



Bell Aliant Regional Communications Holdings, Limited Partnership Management's Discussion and Analysis Fourth 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 twelve months ended December 31, 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 issued during 2010, and our audited consolidated financial statements and accompanying notes for the year ended December 31, 2009, and related MD&As. All amounts in this document are in millions of Canadian dollars, except where otherwise stated. Our consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP).

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. On January 1, 2011, our parent, Bell Aliant Regional Communications Income Fund (the Fund), completed its conversion from an income trust structure to a corporate structure. As part of the conversion, Bell Aliant Holdings LP was dissolved and certain of its subsidiaries and affiliates amalgamated. Bell Aliant Holdings LP has been succeeded by Bell Aliant Regional Communications Inc. (Bell Aliant GP). Therefore, when the context indicates present or future tense, or events that occurred after completion of the conversion, "we", "us", and "our" refers to Bell Aliant GP and its subsidiaries.

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

Forward-looking information

This MD&A is dated February 8, 2011, and is current to that date unless otherwise stated. It contains forward-looking information related to our future financial condition and results of operations, and anticipated future events and circumstances, including in particular under the sections "Conversion transaction", "Our business environment - competitive landscape", "Cash requirements", "International financial reporting standards" and "2011 financial guidance". The purpose of forward-looking information is to provide the reader with information about our expectations, plans and priorities for 2011 or other future periods. Readers are cautioned that such information may not be appropriate for other purposes. This information is based on our current expectations and estimates about the markets in which we operate and our beliefs and assumptions regarding these markets. Unless otherwise indicated, forward-looking information in this MD&A describes our expectations at February 8, 2011. In some cases, forward-looking information may be identified by words such as "anticipate", "believe", "could", "expect", "plan", "seek", "may", "intend", "will", "forecast" and similar expressions.

This information is subject to important risks and uncertainties, which are difficult to predict, and assumptions, which may prove to be inaccurate. Some of the risk factors which could cause results or events to differ materially from current expectations include but are not limited to:

increasing competition; our ability to achieve strategies and plans; general economic conditions; the market for preferred shares; 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 and certain tax related risks. For a detailed discussion of these risk factors and how they could impact our results, please refer to the "Risk management" sections of this MD&A and the Fund's and our respective 2009 annual MD&As, as updated by the respective 2010 quarterly MD&As, as well as the "Risk Factors" sections of the respective 2009 Annual Information Forms. These documents are available at www.bellaliant.ca and www.sedar.com.

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.

See also the "Forward-looking information" section of our news release dated February 8, 2011, relating to 2010 financial results for the Fund and Bell Aliant Holdings LP and 2011 financial guidance for their successors, Bell Aliant Inc. and Bell Aliant GP, 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. Through our operating entities, we offer a complete range of innovative information, communication and technology services including voice, data, Internet, video, wireless and value-added business solutions to approximately 5.3 million customers across Atlantic Canada, Ontario and Quebec.

We also offered information technology (IT) professional services and advanced technology solutions through our xwave division. On October 26, 2010, we announced the planned sale of our xwave business to Bell Canada and restated our financial results to reflect our xwave business in discontinued operations. On January 1, 2011, the sale was completed. Refer to the "Results of operations" section for further discussion under "Net loss from discontinued operations".

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.

FOURTH QUARTER IN REVIEW

Although our traditional voice services continued to face increased competition, our net local network access service (NAS) customer declines in the fourth quarter and on an annual basis in 2010 were lower than those experienced in the same periods of 2009. We have experienced steady growth in our Internet, TV, and wireless customer base. We continued to effectively manage our operating costs to

reduce the effects of declining revenue on EBITDA and to maintain strong EBITDA margins. A non-cash write-down of our finite-life intangible assets related to customer relationships resulted in us reporting a significant decline in our operating income. Excluding the effect of this write-down, operating income would have remained relatively constant with the fourth quarter of 2009. We pro-actively managed our operating results to provide for strong distributable cash of \$140.3 million. The decline in distributable cash compared to 2009 is primarily due to \$57.2 million in capital spending for the repurchase of an interest in poles in Newfoundland.

Summary of results

For the period ended December 31 (millions of dollars)	Three months			Twelve months ⁽²⁾		
	2010	2009 ⁽²⁾	% change	2010	2009	% change
Operating revenues	\$709.3	\$719.0	(1.4)	\$2,785.1	\$2,870.2	(3.0)
EBITDA ⁽¹⁾	\$358.5	\$364.8	(1.7)	\$1,429.6	\$1,457.5	(1.9)
EBITDA margin ⁽¹⁾	50.5%	50.7%	(0.4)	51.3%	50.8%	1.0
Operating income (loss)	(\$1,395.2)	\$145.8	n.m.	(\$932.8)	\$621.7	n.m.
Net earnings (loss) from continuing operations	(\$735.2)	\$96.5	n.m.	(\$491.2)	\$370.8	n.m.
Net loss from discontinued operations	(\$4.8)	(\$3.9)	(23.1)	(\$5.9)	(\$14.6)	59.6
Net earnings (loss)	(\$740.0)	\$92.6	n.m.	(\$497.1)	\$356.2	n.m.

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 xw ave business as discontinued operations.

Operating revenues decreased by 1.4 per cent, or \$9.7 million, in the fourth quarter of 2010, and by 3.0 per cent, or \$85.1 million, in 2010, compared to the same periods in 2009. The fourth quarter of 2010 included the beneficial effects of two regulatory decisions, as further discussed in the "Regulatory developments" section, which resulted in retroactive adjustments that increased operating revenues in the fourth quarter. Excluding these adjustments, the decline in operating revenues would have been similar to those experienced in earlier quarters of 2010.

During the fourth quarter of 2010, we continued to see revenue declines in local and access and long distance, mainly due to competitive losses and a reduction in primary lines as customers adopt wireless and voice over Internet protocol (VoIP) technologies. Declines in voice revenues were partially offset by increases in Internet and wireless revenues resulting from growth in our high-speed Internet, TV, and wireless customer bases. Other revenue also increased in the fourth quarter primarily as a result of the aforementioned beneficial effects of regulatory decisions, which increased support structure rental revenues. Refer to the "Results of operations" section for additional discussion of operating revenues.

EBITDA decreased by 1.7 per cent, or \$6.3 million, in the fourth quarter of 2010, and by 1.9 per cent, or \$27.9 million, in 2010, compared to the same periods in 2009. The decline in EBITDA was mitigated by the effects of the retroactive revenue adjustments, which if excluded, would have resulted in EBITDA declines similar to those experienced in the third quarter of 2010. The decline in EBITDA was primarily driven by a change in the mix of operating revenues towards lower margin revenues, which was offset in part by savings in operating expenses reflecting our commitment to labour-related cost reductions and other cost containment initiatives.

Operating income decreased by \$1,541.0 million in the fourth quarter of 2010 and by \$1,554.5 million on an annual basis, compared to the same periods of 2009. These declines were driven primarily by the \$1,540.7 million write-down of finite-life intangible assets. Excluding the effect of this write-down, operating income would have remained relatively constant in the fourth quarter of 2010, and

decreased by 2.2 per cent, or \$13.8 million, in 2010, compared to the same periods in 2009. The decline in EBITDA and higher net cost of benefit plans expense, mainly due to higher pension obligations, was almost entirely offset by lower restructuring and other charges due to the timing of restructuring initiatives, as well as lower depreciation and amortization expense which reflects a declining and aging depreciable asset base.

Net earnings decreased by \$832.6 million in the fourth quarter of 2010, compared to the fourth quarter of 2009. This decline included an \$831.7 million decrease in net earnings from continuing operations and a \$0.9 million increase in net loss from discontinued operations. On an annual basis, net earnings decreased by \$853.3 million, compared to 2009, which included an \$862.0 million reduction in net earnings from continuing operations, offset by an \$8.7 million decrease in net loss from discontinued operations. The write-down of intangible assets also caused the income tax recovery to increase and the non-controlling interest in our earnings to decline. Excluding the \$810.9 million net effect of the write-down, net earnings from continuing operations would have decreased by \$20.8 million in the fourth quarter and \$51.1 million in 2010, compared to the same periods in 2009.

Net loss from discontinued operations was \$4.8 million in the fourth quarter of 2010 and \$5.9 million on an annual basis, compared to \$3.9 million and \$14.6 million for the same periods in 2009, respectively. Discontinued operations in 2010 and 2009 reflected the operating results of our xwave business, while 2009 also 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 prior year is primarily due to the write-down of Innovatia's net assets which occurred in 2009.

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 twelve months ended December 31, 2010, and 2009, and additional information on the relationship between cash from operating activities, net earnings and cash distributions declared. Since our operations ultimately supported distributions to Fund unitholders, distributable cash combines our cash performance with that of the Fund.

For the period ended December 31 (millions of dollars)	Three months			Twelve months ⁽⁴⁾		
	2010	2009 ⁽⁴⁾	% change	2010	2009	% change
Cash from operating activities	\$312.7	\$327.2	(4.4)	\$1,028.5	\$1,126.4	(8.7)
Add (deduct): Cash from operating activities of the Fund and discontinued operations	(13.0)	0.7	n.m.	(26.3)	(22.9)	14.8
Capital expenditures	(162.0)	(120.0)	35.0	(494.0)	(462.4)	6.8
Standardized distributable cash ⁽¹⁾	\$137.7	\$207.9	(33.8)	\$508.2	\$641.1	(20.7)
Add (deduct): Operating items funded through cash reserves or borrowing	(1.8)	(30.0)	n.m.	191.5	119.1	60.8
Other adjustments	4.4	4.6	(4.3)	10.8	13.2	(18.2)
Distributable cash ⁽¹⁾	\$140.3	\$182.5	(23.1)	\$710.5	\$773.4	(8.1)
Net earnings (loss)	(\$740.0)	\$92.6	n.m.	(\$497.1)	\$356.2	n.m.
Cash distributions declared ⁽²⁾	\$165.2	\$165.1	0.1	\$660.5	\$660.2	-
Excess of cash from operating activities over cash distributions declared ⁽³⁾	\$134.5	\$162.8	(17.4)	\$341.7	\$443.3	(22.9)
Shortfall of net earnings (loss) over cash distributions declared	(\$905.2)	(\$72.5)	n.m.	(\$1,157.6)	(\$304.0)	n.m.

