Bell Aliant Regional Communications Holdings, Limited Partnership

Consolidated financial statements and notes

December 31, 2010

Management's report

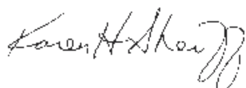
TO THE UNITHOLDERS

The accompanying financial statements are the responsibility of management. The financial statements have been prepared according to Canadian generally accepted accounting principles and include amounts based on management's best estimates and judgments.

Management has established and maintains accounting and internal control systems that include written policies, procedures and a comprehensive internal audit program. These systems are designed to provide reasonable assurance that our financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements, and that our assets are properly safeguarded.

The board of directors oversees management's responsibilities for financial reporting primarily through the audit committee. The financial statements have been reviewed and approved by the board of directors on recommendation from the audit committee. The audit committee is also responsible for making recommendation with respect to the appointment of the independent auditors and for approving their remuneration and terms of engagement. Other responsibilities of the audit committee include meeting periodically with the independent auditors, management and the internal auditors to review accounting, auditing, internal controls, litigation, financial reporting and other matters. The internal auditors and the external auditors have free access to the audit committee both with and without management present.

Our independent auditors, Deloitte & Touche LLP, have audited our financial statements. The accompanying auditors' report outlines the scope of their examination and their opinion.



Karen H. Sheriff
President and chief executive officer
Bell Aliant Regional Communications Holdings Inc.,
General Partner of Bell Aliant Regional
Communications Holdings, Limited Partnership

Glen LeBlanc
Chief financial officer
Bell Aliant Regional Communications Holdings Inc.,
General Partner of Bell Aliant Regional
Communications Holdings, Limited Partnership

March 9, 2011

Auditor's report

**TO THE DIRECTORS OF BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS INC,
GENERAL PARTNER OF BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP**

We have audited the accompanying consolidated financial statements of Bell Aliant Regional Communications Holdings, Limited Partnership, which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009, and the consolidated statements of earnings (loss), statements of partners' equity, comprehensive earnings (loss) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Bell Aliant Regional Communications Holdings, Limited Partnership as at December 31, 2010 and December 31, 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte + Touche LLP

Chartered Accountants
March 9, 2011
Halifax, Nova Scotia

Statements

CONSOLIDATED BALANCE SHEETS

As at December 31

(millions of dollars)	Notes	2010	2009
Assets			
Current assets			
Cash and cash equivalents	25	65.4	27.1
Accounts receivable	2, 25	255.8	304.0
Notes receivable from related parties	25	145.6	—
Inventory	3	18.0	14.4
Prepayments	25	16.0	14.8
Future income tax asset	4	80.0	57.6
Income tax receivable		25.0	14.4
Current assets of discontinued operations	5	95.4	—
		701.2	432.3
Capital investments	6		
Property, plant and equipment		3,642.7	3,662.8
Finite-life intangibles		1,372.2	3,069.8
		5,014.9	6,732.6
Other assets			
Long-term receivables	9, 25	20.5	23.8
Deferred charges		14.3	13.4
Future income tax asset	4	—	4.2
Accrued benefit asset	7	470.6	418.0
Indefinite-life intangibles	8	125.2	125.2
Goodwill	9	2,768.9	2,768.3
Non-current assets of discontinued operations	5	11.7	—
		3,411.2	3,352.9
Total assets		9,127.3	10,517.8

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS

As at December 31

(millions of dollars)	Notes	2010	2009
Liabilities and partners' equity			
Current liabilities			
Notes payable to related parties	25	48.7	2.6
Payables and accruals	10, 25	347.8	416.2
Distributions payable	25	199.4	55.3
Short-term debt	11	249.2	40.0
Long-term debt due within one year	12	427.4	17.2
Current liabilities of discontinued operations	5	38.8	—
		1,311.3	531.3
Future income tax liability	4	217.3	421.6
Long-term debt	12	2,360.9	2,759.9
Accrued benefit liability	7	368.7	382.9
Deferred credits and other long-term liabilities	10, 25	32.6	34.8
Non-current liabilities of discontinued operations	5	5.4	—
Total liabilities		4,296.2	4,130.5
Non-controlling interest	14	977.1	1,587.9
Partners' equity		3,854.0	4,799.4
Total liabilities and partners' equity		9,127.3	10,517.8

See accompanying notes to the consolidated financial statements

Approved on behalf of the board of directors of Bell Aliant Regional Communications Holdings Inc., general partner of Bell Aliant Regional Communications Holdings, Limited Partnership:

Edward Reevey
Director

Louis Tanguay
Director

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

For the years ended December 31

(millions of dollars, except earnings per unit)	Notes	2010	2009
Operating revenues	17	2,785.1	2,870.2
Expenses			
Operating expenses		1,444.2	1,497.6
Depreciation and amortization	18	703.9	709.5
Write-down of finite-life intangibles	6	1,540.7	—
Restructuring and other charges	10	29.1	41.4
		3,717.9	2,248.5
Operating income (loss)		(932.8)	621.7
Other expenses (income)			
Loss on long-term debt redemption	12	12.1	—
Financial derivatives loss	13, 20	—	13.3
Other expenses (income)		1.9	(0.1)
		14.0	13.2
Interest charges			
Interest on long-term debt		150.8	146.3
Other interest expense		11.5	12.1
		162.3	158.4
Earnings (loss) before underlisted items		(1,109.1)	450.1
Income taxes			
Current tax expense (recovery)	4	3.1	(2.0)
Future tax recovery		(219.6)	(53.6)
		(216.5)	(55.6)
Earnings (loss) before non-controlling interest		(892.6)	505.7
Non-controlling interest	14	(401.4)	134.9
Net earnings (loss) from continuing operations		(491.2)	370.8
Net loss from discontinued operations	5	(5.9)	(14.6)
Net earnings (loss)		(497.1)	356.2
Earnings (loss) per unit	19		
Basic from continuing operations		(3.06)	2.31
Basic from discontinued operations		(0.04)	(0.09)
Basic		(3.10)	2.22

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)

For the years ended December 31

(millions of dollars)	Note	2010	2009
Net earnings (loss)		(497.1)	356.2
Other comprehensive earnings, net of tax	20	4.3	15.7
Comprehensive earnings (loss)		(492.8)	371.9

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF PARTNERS' EQUITY

For the year ended December 31, 2010 *(millions of dollars)*	Notes	Partners' capital	Contri-buted surplus	Accu-mulated earnings	Accu-mulated other compre-hensive loss	Total accu-mulated earnings and other compre-hensive loss	Total partners' equity
Balance December 31, 2009		2,061.5	0.4	2,764.5	(27.0)	2,737.5	4,799.4
Net loss		—	—	(497.1)	—	(497.1)	(497.1)
Distributions declared on:							
Class 1 exchangeable limited partnership units		—	—	(81.7)	—	(81.7)	(81.7)
Class 2 limited partnership units	25	—	—	(370.9)	—	(370.9)	(370.9)
Other comprehensive earnings, net of tax	20	—	—	—	4.3	4.3	4.3
Balance December 31, 2010		**2,061.5**	**0.4**	**1,814.8**	**(22.7)**	**1,792.1**	**3,854.0**

For the year ended December 31, 2009 *(millions of dollars)*	Notes	Partners' capital	Contri-buted surplus	Accu-mulated earnings	Accu-mulated other compre-hensive loss	Total accu-mulated earnings and other compre-hensive loss	Total partners' equity
Balance December 31, 2008		2,061.5	0.4	2,863.7	(42.7)	2,821.0	4,882.9
Net earnings		—	—	356.2	—	356.2	356.2
Distributions declared on:							
Class 1 exchangeable limited partnership units		—	—	(81.7)	—	(81.7)	(81.7)
Class 2 limited partnership units	25	—	—	(373.7)	—	(373.7)	(373.7)
Other comprehensive earnings, net of tax	20	—	—	—	15.7	15.7	15.7
Balance December 31, 2009		**2,061.5**	**0.4**	**2,764.5**	**(27.0)**	**2,737.5**	**4,799.4**

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31

(millions of dollars)	Notes	2010	2009
Cash from (used in) operating activities			
Net earnings (loss) from continuing operations		(491.2)	370.8
Adjustments to reconcile net earnings to cash from operating activities			
Depreciation and amortization	18	703.9	709.5
Write-down of finite-life intangibles	6	1,540.7	—
Loss (gain) on disposal of assets		(0.2)	0.3
Future income tax recovery		(219.6)	(53.6)
Net cost of benefit plans	7	81.2	77.4
Funding of defined benefit pension and other post-employment benefit plans	7	(148.0)	(135.5)
Non-controlling interest		(401.4)	134.9
Financial derivatives loss	13	—	13.3
Loss on long-term debt redemption	12	12.1	—
Change in operating assets and liabilities	21	(48.6)	19.8
Other		(0.4)	(10.5)
		1,028.5	1,126.4
Cash from (used in) financing activities			
Repurchase of accounts receivable	2	(37.0)	—
Net proceeds (repayments) of short-term debt	11	209.2	(168.2)
Net proceeds (repayments) of notes payable to related parties	25	46.1	(3.6)
Proceeds of long-term debt	12	348.7	348.6
Repayments of long-term debt	12	(358.8)	(156.8)
Repayments of capital lease obligations	12	(19.2)	(8.8)
Net settlement of financial derivatives	13	—	(15.4)
Distributions paid by subsidiaries to non-controlling interest	14	(104.7)	(209.5)
Distributions paid		(413.2)	(455.5)
		(328.9)	(669.2)
Cash from (used in) investing activities			
Increase in notes receivable from related parties	25	(145.6)	—
Purchase of capital investments		(494.0)	(462.4)
Proceeds on sale of capital investments		0.9	0.6
		(638.7)	(461.8)
Net increase (decrease) in cash from continuing operations		60.9	(4.6)
Net increase (decrease) in cash from discontinued operations	5	(22.6)	17.1
Cash and cash equivalents, beginning of year		27.1	14.6
Cash and cash equivalents, end of year		65.4	27.1
Supplementary disclosure			
Cash and cash equivalents, end of year			
Cash		8.9	20.1
Cash equivalents	25	56.5	7.0
		65.4	27.1
Interest paid		155.3	144.4
Income taxes paid, net		5.1	0.3

See accompanying notes to the consolidated financial statements

Notes

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

Our operations are principally focused on regional telecommunications services in Atlantic Canada, Ontario and Quebec. We provide a wide range of innovative and traditional voice and data communications services. We also offered information technology (IT) consulting, infrastructure management, product fulfillment, and advanced technology solutions through our xwave business, but these services were discontinued as discussed in note 5.

NOTE 1
SIGNIFICANT ACCOUNTING POLICIES

Consolidated financial statements

We have prepared the consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP).

We consolidate the financial statements of all the entities we control. At December 31, 2010, our principal subsidiaries include Bell Aliant Regional Communications Inc., Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Télébec, Limited Partnership (Télébec) and NorthernTel, Limited Partnership (NorthernTel). All transactions and balances between these entities have been eliminated on consolidation.

Comparative figures

Certain comparative financial information has been reclassified to be consistent with the presentation adopted for 2010 related to discontinued operations, as discussed in note 5.

Use of accounting estimates

Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. By their nature, these estimates and assumptions are subject to measurement uncertainty and as such, actual results could differ from estimates used in these financial statements. We use estimates for certain items such as operating revenues, allowance for doubtful accounts, gain or loss on transfer of receivables, useful life of capital investments, asset impairments, legal and tax contingencies, employee benefit plans, income taxes, restructuring and other charges, goodwill and intangible assets.

In the fourth quarter of 2010, we revised the estimate of the value and useful life of our finite-life intangible assets acquired in 2006 when we were created. An impairment in the carrying value of finite-life intangibles was identified and we recorded a write-down of $1,540.7 million in operating expenses. Refer to note 6 for further discussion.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, investments in money market instruments with a maturity of less than 90 days, and notes receivable from Bell Aliant Regional Communications Holdings Inc. (Bell Aliant Holdings GP) as described in note 25, all of which are readily convertible to cash and subject to an insignificant risk of change in fair value.

Transfer of receivables

Under a revolving purchase and sale agreement, we sell certain accounts receivable to a securitization trust. We record the sale when we transfer and give up control over the accounts receivable and receive net cash proceeds from the trust. The gains or losses that result from these transactions and program administration fees are recognized as other expenses (income). The gain or loss calculated is partly dependent on the carrying amount of the accounts receivable transferred, which is allocated between the accounts receivable sold and the retained interest based on their relative fair value at the date of the transfer. We determine fair value of the accounts receivable transferred based on the value of future expected cash flows using management's best estimate of key assumptions, such as the weighted average life of accounts receivable and credit loss ratios.

