

BELL ALIANT INC.

CONDENSED INTERIM FINANCIAL STATEMENTS
(Unaudited)

March 31, 2011

BellAliant

BELL ALIANT INC.

Income statement (Unaudited)

For the three months ended March 31

<i>(in millions of Canadian dollars, except earnings per share / unit)</i>	Notes	2011	2010
Income from equity investments	3	88.2	301.9
Operating expenses		1.0	0.6
Earnings before income tax		87.2	301.3
Deferred income tax recovery	4	(0.3)	-
Net earnings from continuing operations		87.5	301.3
Net loss from discontinued operations of equity investments	3	(3.4)	-
Net earnings	11	84.1	301.3
Earnings per share / unit	6		
Basic from continuing operations		0.38	2.37
Basic from discontinued operations		(0.01)	-
Basic		0.37	2.37
Diluted from continuing operations		0.38	0.49
Diluted from discontinued operations		(0.01)	-
Diluted		0.37	0.49

See accompanying notes to the financial statements

Statements of comprehensive income (Unaudited)

For the three months ended March 31

<i>(in millions of Canadian dollars)</i>	Note	2011	2010
Net earnings	11	84.1	301.3
Other comprehensive income (loss)	3		
Actuarial gains (losses) on defined benefit pension (DB) and other post-employment benefits (OPEB) plans		10.2	(144.6)
Reclassification of losses on derivatives to finance expense		0.8	0.9
		11.0	(143.7)
Comprehensive income (loss)		95.1	157.6

See accompanying notes to the financial statements

BELL ALIANT INC.

Statements of financial position (Unaudited)

<i>(in millions of Canadian dollars)</i>	Notes	As at March 31, 2011	As at December 31, 2010	As at January 1, 2010
Assets				
Current assets				
Cash and cash equivalents	10	5.1	5.3	2.6
Distributions receivable	10	-	29.6	31.1
Due from related parties	10	24.8	27.4	25.2
		29.9	62.3	58.9
Non-current assets				
Deferred charges		0.1	-	-
Deferred income tax asset	4	0.8	-	-
Investments	3	3,506.3	950.3	2,577.1
		3,507.2	950.3	2,577.1
Total assets		3,537.1	1,012.6	2,636.0
Liabilities and shareholders' / unitholders' equity				
Current liabilities				
Payables and accruals		-	0.1	-
Distributions payable		-	30.8	30.8
		-	30.9	30.8
Shareholders' / unitholders' equity	11	3,537.1	981.7	2,605.2
Total liabilities and shareholders' / unitholders' equity		3,537.1	1,012.6	2,636.0

See accompanying notes to the financial statements

BELL ALIANT INC.

Statements of cash flows
(Unaudited)

For the three months ended March 31

<i>(in millions of Canadian dollars)</i>	Notes	2011	2010
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Cash from (used in) operating activities			
Net earnings from continuing operations		87.5	301.3
Adjustments to reconcile net earnings to cash from operating activities			
Income from equity investments	3	(88.2)	(301.9)
Change in operating assets and liabilities	7	1.0	0.6
Deferred income tax recovery	4	(0.3)	-
		-	-
<hr/>			
Cash from (used in) financing activities			
Issuance of shares / units on exercise of deferred share plan units	5	0.1	0.4
Redemption of shares / units	5	-	(0.1)
Purchase of shares / units for dividend / distribution reinvestment	5	(4.1)	(4.1)
Cash distributions paid to unitholders		(29.4)	(88.2)
Cash dividends paid to shareholders		(105.5)	-
		(138.9)	(92.0)
<hr/>			
Cash from investing activities			
Cash dividends / distributions received from equity investments	3	138.7	93.3
		138.7	93.3
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Net increase (decrease) in cash from continuing operations		(0.2)	1.3
Cash and cash equivalents, beginning of year		5.3	2.6
Cash and cash equivalents, end of year		5.1	3.9

See accompanying notes to the financial statements

BELL ALIANT INC.

Statements of changes in equity
(Unaudited)

For the three months ended March 31, 2011

<i>(in millions of Canadian dollars)</i>	Notes	Issued capital	Contributed surplus	Accumulated deficit	Accumulated other comprehensive loss	Total accumulated deficit and other comprehensive loss	Total shareholders' equity
Balance December 31, 2010	5, 11	4,195.6	47.5	(3,238.7)	(22.7)	(3,261.4)	981.7
Conversion to a corporation	5	2,606.8	(22.8)	(16.5)	-	(16.5)	2,567.5
Net earnings		-	-	84.1	-	84.1	84.1
Dividends declared	8	-	-	(108.2)	-	(108.2)	(108.2)
Deferred share plan	5, 9	0.4	0.6	-	-	-	1.0
Other comprehensive income of equity investments	3	-	-	10.2	0.8	11.0	11.0
Balance March 31, 2011		6,802.8	25.3	(3,269.1)	(21.9)	(3,291.0)	3,537.1