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 fourth quarter of 2010 was \$137.7 million, which represents a decrease of \$70.2 million, or 33.8 per cent, when compared to the same period in 2009. The decrease reflects a \$42.0 million increase in capital spending, a \$14.5 million decrease in our cash from operating activities, and a \$13.7 million decrease in cash from discontinued operations and operating activities of the Fund. Cash from operating activities declined mainly due to the \$6.3 million reduction

in EBITDA, slightly offset by \$2.8 million lower restructuring and other charges, \$11.4 million lower cash generated from changes in operating assets and liabilities (working capital) and \$4.5 million higher pension funding mainly for deficit-reducing purposes. Capital spending in the fourth quarter of 2010 included \$57.2 million to repurchase an interest in poles in Newfoundland. As well, in 2009 our discontinued operations generated more cash from operations than in 2010. On an annual basis, when comparing 2010 with 2009, standardized distributable cash decreased by 20.7 per cent, or \$132.9 million. The trends on an annual basis are similar to the fourth quarter as the decline is primarily due to lower EBITDA of \$27.9 million, slightly offset by \$12.3 million lower restructuring and other charges, higher pension funding of \$12.5 million, higher cash requirements to fund changes in working capital of \$68.4 million and higher capital spending of \$31.6 million. Refer to the "Summary of cash flows" section for additional information on cash from operating activities and capital spending.

In contrast to standardized distributable cash, our calculation of distributable cash excludes working capital fluctuations, restructuring charges and certain other items we fund through cash reserves or short-term borrowings. On that basis, distributable cash of \$140.3 million for the fourth quarter of 2010 decreased \$42.2 million, or 23.1 per cent, compared to the same period in 2009. The decrease is mainly attributable to higher capital expenditures of \$42.0 million and \$6.3 million lower EBITDA, which is reflected in the decline in cash from operating activities. On an annual basis, distributable cash of \$710.5 million in 2010 represents a decrease of \$62.9 million, or 8.1 per cent, compared to \$773.4 million in 2009, mainly due to the same trends as seen in the fourth quarter of 2010.

In the fourth quarter of 2010, cash distributions declared were \$165.2 million, or 117.8 per cent of distributable cash, compared to \$165.1 million, or 90.5 per cent of distributable cash, for the comparable period in 2009. Quarterly fluctuations of this magnitude in the distributable cash payout ratio are not unusual due to the pattern of capital spending that occurs through the year and our declared cash distributions being based on annual targets. For the year ended December 31, 2010, cash distributions declared were \$660.5 million, or 93.0 per cent of distributable cash, compared to \$660.2 million, or 85.4 per cent, for 2009. The increase in the distributable cash payout ratio in both the three months and year ended December 31, 2010, is due to the level of distributions being held consistent with 2009 payouts, while distributable cash has decreased in both the fourth quarter of 2010 and for the year compared to the same periods in 2009.

CONVERSION TRANSACTION

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

As part of the conversion, BCE and Bell Canada exchanged 100 per cent of their respective class B exchangeable limited partnership units issued by us, 100 per cent of their class 1 exchangeable limited partnership units issued by Bell Aliant LP and 100 per cent of their special voting units issued by the Fund, for common shares in Bell Aliant Inc. and one common share of Bell Aliant GP. Bell Aliant Holdings LP distributed its assets to Bell Aliant GP, which in turn assumed Bell Aliant Holdings LP's liabilities. Bell Aliant Holdings LP was then dissolved, cancelling all of its units. Bell Aliant Holdings GP and the predecessor to Bell Aliant GP then amalgamated.

These transactions were accounted for at carrying values since there was no substantial change in control.

Fund unitholders received one common share of Bell Aliant Inc. for each Fund unit held. For unitholders resident in Canada and the United States, the exchange was completed on a tax deferred basis. Unitholders' proportionate interests in Bell Aliant Inc. are effectively unchanged by the conversion. BCE and Bell Canada continue to have the same governance rights and percentage ownership in Bell Aliant Inc. as they had in the Fund (on an as-converted basis) before the conversion.

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

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

We anticipate that Bell Aliant Inc. will be taxed at a blended federal and 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 2011 and onward, Bell Aliant Inc.'s objectives are to seek to ensure dividend sustainability while maintaining a high dividend payout to shareholders.

Bell Aliant Inc. will target a payout ratio of 75 to 85 per cent of free cash flow, which is expected to result in an initial annual dividend rate of \$1.90 per share. The first quarterly payment of \$0.475 per share was declared by the board on February 8, 2011, and will be paid in March 2011. For taxable retail investors resident in Canada, dividends paid by a corporation are taxed at lower rates than the distributions previously paid by the Fund, 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.

Free cash flow

On January 1, 2011, with the completion of the conversion to a corporate structure, Bell Aliant Inc. has adopted a dividend policy based on a targeted payout of a percentage of free cash flow rather than distributable cash, which was a financial measure used with the income trust structure. The main differences between distributable cash and free cash flow are the exclusion of distributable cash from discontinued operations and the inclusion in free cash flow of items we state as being funded through cash reserves and short-term borrowing, such as restructuring charges, pension deficit funding and working capital changes.

For information purposes, 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 twelve months ended December 31, 2010, and the corresponding periods in 2009. Since our operations supported cash distributions to Fund unitholders, and will continue to support dividends to Bell Aliant Inc. shareholders, free cash flow combines our cash performance with that of the Fund.

For the period ended December 31 (millions of dollars)	Three months			Twelve months ⁽³⁾		
	2010	2009 ⁽³⁾	% change	2010	2009	% change
Cash from operating activities	\$312.7	\$327.2	(4.4)	\$1,028.5	\$1,126.4	(8.7)
Cash used in operating activities of the Fund	(0.8)	(0.8)	0.0	(3.7)	(15.8)	(76.6)
Total cash from operating activities	311.9	326.4	(4.4)	1,024.8	1,110.6	(7.7)
Capital expenditures	(162.0)	(120.0)	35.0	(494.0)	(462.4)	6.8
Free cash flow ⁽¹⁾	\$149.9	\$206.4	(27.4)	\$530.8	\$648.2	(18.1)
Add (deduct): Changes in operating assets and liabilities (working capital)	(56.4)	(67.8)	(16.8)	48.6	(19.8)	n.m.
Change in operating assets and liabilities (working capital) of the Fund	(0.1)	-	-	0.3	11.8	n.m.
Free cash flow before changes in working capital	\$93.4	\$138.6	(32.6)	\$579.7	\$640.2	(9.5)
Cash distributions declared ⁽²⁾	\$165.2	\$165.1	0.1	\$660.5	\$660.2	-

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 xw ave business as discontinued operations.

Free cash flow for the fourth quarter of 2010 was \$149.9 million, a decrease of \$56.5 million, or 27.4 per cent, from the same period in 2009, mainly due to \$42.0 million higher capital expenditures, \$6.3 million lower EBITDA slightly offset by \$2.8 million lower restructuring and other charges, \$11.3 million lower cash generated from our and the Fund's working capital changes in the quarter, and \$4.5 million higher pension funding. Annual results for 2010 reflect a similar trend. Free cash flow was \$530.8 million on an annual basis, compared to \$648.2 million during the same period in 2009, a decrease of

\$117.4 million. On an annual basis, there was \$31.6 million higher capital expenditures, \$27.9 million lower EBITDA slightly offset by \$12.3 million lower restructuring and other charges, \$56.9 million greater cash requirement to finance our and the Fund's working capital changes, and \$12.5 million higher pension funding in 2010, compared to 2009.

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. In 2010, our cash requirement to fund working capital changes was higher compared to 2009. This was primarily due to improvements in accounts receivable collections, albeit to a lesser degree than achieved in 2009, and higher payments of previously accrued expenses. Refer to the "Summary of cash flows" section for additional information on cash from operating activities.

OUR BUSINESS ENVIRONMENT

Competitive landscape

Cable companies present our most significant competitive threat. Throughout 2010, cable competitors continued to expand their local service areas and competitive presence in our regions, however, at a slower rate of expansion from what we have experienced in prior years. The competitive footprint overlap with cable companies was 69 per cent of households in our territories at the end of 2010, representing a 2 percentage point increase from a year ago. We expect that the cable companies will continue to increase their competitive coverage over the next several years and that competitive coverage will reach a peak of 75 to 80 per cent. 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.

To address these competitive pressures, we remain committed to providing our customers with the highest quality of service along with leading edge product offerings. Our focus continues to be on investing heavily in fibre technology to build our network capacity, 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 achievements 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 regulatory matters, refer to the "Regulatory developments" section.

STRATEGY

Our focus remains on our five strategic objectives that we initially implemented in 2009 and continued to strive towards in 2010, as we consider them crucial to our future success. Despite the realities of the economic environment and our competitive marketplace, our strategy has proven resilient, facilitating a critical balance between improving services, offering enhanced solutions to our customers, and increasing productivity. 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.

Highlights of strategic achievements in the fourth quarter of 2010

Improve the customer experience

Delivering a superior customer experience is key to our strategy and we believe requires a consistent and determined focus on making it easier for customers to do business with us. We are committed to improving the overall customer experience through continued work on service fundamentals, including making advancements to our core network and designing the model technician visit.

During the fourth quarter of 2010, we enhanced our voicemail service by adding voicemail-to-email to all residential and business voicemail customers in Atlantic region, providing our phone customers with additional value.

Retain our customers

We believe bundles are instrumental in retaining customers. During the fourth quarter of 2010, we aggressively promoted our bundle offers in all markets, including the *FibreOP*[™] bundles which are offered in areas with access to our fibre-to-the-home (FTTH) service. This approach continues to be successful in retaining customers while driving revenue growth as customers purchase higher speed Internet offerings, HDTV programming and personal video recorder (PVR) services. We are confident that bundles will allow us to remain both competitive and relevant in the marketplace.

Grow broadband

We maintained our focus on broadband expansion during the fourth quarter of 2010 as we continued on the path to expand *FibreOP* services to more than 600,000 homes and businesses by the end of 2012.

In the fourth quarter of 2010, we passed an additional 32,000 premises with *FibreOP* services bringing the total homes and businesses passed to 138,000. Following through with our announcement earlier in the year, on October 1, 2010, we officially launched *FibreOP* services in Sydney, Nova Scotia, where we expect to add approximately 30,000 homes and businesses to the *FibreOP* footprint. We also continued expansion of *FibreOP* services in the Greater Moncton Area. On January 20, 2011, we announced that *FibreOP* services would be coming to our largest market, the Halifax Regional Municipality, in 2011.