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

Inventory

Inventory represents products or equipment purchased for resale. We measure inventory at the lower of cost and net realizable value, with cost being determined by using the specific identification method for major equipment or items that are not normally interchangeable, and the weighted average cost formula for all other inventory items. Net realizable value represents the estimated selling price for inventories less all estimated costs to sell.

Income taxes

A portion of our income is earned through partnerships and as such is not subject to tax, as the taxable income is allocated directly to the partners.

The income that is earned through corporate subsidiaries is subject to tax. Income taxes are accounted for using the asset and liability method. Under this method, income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities for financial reporting purposes and their corresponding tax values, as well as the benefit of losses that will more likely than not be realized and carried forward to future years to reduce income taxes. Accordingly, a future income tax asset or liability is determined for each temporary difference based on the tax rates enacted by tax law, or substantively enacted, that are expected to be in effect when the underlying items of income and expense are to be realized for tax purposes. The effect of a change in tax rates on future income tax assets and liabilities is included in earnings in the period that the change is substantively enacted. A valuation allowance is recorded, when necessary, to reduce future income tax assets to the amount more likely than not to be realized.

Capital investments

Capital investments are carried at cost, less accumulated depreciation and amortization. Most of our property, plant and equipment assets are amortized using the group depreciation method. When we retire assets in the ordinary course of business, we charge their original cost to accumulated depreciation and amortization. We review our estimates of the useful lives of the assets periodically and adjust them on a prospective basis, if needed. We calculate depreciation and amortization on a straight-line basis over the useful lives of the capital investments as follows:

Capital investments	Estimated useful life
Property, plant and equipment	
Buildings and towers	10 – 50 years
Telecommunications facilities and equipment	3 – 40 years
Other equipment	3 – 20 years
Finite-life intangibles	
Software	2 – 7 years
Customer relationships	9 – 30 years
Bilateral license agreement	40 years
Roaming agreements	4.5 years

Self-constructed assets classified as plant under construction or software under development includes capitalized contracted costs, labour and overhead. Materials and supplies are measured at cost by using the weighted average cost method. We do not capitalize interest costs. We begin depreciating our assets when our plant under construction or software under development becomes operational.

Government assistance received towards the acquisition of capital investments is deducted from the cost of the related capital investments with depreciation calculated on the net amount.

We initially measure and record asset retirement obligations at fair value using a present value methodology, adjusted subsequently for any changes to the timing or amount of the original estimate of cash flows. We capitalize asset retirement costs as part of the related capital investment and record amortization expense over its useful life. We also increase the recorded asset retirement obligation and record a corresponding amount in depreciation and amortization expense to reflect the passage of time.

We assess capital investments for impairment when events or changes in circumstances indicate that we may not be able to recover their carrying value. An impairment loss is recognized when the carrying value of the capital investment exceeds the total undiscounted cash flows expected from its use and disposition. The amount of the loss is determined by deducting the asset's fair value from its carrying value.

Deferred charges and credits

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

	Recognition period	Income statement account
Deferred charges:		
Long-term customer contract costs, such as bid pursuit and other upfront costs	Length of the customer contract	Operating expenses
Costs related to short-term and long-term debt facilities	Period to maturity of the debt facilities	Other interest expense
Prepayments of long-term service contract costs	Length of the contract	Operating expenses
Customer loyalty credits	Length of the customer contract	Operating revenues
Deferred credits:		
Deferred revenue	Length of the customer contract	Operating revenues
Asset retirement obligations	Useful life of the related capital investment	Depreciation and amortization expense

Post-employment benefits

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

DC pension and other retirement savings plans

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

DB pension and OPEB plans

We accrue our obligations under these plans. In the case of DB pension plans, we record the liability and any deferred actuarial gains and losses in the plans net of the fair value of plan assets, which are invested to fund that liability.

December 31 is the measurement date for our employee benefit plans. Our actuaries perform annual valuations of each plan to determine the actuarial present value of the accrued pension and other non-pension post-employment benefits for funding purposes. The most recent actuarial valuations were performed as of December 31, 2009. The next required actuarial valuations for funding purposes will be as of December 31, 2010, and will be completed during 2011.

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

- The projected benefit method, prorated on years of service, which takes into account future salary levels;
- Management's best estimate of expected performance of plan investments, salary increases, retirement age of employees and expected health care costs; and
- Discount rates that are based on current interest rates on the long-term debt of high-quality corporate issuers or, in the case of certain closed plans consisting primarily of retired members, on current annuity rates.

For the purpose of calculating the expected return on plan assets, equity securities are valued at market-related value, where investment returns (gains and losses) in excess of expected returns are recognized in the asset value over a period of three years. Fixed income securities are valued at their fair value. The expected rate of return on plan assets is based on long-term forecasts of capital market returns, given our policy asset mix.

We amortize past service costs from plan amendments on a straight-line basis over the average remaining service period of employees who were active at the date of amendment.

We use the corridor approach to calculate actuarial gains and losses that are reflected in earnings. This involves deducting the greater of 10 per cent of the benefit obligation or 10 per cent of the market-related value of the plan assets from the unamortized net actuarial gains or losses. The excess amount calculated is then amortized over the average remaining service period of active employees, or the average remaining lifetime of retired employees, 10 years and 23 years, respectively, at December 31, 2010 (2009 – 10 years and 23 years, respectively).

When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, we account for the curtailment prior to the settlement.

Goodwill and indefinite-life intangibles

Goodwill represents the excess of the cost of an acquired business over the fair value of the net amount assigned to individual assets acquired and liabilities assumed at the date of acquisition. Indefinite-life intangibles, which are not being amortized, consist of Télébec, NorthernTel, and Kenora Municipal Telephone System (KMTS) brands, and telecommunications and cable licenses.

We annually assess our goodwill and indefinite-life intangibles for impairment and when events or changes in circumstances indicate that an asset might be impaired.

We assess goodwill impairment in two steps. The first step involves the identification of any potential impairment by comparing the fair value of a reporting unit to its carrying value. If the fair value is greater than the carrying amount, no impairment is deemed to exist and the second step is not required to be performed. If the fair value of a reporting unit is less than its carrying value, we perform the second step, which involves determining the fair value for all of the reporting unit's identifiable assets and liabilities to determine the fair value of goodwill. If the fair value of the goodwill is less than its carrying value, the goodwill is deemed to be impaired by the excess of its carrying value over its fair value.

We assess indefinite-life intangibles impairment by comparing the asset's fair value to its carrying value. If the fair value is less than the carrying value, the asset is deemed to be impaired and the difference is charged to other expenses in the period that the assessment is performed.

Fair value is based on estimates of discounted cash flows, external factors, or a combination of both. The determination of fair value requires management to make estimates and assumptions at the date of the assessment, which are by their nature subject to measurement uncertainty. As such, actual results could differ from the estimates used. Significant assumptions used in determining the fair value of our goodwill and indefinite-life intangibles could include the weighting of external and internal information, the weighted average cost of capital and anticipated future growth rates, pension funding, capital investments and savings from productivity initiatives.

The goodwill and indefinite-life intangibles impairment test conducted as at October 31, 2010, revealed no impairment.

Leases

Leases are classified as either capital or operating leases depending on the terms of the contracts. Capital investments acquired under capital leases are depreciated consistent with their nature. Obligations under capital leases are reduced by lease payments net of imputed interest costs.

Financial instruments

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

Non-derivative financial assets and financial liabilities

For purposes of ongoing measurement, we classify financial assets and liabilities according to their characteristics and management's choices and intentions related thereto. Subsequent measurement for these financial assets and financial liabilities is based on either fair value or amortized cost using the effective interest method, depending upon their classification.

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

Balance sheet account	Classification	Subsequent measurement
Cash and cash equivalents	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Notes receivable from related parties	Loans and receivables	Amortized cost
Long-term receivables	Loans and receivables	Amortized cost
Notes payable to related parties	Other liabilities	Amortized cost
Payables and accruals	Other liabilities	Amortized cost
Distributions payable	Other liabilities	Amortized cost
Short-term debt	Other liabilities	Amortized cost
Long-term debt, including amount due within one year	Other liabilities	Amortized cost

Held for trading

Held for trading financial assets are typically acquired with the objective to generate revenue from short-term fluctuations in price. Interest earned, gains and losses realized on disposal, and unrealized gains and losses from changes in fair value are recorded in net earnings as incurred.

Loans and receivables
Loans and receivables result from the delivery of cash or other assets by us to counterparties in return for a promise to repay on demand or on a specified date(s). Gains and losses are recognized in net earnings in the period that the asset is derecognized or impaired. Accounts receivable are assessed for impairment at each balance sheet date and a provision for doubtful accounts is recorded based on individual account circumstances, aging of accounts receivable, historical trends and general economic conditions. Long-term receivables are periodically assessed for impairment. Where there is objective evidence that an impairment of these assets has occurred, the carrying amount of these assets is reduced with the loss being recognized in net earnings in the period of assessment. The impairment loss is measured as the difference between the assets' carrying amount and the present value of the estimated cash flows of the assets discounted at the original effective interest rate.

Other liabilities
Other liabilities include all financial liabilities other than derivatives or liabilities that have been classified as held for trading.

Transaction costs
Transaction costs that are incremental and directly attributable to the acquisition or issue of a financial asset or financial liability are recorded as follows:

- Held for trading – expensed as incurred; and
- Loans and receivables, and other liabilities – included in the carrying value of the financial asset or financial liability and amortized over the expected life of the financial instrument using the effective interest rate method.

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

Derivative financial instruments
We may use derivative financial instruments in the management of our foreign currency and interest rate exposure. We do not use derivative financial instruments for trading or speculative purposes.

For each derivative, a determination is made whether hedge accounting can apply. Where hedge accounting can be applied, a hedge relationship is designated and documented at the inception of the derivative contracts to detail the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the specific asset, liability or anticipated cash flows being hedged, the risk that is being hedged, the type of hedging instrument used and how effectiveness will be assessed. The hedging instrument must be highly effective in achieving its objective of offsetting either changes in the fair value or anticipated cash flows attributable to the risk being hedged both at inception and throughout the life of the hedge. Hedge accounting is discontinued prospectively when the hedging instrument is no longer effective as a hedge, the hedging instrument is terminated or sold, or upon the sale or early termination of the hedged item.

Hedge accounting

Periodically, we use interest rate swap agreements as part of a plan to manage the fixed and floating interest rate mix of our total debt portfolio and related overall cost of borrowing or to hedge the interest rate exposure on future refinancing of existing debt or anticipated debt issuance. We designate these agreements as hedges of the anticipated future cash flows of the underlying debt. Interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based, and are recorded as an adjustment to interest charges on the hedged debt instrument. The related amount payable to or receivable from counterparties is included as an adjustment to accrued interest.

For cash flow hedges, the changes in the fair value of the effective portion of the hedging derivative, net of taxes, is recognized in other comprehensive earnings (loss), while the ineffective portion is recognized in interest charges.

When hedge accounting is discontinued, the amounts previously recognized in accumulated other comprehensive income (loss) are reclassified to interest charges during the periods when the variability in the cash flows of the hedged item affects net earnings. Gains and losses on derivatives are reclassified immediately to other expenses (income) when the hedged item is sold or terminated early.

The cash flow hedges used for interest rate exposure were settled in 2009 when the hedged long-term debt was repaid prior to its maturity. At December 31, 2010, we do not have any interest rate or foreign currency hedges.

Economic hedges

Derivatives that are economic hedges but do not qualify for hedge accounting are recognized at fair value with the change in fair value recorded in other expenses (income).

Embedded derivatives

Embedded derivatives (elements of contracts whose cash flows move independently from the host contract) are separated out of the non-derivative host contract and accounted for as a derivative unless certain criteria are met. We do not currently have any significant embedded derivatives in our contracts that require separate accounting and disclosure.

Revenue recognition

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

In particular, we recognize:

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

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

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

Multiple-element arrangements

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

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

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

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

Long-term contractual agreements

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

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

Subcontracted services

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

Earnings per unit

Earnings per unit is based on the weighted average number of units outstanding during the period.