For the three months ended March 31, 2010

<i>(in millions of Canadian dollars)</i>	Notes	Issued capital	Contributed surplus	Accumulated deficit	Accumulated other comprehensive loss	Total accumulated deficit and other comprehensive loss	Total unitholders' equity
Balance January 1, 2010	5, 11	4,192.2	45.7	(1,605.7)	(27.0)	(1,632.7)	2,605.2
Net earnings		-	-	301.3	-	301.3	301.3
Distributions declared	8	-	-	(92.3)	-	(92.3)	(92.3)
Redemption of units	5	(0.1)	-	-	-	-	(0.1)
Deferred unit plan	5, 9	0.4	(3.1)	-	-	-	(2.7)
Other comprehensive income (loss) of equity investments	3	-	-	(144.6)	0.9	(143.7)	(143.7)
Balance March 31, 2010	11	4,192.5	42.6	(1,541.3)	(26.1)	(1,567.4)	2,667.7

See accompanying notes to the financial statements

1. DESCRIPTION OF BUSINESS

Bell Aliant Inc. (previously 7538502 Canada Inc.) was incorporated on April 30, 2010, under the laws of Canada to facilitate the conversion of Bell Aliant Regional Communications Income Fund (the Fund) from an income trust structure into a corporate structure (the Conversion). As of December 31, 2010, Bell Aliant Inc. had not carried on any active business.

On January 1, 2011, as part of the Conversion, BCE Inc. (BCE) and Bell Canada exchanged their interests in Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP) and in Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP), 100 per cent of special voting units issued by the Fund, and all but one of their voting common shares of Bell Aliant Regional Communications Holdings Inc. (Bell Aliant Holdings GP) for our common shares. Fund unitholders exchanged their units for our common shares. Refer to note 5 for further details.

As a result of these transactions, on January 1, 2011, BCE and Bell Canada owned 43.88 per cent of common shares of Bell Aliant Inc. on a fully diluted basis and one common share of Bell Aliant Regional Communications Inc. (Bell Aliant GP), with the remaining common shares of Bell Aliant GP owned by Bell Aliant Inc. BCE and Bell Canada retained certain rights in respect of the board of Bell Aliant GP, as provided in the securityholders' agreement as further discussed in note 2. The securityholders' agreement with BCE and Bell Canada was also amended to reflect the Conversion and the continuation of BCE's and Bell Canada's governance rights in the new corporate structure. Bell Aliant Inc. continues to exercise significant influence over the 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. Bell Aliant GP consolidates its operating subsidiaries. These unaudited interim financial statements should be read in conjunction with the unaudited consolidated interim financial statements of Bell Aliant GP as at March 31, 2011.

As the original unitholders of the Fund and Bell Aliant Holdings LP have an interest in essentially the same underlying assets and liabilities, but through different legal structures of Bell Aliant Inc. and Bell Aliant GP, the Conversion has been accounted for on a continuity of interests basis. Accordingly, the financial statements of Bell Aliant Inc. reflect the financial position, results of operations and cash flows as if it had always carried on the business of the Fund. Comparative amounts in these financial statements are those of the Fund and they are presented on a consolidated basis.

All references to "we", "us" or "our" refer to Bell Aliant Inc. for 2011 and to the Fund and its subsidiaries for prior periods.

We hold an investment in entities whose operations are primarily focused on the provision of regional telecommunications services in Atlantic Canada, Ontario and Quebec. We are incorporated and domiciled in Canada. The address of our registered office is 1505 Barrington Street, Halifax, Nova Scotia, B3J 2W3. These interim financial statements were approved and authorized for issue by the board of directors on May 5, 2011. The consolidated financial statements of the Fund for the year ended December 31, 2010, prepared using Canadian generally accepted accounting principles (GAAP), were approved by the board of directors and authorized for issue on March 9, 2011.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance and conversion to International Financial Reporting Standards (IFRS)

As these unaudited interim financial statements (interim financial statements) represent the initial presentation of our results and financial position under IFRS, they were prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting* and IFRS 1, *First-time Adoption of IFRS*, using accounting policies consistent with IFRS as issued by the International Accounting Standards Board (IASB) and interpretations of the IFRS Interpretations Committee. They are prepared in accordance with the accounting policies we expect to adopt in our December 31, 2011, financial statements, but 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 GAAP.

Basis of preparation

These unaudited interim financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets and liabilities, which are measured at their fair value, as discussed further under "Financial instruments" and "Investments".