On November 1, 2010, we launched our fastest *FibreOP* Internet service offering. This new service offers exceptionally fast 170 Mbps download and 30 Mbps upload speeds. These speeds not only enable customers to download music, movies and share video or photos faster than ever before, but also can accommodate the growing need for multiple users sharing bandwidth within the home.

On November 19, 2010, with the governments of Canada and Ontario and the Nishnawbe Aski Nation (NAN), we jointly announced the Northwestern Ontario Broadband Expansion Initiative. This initiative will bring a state-of-the-art backbone fibre optic network to 26 NAN communities in Ontario's far north, enabling speeds up to 50 times faster than current systems. This network build will take place over four years at an estimated cost of \$81 million, \$55 million of which will be jointly funded by the Province of Ontario and the government of Canada. This partnership allows us to expand our

telecommunications infrastructure to an area where we might not normally be able to given that it is remote, complex, and costly to service.

Digital subscriber line (DSL) and fixed wireless broadband expansion also continued in the fourth quarter with an additional 20,000 homes passed, resulting in over 81 per cent of homes in our territory now passed with high-speed Internet service.

Reset our cost structure

The fourth quarter of 2010 saw the continuation of our efforts to generate significant cost reductions, primarily from managing labour costs, controlling discretionary spending and achievements under the commercial agreement with Bell Canada.

In November, we continued with our initiative to optimize workforce productivity. We completed our 2010 limited retirement offers, generating savings in the fourth quarter which will continue into 2011. We also undertook an additional management reduction, which allows us to reset our costs and further streamline our organization for additional efficiencies.

Our efforts to control discretionary spending have resulted in notable savings. We actively pursued reductions in general and administrative expenses, real estate expenses and information system expenses, resulting from new IT outsourcing agreements. We were also able to recognize increased research and development investment tax credits, move employees to higher value-added work, such as our *FibreOp* service deployment, negotiate better communications and maintenance rates, and align consulting and advertising spending to business requirements. Finally, further cost reductions were realized through our commercial agreements with Bell Canada.

Engage employees

We maintained our commitment to provide our employees with a clear direction on our strategy and promote a high performance culture. Our focus on increased communication from our senior leadership team has helped to strengthen understanding of our strategic goals and the direction of our organization. We continue to focus on improving performance and talent management, as well as our leadership development tools. Our investment in the development of our leaders of people has enhanced employee performance through coaching, frequent communication and aligning our collective efforts with our five strategic objectives.

RESULTS OF OPERATIONS

For the period ended December 31 (millions of dollars)	Three months			Twelve months ⁽²⁾		
	2010	2009 ⁽²⁾	% change	2010	2009	% change
Local and access	\$325.2	\$336.0	(3.2)	\$1,298.4	\$1,356.9	(4.3)
Data & Internet	212.5	212.8	(0.1)	832.1	828.0	0.5
Long distance	94.6	100.5	(5.9)	393.3	424.6	(7.4)
Wireless	24.0	23.5	2.1	91.3	88.8	2.8
Other revenues	53.0	46.2	14.7	170.0	171.9	(1.1)
Operating revenues	\$709.3	\$719.0	(1.4)	\$2,785.1	\$2,870.2	(3.0)
Operating expenses	350.8	354.2	(1.0)	1,355.5	1,412.7	(4.0)
EBITDA ⁽¹⁾	\$358.5	\$364.8	(1.7)	\$1,429.6	\$1,457.5	(1.9)
Net cost of benefit plans	22.3	20.3	9.9	88.7	84.9	4.5
Depreciation and amortization	177.7	182.9	(2.8)	703.9	709.5	(0.8)
Write-down of finite-life intangibles	1,540.7	-	n.m.	1,540.7	-	n.m.
Restructuring and other charges	13.0	15.8	(17.7)	29.1	41.4	(29.7)
Operating income (loss)	(\$1,395.2)	\$145.8	n.m.	(\$932.8)	\$621.7	n.m.
Other expenses	0.7	0.4	75.0	14.0	13.2	6.1
Interest charges	41.4	41.9	(1.2)	162.3	158.4	2.5
Income tax recovery	(201.4)	(23.7)	n.m.	(216.5)	(55.6)	n.m.
Non-controlling interest	(500.7)	30.7	n.m.	(401.4)	134.9	n.m.
Net earnings (loss) from continuing operations	(\$735.2)	96.5	n.m.	(\$491.2)	\$370.8	n.m.
Net loss from discontinued operations	(4.8)	(3.9)	23.1	(5.9)	(14.6)	(59.6)
Net earnings (loss)	(\$740.0)	\$92.6	n.m.	(\$497.1)	\$356.2	n.m.

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 xw ave 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 declined 3.2 per cent, or \$10.8 million, in the fourth quarter of 2010, and 4.3 per cent, or \$58.5 million on an annual basis, compared to the same periods in 2009, largely driven by a 4.8 per cent drop in our total NAS customers on a year-over-year basis. A number of our regulated services are governed by a "price cap formula" and as a result of negative inflation in 2009, a large reduction in contribution subsidy revenues resulted in 2010. This was mitigated in the fourth quarter of 2010 by the beneficial effects of a retroactive revenue adjustment associated with a regulatory decision regarding contribution subsidies. In order to lessen the effect of reduced contribution subsidy and declining NAS customers on our revenues, we have programs in place targeted at retaining our highest value customers and have implemented selective pricing increases that reflect the higher value provided through our bundled packages.

At December 31, 2010, the number of residential NAS customers and business NAS customers were 6.0 per cent and 2.4 per cent lower, respectively, than at December 31, 2009. In our residential market, we continue to experience NAS losses due to increased 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 VoIP technologies. In our business market, we are not experiencing the same degree of contract losses as we saw in Atlantic Canada in 2009.

During the fourth quarter of 2010, our net NAS customer declines were 42,727, an improvement of approximately 1,000 customers over the declines experienced in the fourth quarter of 2009. On an annual basis, in 2010 our net NAS declines were 140,282, an improvement of approximately 15,200 over 2009, with gains noted in both our residential and business markets. An easing of competitive footprint growth enhanced bundling and retention programs, and the non-recurrence of business contract losses from 2008 and 2009 helped to facilitate these improvements.

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. Revenue from these services remained stable in the fourth quarter of 2010, decreasing 0.1 per cent, or \$0.3 million, compared to the fourth quarter of 2009. Internet revenue grew 8.3 per cent, or \$9.1 million, in the fourth quarter of 2010, compared to the same period in 2009, due to continued migration of our customers to higher-speed and value-added services, and growth in Internet and TV subscribers. The offsetting decline in other data revenues of 9.1 per cent, or \$9.4 million, over the same period is primarily due to customer losses and transitions from a legacy network to a more competitively priced IP-based framework. On an annual basis, 2010 reflected similar trends. Data and Internet revenue increased 0.5 per cent, or \$4.1 million, compared to 2009, as a \$31.4 million growth in Internet revenue more than offset a \$27.3 million decline in other data revenues.

At December 31, 2010, our high-speed Internet customer base was 4.3 per cent higher than December 31, 2009, with growth in both our residential and business markets. Although we continued to add high-speed Internet customers, the rate of growth on an annual basis in 2010 compared to 2009 has decreased consistent with the trend reflected across the industry. Additionally, our increased focus on expanding *FibreOP* service coverage and loading subscribers to that service, particularly in the fourth quarter of 2010, reduced the number of DSL net additions from prior periods. DSL footprint growth slowed in the last half of the year and consumer demand for more bandwidth and premium services fuelled migration of existing DSL customers over to our *FibreOP* service. We have bolstered our Internet revenue growth through selective price increases and by marketing our value-added services to customers, which have resulted in an increase in residential high-speed Internet average monthly revenue per customer (ARPC). In the fourth quarter of 2010, ARPC increased by \$2.52, or 6.7 per cent, to \$40.14 and on an annual basis for 2010, by \$1.99, or 5.3 per cent, to \$39.70, compared to the same periods in 2009.

Long distance

Long distance revenue, earned through toll and long distance terminating services, decreased by 5.9 per cent, or \$5.9 million, in the fourth quarter of 2010, and 7.4 per cent, or \$31.3 million on an annual basis in 2010, compared to the same periods in 2009. The revenue decline was driven by customer losses, substitution of traditional wireline service by email, cellular calling and VoIP services, and customers shifting away from per-minute plans in favour of flat-rate and less profitable plans. Revenue from long distance service decreases as it is bundled with high-speed Internet and TV, however the attractiveness of bundles serve to increase our overall revenue per customer as they subscribe to more of our services.

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 branded territories in Quebec and Ontario. Wireless revenue increased by 2.1 per cent, or \$0.5 million, in the fourth quarter of 2010, and 2.8 per cent, or \$2.5 million for the year, compared to the same periods in 2009. This was mainly due to a 9.4 per cent increase in wireless customers at December 31, 2010, compared to December 31, 2009, despite a decline in wireless ARPC. In 2010, wireless ARPC declined by 6.0 per cent, or \$3.82, in the fourth quarter, and 4.2 per cent, or \$2.62, for the year compared to the same periods in 2009, which was driven by declining roaming rates. We continue 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, support structure rentals, personal computer sales, telecommunications equipment sales, custom work completed for large customers, and revenue generated by our outsourcing arrangement with Bell Mobility. Other revenues grew by 14.7 per cent, or \$6.8 million, in the fourth quarter of 2010, compared to the same period in 2009, due to the retroactive adjustment for revised pricing for support structure rentals and increased telecommunication equipment sales. These increases more than offset declines experienced as a result of repatriation of services associated with our outsourcing arrangements with Bell Mobility. On an annual basis, other revenues declined by 1.1 per cent, or \$1.9 million. Declines in terminal rentals and sales and repatriation of services of outsourcing arrangements in 2010 were not completely offset by growth in custom work predominantly generated from the G8 Summit and the aforementioned fourth quarter support structure regulatory decision.