Unit-based compensation plans

Certain employees are eligible to participate in employee unit purchase plans and a deferred unit plan, which are described in note 16. Compensation expense is recorded for our contributions to the employee unit purchase plans and as units vest under our deferred unit plan. We recognize the effect of forfeitures as they occur for our deferred unit plan.

Distributions

The distributions per unit paid by Bell Aliant Holdings LP to holders of exchangeable LP units are equal to the distributions per unit paid to the holders of Fund units. Distributions payable to our unitholders are recorded when declared.

Regulation of the telecommunications industry

Certain of our subsidiaries, including Bell Aliant LP, Télébec and NorthernTel, are regulated by the Canadian Radio-television and Telecommunications Commission (CRTC) pursuant to the Telecommunications Act and the Broadcasting Act. The CRTC ensures that Canadians have access to reliable telephone and other telecommunications services at affordable prices, and licenses and regulates the activities of broadcasting distribution undertakings. Our business is affected by CRTC decisions over the prices we charge for specific services, primarily local and access telephone service, and other operating requirements. Refer to note 22 for further information on the deferral account, a mechanism introduced under the CRTC's Price Cap Decision of 2002.

Future changes in accounting policies

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

International financial reporting standards (IFRS)

Effective January 1, 2011, IFRS will replace Canadian GAAP for publicly accountable enterprises, which includes Canadian reporting issuers. We will prepare our financial statements in accordance with IFRS commencing January 1, 2011, and have progressed significantly in the assessment of the effect of transitioning to the new standards on our consolidated financial statements.

NOTE 2
TRANSFER OF RECEIVABLES

We have a revolving accounts receivable purchase and sale agreement with a securitization trust to sell an interest in a pool of trade accounts receivable owned by our subsidiary, Bell Aliant LP. The maximum amount of trade accounts receivable we can sell to the trust is $220.0 million.

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

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

Under the securitization agreement, the trust reinvests the amounts collected by buying additional interest in our accounts receivable until the agreement expires. During the term of the securitization agreement, we remain subject to certain risks of default which, should they occur, could cause the securitization agreement to end early.

The details of our trade accounts receivable sold, certain cash flows received from and paid to the trust during the year and the assumptions that were used in determining the fair value of the accounts receivable on the date of transfer are as follows:

(millions of dollars, except as otherwise noted)	Range 2010	2010	2009
As at December 31:			
Securitized interest in trade accounts receivable		153.7	208.0
Net cash proceeds		128.0	165.0
Retained interest		25.7	43.0
For the years ended December 31:			
Collections reinvested in revolving sales		1,740.7	1,927.0
Decrease in net cash proceeds		(37.0)	—
Average trade accounts receivable managed		274.9	316.0
Pre-tax loss and administration fees		1.5	2.5
Assumptions:			
Average costs of funds	0.61% – 1.83%	1.00%	1.53%
Average delinquency ratio	4.69% – 8.31%	6.40%	11.16%
Average net credit loss ratio	0.42% – 0.80%	0.57%	0.55%
Weighted average life in days	26.5 – 36.6	29.7	37

The sensitivity of the fair value of the retained interest to an immediate 10 to 20 per cent change in the above assumptions is not material.

NOTE 3
INVENTORY

During the year ended December 31, 2010, the cost of inventory recognized as an operating expense, in respect of continuing operations, was $43.3 million (2009 – $28.2 million), which includes an immaterial amount of inventory write-downs. There was no material reversal of inventory write-downs in the period.

NOTE 4
INCOME TAXES

A provision for income taxes is recognized for our corporate subsidiaries that are subject to tax. Future income taxes reflect the net tax effects of temporary differences between the carrying value and income tax basis of assets and liabilities as well as the benefit of losses that will more likely than not be realized and carried forward to future years to reduce income taxes. The income tax effects of temporary differences in our corporate subsidiaries that give rise to significant portions of the future tax assets (liabilities) are as follows:

As at December 31 *(millions of dollars)*	2010	2009
Capital investments	(30.2)	(23.7)
Goodwill and other intangible assets	(184.4)	(405.4)
Pension and other post-employment benefits	(33.7)	(26.9)
Deferred charges	10.4	14.1
Loss carryforwards	190.3	181.0
Partnership income deferral	(103.2)	(118.2)
Derivative liabilities and debt issue costs	(1.7)	(0.8)
Severance and benefits	1.4	5.1
Other	13.8	15.0
Total future income taxes	(137.3)	(359.8)

A $221.0 million decrease in the income tax effect of the temporary difference related to goodwill and other intangible assets in 2010 is mainly due to a $1,540.7 million write-down of finite-life intangibles (note 6).

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

The total future income taxes are composed of the following:

As at December 31 *(millions of dollars)*	2010	2009
Future income tax assets:		
Current portion	80.0	57.6
Long-term portion	—	4.2
Future income tax liabilities:		
Current portion	—	—
Long-term portion	(217.3)	(421.6)
Total future income taxes	(137.3)	(359.8)

A portion of our income is earned through partnerships. Therefore, that portion of our income is not subject to tax at the partnership level and the taxable income is allocated directly to their respective partners. These partnerships have temporary differences between the carrying value and income tax basis of assets and liabilities, which flow to the partners, and would result in future tax assets and liabilities if the partnerships were subject to income tax.

Our portion of these temporary differences is as follows:

As at December 31 *(millions of dollars)*	2010	2009
Deductible temporary differences:		
Pension and other post-employment benefits	91.9	115.6
Derivative liabilities and debt issue costs	19.4	17.1
Severance and benefits	5.2	17.1
Other	2.6	19.6
	119.1	169.4
Taxable temporary differences:		
Capital investments	(800.6)	(1,243.0)
Deferred charges	(30.4)	(24.1)
	(831.0)	(1,267.1)

Significant components of income tax recovery are as follows:

For the years ended December 31 *(millions of dollars)*	2010	2009
Current tax expense (recovery)	3.1	(2.0)
Future tax expense (recovery):		
Change in temporary differences	(228.3)	(28.4)
Change in statutory rate	8.7	(25.2)
	(219.6)	(53.6)
Income tax recovery	(216.5)	(55.6)

A reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

For the years ended December 31	2010	2009
Combined statutory income tax rate	31.40%	32.90 %
Inter-company interest income earned in non-taxable entities	11.12	(28.51)
Income allocated to non-controlling interest	(9.97)	(13.33)
Effect of enacted future tax rates on temporary differences	(0.79)	(5.57)
Non-taxable (gain) loss	(0.39)	0.55
Non-deductible goodwill, amortization of intangible assets	(8.73)	2.63
Other permanent differences	(3.12)	(1.02)
Effective income tax rate	19.52%	(12.35)%

Tax losses

At December 31, 2010, our corporate subsidiaries had $714.8 million (December 31, 2009 – $624.9 million) in non-capital tax losses available to reduce taxable income in future years. The tax benefit associated with $671.6 million of these losses (2009 – $592.6 million) has been recognized as part of the future tax asset. These losses expire in varying annual amounts from 2023 to 2030. No tax benefit has been recognized for $43.2 million (2009 – $32.3 million) of these losses. The losses for which no tax benefit has been recognized expire in varying annual amounts from 2011 to 2026.

At December 31, 2010, our corporate subsidiaries had no (December 31, 2009 – $17.5 million) capital losses available to be carried forward to reduce capital gains in future years. No tax benefit has been recognized for these losses in 2010 and 2009. Capital losses available at December 31, 2009, expired on an acquisition of control for income tax purposes, which occurred during 2010.

NOTE 5
DISCONTINUED OPERATIONS

xwave business

On October 26, 2010, we announced that we had signed an asset purchase agreement, under which Bell Canada will acquire our xwave business, subject to certain conditions. As a result, we have reclassified the results of our xwave business operations as discontinued operations. Accordingly, prior period consolidated statements of earnings and cash flows have been restated to reflect this change and the net assets of our xwave business have been reclassified as discontinued operations on the consolidated balance sheet as at December 31, 2010.

The 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.

Innovatia Inc. (Innovatia)

On November 1, 2009, we concluded a share purchase agreement under which the senior leaders of Innovatia acquired all of the outstanding shares of Innovatia. The proceeds on closing were $1.5 million, resulting in loss on sale of $1.5 million recognized in net loss from discontinued operations.

xwave New England Corp. (xwave NE)

On June 1, 2009, we concluded a share purchase agreement under which Abilis Solutions Inc. acquired all of the outstanding shares of xwave NE. The proceeds on closing were $4.9 million, resulting in a $3.5 million loss on sale recognized in net loss from discontinued operations.

Defence, Security and Aerospace (DSA) business

On May 1, 2009, we concluded an asset purchase agreement under which 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 a receivable from CAE related to post-closing balance sheet adjustments, resulting in a gain on sale of $1.7 million recognized in net loss from discontinued operations. An additional $5.0 million of proceeds is contingent upon the occurrence of certain future events. In December 2010, we decreased the receivable by $4.6 million as a result of recognizing a provision for estimated loss on settlement of the post-closing balance sheet adjustments, and reduced the gain on sale by an equivalent amount.

Presentation of discontinued operations

The net assets of our xwave business are presented in the consolidated balance sheet as at December 31, 2010, as assets and liabilities of discontinued operations at their carrying amounts. The following table shows the major categories of the assets and liabilities of discontinued operations:

As at December 31 *(millions of dollars)*	2010
Current assets of discontinued operations	
Accounts receivable	94.5
Prepayments	0.7
Inventory	0.2
	95.4
Non-current assets of discontinued operations	
Property, plant and equipment	2.6
Finite-life intangibles	3.7
Deferred charges	5.4
	11.7
Current liabilities of discontinued operations	
Payables and accruals	38.8
Non-current liabilities of discontinued operations	
Deferred credits	5.4
	44.2

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

For the year ended December 31, 2010 *(millions of dollars)*	xwave	DSA	Total
Operating revenues	286.4	—	286.4
Operating expenses	281.9	—	281.9
Depreciation and amortization	4.5	—	4.5
Restructuring charges	2.9	—	2.9
Other expenses	1.1	—	1.1
Loss on sale	—	4.6	4.6
Income tax recovery	(2.2)	(0.5)	(2.7)
Net loss from discontinued operations	(1.8)	(4.1)	(5.9)

For the year ended December 31, 2009 *(millions of dollars)*	xwave	Innovatia	xwave NE	DSA	Total
Operating revenues	304.0	17.6	5.6	9.0	336.2
Operating expenses	295.3	19.0	6.5	9.7	330.5
Depreciation and amortization	5.5	1.3	0.8	—	7.6
Restructuring charges	3.3	0.6	0.2	—	4.1
Other expenses (income)	(1.8)	0.2	0.5	—	(1.1)
Asset write-down	—	6.1	—	—	6.1
(Gain) loss on sale	—	1.5	3.5	(1.7)	3.3
Income tax expense (recovery)	(0.5)	0.3	—	0.5	0.3
Net earnings (loss) from discontinued operations	2.2	(11.4)	(5.9)	0.5	(14.6)

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

For the years ended December 31	2010					2009
(millions of dollars)	xwave	xwave	Innovatia	xwave NE	DSA	Total
Cash from (used in):						
Operating activities	(19.9)	9.2	—	(4.8)	(7.3)	(2.9)
Financing activities	—	—	(0.9)	—	—	(0.9)
Investing activities	(2.7)	(0.6)	0.3	4.9	16.3	20.9
Net increase (decrease) in cash from discontinued operations	(22.6)	8.6	(0.6)	0.1	9.0	17.1

NOTE 6
CAPITAL INVESTMENTS

As at December 31, 2010 *(millions of dollars)*	Cost	Accumulated depreciation and amortization	Net book value
Property, plant and equipment			
Land	24.3	—	24.3
Buildings and towers	623.6	294.1	329.5
Telecommunications facilities and equipment	7,694.6	4,655.6	3,039.0
Other equipment	344.4	221.1	123.3
Plant under construction	121.0	—	121.0
Materials and supplies	5.6	—	5.6
	8,813.5	5,170.8	3,642.7
Finite-life intangibles			
Software	412.0	250.6	161.4
Customer relationships	931.8	133.5	798.3
Bilateral license agreement	464.5	52.1	412.4
Roaming agreements	12.4	12.3	0.1
	1,820.7	448.5	1,372.2
	10,634.2	5,619.3	5,014.9

As at December 31, 2009 *(millions of dollars)*	Cost	Accumulated depreciation and amortization	Net book value
Property, plant and equipment			
Land	24.4	—	24.4
Buildings and towers	609.0	278.7	330.3
Telecommunications facilities and equipment	7,376.4	4,334.7	3,041.7
Other equipment	374.0	244.4	129.6
Plant under construction	131.2	—	131.2
Materials and supplies	5.6	—	5.6
	8,520.6	4,857.8	3,662.8
Finite-life intangibles			
Software	456.4	274.5	181.9
Customer relationships	2,875.6	414.9	2,460.7
Bilateral license agreement	464.5	40.5	424.0
Roaming agreements	12.4	9.2	3.2
	3,808.9	739.1	3,069.8
	12,329.5	5,596.9	6,732.6

In the fourth quarter of 2010, as a result of changes in certain underlying assumptions, we tested for the recoverability of the carrying value of certain finite-life intangibles. We shortened the estimated useful lives of certain wireline customer relationships from 25 years to 10 years and identified an impairment of customer relationships carrying value over their estimated fair values. Accordingly, we recognized a $1,540.7 million write-down of finite-life intangibles, recorded in operating expenses.

