final costs as departing employees had options that affected the amount of their severance.

During the nine months ended September 30, 2009, restructuring charges of $23.9 million included employee severance and benefit costs related to a voluntary retirement incentive offered to certain unionized employees in Atlantic Canada and Ontario and Quebec, consolidation of certain contact centres in Atlantic Canada, and real estate rationalization costs.

The restructuring charges liability included in payables and accruals is as follows:

(millions of dollars)		
Liability as at December 31, 2009	$	**41.2**
Restructuring charges:		
Employee severance and benefit costs, included in continuing operations		**11.6**
Real estate rationalization costs		**1.2**
Change in the 2009 restructuring charge estimate		**2.5**
		15.3
Employee severance and benefit costs, included in discontinued operations (note 3)		**2.4**
Cash payments		**42.3**
Liability as at September 30, 2010	$	**16.6**

As at September 30, 2010, the restructuring charge liability included $6.7 million in real estate rationalization costs, of which $5.0 million are included in other long-term liabilities as they will be drawn down after September 30, 2011.

Other charges

During the three and nine months ended September 30, 2010, we incurred $0.2 million and $0.8 million, respectively, of other charges (September 30, 2009 – $0.8 million and $1.7 million, respectively), which mainly relate to rebranding our operations.

6. SHORT-TERM DEBT

As at September 30, 2010, we had amounts available for use under operating facilities of $1,121.3 million (December 31, 2009 – $1,121.9 million). The amount of issued letters of credit at September 30, 2010, was $266.9 million (December 31, 2009 - $269.6 million). Included in the amounts of issued letters of credit is $12.4 million (December 31, 2009 - $12.5 million) for discontinued operations.

Amounts drawn under operating facilities are as follows:

(millions of dollars)		**As at September 30, 2010**		As at December 31, 2009
Drawn amounts:				
Commercial paper program	$	**147.8**	$	-
Non-revolving pension reserve facility		**40.0**		40.0
	$	**187.8**	$	40.0

6. SHORT-TERM DEBT (Continued)

We ensure at all times that sufficient undrawn capacity exists on our committed revolving operating facilities to support issuances of commercial paper. Short-term promissory notes totalling $147.8 million, issued under our commercial paper program to fund changes in operating assets and liabilities, carry interest at 1.17 percent per annum and have maturity dates from October 6, 2010, to October 29, 2010.

Bankers' acceptance advances of $40.0 million outstanding under our non-revolving pension reserve facility carry interest at rates of 1.70 percent per annum and mature on October 29, 2010.

7. LONG-TERM DEBT

In September 2010, we issued $350.0 million of unsecured medium-term notes, bearing interest at 4.37 per cent per annum and maturing on September 13, 2017. Debt issue costs of $1.3 million were incurred, resulting in net proceeds of $348.7 million.

The net proceeds were used to make a partial redemption of the 4.72 per cent medium-term notes (the "2011 Notes") maturing on September 26, 2011. We redeemed $345.0 million principal amount, or 46 per cent of the total outstanding principal amount, of the 2011 Notes on a *pro rata* basis at the price and under the conditions specified in the 2011 Notes. We recognized a $12.1 million loss on redemption, recorded in other expenses (income), as a result of paying $356.0 million for principal redemption and recognizing $1.1 million in previously unamortized costs. The remaining $405.0 million outstanding principal portion of the 2011 Notes is classified as long-term debt due within one year.

During the nine months ended September 30, 2010, we entered into capital lease obligations totalling $23.8 million for telecommunications and other equipment and bearing interest at rates ranging from 3.54 per cent to 5.51 per cent per annum.