Expenses

Operating expenses

<i>For the period ended December 31</i> <i>(millions of dollars)</i>	Three months			Twelve months⁽¹⁾		
	2010	2009⁽¹⁾	%change	2010	2009	%change
Cost of sales	\$103.8	\$99.3	4.5	\$383.7	\$370.7	3.5
Salaries, benefits, contract labour and consulting	116.3	119.6	(2.8)	460.1	488.8	(5.9)
Selling, general and administrative	129.6	134.7	(3.8)	507.5	546.9	(7.2)
Capital taxes	1.1	0.6	83.3	4.2	6.3	(33.3)
Operating expenses	\$350.8	\$354.2	(1.0)	\$1,355.5	\$1,412.7	(4.0)

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

Operating expenses decreased by 1.0 per cent, or \$3.4 million, in the fourth quarter of 2010, and 4.0 per cent, or \$57.2 million, for the year compared to the same periods in 2009, reflecting an improvement in several operating expense categories.

Cost of sales increased 4.5 per cent, or \$4.5 million, in the fourth quarter of 2010, compared to the same period in 2009. This relates to increased TV content expense driven by a larger number of TV subscribers, higher product cost of goods sold associated with increased telecommunication product revenues and higher wireless hardware subsidies resulting from higher rates and larger volumes of activations and renewals. On an annual basis, cost of sales increased 3.5 per cent, or \$13.0 million, in 2010, compared to 2009, reflecting a similar trend to that experienced in the fourth quarter of 2010, although higher hardware wireless subsidies were attributable to increased volumes, as overall rates decreased in 2010 compared to 2009. In addition, our network service cost of goods sold increased in 2010 compared to 2009, primarily as a result of the G8 Summit hosted in our Ontario region.

Salaries, benefits, contract labour and consulting expenses decreased 2.8 per cent, or \$3.3 million, for the fourth quarter of 2010, and 5.9 per cent, or \$28.7 million, for the year, compared to the same periods in 2009. Labour cost reductions were predominantly driven by the continuation of productivity initiatives related to workforce restructuring.

Selling, general and administrative expenses decreased 3.8 per cent, or \$5.1 million, in the fourth quarter of 2010, compared to the same period in 2009. Continued streamlining of our operations through various cost containment initiatives has resulted in lower real estate expense, administrative expense and curbed other discretionary spending. An increase in the recognized amount of research and development tax credits in 2010, compared to 2009, also helped to reduce operating expenses. On an annual basis, selling, general and administrative costs decreased 7.2 per cent, or \$39.4 million, in

2010, compared to 2009, as a result of factors similar to those affecting the quarter-over-quarter decrease along with lower property and provincial capital taxes, bad debt expense and IT system expense, related to new third party outsourcing arrangements.

Net cost of benefit plans

Net cost of defined benefit (DB) and other post employment benefit (OPEB) plans was \$20.3 million in the fourth quarter of 2010, and \$81.3 million in 2010, compared to \$18.4 million and \$77.4 million, respectively, 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 of actuarial losses and interest costs. Increases in these costs have been partially offset by higher expected returns on DB plan assets, with our asset base increasing from strong returns and cash contributions made in 2009 and 2010. 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 \$2.1 million in the fourth quarter of 2010, and \$7.7 million in 2010, consistent with the prior year.

Depreciation and amortization

Depreciation and amortization decreased 2.8 per cent, or \$5.2 million, in the fourth quarter of 2010, and by 0.8 per cent, or \$5.6 million, in 2010, compared to the same periods in 2009. The decrease is mainly the result of an overall declining and aging depreciable asset base. Additionally, we recognized a \$2.4 million higher asset retirement obligation accretion expense in the fourth quarter of 2009, with no similar transaction occurring in 2010.

Write-down of finite-life intangibles

In the fourth quarter of 2010, as part of our annual balance sheet reviews, and in preparation for our conversion to a corporate structure and International Financial Reporting Standards (IFRS), we revisited the original estimates used in valuing assets, such as finite-life intangibles related to customer relationships, acquired in 2006 when we were created and in 2007 on the privatization of Télébec and NorthernTel. Using revised estimates in 2010, under Canadian GAAP, an impairment in the carrying value of the finite life-intangibles was identified and we recorded a non-cash write-down of \$1,540.7 million in the fourth quarter of 2010. There was no similar transaction recorded in 2009.

Restructuring and other charges

Restructuring and other charges decreased \$2.8 million, or 17.7 per cent, in the fourth quarter of 2010, and \$12.3 million, or 29.7 per cent, in 2010, compared to the same periods in 2009. In 2010, we recorded restructuring charges related to our continuing operations of \$25.3 million, compared to \$30.8 million in 2009. Both years included employee severance and benefit costs as a result of offering voluntary retirement incentives to certain unionized staff and streamlining our management workforce, as well as real estate rationalization costs. In 2010, we also recorded the final costs of the 2009 restructuring initiatives of \$2.6 million, with a similar charge recorded in 2009 of \$6.8 million related to the 2008 initiatives.

In addition, restructuring and other charges includes \$0.4 million in the fourth quarter of 2010, and \$1.2 for the year, compared to \$2.1 million and \$3.8 million in the same periods of 2009, respectively, related to rebranding our operations.

Other expenses

Other expenses remained relatively stable in the fourth quarter of 2010, increasing by \$0.3 million compared to the same period in 2009. On an annual basis, other expenses decreased \$0.8 million, or 6.1 per cent, in 2010 compared to 2009. In September 2010, we recognized a \$12.1 million loss on early redemption of medium-term notes, which includes \$1.1 million for recognition of previously amortized costs, with no similar transaction in 2009. In 2009, we reclassified \$13.3 million from other comprehensive earnings for net losses on interest rate hedges that were settled in May 2009, with no similar transaction occurring in 2010.

Interest charges

Interest charges decreased 1.2 per cent, or \$0.5 million, in the fourth quarter of 2010, and increased 2.5 per cent, or \$3.9 million, in 2010, compared to the same periods in 2009. The lower interest expense in the fourth quarter reflects lower rates and lower amortization of issue costs on the long-term debt refinanced in September 2010, compared to the same period 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 in 2010 reflects this increase to our debt levels 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 increased \$177.7 million in the fourth quarter of 2010, compared to the same period in 2009. The increase is mainly due to lower pre-tax earnings in the fourth quarter of 2010 due to the write-down of finite-life intangibles. This was partially offset by a lower income tax recovery in the fourth quarter of 2010, compared to the same period in 2009, due to a lower reduction in our blended weighted average tax rates over the fourth quarter of 2010, compared to the same period in 2009.

On an annual basis, the income tax recovery increased \$160.9 million compared to the same period in 2009, largely due to similar trends experienced in the fourth quarter of 2010.

Non-controlling interest

Non-controlling interest in our earnings represents Bell Canada's 37.9 per cent ownership interest in our subsidiary, Bell Aliant LP (36.4 per cent on a proportionate cash distribution basis). The per unit distributions attributable to and paid to Bell Canada equal, to the greatest extent practicable, the per unit distributions paid by the Fund to holders of Fund units. The non-controlling interest related to Bell Canada's interest in Bell Aliant LP is based on Bell Canada's pro-rata share of cash distributions from Bell Aliant LP each quarter.

Non-controlling interest in our earnings decreased \$531.4 million in the fourth quarter of 2010, and \$536.3 million in 2010, compared to the same periods in 2009. The large decreases correlate to the decrease in net income from Bell Aliant LP for each period, primarily driven by the write-down of finite-life intangible assets in the fourth quarter of 2010.

Net 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 under which Bell Canada would acquire our xwave business, subject to certain conditions. As a result, we 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 December 31, 2010. In 2010, our xwave business generated a loss of \$0.7 million for the fourth quarter and \$1.8 million for the year.

The sale transaction closed on January 1, 2011, with proceeds on sale of \$38.4 million in cash and \$34.3 million in a receivable from Bell Canada related to post-closing balance sheet adjustments.

In 2009, xwave, Innovatia, xwave New England and our former DSA business had a combined net loss of \$3.9 million for the fourth quarter and \$14.6 million in the year.

Selected quarterly financial information

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

For the eight quarters ended December 31 (millions of dollars, except per unit amounts)	2010				2009 ⁽³⁾			
	Q4	Q3	Q2 ⁽³⁾	Q1 ⁽³⁾	Q4	Q3	Q2	Q1
Operating revenues	\$709.3	\$698.2	\$694.5	\$683.1	\$719.0	\$724.7	\$720.3	\$706.2
EBITDA ⁽¹⁾	\$358.5	\$362.5	\$356.9	\$351.7	\$364.8	\$372.7	\$365.0	\$355.0
Operating income (loss)	(\$1,395.2)	\$161.8	\$153.6	\$147.0	\$145.8	\$163.7	\$163.9	\$148.3
Net earnings (loss):								
Continuing operations	(\$735.2)	\$75.2	\$91.6	\$77.2	\$96.5	\$98.5	\$93.0	\$82.8
Discontinued operations	(4.8)	0.6	(2.3)	0.6	(3.9)	(6.7)	(3.7)	(0.3)
Net earnings (loss)	(\$740.0)	\$75.8	\$89.3	\$77.8	\$92.6	\$91.8	\$89.3	\$82.5
Basic and diluted earnings (loss) per unit:								
Continuing operations	\$ (4.58)	\$ 0.47	\$ 0.57	\$ 0.48	\$ 0.60	\$ 0.61	\$ 0.58	\$ 0.52
Discontinued operations	(0.03)	-	(0.01)	-	(0.02)	(0.04)	(0.02)	(0.01)
Basic and diluted earnings (loss) per unit	\$ (4.61)	\$0.47	\$0.56	\$ 0.48	\$0.58	\$ 0.57	\$ 0.56	\$0.51
Distributable cash ⁽¹⁾	\$140.3	\$193.7	\$176.2	\$200.3	\$182.5	\$207.8	\$186.6	\$196.5
Cash distributions declared ⁽²⁾	\$165.2	\$165.1	\$165.1	\$165.1	\$165.1	\$165.1	\$165.1	\$164.9

⁽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 operating results for the most recent eight quarters reflect the following significant transactions and trends:

- In general, revenues from local and access, long distance, other data and other revenues have declined over the past eight quarters, while wireless, and Internet revenues have trended upward.
- 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 limited voluntary retirement incentive to our unionized employees in Atlantic Canada, Ontario and Quebec. We also announced an operational consolidation of certain contact centres in Atlantic Canada and streamlined our management workforce. We recognized 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, \$0.6 million and \$12.6 million in the first, second, third and fourth quarters, respectively.
- In response to our strategic objectives, we implemented cost containment and other expense reduction initiatives during 2009. This trend continued in 2010, reducing our selling, general and administration expenses by \$7.7 million, \$13.9 million, \$12.7 million and \$5.1 million in the first, second, third and fourth quarters, 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 net loss from discontinued operations. In December 2010, we decreased the \$7.6 million receivable by \$4.6 million to \$3.0 million to recognize a provision for estimated loss on settlement of the post-closing balance sheet adjustments, and accordingly, reduced the gain recognized on sale by an equivalent amount. Two contingent payments totaling \$3.5 million were not triggered and expired during the year.

