



## Bell Aliant Inc.

### Management's Discussion and Analysis

#### First Quarter 2011

*This document provides management's discussion and analysis (MD&A) of our financial condition as at, and results of operations for, the three months ended March 31, 2011, compared to the corresponding period in 2010. This MD&A should be read together with our unaudited interim financial statements and accompanying notes for the period ended March 31, 2011, (interim financial statements), the unaudited interim consolidated financial statements and accompanying notes and MD&A of Bell Aliant Regional Communications Inc. (Bell Aliant GP) for the period ended March 31, 2011, the audited consolidated financial statements and accompanying notes and MD&A of Bell Aliant Regional Communication Income Fund's (the Fund) for the year ended December 31, 2010, and the audited consolidated financial statements and accompanying notes and MD&A of Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP) for the year ended December 31, 2010. All amounts in this document are in millions of Canadian dollars, except where noted. Our interim financial statements, including the information for the prior year comparative period presented therein, have been prepared in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting" and International Financial Reporting Standard (IFRS) 1, "First-time adoption of IFRS."*

*On January 1, 2011, the Fund completed its conversion from an income trust structure to a corporate structure (the Conversion). Bell Aliant Inc. is the successor corporation to the Fund. As part of the Conversion, Bell Aliant Holdings LP was dissolved and certain of its subsidiaries and affiliates amalgamated. Bell Aliant GP is the successor corporation to Bell Aliant Holdings LP. Throughout this document, all references to "we", "us" and "our" refer to Bell Aliant Inc. for 2011 and to the Fund and its subsidiaries prior to January 1, 2011.*

*Additional information about us and Bell Aliant GP, including annual reports, quarterly financial statements and MD&As, supplementary financial information, as well as annual information forms and information circulars, can be found under "financial reports" on Bell Aliant Inc.'s website at [www.bellaliant.ca](http://www.bellaliant.ca). These and other continuous disclosure documents are also available at [www.sedar.com](http://www.sedar.com).*

#### *Forward-looking information*

*This MD&A is dated May 5, 2011, and is current to that date unless otherwise stated. It contains forward-looking information related to our future financial condition and results of operations, and anticipated future events and circumstances, including in particular under the heading "Future changes in accounting policies". The purpose of this forward-looking information is to provide the reader with information about our expectations and plans for 2011 or other future periods. Readers are cautioned that such information may not be appropriate for other purposes. This information is based on our current expectations and estimates about the markets in which we and Bell Aliant GP operate and our beliefs and assumptions regarding these markets. Unless otherwise indicated, forward-looking information in this MD&A describes our expectations at May 5, 2011. In some cases, forward-looking information may be identified by words such as "anticipate", "believe", "could", "expect", "plan", "seek", "may", "intend", "will", "forecast" and similar expressions.*

*This information is subject to important risks and uncertainties, which are difficult to predict, and assumptions, which may prove to be inaccurate. Some of the risk factors which could cause results or events to differ materially from current expectations include but are not limited to: our economic dependence on Bell Aliant GP, and therefore all of the risks and uncertainties to which its operations are subject, including increasing competition and ability to achieve strategies and plans; general economic conditions and changing regulations; the unpredictability and volatility of our share price; and the provisions we make in respect of certain taxes which could materially change. Some of these risk factors are largely beyond our control. Refer to the "Risk management" section of this MD&A for further discussion of these and other risk factors.*

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

*See also the "Risk management" section of the Fund's MD&A for the year ended December 31, 2010, and the "Assumptions made in the preparation of forward-looking information" and "Risks that could affect our business and results" sections of the MD&A of Bell Aliant Holdings LP for the year ended December 31, 2010, which are available at [www.bellaliant.ca](http://www.bellaliant.ca) as well as [www.sedar.com](http://www.sedar.com).*

## **OUR BUSINESS**

We hold an investment in Bell Aliant GP, which operates one of the largest regional communications service providers in North America.

We own all but one voting common share of Bell Aliant GP, with BCE Inc. (BCE) indirectly owning the remaining voting common share. Bell Aliant GP consolidates the financial results of Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Télébec, Limited Partnership (Télébec), NorthernTel, Limited Partnership (NorthernTel) and Bell Aliant Preferred Equity Inc. We account for our investment in Bell Aliant GP on an equity basis as we exercise significant influence over the operating, investing and financial policies of this entity, but we do not control it. Under a securityholders' agreement, BCE has certain governance rights that give it control over Bell Aliant GP, so long as their ownership interest in us is 30.0 per cent or greater and certain commercial agreements are in place with Bell Aliant LP.