During 2010, we terminated certain existing pole use agreements effective December 31, 2010, and entered into agreements with Newfoundland Power Inc. and Fortis Inc. to repurchase an interest in the poles previously sold to them. The agreement with Newfoundland Power Inc. is subject to final regulatory approval from the Newfoundland and Labrador Board of Commissioners of Public Utilities, which is expected in the second quarter of 2011. On December 31, 2010, we settled $57.2 million of our repurchase obligation based on our estimate of the purchase price, which is expected to be finalized in the first half of 2011. The amount of settlement is included in the balance of telecommunications facilities and equipment as at December 31, 2010.

During the year ended December 31, 2010, we recognized $10.0 million in government assistance (2009 – immaterial amount) as a deduction from the cost of related capital investments in connection with certain projects for broadband network construction in Ontario and Nova Scotia. For the project in Eastern Ontario, legal title of certain capital assets having a value equal to 51 per cent of the non-labour cost of the project will remain with the funding entity for the initial seven year term of the funding agreement. We have the option to purchase the assets for one dollar at the end of the term. For the projects in Northwestern Ontario, we require permission from the funding entities to sell the constructed assets prior to December 31, 2016.

During the year ended December 31, 2010, the cost of acquired finite-life intangibles was $9.7 million (2009 – $25.5 million), and the cost of internally developed finite-life intangibles was $49.4 million (2009 – $50.8 million).

At December 31, 2010, capital investments included the cost of assets acquired under capital leases of $87.5 million (December 31, 2009 – $59.6 million) and related accumulated amortization of $21.5 million (December 31, 2009 – $16.0 million).

NOTE 7
POST-EMPLOYMENT BENEFITS

We provide pension and other post-employment benefits to most of our employees. These include DC pension plans, DB pension plans, retirement savings plans and OPEB plans.

DC pension plans and other retirement savings plans

For most member-employees, our DC pension plans and other retirement savings plans require employer contributions and employee contributions of between nil and 6 per cent of pensionable earnings, depending on the plan. For some executives, there is a DC retirement savings plan that requires employer contributions of up to 15 per cent of the executive's eligible earnings. The total cost of our DC pension plans is equal to our required contributions and was $7.5 million for continuing operations and $0.2 million for discontinued operations for the years ended December 31, 2010 and 2009.

DB pension plans

Our DB pension plans provide pensions to employees who retire after meeting certain age and service conditions. Pensions are based on specified pension rates applied to the employees' years of service and best five-year average earnings. Our DB pension plans are partially contributory for certain members and fully non-contributory for others, depending on the plan. Most DB pensions are integrated with the Canada Pension Plan and include limited indexing to help protect the income of retired members from inflation.

OPEB plans

The OPEB plans we provide to eligible retiring employees include health care coverage, life insurance and certain other benefits. As is common with non-registered plans of this nature, we do not maintain a trust fund to pay for OPEBs, rather these plans are funded only as benefits are paid.

Components of accrued benefit asset (liability)

The following table shows the status of and changes in the obligations and assets related to the DB pension and OPEB plans for the years ended December 31:

	DB pension plans		OPEB plans	
(millions of dollars)	**2010**	2009	**2010**	2009
Plan obligations				
Accrued benefit obligation, beginning of year	**3,053.5**	2,900.1	**239.8**	218.3
Employee current service contributions	**3.7**	4.1	**—**	—
Current service cost	**43.4**	44.0	**1.6**	1.7
Interest on the obligation	**167.2**	159.0	**12.2**	10.8
Actuarial losses	**299.4**	82.0	**16.7**	16.8
Benefits paid out of the plans	**(150.6)**	(135.7)	**(8.2)**	(7.8)
Accrued benefit obligation, end of year	**3,416.6**	3,053.5	**262.1**	239.8
Plan assets				
Fair value of plan assets, beginning of year	**2,493.6**	2,223.0	**—**	—
Actual return on plan assets	**293.8**	274.5	**—**	—
Benefits paid out of the plans	**(150.6)**	(135.7)	**(8.2)**	(7.8)
Employee current service contributions	**3.7**	4.1	**—**	—
Employer cash contributions to the plans	**139.8**	127.7	**8.2**	7.8
Fair value of plan assets, end of year	**2,780.3**	2,493.6	**—**	—
Plan deficit, end of year	**(636.3)**	(559.9)	**(262.1)**	(239.8)
Unamortized actuarial losses	**916.8**	768.3	**77.5**	63.1
Unamortized past service costs	**41.8**	47.3	**(35.8)**	(43.9)
Accrued benefit asset (liability), end of year	**322.3**	255.7	**(220.4)**	(220.6)
Accrued benefit asset	**470.6**	418.0	**—**	—
Accrued benefit liability	**(148.3)**	(162.3)	**(220.4)**	(220.6)
	322.3	255.7	**(220.4)**	(220.6)

All of our individual DB pension plans have deficits where the accrued benefit obligation exceeds the fair value of plan assets; therefore, the previous table also reflects the aggregated values of the DB pension plans with deficits.

Net cost of benefit plans

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

For the years ended December 31	DB pension plans		OPEB plans	
(millions of dollars)	**2010**	2009	**2010**	2009
Current service cost	**43.4**	44.0	**1.6**	1.7
Interest on the accrued benefit obligation	**167.2**	159.0	**12.2**	10.8
Actual return on plan assets	**(293.8)**	(274.5)	**—**	—
Actuarial losses	**299.4**	82.0	**16.7**	16.8
Elements of cost of employee future benefit plans, before recognizing their long-term nature	**216.2**	10.5	**30.5**	29.3
Excess of actual return over expected return	**129.8**	120.5	**—**	—
Deferral of amounts arising during the year				
Actuarial losses on accrued benefit obligation	**(299.4)**	(82.0)	**(16.7)**	(16.8)
Amortization of deferred amounts				
Past service costs	**5.5**	5.5	**(8.1)**	(8.1)
Net actuarial losses	**21.1**	16.9	**2.3**	1.6
Adjustments to recognize long-term nature of employee future benefit plans cost	**(143.0)**	60.9	**(22.5)**	(23.3)
Net cost of benefit plans	**73.2**	71.4	**8.0**	6.0

Assumptions

The measurement of the accrued benefit obligation and the annual net cost of benefit plans for the DB pension plans and OPEB plans requires an actuary to perform the calculations. We make several assumptions, which are used as inputs to the actuarial calculations. The key assumptions are:

	2010	2009
Discount rate, end of year	**5.10%**	5.50%
Discount rate, end of preceding year	**5.50**	5.50
Expected rate of return on plan assets	**6.40**	6.40
Rate of compensation increase	**3.00**	3.00
Growth rate of per capita health care costs, first five years	**8.00**	8.00
Growth rate of per capita health care costs, thereafter	**4.50%**	4.50%

The discount rate reflected above is a weighted average of the discount rates used to value the accrued benefit obligations of our individual DB pension and OPEB plans. We have certain plans that have predominantly active employee members and others with only retiree members. Our DB pension plans are closed to new members. For plans that have predominantly active employee members, we base the discount rate on current interest rates for the long-term debt of high-quality corporate issuers. In the case of plans that have only retiree members, we base the discount rate on current annuity rates. Similarly, these demographic factors guide our investment policies for plan assets and therefore our expected rates of return on plan assets. At December 31, 2010, our individual plans are discounted at rates that range from 4.50 per cent to 5.50 per cent (December 31, 2009 – 4.50 per cent to 6.50 per cent). The 2010 combined DB pension and OPEB plans' net actuarial losses of $316.1 million relate primarily to changes made to our discount rate assumptions at December 31, 2010. For the year ended December 31, 2010, we used expected rates of return on individual plan asset portfolios that ranged from 5.25 per cent to 7.50 per cent (2009 – 5.50 per cent to 7.50 per cent).

Sensitivity to changes in assumptions

The value of the accrued benefit obligation and the amount of net cost of benefit plans for the DB pension plans and the OPEB plans that we record are sensitive to the assumptions we make and utilize in our calculations. The following table outlines the estimated effect on the value of the accrued benefit obligation and the annual net cost of benefit plans for a 0.25 percentage point change in the discount rate, the expected rate of return on plan assets and rate of compensation increase. The table also shows the sensitivity of a 1.0 percentage point change in the assumed growth in per capita health care costs.

		Rate	DB pension plans		OPEB plans	
(millions of dollars, except as otherwise noted)	Assumption	change	Obligation	Cost	Obligation	Cost
Discount rate	4.50 – 5.50%	+/-0.25%	117.0	5.0	9.0	—
Expected rate of return on plan assets	5.25 – 7.50	+/-0.25	—	7.0	—	—
Rate of compensation increase	3.00	+/-0.25	16.0	1.0	—	—
Growth rate of per capita						
health care costs	4.50 – 8.00%	+1.00	—	—	27.0	—
		-1.00%	—	—	(23.0)	—

Investment of DB pension plans assets

Our investment policy is to maintain a diversified portfolio of assets, invested in a prudent manner to balance the security of the funds with long-term growth objectives for the assets. We strive to maximize long-term returns while maintaining a desired range of surplus and funding volatility. We have different asset mix policies for each DB pension plan. The asset mix policies result in the following overall targets and actual allocations as at December 31:

		Percentage of plan assets	
Asset category	Target weight	**2010**	2009
Domestic bonds/fixed income securities	55 – 65%	**57%**	58%
Canadian equity securities	10 – 15	**11**	12
Non-Canadian equity securities	25 – 30	**32**	30
Total		**100%**	100%

The asset mix policies are established through consideration of many factors, including plan funded ratios, plan demographics, tolerance for fluctuations in market value, portfolio diversification and the targeted long-term rate of return for the assets. Foreign exchange risk is inherent in the asset mix policies and foreign currency fluctuations may significantly affect the Canadian dollar returns on the portfolios, especially over short time periods. Our policy is to hedge a portion of the risk of foreign currency fluctuations within the asset portfolios.

Over the 10 year period ended December 31, 2010, our weighted average rate of return for our DB pension plans was 5.8 per cent per annum (December 31, 2009 – 5.3 per cent).

Our portfolios are not permitted to directly hold units of the Fund or debt instruments of Bell Aliant LP. Our portfolios do hold units of index funds that may hold units of the Fund or debt instruments of Bell Aliant LP by virtue of the fact that these securities are included in the indices.

The total value of our securities and those of our related issuers held directly or indirectly in our portfolios was as follows:

As at December 31 *(millions of dollars, except as otherwise noted)*	2010 Approximate value	2010 Approximate per cent of total plan assets	2009 Approximate value	2009 Approximate per cent of total plan assets
Plan assets held				
Common shares of BCE Inc. (BCE)	3.5	0.12%	3.5	0.14%
Debentures of BCE and Bell Canada	0.4	0.01	0.3	0.01
Securities of the Fund or Bell Aliant LP, held indirectly	0.1	—	0.2	0.01
	4.0	0.13%	4.0	0.16%

Benefit plan contributions

We are responsible for adequately funding our DB pension plans and paying DC pension plan and OPEB benefits as incurred. The required contributions to the registered DB pension plans are made to a trust fund that is used to pay benefits under the plans. These contributions are determined by actuarial funding valuations and reflect actuarial assumptions about future investment returns, salary projections and future service benefits. We are funding the registered DB pension plans through contributions that meet or exceed the applicable statutory funding rules and regulations governing the particular plans.