- On June 1, 2009, we concluded a share purchase agreement whereby Abilis Solutions Inc. acquired 100 per cent 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 fourth 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 December 31 (millions of dollars)	Three months			Twelve months ⁽¹⁾		
	2010	2009 ⁽¹⁾	% change	2010	2009	% change
Cash from (used in):						
Operating activities	\$312.7	\$327.2	(4.4)	\$1,028.5	\$1,126.4	(8.7)
Financing activities	(16.1)	(210.8)	(92.4)	(328.9)	(669.2)	(50.9)
Investing activities	(234.0)	(119.4)	96.0	(638.7)	(461.8)	38.3
Net increase (decrease) in cash from continuing operations	\$62.6	(\$3.0)	n.m.	\$60.9	(\$4.6)	n.m.
Net increase (decrease) in cash from discontinued operations	(12.2)	2.7	n.m.	(22.6)	17.1	n.m.
Net increase (decrease) in cash for the period	\$50.4	(\$0.3)	n.m.	\$38.3	\$12.5	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 \$50.4 million in the fourth quarter of 2010, compared to using cash of \$0.3 million in the corresponding period of 2009. On an annual basis, we generated cash of \$38.3 million in 2010 compared to generating cash of \$12.5 million in 2009. This increase in cash of \$25.8 million for the year is the result of higher cash from continuing operations of \$65.5 million, partially offset by lower cash from discontinued operations of \$39.7 million. The lower cash from discontinued operations primarily reflects a \$30.8 million decrease in cash generated from our xwave business in 2010, as well as 2009 including the sale proceeds realized from the sale of Innovatia, our DSA and xwave New England businesses.

Operating activities

Cash generated from operating activities decreased 4.4 per cent, or \$14.5 million, in the fourth quarter of 2010, compared to the same period in 2009. Net earnings from continuing operations, net of non-cash adjustments, increased \$1.4 million, but was more than offset by a decrease in cash flow from changes in working capital of \$11.4 million and an increase in funding of DB pension and other post-employment benefit plans of \$4.5 million.

Cash generated from working capital changes was \$56.4 million in the fourth quarter of 2010, compared to \$67.8 million in the same period of 2009. In the fourth quarter of 2010, accounts receivable increased by \$17.2 million, compared to an increase of \$0.3 million in the corresponding period of 2009, reflecting a \$16.9 million decrease in cash flow. This was partially attributable to the reversal in the fourth quarter of 2010 of a \$7.7 million provision for an expected contribution subsidy rate change and an increase in current billings in December 2010, compared to the same period in the prior year. In addition, cash generated from prepayments decreased by \$4.7 million as prepayments declined by \$9.8 million in the fourth quarter of 2010, while the decline in the same period of 2009 was \$14.5 million. During the fourth quarter of 2010, we recognized prepayments of costs related to the disposition of our xwave business, with no similar costs incurred in 2009. Cash flow used to fund working capital changes was positively affected quarter over quarter by \$3.3 million in inventory as items purchased earlier this year were utilized for *FibreOp* service expansion this quarter. Changes in the pattern of payables and accruals, deferred charges and deferred credits primarily accounted for the remaining differences in cash flow from working capital changes in the quarter. Approximately \$3.0 million in costs previously recorded as deferred charges were reclassified to capital investments in connection with the pole repurchase.

On an annual basis, cash generated from operating activities was 8.7 per cent, or \$97.9 million, lower than in 2009, as net earnings from continuing operations net of non-cash adjustments decreased \$17.0 million, cash flows from changes in working capital decreased \$68.4 million in 2010, and funding of DB pension and OPEB increased \$12.5 million.

Our customer accounts receivable management efforts contributed \$3.4 million to cash flow from working capital in 2010, compared to \$53.7 million in 2009, reflecting a \$50.3 million decrease in cash flow. Although there was a continued improvement in accounts receivable management, it was not to the extent realized in 2009. Inventory used \$2.4 million more cash in 2010, compared to 2009, as our *FibreOp* program required elevated inventory purchases during the first six months of 2010. Income tax receivable used \$5.3 million more cash as we made a payment in the first quarter of 2010 resulting from an audit of our scientific research and experimental tax credits. Similar to trends seen in the fourth quarter, we also used \$6.3 million and \$6.4 million more cash in 2010 for prepayments and deferred charges, respectively, than we did in 2009, and received \$6.9 million less cash from long-term receivables due to amounts received from the deferral account settlement with Bell Canada in 2009. Offsetting these higher net uses of cash in 2010, the amount of cash used to reduce payables and accruals was \$30.7 million in 2010, compared to \$55.6 million in 2009. This is in large part due to significant payments of restructuring charges of \$65.6 million made during 2009, compared to \$54.7 million in 2010, as well as the timing of capital projects.

Funding for our DB pension plans for the fourth quarter of 2010, and on an annual basis, was \$42.5 million and \$139.8 million, respectively, compared to \$38.3 million and \$127.7 million for the same periods in 2009. Total contributions made in 2010 are based on the results of actuarial valuations of our DB pension plans as of December 31, 2009, which were filed in the third quarter of 2010. Funding deficits as of December 31, 2009, increased from the previous year due to further recognition of losses incurred in 2008 in smoothed asset values, lower interest rates and the effect of early retirements, which were partially offset by positive asset returns in 2009. Included in the total contributions for the fourth quarter of 2010 was \$28.1 million of deficit-reducing payments, compared to \$25.3 million in the same period of 2009. On an annual basis, deficit-reducing payments were \$86.2 million, compared to \$73.8 million in 2009.

Contributions to our OPEB plans to fund benefit payments were \$2.2 million in the fourth quarter of 2010, up from \$1.8 million paid in the fourth quarter of 2009, due to an increase in the number of retirees receiving benefits as well as the timing of benefit payments. Annual contributions were \$8.2 million in 2010, compared to \$7.8 million for 2009.

Financing activities

Cash used in financing activities decreased by 92.4 per cent, or \$194.7 million, for the fourth quarter of 2010, and 50.9 per cent, or \$340.3 million, in 2010, compared to the same periods in 2009.

In the fourth quarter of 2010, our net proceeds of debt (including short-term and long-term debt, notes payable to related parties and capital lease obligations) were \$97.8 million, compared to net repayments of \$44.8 million in the fourth quarter of 2009. In 2010, our net proceeds of debt were \$226.0 million compared to net repayments of \$11.2 million in 2009.

In 2010, we had net proceeds from issuance of medium-term notes in the third quarter of \$348.7 million. Those proceeds, together with incremental short-term borrowing, were used to make a partial early repayment of medium-term notes which were due to mature in September 2011. We repaid \$345.0 million of principal amount and paid an \$11.0 million prepayment penalty on redemption, resulting in a \$356.0 million total settlement payment for the partial redemption.

In 2009, we refinanced \$350.0 million of short-term debt with an issue of medium-term notes in the second quarter. The proceeds were used to repay \$250.0 million of short term debt outstanding under our revolving operating facilities and a \$100.0 million non-revolving term loan. Associated with the repayment of these floating-rate obligations, we paid cash of \$15.4 million to settle our outstanding fixed-floating interest rate swaps. We also repaid a \$50.0 million term bank facility.

Amounts drawn under short-term credit facilities increased to \$249.2 million at December 31, 2010, compared to \$40.0 million at December 31, 2009. In 2010, we issued \$61.4 million of short-term promissory notes during the fourth quarter and \$209.2 million during the year under our commercial paper program to fund changes in operating assets and liabilities and the purchase in the fourth quarter of an interest in poles in Newfoundland.

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

We also used cash of \$22.0 million in the fourth quarter of 2010, and \$37.0 million in 2010, to repurchase accounts receivable from the securitization trust, with no similar activity occurring under the program in 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. In the fourth quarter of 2010, we were required to repurchase the accounts receivable related to our xwave business in advance of this business being sold to Bell Canada.

Financing activities also include distributions paid to the Fund and non-controlling interests, which were \$91.9 million in the fourth quarter of 2010, and \$166.0 million in the same period in 2009. This decrease of \$74.1 million is primarily a 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. During this time, BCE and Bell Canada received the equivalent amount of these distributions in the form of a loan, as discussed under "Investing activities". On an annual basis, total distributions paid were \$517.9 million, compared to \$665.0 million in 2009.

On January 1, 2011, the deferred distributions were paid to BCE and Bell Canada and the associated loans were settled.

Investing activities

Cash used in investing activities increased by 96.0 per cent, or \$114.6 million, in the fourth quarter of 2010, and 38.3 per cent, or \$176.9 million, in 2010, compared to the same periods in 2009.

In the third and fourth quarters of 2010, BCE and Bell Canada elected to be loaned an amount equal to their distributions from us, 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 increased \$72.8 million in the fourth quarter and \$145.6 million for the year, with no corresponding transaction in 2009.

Capital investments were \$162.0 million in the fourth quarter of 2010, compared to \$120.0 million in the fourth quarter of 2009, representing an increase of \$42.0 million, or 35.0 per cent. On an annual basis, capital investments increased \$31.6 million, or 6.8 per cent, compared to 2009. In general, our overall capital investment in 2010 was similar to 2009, except for the repurchase of an interest in poles. Strategic priority was given to growing broadband, specifically related to FTTH, which was offset by the completion in 2009 of the Bell Mobility backhaul project, and productivity initiatives in 2010. The increase in capital spending for the fourth quarter and on an annual basis mainly reflects the \$57.2 million cost of repurchasing an interest in poles from Newfoundland Power Inc. and Fortis Inc., which was partially offset by a reduction in other capital spending.

Capital expenditures were 22.8 per cent of operating revenues in the fourth quarter of 2010, and 17.7 per cent for 2010, in line with our 2010 revised target of 17.5 per cent to 18.0 per cent which incorporated the obligation to repurchase the interest in poles.

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, dividends to shareholders and other commitments as they arise.