8. FINANCIAL INSTRUMENTS

Fair value

For cash and cash equivalents, trade receivables, notes receivable from related parties, trade payables and short-term loans and borrowings, 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 calculations of the present value of future cash flows, using the appropriate discount rates in effect at the balance sheet 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 September 30, 2010		As at December 31, 2009	
(millions of dollars)	**Fair value**	**Carrying value**	Fair value	Carrying value
Long-term debt	**$ 2,982.0**	**$ 2,789.9**	$ 2,844.1	$ 2,777.1

9. UNIT-BASED COMPENSATION PLANS

Employee unit purchase plans

The total number of Fund units bought on the open market for our employee unit purchase plans for the three and nine months ended September 30, 2010, was 444,189 and 1,474,127 respectively (September 30, 2009 – 441,292 and 1,551,011 respectively). Compensation expense related to the employee unit purchase plans of $2.2 million and $6.8 million, respectively, was recorded for the three and nine months ended September 30, 2010 (September 30, 2009 – $2.1 million and $6.9 million, respectively).

Deferred unit plan

In February 2010, the Fund trustees approved amendments to the deferred unit plan (DUP) to allow plan members to receive either one Fund unit or the cash equivalent of one Fund unit for each vested deferred unit upon qualifying for payout under the terms of the grant. Previously, plan members were only permitted to receive one Fund unit upon qualification for payout. There is no exercise price paid by the grantee for deferred units. The Fund may issue up to 3,154,120 (December 31, 2009 – 3,276,150) additional Fund units out of treasury to satisfy awards under the DUP. Any deferred units that do not vest due to failure to achieve prescribed performance targets are forfeited. Further, any unvested deferred units of a plan member are forfeited upon their departure.

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

For the nine months ended September 30	**2010**	2009
Deferred units outstanding, beginning of period	**1,293,699**	1,181,958
Granted:		
February 2009 – Service period fiscal 2009 to 2011	**-**	350,492
June 2010 – Service period fiscal 2010 to 2012	**369,784**	-
Reinvested distributions during the period	**91,102**	97,934
	460,886	448,426
Forfeited	**(267,190)**	(66,501)
Exercised	**(122,030)**	(273,238)
Deferred units outstanding, end of period	**1,365,365**	1,290,645
Deferred units vested, end of period	**666,248**	431,871

The fair value of the 460,886 deferred units granted or credited on reinvestment of notional distributions for the nine months ended September 30, 2010, was $11.9 million (September 30, 2009 – 448,426 deferred units granted or credited was $11.7 million). For the three and nine months ended September 30, 2010, we recorded compensation expense of $1.7 million and $2.2 million, respectively (September 30, 2009 – $3.7 million and $5.9 million, respectively), related to the deferred units' costs recognized over the vesting period, and the change in the quoted market price of Fund units between the grant date and the reporting period date.

10. EARNINGS PER UNIT

For the period ended September 30 *(millions of dollars, except as otherwise noted)*	Three months 2010	2009	Nine months 2010	2009
Net earnings from continuing operations	$ **75.2**	$ 98.5	$ **244.0**	$ 274.3
Net earnings (loss) from discontinued operations	**0.6**	(6.7)	**(1.1)**	(10.7)
Net earnings	$ **75.8**	$ 91.8	$ **242.9**	$ 263.6
Basic				
Weighted average number of units outstanding	**160,536,409**	160,536,409	**160,536,409**	160,536,409
Basic from continuing operations	$ **0.47**	$ 0.61	$ **1.52**	$ 1.71
Basic from discontinued operations	**-**	(0.04)	**(0.01)**	(0.07)
Basic earnings per unit	$ **0.47**	$ 0.57	$ **1.51**	$ 1.64

11. OTHER COMPREHENSIVE EARNINGS

Components of other comprehensive earnings and the related income tax effects are as follows:

For the three months ended September 30	**2010**			2009		
(millions of dollars)	**Amount arising**	**Income taxes**	**Net**	Amount arising	Income taxes	Net
Losses on derivatives designated as cash flow hedges	$ **-**	$ **-**	$ **-**	$ -	$ -	$ -
Reclassification to other expense	**0.7**	**0.2**	**0.5**	-	-	-
Reclassification to interest charges	**1.2**	**0.2**	**1.0**	1.2	0.3	0.9
Other comprehensive earnings	$ **1.9**	$ **0.4**	$ **1.5**	$ 1.2	$ 0.3	$ 0.9