Part of the funding for our DB pension plans is satisfied through the purchase of letters of credit held in trust for the benefit of the plans. At December 31, 2010, $144.1 million in letters of credit were held in trust (December 31, 2009 – $130.4 million). Refer to note 11 for further discussion on our short-term debt.

A portion of the DB and DC pension arrangements for executives and the OPEB plans are not registered pension plans. We fund payments under these plans directly when the benefits are paid. At December 31, 2010, certain benefits under the executive DB and DC pension arrangements were secured by letters of credit totalling $116.7 million (December 31, 2009 – $110.7 million) held in trust for the benefit of the named current and retired executives. Refer to note 11 for further discussion on our short-term debt.

Our contributions to DB and DC pension, as well as OPEB plans were as follows:

For the years ended December 31 *(millions of dollars)*	2010	2009
DB pension plans contributions	139.8	127.7
OPEB plans contributions	8.2	7.8
Funding of DB pension and OPEB plans	148.0	135.5
DC pension plans contributions for continuing operations	7.5	7.5
DC pension plans contributions for discontinued operations	0.2	0.2
Total contributions	155.7	143.2

NOTE 8
INDEFINITE-LIFE INTANGIBLES

For the years ended December 31 *(millions of dollars)*	2010	2009
Télébec and NorthernTel brands	72.8	72.8
KMTS brand	1.2	1.2
Telecommunications licenses	35.5	35.5
Cable licenses	15.7	15.7
	125.2	125.2

NOTE 9
GOODWILL

For the years ended December 31 *(millions of dollars)*	2010	2009
Goodwill, beginning of year	2,768.3	2,766.6
Disposal of DSA business *(note 5)*	—	(3.9)
Change in estimate of the value of the long-term receivable from Bell Canada	0.6	5.6
Goodwill, end of year	2,768.9	2,768.3

With the acquisition of Bell Canada's wireline operation in Ontario and Quebec in 2006, we estimated and recorded a long-term receivable for contingent consideration. The contingent consideration related to a 2006 CRTC decision, which required Bell Canada to reduce rates charged for services in certain regions, some of which affected customer accounts that we acquired. In 2009, the CRTC issued its final decision on the rate reductions, and the final value of the contingent consideration was determined in 2010. As a result, in 2010 we decreased the estimated long-term receivable by $0.6 million (2009 – $5.6 million) and increased goodwill accordingly.

NOTE 10
RESTRUCTURING AND OTHER CHARGES

Restructuring charges

As part of our organizational productivity initiatives during 2010, we offered a voluntary retirement incentive to a limited number of our unionized employees in Ontario and Quebec, and continued to streamline our management workforce. As a result, we estimated and recorded a pre-tax restructuring charge of $28.2 million for employee severance and benefit costs, which will be paid as employees retire or leave the organization, and real estate rationalization costs.

During 2009, we recorded a pre-tax restructuring charge of $34.9 million in employee severance and benefit costs related to a voluntary retirement incentive offered to certain unionized employees in Atlantic Canada, Ontario and Quebec, consolidation of certain contact centres in Atlantic Canada, and real estate rationalization costs.

Our restructuring initiatives provide departing employees with options that affected the amount of their severance. The final cost of the restructuring initiatives can be materially different from our estimates. As a result, in 2010, we increased the estimated costs of our 2009 restructuring initiatives by $2.6 million (2009 – $6.8 million), to reflect the final costs.

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

For the years ended December 31 *(millions of dollars)*	2010	2009
Liability, beginning of year	41.2	65.1
Restructuring charges:		
Employee severance and benefit costs	24.0	29.9
Real estate rationalization costs	1.3	0.9
Change in the 2008 restructuring charge estimate	—	6.8
Change in the 2009 restructuring charge estimate	2.6	—
	27.9	37.6
Employee severance and benefit costs, included in discontinued operations	2.9	4.1
Cash payments	(54.7)	(65.6)
Liability, end of year	17.3	41.2

As at December 31, 2010, the restructuring charge liability included $3.7 million in real estate rationalization costs (December 31, 2009 – $8.4 million), of which $3.3 million are included in other long-term liabilities as they will be drawn down after December 31, 2011 (December 31, 2009 – $3.9 million).

Other charges

During the year ended December 31, 2010, we incurred $1.2 million of other charges (2009 – $3.8 million), which mainly relate to rebranding our operations.

NOTE 11
SHORT-TERM DEBT

We have the following operating facilities available to us:

As at December 31 *(millions of dollars)*	2010	2009
Committed lines of credit:		
Revolving operating facilities	550.0	550.0
Non-revolving pension reserve facilities	447.6	447.6
Dedicated letter of credit facilities	116.7	110.7
Uncommitted operating lines of credit:		
Demand operating facilities	13.0	13.6
Total operating facilities	1,127.3	1,121.9

Our committed revolving operating facilities support a $400.0 million commercial paper program.

The status of our operating facilities is as follows:

As at December 31 *(millions of dollars)*	2010	2009
Letters of credit issued	286.1	269.6
Drawn amounts:		
Commercial paper issued	209.2	—
Non-revolving pension reserve facilities	40.0	40.0
Short-term debt	249.2	40.0
Unused available credit facilities	592.0	812.3
Total operating facilities	1,127.3	1,121.9

We ensure at all times that sufficient undrawn capacity exists on our committed revolving operating facilities to support issuances of commercial paper. Short-term promissory notes totalling $209.2 million, issued under our commercial paper program to fund changes in operating assets and liabilities and the purchase of an interest in poles, carry interest at 1.19 per cent per annum and have maturity dates from January 4, 2011, to January 28, 2011.

Included in the letters of credit issued at December 31, 2010, is $260.8 million (December 31, 2009 – $241.1 million) related to our post-employment benefit plans funding (note 7) and $11.1 million (December 31, 2009 – $11.3 million) for discontinued operations.

Bankers' acceptance advances of $40.0 million outstanding under our non-revolving pension reserve facility carry interest at rates of 1.76 per cent per annum and mature on January 31, 2011.

NOTE 12
LONG-TERM DEBT

As at December 31 *(millions of dollars, except as otherwise noted)*	Interest rate	Maturity	2010	2009
Notes				
Bell Aliant LP	4.37% to 6.29%	2011 – 2037	2,605.0	2,600.0
Debentures				
Télébec	5.34% to 5.75%	2013 – 2020	100.0	100.0
NorthernTel	6.00% to 10.25%	2012 – 2020	37.7	39.6
			137.7	139.6
Total notes and debentures			2,742.7	2,739.6
Obligations under capital leases	3.54% to 5.91%	2011 – 2017	49.9	41.0
Mortgage – Télébec	12.50%	2011	2.4	2.7
Fair market value allocations		2012 – 2020	3.0	3.9
Debt issue costs			(9.7)	(10.1)
Total long-term debt			2,788.3	2,777.1
Long-term debt due within one year			427.4	17.2
			2,360.9	2,759.9

All notes are issued in series and certain series are redeemable at our option prior to maturity at the prices, times and conditions specified in each series. The notes are issued under a trust indenture and are unsecured.

Télébec's debentures are secured by a mortgage on land and buildings located in Val D'Or, Quebec. The NorthernTel debentures are unsecured.

During the year ended December 31, 2010, we:

- Issued $350.0 million of unsecured medium-term notes, bearing interest at 4.37 per cent per annum and maturing on September 13, 2017. Debt issue costs of $1.3 million were incurred, resulting in net proceeds of $348.7 million. The net proceeds were used to make a partial redemption of the 4.72 per cent medium-term notes (the "2011 notes") maturing on September 26, 2011. We redeemed $345.0 million principal amount, or 46 per cent of the total outstanding principal amount, of the 2011 notes on a pro rata basis at the price and under the conditions specified in the 2011 notes. We recognized a $12.1 million loss on redemption, recorded in other expenses (income), as a result of paying $356.0 million for principal redemption and recognizing $1.1 million in previously unamortized costs;
- Repaid $2.2 million of debentures and mortgage according to their terms; and
- Entered into capital lease obligations totalling $28.1 million for telecommunications and other equipment, which bear interest at rates ranging from 3.54 per cent to 5.51 per cent per annum.

During the year ended December 31, 2009, we:

- Issued $350.0 million of unsecured medium-term notes, bearing interest at 6.29 per cent per annum and maturing on February 17, 2015. The notes were issued at a discount and debt issue costs of $1.2 million were incurred, resulting in net proceeds of $348.6 million. Proceeds were used to repay $250.0 million outstanding under the revolving operating facilities and a $100.0 million non-revolving term loan that was scheduled to mature in July 2009;
- Repaid a $50.0 million non-revolving term bank loan;
- Repaid $5.3 million of debentures and mortgage according to their terms; and
- Entered into capital lease obligations totalling $25.0 million for telecommunications and other equipment, which bear interest at rates ranging from 4.29 per cent to 5.73 per cent per annum.

Fair market value allocations arose on Télébec and NorthernTel long-term debt as a result of our acquisition of Télébec and NorthernTel in 2006 and 2008. The fair market value allocations are amortized over the terms of the related long-term debt, and amounted to $0.9 million in 2010 (2009 – $1.0 million).

Debt issue costs of $1.9 million, which include $1.3 million related to the medium-term notes issue, were incurred for 2010 (2009 – 1.8 million). Debt issue costs are amortized over the terms of the related long-term debt and amounted to $2.3 million in 2010 (2009 – $1.8 million). Long-term debt due within one year is presented net of $1.6 million of debt issue costs that will be amortized in the coming year.

The aggregate amount of payments required in each of the next five years and thereafter to meet principal repayments and maturities of our long-term debt and the future minimum lease payments under capital leases presently outstanding are as follows:

(millions of dollars)	2011	2012	2013	2014	2015	Thereafter
Long-term debt	407.3	7.0	71.8	409.5	351.6	1,497.9
Capital leases	20.8	17.2	6.6	0.4	0.4	4.5
	428.1	24.2	78.4	409.9	352.0	1,502.4

NOTE 13
FINANCIAL INSTRUMENTS

Derivative financial instruments

In May 2009, we settled outstanding fixed-floating interest rate swaps with notional principal values totalling $250.0 million when the hedged variable interest rate debt was repaid upon the issuance of fixed-rate medium-term notes, as further detailed in note 12. We paid $15.4 million to the counterparties on the settlement of the swaps, which included $2.1 million in accrued interest. As the hedged variable interest rate debt was repaid, hedge accounting was discontinued and net losses of $13.3 million that were previously recognized in other comprehensive earnings (losses) were reclassified to other expenses in the statement of earnings, as discussed in note 20.

We did not enter into any derivative financial contracts in 2010.

Fair value

Fair value is the amount that willing parties dealing at arm's length would accept to exchange a financial instrument based on the current market for instruments with the same risk, principal and remaining maturity, other than in a forced or liquidated sale. Fair value is determined using estimates that are affected significantly by assumptions we make about the amount and timing of estimated future cash flows and discount rates, which all reflect varying degrees of risk. Potential income taxes and other expenses that would be incurred on disposition of these financial instruments are not reflected in the fair values. As a result, the fair values are not necessarily the net amounts that would be realized if these instruments were actually settled.

The principal methods and assumptions applied in determining fair values, including valuation technique, are described below.

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

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

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

As at December 31	2010		2009	
(millions of dollars)	Fair value	Carrying value	Fair value	Carrying value
Long-term debt	2,878.8	2,788.3	2,844.1	2,777.1

NOTE 14
NON-CONTROLLING INTEREST

At December 31, 2010, and 2009, our non-controlling interest consists of equity of our subsidiary Bell Aliant LP, held by Bell Canada.

On June 25, 2010, Bell Canada elected to defer receipt of the declared distributions related to their interest in exchangeable limited partnership units of Bell Aliant LP for June 2010 up to and including December 2010, as discussed in note 25. The deferred distributions were paid to Bell Canada on January 1, 2011. For the year ended December 31, 2010, distributions declared and paid by Bell Aliant LP were $209.4 million and $104.7 million, respectively (2009 – $209.5 million and $209.5 million, respectively).

NOTE 15
PARTNER'S CAPITAL

Authorized

Our partners' capital is authorized to include an unlimited number of three classes of units:

- Class 1 exchangeable limited partnership units;
- Class 2 limited partnership units; and
- General partnership (GP) units.