We are economically dependent on Bell Aliant GP to provide the cash flow we require to pay dividends to our shareholders. As we are affected by the events and transactions, financial and capital management, and risks and uncertainties of Bell Aliant GP, these factors could materially influence the dividends we receive from it, and in turn, our ability to pay dividends.

## CORPORATE CONVERSION

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

As part of the Conversion, the Fund's unitholders received one common share of Bell Aliant Inc. for each Fund unit held. BCE and Bell Canada exchanged 100 per cent of their class B exchangeable limited partnership units issued by Bell Aliant LP, 100 per cent of their class 1 exchangeable limited partnership units issued by Bell Aliant Holdings LP, 100 per cent of their special voting units issued by the Fund, and all but one of their voting common shares of Bell Aliant GP for common shares in Bell Aliant Inc. Through a series of steps, the Fund's assets and liabilities were transferred to Bell Aliant Inc. and the Fund was dissolved and terminated. As well, Bell Aliant Holdings LP transferred its assets to Bell Aliant GP, which in turn assumed Bell Aliant Holdings LP's liabilities. Bell Aliant Holdings LP was then dissolved, cancelling all of its units. Bell Aliant Regional Communications Holdings Inc. and the predecessor to Bell Aliant GP then amalgamated.

Unitholders' proportionate ownership interests in Bell Aliant Inc. were effectively unchanged by the Conversion.

These transactions were accounted for at carrying values since there was no substantial change in ownership or control. As well, BCE and Bell Canada continue to have the same governance rights and proportionate ownership interest in Bell Aliant Inc. as they had in the Fund (on an as-converted basis) before the Conversion. Our ownership interest in Bell Aliant GP increased from indirectly owning 82.5 per cent of Bell Aliant Holdings LP before the Conversion, to directly owning over 99.9 per cent of Bell Aliant GP upon completion of the Conversion.

The Conversion had no impact on Bell Aliant GP's underlying business model or operating plans, but is expected to reduce administrative costs previously associated with the more complex trust structure, improve comparability of our financial condition and results of operations to our peers, and broaden our potential investor base.

Bell Aliant Inc.'s common shares began trading on the Toronto Stock Exchange on January 4, 2011, under the trading symbol "BA".

## SUMMARY OF RESULTS

The following table shows selected consolidated financial results for the most recent eight quarters. This quarterly information is unaudited and is prepared on an IFRS basis, except where otherwise noted. The comparability of results between periods before and after January 1, 2011, is significantly affected by the effects of the Conversion.

<i>For the eight quarters ended March 31, 2011 (millions of dollars, except per share / unit amounts)</i>	2011	2010				2009 <sup>(1)</sup>		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Income (loss) from equity investments and other revenues	\$88.2	(\$1395.3)	(\$0.5)	\$47.9	\$301.9	\$80.2	\$80.7	\$76.3
Net earnings (loss) from continuing operations	87.5	(1396.2)	(1.0)	46.5	301.3	79.4	80.0	74.8
Net earnings (loss) from discontinued operations	(3.4)	(0.7)	0.6	-	-	(2.1)	(5.7)	(3.4)
Net earnings (loss)	\$84.1	(\$1396.9)	(\$0.4)	\$46.5	\$301.3	\$77.3	\$74.3	\$71.4
Basic earnings (loss) per share / unit from continuing operations	0.38	(10.96)	(0.01)	0.37	2.37	0.63	0.63	0.59
Basic earnings (loss) per share / unit from discontinued operations	(0.01)	(0.01)	0.01	-	-	(0.02)	(0.05)	(0.03)
Basic earnings (loss) per share / unit	\$0.37	(\$10.97)	-	\$0.37	\$2.37	\$0.61	\$0.58	\$0.56
Diluted earnings (loss) per share / unit from continuing operations	0.38	(10.96)	(0.01)	0.37	0.49	0.55	0.58	0.55
Diluted earnings (loss) per share / unit from discontinued operations	(0.01)	(0.01)	0.01	-	-	(0.01)	(0.05)	(0.03)
Diluted earnings (loss) per share / unit	\$0.37	(\$10.97)	-	\$0.37	\$0.49	\$0.54	\$0.53	\$0.52
Dividends / distributions declared	\$108.2	\$92.4	\$92.4	\$92.3	\$92.3	\$92.3	\$92.3	\$92.3

<sup>(1)</sup> Financial results for the quarters of 2009 are presented on a Canadian GAAP basis.