Our capital structure is as follows:

<i>(millions of dollars, except as otherwise noted)</i>	December 31, 2010		December 31, 2009	
Partners' equity	\$3,854.0	49.1%	\$4,799.4	52.3%
Non-controlling interest	977.1	12.4%	1,587.9	17.3%
Net debt	3,020.8	38.5%	2,792.6	30.4%
Total capital	\$7,851.9	100.0%	\$9,179.9	100.0%

Partners' capital

At December 31, 2010, we had an unlimited number authorized of each of three classes of units, which are not publicly traded. The number of units issued and outstanding at December 31, 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 \$2,605.0 million in unsecured and unsubordinated medium-term notes outstanding under Bell Aliant LP's trust indenture dated September 14, 2006, compared to \$2,650.0 million at December 31, 2009.

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. The notes were issued at a discount and 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 maturing on

September 26, 2011. We redeemed \$345.0 million principal amount, or 46 per cent of the total outstanding principal amount, and paid an \$11.0 million penalty on early redemption, recorded in other expenses, resulting in a \$356.0 million total settlement payment for partial redemption.

The commercial terms of our available short-term credit facilities have not changed significantly since December 31, 2009, although certain amendments were required in relation to our conversion to a corporation. 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 \$249.2 million at December 31, 2010, compared to \$40.0 million at December 31, 2009. There was \$209.2 million issued under our commercial paper program at December 31, 2010, with no amounts issued at December 31, 2009.

At December 31, 2010, we had \$144.1 million in letters of credit in place to support 2006 and 2009 DB pension solvency funding relief regulations and \$116.7 million in letters of credit in place to secure current and former executive retirement compensation arrangements.

Our credit facilities contain customary covenants and provisions that could, if not satisfied, trigger an event of default. As of December 31, 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, except for amendments required relating to our conversion to a corporation.

Ratings

There were no changes to our debt ratings in the fourth quarter of 2010.

	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 fourth quarter of 2010 consisted of distributions to unitholders, investments in capital, including our purchase of poles in Newfoundland, pension plan funding, repayment of short-term and long-term debt, and payments of other commitments. Cash requirements in 2011 are expected to be similar. Specifically, it is anticipated that these requirements will result in the use of cash as follows:

- The annual cash requirement to pay dividends to shareholders of Bell Aliant Inc. is estimated to be approximately \$432 to \$435 million for 2011.
- Capital expenditures for 2010 were \$494.0 million, or 17.7 per cent of operating revenues, which is in line with our revised guidance issued in November of 2010. Excluding the repurchase of an interest in poles in the fourth quarter of 2010, capital expenditures were \$437.0 million, or 15.7 per cent of operating revenues. We anticipate 2011 capital expenditures to be in the range of \$520 million to \$560 million. Refer to the "2011 financial guidance" section for further discussion on expected capital expenditures.
- 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 issuances of commercial paper. We have \$405.0 million outstanding principal amount of medium-term notes due to mature on September 26, 2011, which we anticipate we will partially repay and partially refinance.
- Our DB pension plans have funding deficits. In 2010, the pension plans achieved a return on assets that was well above our expected rate of return. However, we anticipate that the

discount rates utilized to calculate our solvency funding liabilities for active employees at December 31, 2010, will be lower than those used at December 31, 2009. In addition, our December 31, 2010, funding requirements will reflect increased liabilities resulting from early retirements in 2010. In the absence of new federal rules allowing the funding of solvency deficit payments with letters of credit, we estimate that cash funding of our DB pension deficits would require in the range of \$100 million to \$120 million in 2011, compared to \$86.3 million for 2010. However, we plan to make a \$200.0 million lump-sum voluntary cash contribution to our DB pension plans and to apply a portion of this voluntary amount to our required 2011 deficit funding. Funding for this contribution is expected to come from a preferred share issue, which we intend to pursue soon, as market conditions allow. We believe that taking this step now removes future volatility that solvency valuations have on our cash flows, strengthens our credit profile, improves our cash flow generation, represents an attractive return on investment and enhances the security of pension benefits for retirees and employees in our DB pension plans. In addition, we estimate that a further \$25 million to \$50 million in cash deficit funding payments, which approximates our going concern funding requirements, will be contributed to the pension plans in 2011. We will continue to use letters of credit to fund solvency special payments as required under the 2006 and 2009 solvency relief regulations.

In late December, changes to pension regulations were published for public consultation and include the ability to use letters of credit to fund solvency deficits within certain limits. We anticipate that these regulations will become effective before the June 30, 2011, filing deadline for our 2010 actuarial valuations. We continue to assess and have yet to determine if we will implement any new letters of credit to fund a portion of our solvency deficits.

- Restructuring initiatives, announced during 2010, 2009 and 2008 are expected to result in the use of cash of approximately \$10 million to \$15 million in fiscal 2011.
- We will also use cash for other commitments, such as operating leases and purchase commitments for equipment and other network infrastructure.

Other financial arrangements

Contractual obligations

In 2010, we terminated certain pole use agreements effective December 31, 2010, and entered into a new agreement with Newfoundland Power Inc. and Fortis Inc. to repurchase an interest in the poles previously sold to them, for which we paid \$57.2 million in 2010. The agreement is subject to final regulatory approval and is expected to be completed in the first half of 2011, at which time the purchase price will be finalized. This will lower our future commitments to pay for pole attachments in Newfoundland.

We have various operating leases for equipment and other network infrastructure, and purchase commitments under various service and commercial agreements, including our commercial agreements with Bell Canada.

Further details of these commitments are described in notes 22 and 25 to our audited consolidated financial statements for the year ended December 31, 2009, and the equivalent notes to our quarterly unaudited interim consolidated financial statements issued during 2010.

Accounts receivable securitization

Under a revolving purchase and sale agreement, we sell certain accounts receivable to a securitization trust. The net cash proceeds under this agreement were reduced by \$15.0 million and \$22.0 million in May and December 2010, respectively. As at December 31, 2010, our net cash proceeds were \$128.0 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 audited consolidated financial statements for the year ended December 31, 2009 and in note 2 to our quarterly unaudited interim consolidated financial statements issued during 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.

On December 31, 2010, we had no derivative 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 the equivalent notes to our quarterly unaudited interim consolidated financial statements issued during 2010.

SIGNIFICANT ACCOUNTING POLICIES

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 or guidelines contained in the CICA Handbook. We monitor these amendments as they are proposed and will make changes to our accounting policies and disclosures as necessary.

International financial reporting standards

The Accounting Standards Board issued a mandate 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.

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 transition to IFRS, which includes:

Phase 1 - Raise awareness and initial assessment

Phase 2 - Detailed assessment

Phase 3 - Design

Phase 4 - Implementation

We have completed the first three phases and have substantially completed 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 as 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 nearing completion, which will carry through to our changeover date of January 1, 2011 and beyond. 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 were able to produce both IFRS and Canadian GAAP accounting records on a recurring transactional level. For 2010, we reported our results under Canadian GAAP but also internally recorded preliminary results under IFRS. We will continue to refine 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, 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 2011, and review and assess accordingly. 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 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 elect to apply IFRS 3 to business combinations that occur on or after January 1, 2010.

Employee benefits

IFRS 1 indicates that a first-time adopter may elect not to apply IAS 19, *Employee benefits*, retrospectively to cumulative actuarial gains and losses that existed before the date of transition to IFRS. 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 elect to 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.

Under Canadian GAAP, we have estimated a \$1,540.7 million impairment to finite-life intangibles which was recorded in the fourth quarter of 2010. We are currently assessing the impact of this entry under IFRS.

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 identified differences between Canadian GAAP and IFRS for our consolidated opening balance sheet at January 1, 2010, and our consolidated statement of earnings for the year ended December 31, 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) <i>(millions of dollars)</i>	Notes	December 31, 2009 Canadian GAAP	Effect of transition to IFRS	January 1, 2010 IFRS	December 31, 2010 IFRS
Assets					
Current assets					
Accounts receivable	H	\$ 304.0	\$ 165.0	\$ 469.0	\$ 624.8
Future income tax asset	A	57.6	(57.6)	-	-
Other current assets		70.7	-	70.7	124.4
		432.3	107.4	539.7	749.2
Capital investments					
Property, plant and equipment	C	3,662.8	(289.5)	3,373.3	3,359.5
Finite-life intangibles		3,069.8	-	3,069.8	1,372.2
		6,732.6	(289.5)	6,443.1	4,731.7
Other assets					
Future income tax assets	A, C	4.2	57.6	61.8	133.5
Accrued benefit asset	D	418.0	(418.0)	-	-
Other assets		2,930.7	-	2,930.7	2,940.6
		3,352.9	(360.4)	2,992.5	3,074.1
Total assets		\$ 10,517.8	\$ (542.5)	\$ 9,975.3	\$ 8,555.0
Liabilities and partners' equity					
Current liabilities					
Payables and accruals	F	\$ 416.2	\$ (37.3)	\$ 378.9	\$ 333.5
Current provisions	F	-	37.3	37.3	14.0
Short-term debt	H	40.0	165.0	205.0	377.2
Notes payable to related party		2.6	-	2.6	48.7
Long-term debt due within one year		17.2	-	17.2	427.4
Other current liabilities		55.3	-	55.3	238.3
		531.3	165.0	696.3	1,439.1
Future income tax liability	D, J	\$ 421.6	\$ (129.3)	\$ 292.3	\$ -
Long-term debt		2,759.9	-	2,759.9	2,360.9
Accrued benefit liability	D	382.9	417.2	800.1	998.7
Deferred credits and other long- term liabilities	F	34.8	(3.9)	30.9	35.5
Long-term provisions	F	-	3.9	3.9	2.9
Total liabilities		4,130.5	452.9	4,583.4	4,837.1
Non-controlling interest	C, D	1,587.9	(183.6)	1,404.3	794.9
Partners' equity	C, D, J	4,799.4	(811.8)	3,987.6	2,923.0
Total liabilities and partners' equity		\$ 10,517.8	\$ (542.5)	\$ 9,975.3	\$ 8,555.0

Consolidated statement of earnings
(unaudited)