The class 1 exchangeable limited partnership units, which are held by BCE and Bell Canada, are intended to be, to the greatest extent practicable, the economic equivalent of Fund units. Both classes of limited partnership units are voting and share equally in all distributions from the partnership whether of net earnings (losses), taxable income (losses), net realized capital gains or other amounts; provided that, for so long as Fund units are outstanding, holders of class 1 exchangeable limited partnership units are entitled to receive distributions on a per-unit basis from the partnership equal to, the greatest extent practicable, distributions on a per-unit basis paid by the Fund to holders of Fund units. Both classes of limited partnership units are also entitled to share equally in the net assets of the partnership in the event of its termination or winding up; provided that, for so long as Fund units are outstanding, holders of class 1 exchangeable limited partnership units are entitled to a liquidation entitlement, on a per-unit basis, equivalent to that of a Fund unit. Except as otherwise specified in the partnership agreement, both classes of limited partnership units rank among themselves equally and rateably without preference or priority. Both classes of limited partnership units are transferable, subject to certain restrictions. In addition, each class 1 exchangeable limited partnership unit is exchangeable for a Fund unit on a one-for-one basis.

The GP units, as a class, are entitled to a distribution of 0.001 per cent of distributable cash for any distribution period in priority to the class 1 exchangeable and class 2 limited partnership units, and are entitled to 0.001 per cent of the net assets of the partnership in the event of its termination or winding up in priority to the class 1 exchangeable and class 2 limited partnership units.

Issued and outstanding

As at December 31, 2010, and 2009, we had the following units issued and outstanding:

(millions of dollars, except as otherwise noted)	Number of units	Stated capital
Class 1 units	28,168,803	1,017.1
Class 2 units	132,367,606	1,044.4
GP units	54,000	—
		2,061.5

NOTE 16
UNIT-BASED COMPENSATION PLANS

Employee unit purchase plans

We have two employee unit purchase plans for eligible employees. Under the terms of the plans, employees can choose each year to have up to 10 or 12 per cent of their annual base earnings withheld to purchase Fund units. We will also contribute to the plan on behalf of participants based upon employee contributions, using a prescribed formula. Depending on which plan the employee participates in, the purchase price of the Fund units is the arithmetic average of the closing price of the Fund units traded on the Toronto Stock Exchange (TSX) on the last five days up to, and including, the investment date, or the value paid by the plan trustee to purchase the units on the open market. Participants in the plans receive additional Fund units in lieu of receiving cash distributions from the Fund. To satisfy employee purchases of Fund units under these plans, the Fund may issue up to 2,079,527 (unchanged from December 31, 2009) additional Fund units out of treasury or purchase them on the open market.

The total number of Fund units bought on the open market for our employees during the year ended December 31, 2010, was 1,947,842 (2009 – 2,024,152). Compensation expense related to the employee unit purchase plans of $9.0 million was recorded during the year ended December 31, 2010 (2009 – $9.4 million).

Deferred unit plan

We have a deferred unit plan (DUP) for certain of our executives and senior management to further align their long-term incentive compensation with total unitholder value. Under this DUP, the Fund may grant deferred units to eligible plan members in such number and at such times as is determined as a bonus or in respect of services rendered by the plan member or otherwise as compensation. On the grant date, plan members will be credited with the deferred units granted to them. Grantees are also entitled to receive additional deferred units based on cash distributions that would have been received had the deferred units been converted to Fund units. The deferred units vest over a period of three years and are subject to certain performance criteria. In February 2010, the Fund trustees approved amendments to the DUP to allow plan members to receive either one Fund unit or the cash equivalent of one Fund unit for each vested deferred unit upon qualifying for payout under the terms of the grant. Previously, plan members were only permitted to receive one Fund unit upon qualification for payout. There is no exercise price paid by the grantee for deferred units. The Fund may issue up to 3,143,622 (December 31, 2009 – 3,276,150) additional Fund units out of treasury to satisfy awards under this DUP. Any deferred units that do not vest due to failure to achieve prescribed performance targets are forfeited, and any unvested deferred units of a plan member are forfeited upon their departure.

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

For the years ended December 31	2010	2009
Deferred units outstanding, beginning of year	1,293,699	1,181,958
Granted:		
February 2009 – Service period fiscal 2009 to 2011	—	350,492
June 2010 – Service period fiscal 2010 to 2012	369,784	—
Reinvested distributions during the period	126,015	129,094
	495,799	479,586
Forfeited	(269,494)	(84,715)
Exercised	(132,528)	(283,130)
Settled in cash	(6,908)	—
Deferred units outstanding, end of year	1,380,568	1,293,699
Deferred units vested, end of year	968,600	739,199

The grant-date fair value of the 495,799 deferred units granted or credited on reinvestment of notional distributions in the year ended December 31, 2010, was $12.8 million (December 31, 2009 – 479,586 deferred units granted was $12.5 million). During the year ended December 31, 2010, we recorded compensation expense of $5.5 million (2009 – $7.6 million) related to the deferred units' costs recognized over the vesting period, and the change in the quoted market price of the Fund units between the grant date and the reporting period date.

NOTE 17
SEGMENTED INFORMATION

We operate as one reportable business segment, which is driven by our products and services, in order to provide customers with integrated communications services. This represents the manner in which we are organized and managed for planning and assessing performance and making resource allocation decisions. Our operations, including all revenues from customers, capital investments and goodwill are concentrated in Canada.

Revenue from external customers by product and service

For the years ended December 31 *(millions of dollars)*	2010	2009
Local and access	1,298.4	1,356.9
Internet and other data	832.1	828.0
Long distance	393.3	424.6
Wireless	91.3	88.8
Product	63.3	61.8
Rentals	20.6	25.1
Service agreements	15.9	21.2
Other revenues	70.2	63.8
	2,785.1	2,870.2

NOTE 18
DEPRECIATION AND AMORTIZATION

For the years ended December 31 *(millions of dollars)*	2010	2009
Property, plant and equipment depreciation	488.7	491.9
Finite-life intangibles amortization	207.7	205.1
Property, plant and equipment removal expense	7.0	9.9
Asset retirement obligations accretion expense	0.5	2.4
Deferred charges amortization	—	0.2
	703.9	709.5

NOTE 19
EARNINGS PER UNIT

For the years ended December 31 *(millions of dollars, except as otherwise noted)*	2010	2009
Net earnings (loss) from continuing operations	(491.2)	370.8
Net loss from discontinued operations	(5.9)	(14.6)
Net earnings (loss)	(497.1)	356.2
Basic:		
Weighted average number of units outstanding	160,536,409	160,536,409
Basic from continuing operations	(3.06)	2.31
Basic from discontinued operations	(0.04)	(0.09)
Basic earnings (loss) per unit	(3.10)	2.22

NOTE 20
OTHER COMPREHENSIVE EARNINGS

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

			2010			2009
For the years ended December 31 *(millions of dollars)*	Amount arising	Income taxes	Net	Amount arising	Income taxes	Net
Losses on derivatives designated as cash flow hedges	—	—	—	(0.1)	(0.1)	—
Reclassification to other expense	0.7	0.2	0.5	13.3	2.9	10.4
Reclassification to interest charges	4.7	0.9	3.8	6.9	1.6	5.3
Other comprehensive earnings	5.4	1.1	4.3	20.1	4.4	15.7

We reclassify to net earnings the amortization of losses on forward fixed-floating interest rate swaps that were settled in 2007. These interest rate swaps were designated to hedge the coupon payments of anticipated long-term debt issuances, and the interest rate swaps were settled as the anticipated long-term debt issuances occurred. As such, the losses are being amortized as interest charges in conjunction with the long-term debt coupon payments in the year, in accordance with the application of hedge accounting.

In September 2010, we redeemed $345.0 million of the 2011 notes prior to their maturity, as discussed in note 12. As such, we reclassified to net earnings $0.7 million of unamortized losses on the forward fixed-floating interest rate swaps related to this debt, included in the loss on long-term debt redemption, as hedge accounting no longer applies.

In May 2009, we reclassified to net earnings $15.4 million in net losses related to cash flow hedges that were settled, composed of $13.3 million loss on settlement and $2.1 million interest charges. Hedge accounting no longer applies to these hedges, as discussed in note 13.

As at December 31, 2010, the accumulated other comprehensive loss of $22.7 million (December 31, 2009 – $27.0 million) represents the unamortized portion of losses, net of tax, on the forward fixed-floating interest rate swaps that were settled in 2007.

NOTE 21
CHANGE IN OPERATING ASSETS AND LIABILITIES

As at December 31 *(millions of dollars)*	2010	2009
Accounts receivable	3.4	53.7
Inventory	(4.0)	(1.6)
Prepayments	(1.9)	4.4
Income tax receivable	(10.6)	(5.3)
Long-term receivables	2.7	11.2
Deferred charges	(5.4)	1.0
Payables and accruals	(30.7)	(55.6)
Deferred credits and other long-term liabilities	(2.1)	12.0
	(48.6)	19.8

NOTE 22
COMMITMENTS

Contractual obligations

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

(millions of dollars)	2011	2012	2013	2014	2015	Thereafter	Total
Operating leases	28.0	22.6	22.3	21.8	20.7	67.5	182.9
Purchase commitments	356.1	331.2	318.8	307.3	282.3	1,403.7	2,999.4
Capital purchases	72.1	29.4	24.0	18.2	—	—	143.7
	456.2	383.2	365.1	347.3	303.0	1,471.2	3,326.0

Purchase commitments primarily relate to various information systems and technology agreements and obligations under service agreements, including a series of long-term commercial agreements with Bell Canada (note 25).

Included in the total purchase commitments is $20.2 million related to discontinued operations of our xwave business, which was acquired by Bell Canada effective January 1, 2011 (note 5).

Capital purchase commitments primarily relate to certain projects for broadband network construction in Ontario (note 6).

As discussed in note 6, we terminated certain existing pole agreements with Newfoundland Power Inc. and Fortis Inc. effective December 31, 2010, which decreased the previously reported commitment for operating leases in 2011 and all years thereafter by $241.6 million. As well, included in the capital purchases for 2011 is a $4.9 million commitment related to finalization of the purchase price.

Deferral account

Bell Canada's deferral account includes amounts that arose in relation to customers located in what is now our territory in Ontario and Quebec.

In August 2010, the CRTC approved the use of deferral account funds by Bell Aliant and Bell Canada to expand broadband services to 112 communities in Ontario and Quebec and directed the companies to rebate funds remaining in their deferral account to residential subscribers in non-high-cost serving areas. The CRTC concluded that the accumulated balance in Bell Canada's deferral account was $583.3 million as of May 31, 2010, which includes $95.0 million associated with interest and certain other amounts, $25.0 million to fund initiatives to improve accessibility for persons with disabilities, and $306.3 million for broadband expansion.

In an application filed on September 13, 2010, Bell Canada requested that the CRTC review and vary the following three elements of its August 2010 decision: i) the Commission's calculation of the recurring amount in determining the accumulated balance in Bell Canada's deferral account; ii) the Commission's calculation of interest on Bell Canada's deferral account; and iii) the allowable drawdown from Bell Canada's deferral account to cover the cost of processing a one-time billing adjustment on each eligible residential local exchange service subscriber's monthly bill.

On October 29, 2010, the CRTC confirmed the broadband expansion drawdown, customer rebates and allowable administrative costs amounts established in its August 2010 decision. The Commission also set March 29, 2011, as the date by which Bell Canada must have fully rebated or credited its subscribers.

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

NOTE 23
CONTINGENCIES

Outstanding material litigation matters as at December 31, 2010, include the following:

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

On July 24, 2009, a new proposed class action was filed in the Saskatchewan Court of Queen's Bench, which was virtually the same as the certified claim referred to above. The new action was brought by the same law firm and names the same Canadian wireless service providers as defendants. The defendants challenged the new court action as an abuse of process and on December 22, 2009, the court ordered that this action be conditionally stayed.

On March 15, 2010, the Court of Appeal granted all parties leave to appeal the certification order. We also obtained leave to appeal the aforementioned jurisdiction issue. The plaintiffs also obtained leave to appeal an earlier decision that denied their motion to convert the certified class into a national "opt-out" class. The defendants' appeals of the certification order and our appeal on the jurisdictional issue were heard on December 13 and 14, 2010, and we are awaiting the Court's decision. We have defences to these claims, but the outcome of these matters is not determinable at this time.