For the nine months ended September 30	**2010**			2009		
(millions of dollars)	**Amount arising**	**Income taxes**	**Net**	Amount arising	Income taxes	Net
Losses on derivatives designated as cash flow hedges	$ **-**	$ **-**	$ **-**	$ (0.1)	$ (0.1)	$ -
Reclassification to other expense	**0.7**	**0.2**	**0.5**	13.3	2.9	10.4
Reclassification to interest charges	**3.6**	**0.7**	**2.9**	5.7	1.4	4.3
Other comprehensive earnings	$ **4.3**	$ **0.9**	$ **3.4**	$ 18.9	$ 4.2	$ 14.7

We reclassify to net earnings the amortization of losses on forward fixed-floating interest rate swaps 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 issuances occurred. As such, the losses are being amortized as interest charges in conjunction with the long-term debt coupon payments in the year, in accordance with the application of hedge accounting.

In September 2010, we redeemed prior to maturity $345.0 million of the 2011 Notes, as discussed in note 7. As such, we reclassified to net earnings $0.7 million of unamortized losses on the forward fixed-floating interest rate swaps related to this debt, included in the loss on long-term debt redemption, as hedge accounting no longer applies.

11. OTHER COMPREHENSIVE EARNINGS (Continued)

In May 2009, we reclassified to net earnings $15.4 million in net losses related to cash flow hedges that were settled, composed of $13.3 million loss on settlement and $2.1 million interest charges. Hedge accounting no longer applies to these hedges.

As at September 30, 2010, the accumulated other comprehensive loss of $23.6 million (December 31, 2009 - $27.0 million) represents the unamortized portion of losses on forward fixed-floating interest rate swaps that were settled in 2007.

12. CHANGES IN OPERATING ASSETS AND LIABILITIES

For the period ended September 30	Three months		Nine months	
(millions of dollars)	**2010**	2009	**2010**	2009
Accounts receivable	$ **7.6**	$ 22.7	$ **20.6**	$ 54.0
Inventory	**6.4**	(3.0)	**(7.4)**	(1.7)
Prepayments	**11.4**	11.9	**(11.7)**	(10.1)
Income tax receivable	**0.3**	(1.2)	**(11.6)**	(3.5)
Long-term receivables	**0.8**	9.5	**2.3**	10.5
Deferred charges	**(5.4)**	0.6	**(11.7)**	2.4
Payables and accruals	**(36.7)**	(42.7)	**(88.3)**	(110.1)
Deferred credits and other long-term liabilities	**(1.4)**	0.8	**2.8**	10.5
	$ **(17.0)**	$ (1.4)	$ **(105.0)**	$ (48.0)

13. COMMITMENTS

Operating leases and purchase commitments

The estimated future minimum lease payments under operating leases and purchase commitments are as follows:

(millions of dollars)	**Remainder of 2010**	2011	2012	2013	2014	Thereafter	**Total**
Operating leases	$ **9.8**	$ 30.9	$ 24.9	$ 24.7	$ 24.1	$ 116.2	$ **230.6**
Purchase commitments	**101.2**	350.4	326.4	317.3	301.3	1,636.0	**3,032.6**
	$ **111.0**	$ 381.3	$ 351.3	$ 342.0	$ 325.4	$ 1,752.2	$ **3,263.2**

Purchase commitments primarily relate to various information systems and technology agreements and obligations under service agreements.

Included in the total purchase commitments is $20.2 million related to our xwave business (note 3).

In the second quarter of 2010, we gave notice of our intention not to renew certain existing pole use agreements we have with a power utility serving Newfoundland, which triggered an obligation to repurchase an interest in the poles previously sold to the utility. The purchase is subject to the satisfaction of certain conditions and we anticipate agreement to complete the transaction by late 2010 or early 2011 with an estimated $55.0 – $60.0 million in capital investments, not included in the balance of the future minimum purchase commitments reported above. As a result, in the second quarter of 2010, we decreased the previously reported commitment for operating leases by $241.6 million in total.