For the year ended December 31, 2010 <i>(millions of dollars)</i>	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
Operating revenues	B	\$ 2,785.1	\$ 22.3	\$ 2,807.4
Expenses				
Operating expenses	B, D, I	1,444.2	(13.0)	1,431.2
Depreciation and amortization	C, E	703.9	(10.4)	693.5
Write-down of finite-life intangibles		1,540.7	-	1,540.7
Restructuring and other charges	I	29.1	(0.9)	28.2
Operating income		(932.8)	46.6	(886.2)
Interest charges	D, E, H	162.3	189.2	351.5
Other expenses (income)	C, D, H, K	14.0	(151.9)	(137.9)
Loss before under listed items		(1,109.1)	9.3	(1,099.8)
Income taxes		(216.5)	(59.3)	(275.8)
Loss before non-controlling interest		(892.6)	68.6	(824.0)
Non-controlling interest recovery	G	(401.4)	(401.4)	-
Net loss from continuing operations		(491.2)	\$ (332.8)	\$ (824.0)
Net loss from discontinued operations	K	(5.9)	4.1	(1.8)
Net loss		(497.1)	(328.7)	(825.8)

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, under IFRS for the year ended December 31, 2010, our operating revenue and operating expenses will both increase by \$22.3 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 \$289.5 million on our opening balance sheet at January 1, 2010. Accordingly, non-controlling interest decreased by \$88.0 million, future income tax liability decreased by \$52.1 million and retained earnings decreased by \$149.4 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 \$9.9 million for the year ended December 31, 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 \$3.6 million for the year ended December 31, 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 will elect 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, is 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 \$88.7 million are included in operating expenses for the year ended December 31, 2010. Under IFRS, total net benefit costs are \$81.1 million for the same period, which includes \$52.5 million in current service costs, presented in operating expenses, \$187.1 million in interest expense on plan liabilities, presented in interest charges, and \$158.5 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 \$0.5 million for the year ended December 31, 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, non-controlling interest decreased by \$401.4 million which in turn increased the net loss from continuing operations for the year ended December 31, 2010, by \$401.4 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 \$1.6 million for the year ended December 31, 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 \$0.9 million for the year ended December 31, 2010.

(J) Inclusion rate for intangible assets

Under Canadian GAAP we include 75 per cent of the intangible asset balance as the tax base when determining the temporary difference for future tax purposes. Under IFRS, 100 per cent of the intangible asset balance will be included when determining the tax base. This change will result in an increase to the future tax liability on our opening balance sheet by \$127.2 million, with a corresponding decrease to retained earnings.

(K) Post-closing balance sheet adjustments

In December 2010, we decreased our receivable relating to the sale of our DSA business by \$4.6 million as a result of a provision for estimated loss on settlement of the post-closing balance sheet adjustment. Under Canadian GAAP, the original sale, and resulting adjustment are reflected in the net loss from discontinuing operations. Under IFRS, the sale of our DSA business does not qualify for presentation as a discontinued operation, resulting in an increase of \$4.6 million in operating expenses and a decrease in the net loss from discontinued operations of \$4.1 million, net of tax, for the year ended December 31, 2010.

REGULATORY DEVELOPMENTS

Regulatory developments in the fourth quarter of 2010, and up to and including February 8, 2011, which are, or may be, significant to our business, include the following:

Petition submitted to the Governor in Council (GiC) by Rogers Communications Partnership Inc. (Rogers) related to the CRTC deferral account mechanism

In Telecom Decision 2010-805 the CRTC approved Bell Canada's revised proposal to use the approved \$306.3 million of deferral account funds for the use of HSPA+ wireless technology instead of wireline DSL for the expansion of broadband to the 112 communities approved for inclusion in Bell Canada's deferral account-funded program. On January 26, 2011, Rogers filed a petition requesting that the GiC vary Telecom Decision 2010-805. The petition seeks to (i) limit the Commission's approval of Bell Canada's HSPA proposal to the 15 approved locations that Bell Canada proposes to serve in year one (2011) of its four year rollout plan and (ii) require the conduct of a competitive auction of deferral account funds to serve the remaining 97 approved areas. Under the proposed auction, the bidder requiring the least amount of subsidy to build broadband to these areas would have access to Bell Canada's deferral account funds.

The GiC may, until October 29, 2011, choose to vary or rescind the decision or refer it back to the CRTC for reconsideration of all or a portion of it.

Approval of the petition could result in the use of some of the \$306.3 million deferral account funds by parties other than Bell Canada for the expansion of broadband to some of the approved areas. It could also result in Bell Canada having to return more than the \$250 million that has already been approved by the CRTC to eligible residential customers via rebates.

We do not expect the outcome of the CRTC's decision or of Rogers' petition to materially affect our financial results in light of our arrangement with Bell Canada. Further details of the deferral account are described in note 22 to our audited consolidated financial statements for the year ended December 31, 2009.

Parliamentary review of usage-based billing (UBB)

On November 20, 2008, the CRTC issued Telecom Public Notice 2008-19 where it initiated a proceeding to consider Internet traffic management practices for retail and wholesale Internet services. The CRTC sought comments with supporting rationale on the changes in bandwidth consumption that can lead to network congestion, technical or economic Internet traffic management practices that are currently available or may be developed in the future, and the impact of these practices on end-users. In addition, the CRTC examined the appropriateness of implementing regulatory measures in relation to Internet traffic management by Internet service providers (ISPs). The CRTC issued its decision on October 21, 2009 in which it preserved ISPs' flexibility to manage their networks and established certain transparency requirements. The CRTC approved the use of technical Internet Traffic Management Practices (ITMPs), including application-specific ITMPs such as those applied by us; encouraged the use of economic ITMPs such as UBB and established a framework against which future complaints about traffic management will be assessed.

On March 13, 2009, Bell Canada and we proposed tariffs that would introduce UBB for their wholesale residential Gateway Access Services (GAS), consistent with pricing changes that they had been implementing, since February 1, 2007, for their retail Internet access services. On August 12, 2009, in Telecom Order 2009-484, the CRTC approved on an interim basis Bell Canada and our requests to introduce UBB with a proposed implementation date of 90 days following the CRTC's August 12, 2009, interim approval. Following complaints with regards to the proposed implementation date, the CRTC confirmed on October 21, 2009, in Telecom Decision 2009-658, the interim approval granted to Bell Canada and ourselves to introduce UBB for GAS but delayed the implementation date and stated that its final decision would address implementation issues.

On May 6, 2010, in Telecom Decision 2010-255, the CRTC issued its final approval of Bell Canada and our proposed implementation of wholesale UBB with changes. In particular, the Commission established that UBB rates should be composed of a flat-fee cost-based rate, which the Commission adjusted on a lowered basis in light of the implementation of UBB and, given that UBB is an ITMP, a UBB component that varies with usage based on the carrier's own retail UBB components. On May 28, 2010, Bell Canada and we requested that the CRTC review and vary its decision with regards to certain of the mandated changes to their proposed tariffs.

On October 28, 2010, in Telecom Decision 2010-802, the CRTC approved many of the changes requested by Bell Canada and ourselves but denied the request to readjust the costs used to determine the flat-fee component of GAS. On the same day, the CRTC requested comments in Telecom Notice of Consultation 2010-803 as to whether or not UBB rates of GAS or equivalent services should be set at levels below the ILECs' and the cable carriers' comparable retail UBB rates and, if so, to what extent. On December 14, 2010, Bell Canada and ourselves amended our proposed wholesale UBB tariffs in accordance with Telecom Decision 2010-802 and indicated that our newly proposed tariffs would be implemented on March 1, 2011.

On January 25, 2011, in Decision 2011-44, the CRTC issued its decision with regards to Telecom Notice of Consultation 2010-803, and determined that wholesale UBB rates are to be established at a discount of 15 per cent from the carrier's comparable UBB rates for its retail Internet services.

On January 26, 2011, Vaxination Informatique, an IT consultant, filed a petition to the GiC requesting that the GiC review and overturn Telecom Decision 2010-802 as well as Decision 2011-44. In parallel, several small ISPs and end-users launched a campaign to solicit public opposition to UBB. On February 3, 2011, Bell Canada and we requested that the implementation of their wholesale UBB be delayed until May 1, 2011, to allow for adjustments in light of the CRTC's January 25, 2011, decision.

A Parliamentary Committee was established on February 1, 2011, and is undertaking a study of UBB between February 3, 2011 and February 10, 2011. Also, on February 8, 2011, the CRTC initiated a proceeding to review its decisions regarding UBB and suspended implementation of wholesale UBB pending the outcome of this review. It is not known at this time what impact these reviews of UBB decisions will have on wholesale internet offerings. Currently, we only have proposed UBB for our wholesale Internet offerings in some of our territory in Ontario and Quebec where there is limited wholesale demand.

Wholesale high-speed access services

In August 2010, the CRTC issued its ruling in a proceeding that considered whether telephone companies (including ourselves) 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 per cent mark-up above cost for access over FTTN compared to similar services providing access over legacy infrastructure. 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.

The GiC had until November 29, 2010, to overturn the CRTC's decision but did not do so.

Review of unbundled local loop rates

As discussed in further 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.

On January 12, 2011, in Telecom Decision 2011-12, the Commission approved revised monthly recurring rates for certain unbundled loops and revised service charge rates for other unbundled local loops. These rates will be retroactively applied to the date of interim approval, December 14, 2009. In light of the small volume of this service for us, the impact is not expected to be material.

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. If the Supreme Court were to grant leave to appeal, reverse the Federal Court of Appeal's decision and in so doing determine that ISPs do carry on a broadcasting undertaking when in their role as ISPs they provide access through the Internet to "broadcasting", this would give the Commission the jurisdiction to impose a levy on ISP revenues, which funds could be used (in whole or in part) to subsidize the creation and or distribution of Canadian new media broadcasting programming content.

Fee-for-carriage / value-for-signal

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 and a decision is expected shortly. Implementation of the VFS regime will depend on the outcome of the judicial proceedings.

Obligation to serve, contribution subsidy fund and other matters

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 included a re-examination of the local competition and wireless number portability frameworks in the territories of the small ILECs.

The record of the proceeding closed in November 2010. The outcome of this proceeding may result in changes to various regulatory regimes, which could have an adverse effect on our business and financial results. The proceeding could also result in changes to the basic service objective which could include mandating the deployment of broadband in uneconomic areas. A final decision is expected in the first quarter of 2011.

As discussed in our MD&A for the third quarter ended September 30, 2010, the CRTC approved our proposed use of higher costs in the contribution subsidy calculation, resulting in higher expected subsidy revenue receivable by us in 2010 and 2011.

Support structure rates

On December 2, 2010, in a positive decision for us, the Commission approved new revised rates for support structures (poles, strands and conduit) which results in net revenue increases for us. These rates were retroactively applied to the date of interim approval, July 21, 2009. The Commission has also established a follow-up proceeding to examine two other related matters, the outcome of which could have a further positive impact on our financial results.