### *Net earnings (loss)*

Net earnings (loss) represents equity income from our investment in Bell Aliant GP. Our net earnings also include an immaterial amount of interest income earned on cash and cash equivalents, operating expenses and deferred income tax recovery. Our net earnings are dependent upon the results of operations of Bell Aliant GP. Prior to the Conversion, the Fund's income from equity investments also included the change in fair value net of distributions of the class 1 exchangeable limited partnership units issued by Bell Aliant Holdings LP. The financial performance of Bell Aliant GP for the three months ended March 31, 2011, compared to the same period in 2010, is discussed in its first quarter 2011 MD&A.

Current year net earnings are not directly comparable to the prior period due to the effect of the Conversion. Net earnings from continuing operations decreased \$213.8 million, or 71.0 per cent, for the first quarter of 2011, compared to the same period in 2010. The decrease is largely attributable to Bell Aliant GP recording in the first quarter of 2010 a \$189.2 million gain on the fair value re-measurement of the class B exchangeable limited partnership units issued by Bell Aliant LP, offset somewhat by a \$52.3 million expense related to distributions declared on these exchangeable limited partnership units. The re-measurement and distributions did not recur in the first quarter of 2011, as these units were transferred to Bell Aliant GP as part of the Conversion, and thus are now eliminated upon consolidation of Bell Aliant LP. In addition, during the first quarter of 2010, the Fund recorded in income from equity investments a \$73.8 million gain on the re-measurement of the class 1 exchangeable limited partnership units issued by Bell Aliant Holdings LP, offset somewhat by a \$20.5 million expense related to distributions declared on these exchangeable limited partnership units, with no similar transaction occurring in 2011. The quarter-over-quarter decline was partially offset by the increase in our percentage equity ownership interest in Bell Aliant GP as a result of the Conversion.

In the first quarter of 2011, net loss from discontinued operations of \$3.4 million represents our proportionate share of the loss on Bell Aliant GP's sale of the xwave business which was completed on January 1, 2011. There were no discontinued operations in the quarter ended March 31, 2010.

*Dividends /distributions declared*

During the first quarter of 2011, we declared dividends of \$108.2 million, or \$0.475 per share, compared to declaring distributions totalling \$92.3 million, or \$0.725 per unit, in the first quarter of 2010. With the Conversion, we have significantly more shares outstanding than the Fund had units outstanding. This is due to the exchange of exchangeable limited partnership units for our shares by BCE and Bell Canada in the Conversion. For comparison purposes, the combined distributions declared by the Fund on its units and by Bell Aliant Holdings LP and Bell Aliant LP on exchangeable limited partnership units in the first quarter of 2010 were \$165.1 million.

We are entirely dependent on dividends from Bell Aliant GP to pay our dividends. A further discussion of dividends paid by Bell Aliant GP can be found in its MD&A for the three months ended March 31, 2011.

## FINANCIAL AND CAPITAL MANAGEMENT

The following table summarizes our financial position as at March 31, 2011, as compared to December 31, 2010.

<i>(millions of dollars)</i>	<b>As at March 31, 2011</b>	<b>As at December 31, 2010</b>
Total assets	<b>\$3,537.1</b>	\$1,012.6
Total liabilities	-	30.9
Shareholders' / unitholders' equity	<b>\$3,537.1</b>	\$981.7

*Assets and liabilities*

At March 31, 2011, our total assets increased \$2,524.5 million from the balances at December 31, 2010, and mainly consisted of our investment in, and other amounts receivable from, Bell Aliant GP. The carrying value of our investments have increased by \$2,556.0 million since December 31, 2010, primarily as a result of the Conversion as our ownership interest in Bell Aliant GP has increased by 17.4 percentage points to over 99.9 per cent, or \$2,608.5 million representing the value of BCE and Bell Canada's interest in Bell Aliant Holdings LP, Bell Aliant LP, all but one common share of Bell Aliant GP, less \$39.3 million of other conversion related adjustments.

We generally consolidate our excess cash with that of Bell Aliant LP and invest it together in marketable, short-term money market instruments. As such, the balance due from related parties and our cash and cash equivalent balance will fluctuate over time depending on our cash requirements. At March 31, 2011, these assets decreased \$2.8 million from the balances at December 31, 2010. As well, distributions receivable from Bell Aliant Holdings LP decreased by \$29.6 million from December 31, 2010, due to a change in the timing of when Bell Aliant GP dividends are declared and paid in 2011.

Our liabilities consist mainly of dividends payable to our shareholders if, as, and when declared by the board of directors. At March 31, 2011, there were no declared dividends payable to our shareholders, compared to distributions payable to unitholders of \$30.9 million as at December 31, 2010, due to a change in the timing of when we declare and pay dividends.