The accounting policies set out below have been applied consistently to all periods presented in these interim consolidated financial statements, including comparative periods. They have also been applied in preparing a statement of financial position at January 1, 2010, for the purposes of the transition to IFRS, as required by IFRS 1. The effect of the transition from Canadian GAAP to IFRS is explained in note 11.

Use of accounting estimates

Management is required 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 income taxes.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and notes receivable from Bell Aliant LP as described in note 10, all of which are readily convertible to cash and subject to insignificant risk of change in fair value, liquidity and credit risk.

Dividends / Distributions

Dividends / distributions receivable from our investment in Bell Aliant GP and dividends / distributions payable to our shareholders are recorded when declared.

Investments

Common shares of Bell Aliant GP

We equity account for our over 99.99 per cent investment in common shares of Bell Aliant GP, as we exercise significant influence over the operating, investing and financial policies but do not control this entity.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (continued)

Common shares of Bell Aliant GP (continued)

BCE and Bell Canada own one common share of Bell Aliant GP. Under a securityholders' agreement, BCE has certain rights in respect of the board of Bell Aliant GP including:

- The right to appoint up to a majority of directors for so long as BCE and Bell Canada, directly or indirectly, hold not less than 30 per cent of our shares and certain commercial agreements are in place; and
- The right to require written consent from BCE, 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, hold not less than 20 per cent of our shares.

As a result of these rights, BCE controls the board of directors of Bell Aliant GP.

Class 2 limited partnership units issued by Bell Aliant Holdings LP (class 2 units)

In 2010, and prior periods, we equity account for our investment in class 2 units, as we exercise significant influence over the operating, investing and financial policies but do not control Bell Aliant Holdings LP.

On January 1, 2011, as part of the Conversion, the class 2 units were cancelled.

Class 1 exchangeable limited partnership units issued by Bell Aliant Holdings LP (class 1 units)

In 2010, and prior periods, the class 1 units held by BCE and Bell Canada are classified as financial liabilities, as discussed in note 11. As a result, we equity account for 100 per cent of the net earnings of Bell Aliant Holdings LP. We also recognize the fair value of the class 1 units as a reduction to our investment in Bell Aliant Holdings LP, and record the changes in the fair value of the class 1 units in income from equity investments. As the class 1 units are intended to be, to the greatest extent practicable, the economic equivalents of the Fund units, the fair value of the class 1 units is established based on the quoted market price of the Fund units at the reporting period date. Distributions declared by Bell Aliant Holdings LP on the class 1 units are recognized as a decrease to income from equity investments.

On January 1, 2011, as part of the Conversion, the class 1 units were cancelled.

Functional currency

These interim financial statements are presented in Canadian dollars, which is our functional and presentation currency. All financial information presented is in millions of dollars, except as otherwise noted.

Income taxes

Income tax expense represents current income tax and deferred income tax. Current and deferred income tax are recognized as an expense or recovery in net earnings, except when they relate to items that are recognized outside net earnings (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside net earnings. In the case of a business combination, the tax effect is included in the accounting for the business combination.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes (continued)

Current tax is the tax currently payable based on taxable earnings for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Taxable earnings differs from earnings as reported in the income statement because of items of income or expense that are taxable or deductible in years other than the current reporting period or items that are never taxable or deductible.

In 2010, we qualified as a mutual fund trust for purposes of the Income Tax Act (Canada) and as such, were only taxable on any amounts not allocated to unitholders. On January 1, 2011, we are taxable on all income earned.

Deferred tax is recognized using the liability method. Under this method, deferred tax is recognized on the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial statement reporting purposes and their corresponding tax basis used in the computation of taxable earnings, as well as the benefit of losses that are probable to be realized and are available for carry forward to future years to reduce income taxes. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable earnings will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable earnings or loss nor the accounting earnings or loss. Deferred tax is not recognized for differences relating to investments in subsidiaries to the extent that we are able to control the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at 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 measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which we expect, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

The effect of a change in tax rates on deferred tax assets and liabilities is included in earnings in the period that the change is substantively enacted, except to the extent it relates to items previously recognized outside earnings in which case the rate change impact is recognized in a manner consistent with how the items were originally recognized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority, and we intend to settle our current tax assets and liabilities on a net basis.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial instruments 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.

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 liabilities is based on either fair value or amortized cost using the effective interest method, depending upon their classification. The carrying values of our financial instruments approximate fair values due to their short-term nature.

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

Statement of financial position account	Classification	Subsequent measurement
Cash and cash equivalents	At fair value through profit or loss	Fair value
Distributions receivable	Loans and receivables	Amortized cost
Due from related parties	Loans and receivables	Amortized cost
Payables and accruals	Other liabilities	Amortized cost
Distributions payable	Other liabilities	Amortized cost

At fair value through profit or loss

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 operating expenses as incurred.