14. CONTINGENCIES

System Access Fee Class Action

As discussed in note 23 of our audited consolidated financial statements for the year ended December 31, 2009, on August 9, 2004, a lawsuit was filed in the Saskatchewan Court of Queen's Bench against several Canadian wireless and cellular service providers, including one of our predecessor companies, Aliant Telecom Inc., by several alleged customers or former customers of the defendants. In the claim, the plaintiffs alleged, among other things, breach of contract, misrepresentation, negligence, collusion and breach of statutory obligations under the Competition Act (Canada) in relation to the system access fees that the defendants charge to their customers, and sought unspecified damages. On September 17, 2007, the court granted class action certification. We, as well as the other parties, sought leave to appeal the certification order. The court also denied our motion seeking dismissal of the action against us on the basis that the Saskatchewan court does not have jurisdiction over disputes between us and our customers. We also sought leave to appeal this decision.

The applications for leave to appeal the certification order and the jurisdictional issue were heard on February 24, 2010. On March 15, 2010, the Court of Appeal granted all parties leave to appeal the certification order. We also obtained leave to appeal the jurisdiction issue. The plaintiffs also obtained leave to appeal an earlier decision which denied their motion to convert the certified class into a national "opt-out" class. The defendants' appeals of the certification order and our appeal on the jurisdictional issue are scheduled for hearing beginning on December 13, 2010.

Ellph.com lawsuit

As discussed in note 23 of our audited consolidated financial statements for the year ended December 31, 2009, on November 28, 2005, a lawsuit was filed against us in the Supreme Court of Nova Scotia by Ellph.com Solutions Inc. and Ellph.com Technologies Inc (collectively "Ellph"). In the third quarter of 2010, Ellph applied for a scheduling conference to set a trial date and indicated that they intend to increase their claim to seek approximately $21.0 million for alleged breach of a contract.

We have defences to these claims, but the outcome of these matters is not determinable at this time.

15. RELATED PARTY TRANSACTIONS

BCE and Bell Canada

On June 25, 2010, BCE and Bell Canada elected to defer receipt of their declared distributions related to their interest in exchangeable limited partnership units of Bell Aliant Holdings LP and Bell Aliant Regional Communications, Limited Partnership for June 2010 up to and including December 2010. The deferred distributions will be paid to BCE and Bell Canada on January 1, 2011. As at September 30, 2010, the amount of the distributions payable to BCE and Bell Canada was $97.0 million.

BCE and Bell Canada also elected to be loaned amounts equal to the deferred distributions in the form of non-interest bearing notes with maturity dates of January 1, 2011. As a result, on September 30, 2010, $72.8 million was included in notes receivable from related parties.

15. RELATED PARTY TRANSACTIONS (Continued)

The Fund

The Fund is entirely dependent on the distributions we pay to them to make their distributions. For the three and nine months ended September 30, 2010, we declared distributions to them totaling $93.5 million and $280.5 million, respectively (September 30, 2009 – $93.4 million and $280.5 million, respectively). At September 30, 2010, $31.2 million was included in distributions payable (December 31, 2009 – $31.1 million).

The Fund loans us their excess cash through a series of promissory notes, and requests repayments as required for operating purposes. The $2.6 million promissory note that was payable to the Fund at December 31, 2009, was repaid on January 15, 2010. Subsequently issued promissory notes carried rates of interest from 0.50 per cent to 1.28 per cent per annum, resulting in an immaterial amount of interest expense being incurred during the three and nine months ended September 30, 2010 (September 30, 2009 – immaterial amount). At September 30, 2010, a $6.2 million promissory note was payable to the Fund, which bears interest at 1.28 per cent per annum and matures on October 15, 2010.

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

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