(b) On November 28, 2005, a lawsuit was filed against us in the Supreme Court of Nova Scotia by Ellph.com Solutions Inc. and Ellph.com Technologies Inc. (collectively "Ellph") seeking approximately $9.0 million for alleged breach of a software license contract. The contract had been terminated by one of our predecessor companies, Aliant Telecom Inc., due to perceived technical defects in the software. In 2010, Ellph indicated that they intend to increase their claim to seek approximately $21.0 million. As well, a scheduling conference was held in December 2010, and a trial date in late 2013 or early 2014 is expected. We have defences to these claims, but the outcome of these matters is not determinable at this time.

(c) On June 26, 2008, a proposed class action was filed in the Saskatchewan Court of Queen's Bench against various Canadian telephone companies, including Bell Aliant LP, in relation to the charging of 911 fees. The suit alleges, among other things, breach of contract, negligence, collusion, and breach of fiduciary duty, and generally claims that the defendants have misrepresented the nature of 911 fees, and that the charges levied on customers are excessive. The plaintiffs claim unspecified damages. This matter involves many of the same parties and legal issues as presented in the system access fee matter previously referred to in paragraph (a). Therefore, the parties have tentatively agreed to hold this matter in abeyance pending disposition of the appeal of the certification order in the system access fee matter. We have defences to this claim, but the outcome of the matter is not determinable at this time.

(d) On January 27, 2010, Nightingale Informatix Corporation commenced a court action in the Ontario Superior Court of Justice against xwave Healthcare, formerly a division of Bell Aliant LP, and five physicians who are stated to be xwave Healthcare agents or consultants. Nightingale alleges that xwave Healthcare published defamatory statements about Nightingale's products and services, and claims damages of $30.0 million, plus punitive damages of $1.0 million. Our defence was filed in April 2010. This proceeding is at a very early stage. We have defences to this claim, but the outcome is not determinable at this time.

We become involved in various other claims and litigation as a regular part of our business. While we cannot predict the final outcome of claims and litigation that were pending at December 31, 2010, management believes that the resolution of these claims and litigation will not have a material effect on our consolidated financial position or results of operations.

Guarantees

As a regular part of our business, we enter into agreements that provide for indemnifications and guarantees to counterparties that may require us to pay for costs and losses incurred by the counterparties as a result of intellectual property infringement, misrepresentations, and losses of or damages to property. We cannot reasonably estimate the maximum potential amount we could be required to pay counterparties. While the majority of the agreements specify a maximum potential exposure, the amount also depends on the outcome of future events and conditions that cannot be predicted reliably. In the past, we have not made any significant payments under these guarantees. At December 31, 2010, there were no accruals related to the guarantees (December 31, 2009 – nil).

The following table represents guarantees that we entered into that have a fixed maximum potential exposure, and their respective terms. We also have guarantees where no maximum potential amount is specified.

(millions of dollars)	2011	2012	2013	2014	2015 and thereafter	Indefinite	Total
Sale of assets	1.6	8.3	40.0	—	—	1.1	51.0
Other	0.9	—	—	0.9	23.0	—	24.8
	2.5	8.3	40.0	0.9	23.0	1.1	75.8

Government assistance

In 2010, we received $5.9 million in government assistance in connection with broadband network construction projects in Ontario, as discussed in note 6. The government assistance we received for Northwestern Ontario projects may become repayable if we sell or dispose of the capital investments related to an entire project.

In 2010, we received the first tranche of $1.0 million of a $2.0 million forgivable loan from the Province of Nova Scotia for the broadband network construction project in that province. In the event we fail to complete the project by December 31, 2012, on terms and conditions satisfactory to the Province of Nova Scotia, the entire amount of the loan becomes repayable.

As at December 31, 2010, the contingent liability arising from the government assistance agreements is estimated as immaterial.

NOTE 24
FINANCIAL AND CAPITAL MANAGEMENT

Our operating, investing and financing activities create exposure to a variety of financial risks. These risks include liquidity risk, interest rate risk, credit risk, foreign currency risk, and other market risks.

Liquidity risk

We generate enough cash from our operating activities to fund our operations and fulfill our obligations as they become due. We have sufficient committed financing facilities in place should our cash requirements exceed cash generated from our operations. We anticipate being able to issue new long-term debt to refinance large maturing issues and we address the liquidity risk inherent in refinancing by staggering maturity dates of our long-term debt, conducting long-term cash flow planning, maintaining access to various credit facilities, including bank credit facilities (note 11), and following capital management objectives aimed at maintaining investment grade credit ratings, which provide us with good access to capital markets. Refer to note 12 for details of our outstanding long-term debt. A portion of our short-term and long-term debt is subject to covenants that would require its immediate repayment, prior to maturity, if we were subject to a change of control in our ownership and our credit ratings were consequently lowered below investment grade.

The following are the contractual maturities of our financial liabilities. The amounts presented represent the future undiscounted principal and interest cash flows and therefore do not equate to the carrying amount. Carrying values and cash flows associated with payables and accruals exclude accrued interest on debt, which is presented in cash flows for the associated debt, and advanced billing, which represents cash received in advance for services not yet rendered but no future contractual cash flow.

	Carrying amounts	Contractual cash flows					
(millions of dollars)	**As at December 31, 2010**	2011	2012	2013	2014	2015	Thereafter
Notes payable to related parties	**48.7**	48.7	—	—	—	—	—
Payables and accruals	**220.4**	220.4	—	—	—	—	—
Distributions payable	**199.4**	199.4	—	—	—	—	—
Short-term debt	**249.2**	249.5	—	—	—	—	—
Long-term debt	**2,788.3**	580.2	155.5	207.1	523.1	443.8	2,027.5
	3,506.0	1,298.2	155.5	207.1	523.1	443.8	2,027.5

Interest rate risk

Interest rate risk can be either price risk, which is the risk that the fair value of a financial asset or liability will change when interest rates change, or interest rate cash flow risk, which is the risk that the cash flows of the financial asset or liability will change when interest rates change.

Our interest bearing financial assets are comprised of cash equivalents and notes receivable, which bear interest at a fixed rate. These assets are subject to interest rate price risk; however, this risk is minimized because all instruments have terms less than 90 days and they are intended to be held to maturity.

Our interest bearing financial liabilities are composed of notes payable to related party, short-term and long-term debt. These liabilities are also intended to be outstanding and repaid only at maturity. We manage the interest rate cash flow risk inherent in our debt portfolio by balancing the mix of fixed and floating rate debt, as well as managing the term to maturity of our debt portfolio. At certain times, we may utilize derivative instruments such as interest rate swaps to adjust the balance of fixed and floating rate debt to appropriately determined levels.

Credit risk

We are exposed to credit risk from operating activities and certain financing activities, the maximum exposure of which is represented by the carrying amounts of our financial assets reported on the balance sheet.

We hold highly liquid money market instruments as short-term, cash equivalent investments. We follow a policy for making these investments that ensures they are diversified by the issuer and face minimal credit exposure, as they are required to be placed with issuers that have strong short-term credit ratings.

We are exposed to credit risk from customer accounts receivable, but the concentration of this risk is minimized because we have a large and diverse customer base. We have credit evaluation, approval and monitoring processes intended to mitigate potential credit risks, and maintain provisions for potential credit losses that are assessed on an ongoing basis.

Foreign currency risk

Our exposure to foreign currency risk arises in our operations where we make certain capital and operating expenditures denominated in U.S. dollars. These purchases have not been significant and the U.S. dollar cash outflows required have typically been offset by a similar level of U.S. dollar cash inflows from operations that are now discontinued. At certain times, we may utilize derivative instruments such as foreign currency forward contracts to fix the exchange rates on U.S. dollar denominated purchases.

Other market risks

Other market risks arise from changes in the quoted Fund unit price and the effect it has on the expense that is recognized related to our DUP plan. The outstanding deferred units are classified as liabilities that are marked-to-market each period based on the current quoted Fund unit price; the compensation expense is calculated using the market price of the Fund units at the grant date, adjusted for the subsequent change in the quoted market price of the Fund units.

Capital management

Our capital structure includes all components of partners' equity, non-controlling interest, long-term and short-term debt, net of cash and cash equivalents.

Our objectives in managing our capital structure are to:

- Maintain financial flexibility to preserve our ability to meet existing commitments and invest as necessary in the future development of the business;
- Provide access to sufficient cash flow to operate the business;
- Mitigate the impact of volatility in financing costs on the cash flows of the business; and
- Optimize the return to unitholders by utilizing an appropriate mix of debt and equity in the capital structure given our level of business risk.

When managing our capital structure we consider changes in economic conditions or the level of business risk and, from time to time, we consider and may adjust our distribution policy, enter into hedging transactions, issue or redeem debt, issue or repurchase partnership units or raise cash through our accounts receivable securitization program.

Our capital structure was as follows:

As at December 31 *(millions of dollars)*	2010	2009
Short-term debt (including notes payable to related parties)	297.9	42.6
Long-term debt, including amount due within one year	2,788.3	2,777.1
Less: Cash and cash equivalents	(65.4)	(27.1)
Net debt	3,020.8	2,792.6
Partners' equity	3,854.0	4,799.4
Non-controlling interest	977.1	1,587.9
Total capital structure	7,851.9	9,179.9

The non-GAAP financial metric we use to monitor our capital structure is the net debt to earnings before interest, taxes, depreciation and amortization (EBITDA) ratio. This financial ratio is calculated using a trailing 12-month period for EBITDA. We define net debt as short-term and long-term debt less cash and cash equivalents. We define EBITDA as operating revenues less operating expenses, excluding the amount included in operating expenses for net benefit plans cost as a significant component of this cost reflects the amortization of past cost. Our capital management objective, which is unchanged from the prior year, is to maintain this ratio at approximately 2.0: 1.

Our net debt to EBITDA ratios were as follows:

As at December 31 *(millions of dollars, except as otherwise noted)*	2010	2009
Net debt	3,020.8	2,792.6
Operating revenues	2,785.1	2,870.2
Less: Operating expenses	(1,444.2)	(1,497.6)
Add: Net cost of benefit plans included in operating expenses	88.7	84.9
EBITDA	1,429.6	1,457.5
Net debt to EBITDA ratio	2.1:1	1.9:1

We are subject to certain covenants in our bank credit facilities, including maintenance of a ratio of total debt to EBITDA (as defined in our credit facilities) of no more than 3.0:1. Under a securityholders' agreement with BCE and Bell Canada, we would need to seek their prior approval if we were to increase our debt to EBITDA ratio (as defined in the securityholders' agreement) above 2.5:1. In addition, we are subject to a new issuance test under our note trust indenture whereby new long-term debt can only be issued if it would result in a ratio of long-term debt to total capital (as defined in the trust indenture) of 75 per cent or less. We are in compliance with all these debt covenants and are not subject to any other externally imposed capital requirements.

NOTE 25
RELATED PARTY TRANSACTIONS

BCE and Bell Canada

BCE and Bell Canada own 100 per cent of our class 1 exchangeable limited partnership units and 100 per cent of the class B exchangeable limited partnership units of Bell Aliant LP. As the units are exchangeable into Fund units, BCE and Bell Canada beneficially own and control 43.88 per cent of the Fund's outstanding units on a fully diluted basis as at December 31, 2010 (December 31, 2009 – 43.95 per cent).

Under the securityholders' agreement, BCE has certain rights in respect of the board of our general partner, Bell Aliant Holdings GP, including the right to appoint up to a majority of directors for so long as BCE and Bell Canada, directly or indirectly, holds not less than 30 per cent of Fund units (on a fully diluted basis) and certain commercial agreements are in place. As a result of these rights, BCE controls the board of Bell Aliant Holdings GP, and thus Bell Aliant Holdings LP. The written consent of BCE is also required, along with the majority vote from the board, prior to undertaking certain matters or transactions for so long as BCE and Bell Canada, directly or indirectly, holds not less than 20 per cent of Fund units (on a fully diluted basis).

In 1999, we entered into a memorandum of agreement (MOA) with BCE and Bell Canada. This long-term strategic alliance agreement describes the understanding among us, BCE and Bell Canada with respect to the offering, marketing and provisioning of certain telecommunications services on a cooperative basis. Through this MOA, we gained access to Bell Canada's technology, the exclusive right to use specified Bell Canada trade-marks in our territory and a license to use Bell Canada's promotional materials. Bell Canada agreed to promote the use and sale of technology and intellectual property developed by us. We agreed to provide each other with support services, including operational, technical, marketing, training and other support services.