Loans and receivables

Loans and receivables are not traded in an active market and result from the delivery of cash or other assets by us to a borrower in return for a promise to repay on demand or on a specified date. Gains and losses are recognized in operating expenses in the period that the asset is derecognized or impaired.

Other liabilities

Other liabilities include all financial liabilities other than derivative contracts or liabilities that have been classified as financial liabilities at fair value through profit or loss.

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:

- At fair value through profit or loss - 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Income from equity investments is recorded based on our percentage ownership in the net earnings and comprehensive earnings (loss) of investments over which we exercise significant influence over the operating, investing and financial policies but do not control.

Interest income is recorded as it is earned.

Earnings per share / unit

Basic earnings per share (EPS) is calculated by dividing the net earnings (loss) attributable to our common shares/units by the weighted average number of common shares/units outstanding during the period. Diluted EPS is determined by adjusting the net earnings (loss) attributable to common shares/units and the weighted average number of common shares/units outstanding for the effects of all potentially dilutive common shares/units.

Share-based compensation plans

We maintain employee stock savings plans, a deferred share plan for certain employees of Bell Aliant GP, and a directors' deferred share unit plan for eligible members of our board of directors, which are described in note 9. Compensation expense related to the employee stock savings plans and the deferred share plan is recorded in Bell Aliant GP. For the directors' deferred share unit plan, we recognize a portion of compensation expense related to our proportionate share of the directors' services provided to us. Bell Aliant GP also recognizes its portion of compensation expense related to its share of the directors' services. At the end of each reporting period, we re-assess our estimates of the number and fair value of awards that are expected to vest in our deferred share plan and recognize the effect of the revisions in contributed surplus.

Economic dependence

We are economically dependent on Bell Aliant GP, as our ability to pay dividends is entirely dependent on the dividends received from them. Significant events or transactions in Bell Aliant GP could materially influence our ability to pay dividends.

New accounting standards not yet adopted

A number of new standards, amendments to standards, and interpretations are not yet effective for the year ended December 31, 2011, and have not been applied in preparing these financial statements. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

New accounting standards not yet adopted (continued)

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 period beginning on or after January 1, 2012.

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

3. INVESTMENTS

The following table provides details of the change in our investments:

For the three months ended March 31	2011	2010
Investments, beginning of period	950.3	2,577.1
Income from equity investments	88.2	301.9
Net loss from discontinued operations of equity investments	(3.4)	-
Dividends / distributions declared	(109.0)	(93.4)
Other comprehensive income (loss)	11.0	(143.7)
Common shares issued in exchange for class B exchangeable limited partnership units of Bell Aliant LP, class 1 exchangeable limited partnership units of Bell Aliant Holdings LP, special voting units of the Fund and all but one of BCE and Bell Canada's voting common shares of Bell Aliant Holdings GP (note 5)	2,608.5	-
Share issue costs recognized by Bell Aliant GP	(1.3)	-
Reduction in deferred income tax assets recorded by Bell Aliant GP (note 5)	(21.5)	-
De-recognition of the notional deferred tax recovery (note 5)	(16.5)	-
Investments, end of period	3,506.3	2,641.9

Dividends / distributions received for the three months ended March 31, 2011 were \$138.7 million (three months ended March 31, 2010 - \$93.3 million).

Other comprehensive income (loss) relates to Bell Aliant GP's reclassification to net earnings of amortization of losses on forward fixed-floating interest rate swaps that were settled in 2007 by Bell Aliant Holdings LP, as well as the actuarial gains (losses) on defined benefit pension and other post-employment employee benefit plans and adjustments in connection with asset limitations.

4. INCOME TAXES

Deferred 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 are probable to be realized and carried forward to future years to reduce income taxes. The income tax effects of temporary differences that give rise to significant portions of the deferred income tax asset as at March 31, 2011, were as follows:

Share issue costs related to the Conversion (note 5)	0.5
Loss carryforwards	0.3
Deferred income tax asset	0.8

The deferred tax asset of \$0.8 million includes \$0.7 million, which is expected to be recovered in more than one year.

Deferred income tax recovery of \$(0.3) million for the period ended March 31, 2011, arose from changes in temporary differences.

The provision for income taxes differs from the amount that would have resulted by applying the statutory Canadian income tax rates to income from continuing operations before income taxes as follows for the three months ended March 31, 2011:

Earnings before income tax	87.2		
Income tax expense (recovery):			
Combined statutory income tax	28.3	32.50	%
Effects of income from equity investments	(28.6)	(32.80)	
Deferred income tax recovery	(0.3)	(0.30)	%

At March 31, 2011, we had \$1.0 million in non-capital tax losses available to reduce taxable income in future years for which we recognize a tax benefit as part of the future tax asset. These losses expire in 2031.