Foreign ownership rules

Following through on a commitment which the Federal Government made in its March 2010 Speech from the Throne, in June 2010, Industry Canada issued a consultation paper entitled "Opening Canada's Doors to Foreign Investment in Telecommunications: Options for Reform". The consultation paper seeks public comments on proposals to reform Canada's foreign ownership and control restrictions that currently apply to facilities-based telecommunications service providers providing telecommunications services in Canada, known as "telecommunications common carriers" (TCCs), including us and many of our competitors. The Industry Canada consultation paper sets out three different foreign ownership reform options for comment. Option 1 would raise the allowable non-Canadian voting share limits up to 49 per cent for both TCC and broadcasting licensees (including broadcast distribution undertakings) while retaining the current requirement for control in fact by Canadians. Option 2 would repeal the foreign ownership and control restrictions for TCCs which account for 10 per cent or less of the annual Canadian telecommunications revenues (the existing rules for broadcasting licensees, including broadcast distribution undertakings, would be unchanged). Option 3 would repeal the above rules for all TCCs, regardless of their share of annual Canadian telecommunications revenues, but retain the existing rules for broadcasting licensees, including broadcast distribution undertakings. The Industry Canada consultation closed on July 30, 2010, and on November 22, 2010, the Minister of Industry announced that he would consider which approach to adopt on foreign ownership rules at the same time as decisions are made regarding the 700MHz spectrum auction rules, as part of an integrated regulatory approach. The 700 MHz spectrum consultations were subsequently launched on November 30, 2010. It is not possible to predict at this time which, if any, of the three reform options may be implemented.

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. We updated certain of our assumptions, and our guidance for 2010, to take into account our repurchase of an interest in poles in Newfoundland and the sale of our xwave business, as described in our MD&As for the interim periods ended June 30, 2010, and September 30, 2010. These assumptions include economic, market, financial, operational and transaction assumptions and, as so updated, have not significantly changed up to February 8, 2011, except as outlined below.

In stating our expectation that the anticipated 2011 dividend rate of \$1.90 per share annually for Bell Aliant Inc. 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 2010 earnings results and 2011 guidance news release dated February 8, 2011, 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.

2011 financial guidance

On February 8, 2011, we announced our 2011 financial guidance as follows:

	2010 IFRS Restated Results ⁽¹⁾	2011 Guidance
Operating Revenues	\$2,807 million	\$2,650 million - \$2,750 million
EBITDA before pension expense	\$1,430 million	\$1,360 million - \$1,400 million
EBITDA after pension expense	\$1,377 million	\$1,300 million - \$1,340 million
Capital Expenditures	\$494 million	\$520 million - \$560 million
Free Cash Flow	\$531 million	\$525 million - \$575 million ⁽²⁾
Earnings per share before purchase price allocation amortizations	not meaningful	\$1.60 - \$1.80

⁽¹⁾ IFRS restated results are unaudited

⁽²⁾ Excludes voluntary pension contribution

Key assumptions

Several assumptions were made in the preparation of our 2011 financial guidance and in making forward-looking statements in this MD&A. For 2011, we expect:

Market assumptions

- a) Competition in both business and consumer markets will continue to be intense with the cable telephony competitive footprint growing from its current level of 69 per cent to reach a peak of 75 to 80 per cent over the next several years;
- b) Wireless substitution for voice services will increase in our territories but will continue to lag other regions in Canada;

Operational assumptions

- c) NAS declines will be similar to those experienced in 2010;
- d) High-speed Internet subscriber net additions will be similar to those experienced in 2010;
- e) We will invest \$350 million in FTTH between 2011 and 2012 to pass over 430,000 homes and businesses by the end of 2011 and over 600,000 by the end of 2012, which should result in higher total residential ARPC and significant TV subscriber and revenue growth;

- f) Data revenue will decline at a similar rate as 2010 due to price pressures and competitive losses;
- g) Cost reductions will continue in 2011 but at a lower rate than that achieved in recent years;

Financial assumptions

- h) We will issue preferred shares and use the proceeds to fund a voluntary pension contribution of \$200 million and reduce debt;
- i) Net cost of benefit plans (pension expense) in 2011 will be \$60 million to \$65 million based on a discount rate of 5.3 per cent and a long-term rate of return on plan assets of 6.1 per cent, up from a comparable 2010 IFRS restated pension expense of approximately \$53 million;
- j) Pension current service cost funding will be \$65 million to \$75 million in 2011, compared to \$69.2 million in 2010. We estimate our required pension deficit funding will be in the range of \$100 million to \$120 million in 2011, compared to \$86.3 million in 2010, based on estimated discount rates for plan obligations at December 31, 2010. In addition to the anticipated \$200 million voluntary pension contribution, we expect to contribute \$25 million to \$50 million of regular cash pension deficit funding, which approximates our going concern funding requirement for 2011;
- k) Taxable income is expected to be subject to blended federal and provincial corporate income tax rates of 29 per cent in 2011, dropping to 27 per cent by 2013 with a 2011 income tax provision of approximately \$130 to \$140 million. The utilization of accumulated tax-loss carry-forwards will result in minimal cash taxes being paid in 2011 and 2012;
- l) Our depreciation and amortization expense for 2011 will be \$625 million to \$640 million, including approximately \$145 million to \$150 million of amortization of intangibles;
- m) Dividends paid by us and Bell Aliant Inc., as corporations, are expected to qualify as eligible dividends entitling Canadian resident individuals who receive them to the enhanced dividend gross-up and tax credit mechanism that will reduce the income tax otherwise payable.

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 shareholders. We employ an integrated, enterprise-wide framework to identify, assess and manage the risks across our 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 2010, except as updated and described below, 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.

The market for preferred shares

Our ability to raise funds through issuing preferred shares depends on our ability to access this market. This access, and the cost of funds raised, depends on market conditions, the outlook for our business and our credit ratings at the time capital is raised. If we cannot raise the capital we need through the preferred share market at a cost that is acceptable, we may have to change our plans and either not

make the planned voluntary pension funding or fund it through other sources of capital. These possibilities could have an adverse effect on our financial position, future results of operations or cash flow from operations.

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, write-down of finite-life intangibles, restructuring and other charges, and net cost of benefit plans. 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 December 31 (millions of dollars)	Three months		Twelve months ⁽¹⁾	
	2010	2009 ⁽¹⁾	2010	2009
Net earnings (loss)	(\$740.0)	\$92.6	(\$497.1)	\$356.2
Add: Other expenses	0.7	0.4	14.0	13.2
Interest charges	41.4	41.9	162.3	158.4
Future income tax recovery	(201.4)	(23.7)	(216.5)	(55.6)
Non-controlling interest	(500.7)	30.7	(401.4)	134.9
Net loss from discontinued operations	4.8	3.9	5.9	14.6
Operating income (loss)	(\$1,395.2)	\$145.8	(\$932.8)	\$621.7
Add: Depreciation and amortization	177.7	182.9	703.9	709.5
Write-down of finite-life intangibles	1,540.7	-	1,540.7	-
Restructuring and other charges	13.0	15.8	29.1	41.4
Net cost of benefit plans	22.3	20.3	88.7	84.9
EBITDA	\$358.5	\$364.8	\$1,429.6	\$1,457.5

⁽¹⁾ Financial results for all prior periods have been restated to reflect our xw ave 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, write-down of finite-life intangibles, restructuring and other charges, and net cost of benefit plans. We exclude depreciation and amortization expense, write-down of finite-life intangibles, 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 intangible assets, 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 should not be confused with net earnings or operating income, which are the most comparable Canadian GAAP measures.

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

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 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:

<i>For the period ended December 31</i> <i>(millions of dollars)</i>	Three months		Twelve months⁽¹⁾	
	2010	2009⁽¹⁾	2010	2009
Cash from operating activities	\$312.7	\$327.2	\$1,028.5	\$1,126.4
Add (deduct):				
Standardized distributable cash of discontinued operations	(12.2)	1.5	(22.6)	(7.1)
Cash from operating activities of the Fund	(0.8)	(0.8)	(3.7)	(15.8)
Capital expenditures	(162.0)	(120.0)	(494.0)	(462.4)
Standardized distributable cash	\$137.7	\$207.9	\$508.2	\$641.1
Add (deduct):				
Operating items funded through cash reserves or borrowing:				
Change in operating assets and liabilities (working capital)	(56.4)	(67.8)	48.6	(19.8)
Change in operating assets and liabilities (working capital) of the Fund	(0.1)	-	0.3	11.8
Change in operating assets and liabilities (working capital) and other non-cash items of discontinued operations	12.8	(1.8)	24.2	9.4
Pension deficit funding	28.2	25.3	86.3	73.8
Restructuring charges	12.6	13.7	27.9	37.6
Cash capital taxes in excess of normalized levels	1.1	0.6	4.2	6.3
Other adjustments:				
Current income tax recovery	0.2	-	3.1	(2.0)
Other non-cash items provided for in working capital changes	4.2	4.6	7.7	15.2
Distributable cash	\$140.3	\$182.5	\$710.5	\$773.4

⁽¹⁾ Financial results for all prior periods have been restated to reflect our xw ave 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.

As a corporate reporting issuer starting in 2011 we will no longer calculate or use distributable cash or standardized distributable cash.

Free cash flow

Beginning in 2011, Bell Aliant Inc.'s dividend policy will 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 pay dividends to shareholders, service debt, and to meet other payment obligations, and as a common valuation measurement in our industry.

We define free cash flow as cash from operating activities less capital expenditures. Since our operations ultimately supported distributions to Fund unitholders, and will support distributions to Bell Aliant Inc. shareholders, going forward, free cash flow combines our cash performance with that of the Fund for the three and twelve month periods ended December 31, 2010, and 2009. We may present free cash flow both including and excluding changes in 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:

<i>For the period ended December 31</i> <i>(millions of dollars)</i>	Three months		Twelve months⁽¹⁾	
	2010	2009⁽¹⁾	2010	2009
Cash from operating activities	\$312.7	\$327.2	\$1,028.5	\$1,126.4
Cash used in the operating activities of the Fund	(0.8)	(0.8)	(3.7)	(15.8)
Total cash from operating activities	311.9	326.4	1,024.8	1,110.6
Capital expenditures	(162.0)	(120.0)	(494.0)	(462.4)
Free cash flow	\$149.9	\$206.4	\$530.8	\$648.2

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