In 2006, in connection with the acquisition of Bell Canada's wireline operations in Ontario and Quebec and Bell Nordiq Group Inc, we entered into a series of long-term commercial agreements with Bell Canada, which provide us with a broad range of technical, operational and human resource support services required for us to operate the wireline and Internet access operations previously operated by Bell Canada in the Ontario and Quebec regional territory. These agreements also permit us to continue to receive the commercial and telecommunications services that Bell Canada was providing to us in Atlantic Canada prior to 2006. Any pre-existing commercial agreements between Bell Canada and us, which were not amended or replaced by the commercial agreements entered into in 2006, continue to apply. The commercial agreements also provide Bell Canada with the telecommunications and support services required to operate its wireless operation throughout our territory.

In 2006, we also entered into a commercial relationship management agreement (CRMA) with Bell Canada, which governs our general commercial relationship and addresses matters such as marketing co-operation, customer primeship and non-competition, and branding. The CRMA, together with certain agreements it refers to, also amends certain provisions of the MOA and extends the term of the MOA to that of the CRMA.

The CRMA will automatically terminate upon termination or expiration of the Connecting and Operating Agreement, which we entered into with Bell Canada in 2006. Pursuant to the Connecting and Operating Agreement, the parties have agreed to interconnect their respective telecommunications systems for the exchange of telecommunications traffic. This agreement has an original term of 15 years from July 7, 2006, with automatic renewals for consecutive five year periods, unless four years prior notice of non-renewal is provided by one of the parties. The Connecting and Operating Agreement may be terminated for material breach at any time by a party, if (a) the parties mutually agree that the breach has occurred and has not been cured, or (b) a court or arbitrator makes a final and unappealable determination that the other party has materially breached the agreement and has not cured the breach within the appropriate contractual timeframe.

The CRMA and the other commercial agreements may also be terminated by Bell Canada in the event that, without Bell Canada's prior consent, a competitor of Bell Canada acquires, directly or indirectly, more than 30 per cent of Bell Aliant LP or *de facto* control of it or its business. In addition, Bell Canada is entitled to terminate, at its sole discretion, its provision of services to us in circumstances where Bell Canada is ceasing to offer the corresponding services to its customers. Further, Bell Canada is entitled to terminate at its discretion many of the commercial agreements by giving two years prior notice of its intention to terminate the relevant commercial agreement, provided that such notice is not given prior to a fixed date, which is generally July 7, 2011. Generally, we are permitted to terminate and repatriate services provided to us by Bell Canada upon two years notice.

We also have an agreement with Bell Canada that provides access to certain of each other's intellectual property, in addition to providing us with access to Bell Canada's engineering and network intellectual property. In 2006, we entered into trade-mark license agreements with Bell Canada whereby each party and its affiliates are permitted to use the trade-marks of the other party in accordance with the terms of the license for 30 years (subject to an additional 10 year renewal on request by the licensee, at the licensor's discretion).

In 2006, we entered into a distribution agreement with Bell Distribution Inc. (BDI), a subsidiary of Bell Canada, under which BDI acts as our agent for sales and distribution of our wireline and Internet access telecommunications services and related products. We also entered into a corresponding distribution agreement with BDI under which we act as BDI's agent for the distribution of Bell Canada's wireless and satellite telecommunications services and related products and services in our territory.

We also have an agreement with Bell Canada under which Bell Canada provides information technology (IT) services to us to allow us to serve our customers in Ontario and Quebec. A part of this agreement requires the parties to jointly fund a plan to develop further IT services for us. The total capital anticipated to be expended on this plan is $90.0 million, of which Bell Canada will fund the first $32.0 million with the remaining $58.0 million being equally funded by Bell Canada and us.

In the normal course of business, we enter into agreements with Bell Canada and its controlled investees to provide and purchase telecommunications and other support services, and purchase capital investments. All related party transactions are measured at the exchange amounts as follows:

For the years ended December 31 *(millions of dollars, except as otherwise noted)*	2010	2009
Operating revenues	245.5	281.8
Percentage of the total operating revenues	8.81%	9.82%
Operating expenses	452.8	471.6
Net earnings (loss) from discontinued operations:		
Operating revenues	19.5	8.2
Operating expenses	3.0	3.3
Capital investments	34.9	11.4

Balances with Bell Canada and its controlled investees are as follows:

As at December 31 *(millions of dollars)*	2010	2009
Accounts receivable:		
Trade	115.7	127.9
Wireless receivables	—	0.3
Notes receivable from related parties	145.6	—
Prepayments	3.2	4.1
Long-term receivables, including current portion in accounts receivable	15.4	21.3
Payables and accruals	93.5	76.7
Distributions payable	169.8	24.2
Deferred credits and other long-term liabilities	4.1	4.4

The accounts receivable from, and payables and accruals to, Bell Canada and its controlled investees are non-interest bearing and under normal credit terms. They have arisen from the sale of products and provision of services referred to previously. They also include amounts arising from sales to customers and purchases from suppliers in our Ontario and Quebec regional territory that Bell Canada collects or pays on our behalf. We, in turn, settle the net payments with Bell Canada.

The long-term receivable from Bell Canada includes the capital funding commitment by Bell Canada in relation to the IT services plan, as previously discussed, of $15.4 million (December 31, 2009 – $16.1 million). In 2009, the long-term receivable from Bell Canada also included $5.2 million, related to contingent consideration in relation to the acquisition of Bell Canada's wireline operation in Ontario and Quebec as discussed in note 9, which was repaid in June 2010.

On June 25, 2010, BCE and Bell Canada elected to defer receipt of declared distributions related to their interest in exchangeable limited partnership units of Bell Aliant Holdings LP and Bell Aliant LP for June 2010 up to and including December 2010. For the year ended December 31, 2010, $291.1 million of distributions were declared to BCE and Bell Canada (2009 – $291.2 million), and $145.5 million of distributions were paid to BCE and Bell Canada (2009 – $291.3 million). As at December 31, 2010, the amount of the distributions payable to BCE and Bell Canada was $169.8 million, including $122.2 million in distributions payable by Bell Aliant LP (note 14). The deferred distributions were paid to BCE and Bell Canada on January 1, 2011.

BCE and Bell Canada also elected to be loaned amounts equal to the deferred distributions in the form of non-interest bearing notes with maturity dates of January 1, 2011. As a result, on December 31, 2010, $145.6 million was included in notes receivable from related parties.

Estimated future minimum payments under our contractual obligations with Bell Canada, which are included in commitments in note 22, are as follows:

(millions of dollars)	2011	2012	2013	2014	2015	Thereafter
Contractual obligations	300.9	291.3	282.6	275.4	267.4	1,301.0

The Fund

The Fund is entirely dependent on the distributions we pay to them to make their distributions. During the year ended December 31, 2010, we declared distributions to them of $370.9 million (2009 – $373.7 million) and paid distributions of $372.4 million (2009 – $373.7 million). At December 31, 2010, $29.6 million was included in distributions payable (December 31, 2009 – $31.1 million).

In the normal course of business, we have an administrative agreement with the Fund for the provision of administrative and support services, such as corporate reporting, governance, investor relations, communications, treasury and all other services as may be necessary or requested by the Fund trustees, for the administration of the Fund. The agreement commenced in July 2006, has an initial term of 10 years, and will be automatically extended for additional five year periods unless notice of termination is given. These services are measured and recorded at their exchange amount of $3.4 million (2009 – $4.0 million).

Several of our unit-based compensation plans, as discussed in note 16, are based on Fund units. All compensation expense for these plans is recorded in Bell Aliant Holdings LP.

Included in payables and accruals at December 31, 2010, is a net amount due to the Fund of $27.4 million (December 31, 2009 – $25.2 million), which includes the administrative expenses as well as amounts relating to the unit-based compensation plans.

The Fund loans us their excess cash through a series of promissory notes, and requests repayments as required for operating purposes. The $2.6 million promissory note that was payable to the Fund at December 31, 2009, was repaid on January 15, 2010. Subsequently issued promissory notes carried rates of interest from 0.50 per cent to 1.30 per cent per annum, resulting in an immaterial amount of interest expense being incurred during the years ended December 31, 2010 and 2009. At December 31, 2010, a $5.3 million promissory note was payable to the Fund, which carries interest at 1.30 per cent per annum and matures on January 31, 2011.

Bell Aliant Holdings GP

In preparation to convert to a corporation (note 26) and to facilitate the payment of the final December 2010 partnership distributions, on December 31, 2010, Bell Aliant LP loaned $43.3 million through a demand non-interest bearing note to Bell Aliant Holdings GP. This balance is included in cash and cash equivalents. During conversion, Bell Aliant LP transferred the note to its partners, Bell Canada and Bell Aliant Regional Communications Inc., and Bell Aliant Regional Communications Inc. (Bell Aliant GP) assumed the liability for the note repayment, which was settled on January 14, 2011.

In addition, Bell Aliant Holdings GP loaned $43.3 million through a demand non-interest bearing note to Bell Aliant LP on December 31, 2010, which is included in notes payable to related parties. During conversion, Bell Aliant GP acquired the note. On January 14, 2011, Bell Aliant LP repaid this note.

NOTE 26
SUBSEQUENT EVENTS

Conversion to a corporation

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, or 72,205,024, class B exchangeable limited partnership units issued by Bell Aliant LP, 100 per cent or 28,168,803, class 1 exchangeable limited partnership units issued by Bell Aliant Holdings LP, 100 per cent, or 100,373,827, special voting units issued by the Fund, and all but one voting common share of Bell Aliant Holdings GP for 100,373,827 Bell Aliant Inc. common shares. The Fund dissolved Bell Aliant Holdings Trust and Bell Nordiq Trust, and Bell Aliant Inc. issued 127,394,907 of its common shares to Fund unitholders on a one-for-one basis for outstanding Fund units. The Fund distributed its assets to Bell Aliant Inc., which also assumed the Fund's liabilities and subsequently dissolved and terminated the Fund, cancelling the authorized units and special voting units. Bell Aliant Inc. became the successor company of the Fund. As well, Bell Aliant Holdings LP distributed its assets directly and indirectly to Bell Aliant GP, which in turn assumed Bell Aliant Holdings LP's liabilities. Bell Aliant Holdings LP then dissolved, cancelling all of its units. Bell Aliant Holdings GP and Bell Aliant GP then amalgamated and Bell Aliant GP became the successor company of Bell Aliant Holdings LP. These transactions were accounted for at carrying values as there was no substantial change in control. As a result of these transactions, BCE and Bell Canada own 43.88 per cent of common shares of Bell Aliant Inc. on a fully diluted basis and one common share of Bell Aliant GP, with the remaining common shares of Bell Aliant GP owned by Bell Aliant Inc. As BCE and Bell Canada retained certain rights in respect of the board of Bell Aliant GP, as provided in the security-holders' agreement (note 25), Bell Aliant Inc. continues to exercise significant influence over operating, investing and financial policies of Bell Aliant GP, but does not control it. As a result, Bell Aliant Inc. equity accounts for its investment in Bell Aliant GP.

The deferred units, issued under the DUP (note 16), were converted to deferred share units, entitling plan members to one Bell Aliant Inc. common share or its cash equivalent for every vested deferred share unit held and carrying the same vesting and performance criteria as the deferred units.

As part of the conversion transactions, Bell Aliant GP recorded a $53.8 million decrease to contributed surplus related to temporary differences that are expected to reverse after January 1, 2011, in connection to transfer of the investment in Bell Aliant LP from BCE and Bell Canada, with a corresponding increase in the future income tax liability balance. At December 31, 2010, Bell Aliant Holdings LP has deferred approximately $3.0 million of share issue costs, which will be allocated to respective entities when all costs to complete the conversion transaction have been incurred.

Preferred share issuance

On January 31, 2011, Bell Aliant Preferred Equity Inc. ("Prefco"), a wholly owned subsidiary of Bell Aliant GP, was incorporated under the Canadian Business Corporations Act for the sole purpose of being the issuer of preferred shares. At March 9, 2011, Prefco was in the process of issuing approximately 10,000,000 Cumulative Rate Reset Preferred Shares, Series A (the "Series A Preferred Shares"), at a price of $25.00 per Series A Preferred Share. The Series A Preferred Shares will pay cumulative dividends of $1.2125 per share per annum, yielding 4.85 per cent, payable quarterly (with the first quarterly dividend to be paid June 30, 2011), for the initial five year period ending March 31, 2016. The dividend rate will be reset on March 31, 2016 and every five years thereafter at a rate equal to the 5-year Government of Canada bond yield plus 2.09 per cent. The Series A Preferred Shares will be redeemable by the issuer on or after March 31, 2016, in accordance with their terms.

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

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