5. SHAREHOLDERS' CAPITAL

Authorized

Our shareholders' capital is authorized to include an unlimited numbers of common shares and preferred shares, which are issuable in series.

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

Issued and outstanding

	As at March 31, 2011		As at December 31, 2010	
	Number of shares	Issued capital	Number of units	Issued capital
Common shares	227,786,584	6,802.8	-	-
Units	-	-	127,394,907	4,195.6
Special voting units	-	-	100,373,827	-
	227,786,584	6,802.8		4,195.6

5. SHAREHOLDERS' CAPITAL (Continued)

Issued and outstanding (continued)

As at March 31, 2011, there were no preferred shares issued and outstanding.

Conversion to a corporation

On January 1, 2011, 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 of the voting common shares of Bell Aliant Holdings GP that they held for 100,373,827 Bell Aliant Inc. common shares. Fund unitholders exchanged 100 per cent, or 127,394,907 units, for Bell Aliant Inc. common shares. Bell Aliant Inc. became the successor company of the Fund.

Through a series of steps, the assets of Bell Aliant Holdings LP were transferred to its subsidiary, 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.

The carrying value of \$2,608.5 million assigned to the common shares issued in exchange for class B exchangeable limited partnership units of Bell Aliant LP (class B units), class 1 exchangeable limited partnership units of Bell Aliant Holdings LP (class 1 units), special voting units of the Fund and all but one of BCE and Bell Canada's voting common shares of Bell Aliant Holdings GP, was determined based on the following:

- The carrying value of the financial liability of \$732.1 million for class 1 units, which was recognized as a decrease to the investment in Bell Aliant Holdings LP in our statement of financial position as at December 31, 2010,
- The carrying value of the financial liability of \$1,876.6 million assigned to the common shares of Bell Aliant GP issued in exchange for class B units, and
- The carrying value of \$(0.2) million of BCE and Bell Canada's investment in Bell Aliant Holdings GP as at December 31, 2010.

We also recognized \$1.7 million in share issue costs, net of tax of \$0.5 million, as a reduction in stated capital when the common shares were issued on Conversion.

As part of the Conversion, we recorded a \$21.5 million decrease to contributed surplus to correspond with the reduction, of the same amount, in deferred income tax assets reported by Bell Aliant GP. The reduction in deferred income tax assets recorded by Bell Aliant GP is the result of Bell Aliant GP reporting, as part of the Conversion, the expected future tax consequences of temporary differences between the reported carrying amounts and corresponding tax values of assets and liabilities previously attributed to BCE and Bell Canada's interest in the class B exchangeable limited partnership units of Bell Aliant LP and the Fund's non-controlling interest in Télébec Limited Partnership and NorthernTel Limited Partnership. We also de-recognized \$16.5 million notional deferred tax recovery recorded in prior periods as part of the income from equity investments in relation to our proportionate share of temporary differences discussed above, as this amount was included in the \$21.5 million decrease recognized by Bell Aliant GP. These transactions were recorded with a corresponding decrease in the investment in Bell Aliant GP, as discussed in note 3.

In addition, we recorded \$1.3 million decrease in contributed surplus with the corresponding decrease in the investment in Bell Aliant GP, in relation to share issue costs recognized by Bell Aliant GP as part of the Conversion.

5. SHAREHOLDERS' CAPITAL (Continued)

Common shares

The following table provides details of the change in our issued and outstanding common shares for the three months ended March 31, 2011.

	Number of shares	Issued capital
Effect of the Conversion:		
Common shares issued in exchange for class B exchangeable limited partnership units of Bell Aliant LP, class 1 exchangeable limited partnership units of Bell Aliant Holdings LP, special voting units of the Fund and all but one of BCE and Bell Canada's voting common shares of Bell Aliant Holdings GP (note 3)	100,373,827	2,608.5
Common shares issued in exchange for issued and outstanding Fund units	127,394,907	4,195.6
Share issue costs related to the Conversion, net of tax	-	(1.7)
Shares issued on exercise of deferred share plan units (note 9)	17,857	0.4
Fractional share adjustments	(7)	-
Common shares outstanding as at March 31, 2011	227,786,584	6,802.8

On December 31, 2010, Bell Aliant Inc. had 10 common shares outstanding that were repurchased and cancelled during the Conversion.

The value of shares issued on exercise of deferred share plan units was recorded net of tax withheld of \$0.3 million.