*Common shares*

At March 31, 2011, there were 227,786,584 common shares outstanding. There were also 1,609,760 deferred shares issued under our deferred share plan. Only 927,385 of the deferred share are considered dilutive, as the vesting of the remainder is subject to prescribed performance targets being met. Accordingly, there were 228,712,702 common shares outstanding on a fully diluted basis as at March 31, 2011.

At April 29, 2011, there were 227,786,579 common shares outstanding.

## RELATED PARTY TRANSACTIONS

As previously discussed in the “Our business” section, we own over 99.9 per cent equity interest in Bell Aliant GP. BCE and Bell Canada own one voting common share and we own the remaining voting common shares. During the first quarter of 2011, upon completion of the Conversion, the securityholders’ agreement with BCE and Bell Canada was amended and restated to reflect the Conversion and the continuation of their governance and other rights in the new corporate structure.

Refer to note 10 of our interim financial statements for information on our related party transactions with Bell Aliant GP.

## SIGNIFICANT ACCOUNTING POLICIES

### International financial reporting standards (IFRS)

Our interim financial statements represent the initial presentation of our results and financial position under IFRS and have been prepared in accordance with IAS 34, *Interim Financial Reporting*, and with IFRS 1, *First-time Adoption of IFRS*, as issued by the International Accounting Standards Board (IASB) and in accordance with the accounting policies we expect to apply in our financial statements for the year ending December 31, 2011. They do not include all of the information required for full annual financial statements. Previously, our annual and interim consolidated financial statements were prepared in accordance with Canadian Generally Accepted Accounting Policies (Canadian GAAP). The adoption of IFRS has not had a material impact on our overall performance, strategic decisions, or underlying trends of our operations.

#### *Impact of transition to IFRS*

IFRS 1, *First-time adoption of international financial reporting standards* sets forth guidance for the initial adoption of IFRS. Our analysis of IFRS and comparison to our accounting policies under Canadian GAAP determined that we were generally aligned with IFRS in many areas, but also identified some key differences. In addition, as we equity account for our investment in Bell Aliant GP, our IFRS transition is affected by the accounting policy choices made by them. Refer to Bell Aliant Holdings LP’s MD&A for the year ended December 31, 2010, and Bell Aliant GP’s interim financial statements for the period ended March 31, 2011, for explanations of these differences and adjustments.

IFRS 1 provides both mandatory exceptions and optional exemptions. In general, we have chosen to apply certain optional exemptions to reduce the complexity involved in transitioning to IFRS, as the cost of not applying the exemptions would far outweigh the benefit to the users of our financial statements. Refer to note 11 of our interim financial statements for the period ended March 31, 2011, for more detail on the significant IFRS 1 exemptions we have taken and reconciliations between our 2010 Canadian GAAP results and the 2010 IFRS results. The reconciliations include Total equity as at January 1, 2010, March 31, 2010, and December 31, 2010, and Net earnings (loss) and Comprehensive income (loss) for the three months ended March 31, 2010, and year ended December 31, 2010. Our IFRS accounting policies are provided in note 2 to our interim financial statements for the period ended March 31, 2011.

### Future changes in accounting policies

A number of new standards, amendments to standards, and interpretations are not yet effective for the year ending December 31, 2011, and have not been applied in preparing our financial statements for the period ended March 31, 2011. They are set out as follows:

#### *IFRS 7, Financial Instruments: Disclosure*

The IASB issued IFRS 7, *Financial Instruments: Disclosure*, which requires increased disclosure surrounding the transfer of financial assets, particularly where there is a disproportionate amount of

transfer transactions that take place at the end of a reporting period. The amendments to IFRS 7 come into effect for periods beginning on or after July 1, 2011.

#### *IFRS 9, Financial Instruments*

The IASB issued IFRS 9, *Financial Instruments*, which is the first phase of the IASB's three phase project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. It is applicable to financial assets and requires classification and measurement in either the amortized cost or the fair value category. IFRS 9 comes into effect for periods beginning on or after April 1, 2013.

#### *IAS 12, Income Taxes*

The IASB issued IAS 12, *Income Taxes*, which sets presumptions for the recovery of certain assets and is relevant in those cases where different tax consequences can arise depending on how the carrying amounts are recovered. The amendments to IAS 12 come into effect for periods beginning on or after January 1, 2012.

We are evaluating the effect, if any, that these new standards will have on our financial results.

## **RISK MANAGEMENT**

During the first quarter of 2011, we have not identified any significant changes to the nature of the risks that we are exposed to in our business.

## **CONTROLS AND PROCEDURES**

### Internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*. Our internal control framework is based on the criteria published in the report Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The CEO and CFO evaluated the design of our internal control over financial reporting as at March 31, 2011, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There have been no changes in our internal control over financial reporting during the three months ended March 31, 2011, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.