Units

On January 1, 2011, 127,394,907 Fund units, representing 100 per cent of the Fund units outstanding at December 31, 2010, were exchanged for our common shares at their carrying value of \$4,195.6 million, and then cancelled.

The following table provides details of the change in our issued and outstanding units for the three months ended March 31, 2010.

	Number of units	Issued capital
Units outstanding, December 31, 2009	127,264,016	4,192.2
Deferred unit plan units exercised (note 9)	13,462	0.4
Redemption of units	(959)	(0.1)
Fractional unit adjustment	(6)	-
Units outstanding, March 31, 2010	127,276,513	4,192.5

Dividend reinvestment and optional share purchase plan

Under the provisions of our dividend reinvestment and optional share purchase plan, shareholders can elect to receive additional common shares in lieu of receiving cash dividends. Each participant in the plan may also make optional cash payments, subject to certain dollar value and time restrictions, to purchase additional common shares. To satisfy the purchase of common shares under this plan, we may issue common shares out of treasury or common shares may be purchased on the open market.

BELL ALIANT INC.
Notes to the financial statements
(Unaudited)
March 31, 2011

5. SHAREHOLDERS' CAPITAL (Continued)

Dividend reinvestment and optional share purchase plan (continued)

For the three months ended March 31, 2011, we bought 162,222 common shares (three months ended March 31, 2010 - 168,900 Fund units) on the open market for shareholders participating in the dividend reinvestment and optional share purchase plan. This was in lieu of paying \$2.7 million in cash dividends and \$1.4 million in cash distributions (three months ended March 31, 2010 - \$4.1 million in cash distributions) and, in respect of the optional share purchase plan, cash payments received of \$0.2 million (three months ended March 31, 2010 - \$0.3 million).

6. EARNINGS PER SHARE / UNIT

For the three months ended March 31	2011	2010
Basic:		
Net earnings from continuing operations	87.5	301.3
Net loss from discontinued operations	(3.4)	-
Net earnings	84.1	301.3
Weighted average number of shares / units outstanding	227,775,748	127,270,942
Basic earnings per share / unit from continuing operations	0.38	2.37
Basic earnings per share / unit from discontinued operations	(0.01)	-
Basic earnings per share / unit	0.37	2.37
Diluted:		
Net earnings from continuing operations	87.5	301.3
Distributions to holders of Class 1 exchangeable partnership units issued by Bell Aliant Holdings LP	-	20.5
Increase in value of Class 1 exchangeable partnership units issued by Bell Aliant Holdings LP	-	(73.8)
Distributions to holders of Class B exchangeable partnership units issued by Bell Aliant LP	-	52.3
Increase in value of Class B exchangeable partnership units issued by Bell Aliant LP	-	(189.2)
	87.5	111.1
Net loss from discontinued operations	(3.4)	-
Diluted net earnings	84.1	111.1
Weighted average number of shares / units outstanding	227,775,748	127,270,942
Add exchangeable limited partnership units:		
Class 1 exchangeable limited partnership units of Bell Aliant Holdings LP	-	28,168,803
Class B exchangeable limited partnership units of Bell Aliant LP	-	72,205,024
Deferred shares / units under share-based compensation plan (note 9)	927,385	741,970
	228,703,133	228,386,739
Diluted earnings per share / unit from continuing operations	0.38	0.49
Diluted earnings per share / unit from discontinued operations	(0.01)	-
Diluted earnings per share / unit	0.37	0.49

7. CHANGE IN OPERATING ASSETS AND LIABILITIES

For the three months ended March 31	2011	2010
Due from related parties	1.2	0.5
Deferred charges	(0.1)	-
Payables and accruals	(0.1)	0.1
	1.0	0.6

The change in operating assets and liabilities is net of the changes in amounts receivable from the deferred share plan, as discussed in note 9. Changes in the amounts receivable caused by share issuance, as discussed in note 5, are reflected as financing activities in the statements of cash flows when the deferred shares are exercised.

8. DIVIDENDS DECLARED TO SHAREHOLDERS

Subject to Board approval, we pay quarterly dividends from all dividends received from Bell Aliant GP, less normal operating expenses, for or in respect of the relevant period. Shareholders can elect to receive additional shares in lieu of receiving cash dividends, as discussed in note 5. For the three months ended March 31, 2011, we declared and paid a quarterly dividend for \$0.475 per share, or \$108.2 million.

For the three months ended March 31, 2010, we declared monthly distributions to unitholders of \$0.2417 per unit, for a total of \$0.725 per unit, or \$92.3 million.

9. SHARE-BASED COMPENSATION PLANS

Employee stock savings plans

On January 1, 2011, as part of the Conversion, our two employee unit purchase plans for eligible employees of certain subsidiaries of Bell Aliant Holdings LP became employee stock savings plans for eligible employees of certain subsidiaries of Bell Aliant GP, with substantially the same terms as before the Conversion. Holders of Fund units through the employee unit purchase plans received our common shares in exchange for such Fund units on a one-for-one basis.

Under the terms of the plans, employees can choose each year to have a portion of their annual base earnings withheld to purchase our common shares. Bell Aliant GP also contributes to the plan on behalf of participants based upon employee contributions. The purchase price of the Bell Aliant Inc. common shares is the average cost of the common shares purchased on the Toronto Stock Exchange (TSX) for credit to participants' accounts on the investment date. Participants in the plans receive additional common shares in lieu of receiving cash dividends from us. To satisfy employee purchases of our common shares under these plans, we may issue up to 2,079,527 additional common shares out of treasury or purchase the required common shares on the open market.

The total number of our common shares bought on the open market for our employee stock savings plans for the three months ended March 31, 2011, was 533,655 (three months ended March 31, 2010 - 537,210 Fund units). Compensation expense related to the employee stock savings plans of \$2.4 million was recorded by Bell Aliant GP for the three months ended March 31, 2011 (three months ended March 31, 2010 - \$2.3 million).

Deferred share plan

On January 1, 2011, as part of the Conversion, our deferred unit plan (DUP) became a deferred share plan (DSP). The deferred units, issued under the DUP, were converted to deferred shares, entitling plan members to one of our common shares or its cash equivalent for every vested deferred share held, carrying the same vesting and performance criteria as the deferred units.

9. SHARE-BASED COMPENSATION PLANS (Continued)

Deferred share plan (continued)

The DSP is intended to further align the long-term incentive compensation of certain of our executives and senior management with the drivers of long-term shareholder value. Under the DSP, we may grant deferred shares to eligible plan members in such number and at such times as is determined by the board of directors as a bonus or in respect of services rendered by the plan member or otherwise as compensation. On the grant date, plan members are credited with the deferred shares granted to them. Grantees are also entitled to receive additional deferred shares based on dividends that would have been received had the deferred shares been converted to actual common shares. The deferred shares vest equally over a period of three years, subject to attaining certain financial performance criteria and continued employment throughout the vesting period. Plan members have the option to receive either one of our common shares or its cash equivalent for each vested deferred share upon qualifying for payout under the terms of the grant. There is no exercise price paid by the grantee for deferred shares. We may issue up to 3,125,765 additional common shares out of treasury to satisfy awards under the DSP. Any deferred shares that do not vest due to failure to achieve prescribed performance targets are forfeited, and any unvested deferred shares of a plan member are forfeited upon their departure (in certain circumstances of departure, a portion of the unvested deferred shares may vest on a prorated basis to the end of employment date, subject to actual performance results on the financial performance criteria).

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

For the three months ended March 31	2011	2010
Deferred shares / units outstanding, beginning of period	1,380,567	1,293,699
Granted:		
January 2011 - Service period fiscal 2011 to 2013	321,949	-
Reinvested dividends / distributions during the period	38,508	30,058
	360,457	30,058
Forfeited	(78,704)	(233,204)
Exercised	(52,560)	(13,462)
Deferred shares / units outstanding, end of period	1,609,760	1,077,091
Deferred shares / units vested, end of period	927,385	741,970

The fair value of the 360,457 deferred shares granted or credited on reinvestment of notional distributions and dividends for the three months ended March 31, 2011 (three months ended March 31, 2010 - 30,058 deferred units granted or credited) was \$9.6 million, or \$26.52 per deferred share (three months ended March 31, 2010 - \$0.8 million, or \$26.34 per deferred unit).

As the deferred shares may be settled with our common shares when exercised, for the three months ended March 31, 2011, we have recorded in contributed surplus the equivalent of the compensation expense increase (decrease) that was recorded by Bell Aliant GP of \$1.8 million (three months ended March 31, 2010 - \$(2.6) million plus \$(0.1) million of other adjustments). This amount is equal to the cost of the deferred shares, recognized over the vesting period, and the change in the quoted market price of our common shares between the grant date and the reporting period date.

9. SHARE-BASED COMPENSATION PLANS (Continued)

Deferred share plan (continued)

Of the 52,560 deferred shares exercised during the three months ended March 31, 2011, we issued 17,857 common shares from treasury as discussed in note 5, and the remainder were settled in cash by Bell Aliant GP, including amounts withheld for income taxes (three months ended March 31, 2010, - 13,462 Fund units issued from treasury and none cash settled). The 17,857 common shares (three months ended March 31, 2010 - 13,462 units) we issued out of treasury had an average market value of \$26.61 per share (three months ended March 31, 2010 - \$26.92 per unit). When exercised, the corresponding value of \$0.7 million (three months ended March 31, 2010 - \$0.4 million) was reclassified from contributed surplus to issued capital (note 5). We also recorded a reversal of \$0.5 million (three months ended March 31, 2010 - nil) in contributed surplus related to deferred shares settled in cash by Bell Aliant GP in the period.

Directors' Deferred Share Unit Plan

We adopted a Directors' Deferred Share Unit Plan (DDSUP) as part of the Conversion, to further align the compensation of our directors with the interests of our shareholders. The DDSUP is a cash-settled plan for our eligible directors who are not employees of Bell Aliant Inc., its subsidiaries, BCE or Bell Canada, under which a portion of annual directors' fees will be credited in notional share units. The directors may elect to receive 25 per cent, 50 per cent, 75 per cent or 100 per cent of their annual directors' fees in the form of deferred share units under the DDSUP. There are no vesting criteria for the grants and the deferred share units vest immediately. Directors are only eligible to redeem the deferred share units upon termination of their duties as directors of Bell Aliant Inc. The redemption payment amount is equal to value of the deferred share units calculated as the average closing price of our common shares traded on the TSX on the last five days preceding the redemption date.

For the three months ended March 31, 2011, 3,629 deferred share units were granted. The fair value of the 3,629 deferred share units granted or credited on reinvestment of notional dividends for the three months ended March 31, 2011, was \$0.1 million, or \$26.82 per deferred share unit.

Director compensation expense related to the DDSUP of \$0.1 million was recorded by Bell Aliant GP for the three months ended March 31, 2011, related to the deferred share units' costs, recognized in connection with receiving directors' services for the period, and the change in the quoted market price of our common shares between the grant date and the reporting period date. We recognize an immaterial amount for the director compensation expense related to the DDSUP for the three months ended March 31, 2011.

10. RELATED PARTY TRANSACTIONS

Bell Aliant GP

We receive dividends from Bell Aliant GP, as discussed in note 3, which allow us to make our dividend payments, as discussed in note 8. There were no dividends receivable at March 31, 2011 (December 31, 2010 - \$29.6 million distributions receivable).

At March 31, 2011, \$24.8 million was due from Bell Aliant LP and its subsidiaries (December 31, 2010 - \$27.4 million), which relates to the net of operating expenses payable as well as amounts receivable from the deferred share plan, as discussed in note 9.

10. RELATED PARTY TRANSACTIONS (Continued)

Bell Aliant GP (continued)

We loan our excess cash to Bell Aliant LP through a series of promissory notes, and request repayments as required for operating purposes. The \$5.3 million promissory note that was receivable from Bell Aliant LP at December 31, 2010, was repaid on January 31, 2011. Subsequently issued promissory notes carried a rate of interest of 1.30 per cent per annum, resulting in an immaterial amount of interest revenue being earned during the three months ended March 31, 2011 (three months ended March 31, 2010 - immaterial amount). At March 31, 2011, \$4.9 million in promissory notes were receivable from Bell Aliant LP, each bearing interest at 1.30 per cent per annum and maturing on dates up to April 29, 2011.

There is minimal credit risk associated with balances receivable from related parties at March 31, 2011.

11. TRANSITION TO IFRS

Impact of transition to IFRS

First time adoption of IFRSs

IFRS 1, *First-time Adoption of International Financial Reporting Standards*, sets forth guidance for the initial adoption of IFRS. This guidance requires us to establish our IFRS accounting policies in accordance with standards in effect on our first annual reporting date, December 31, 2011, and apply these policies retrospectively to determine the IFRS opening statement of financial position at our date of transition, January 1, 2010. In addition, IFRS 1 provides both mandatory exceptions and optional exemptions to this general rule. 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.

The significant optional exemptions and mandatory exceptions we applied upon adoption are summarized below.

Business combinations

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3, *Business combinations*, retrospectively to business combinations that occurred before the date of transition to IFRS. We have elected to apply IFRS 3 to business combinations that occur on or after January 1, 2010.

Share-based payment transactions

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2, *Share-based payment*, to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002, and vested before the later of the date of transition to IFRS and January 1, 2005. We have elected not to apply IFRS 2 to grants that vested prior to January 1, 2010.

Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. Our IFRS estimates as of January 1, 2010, are consistent with our Canadian GAAP estimates for the same date.

11. TRANSITION TO IFRS (Continued)

Impact of transition to IFRS (continued)

Key accounting differences and anticipated effect on financial results

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement, and disclosure. While adoption of IFRS has not changed our actual cash flows, it has resulted in changes to our reported financial position and results of operations. Set out below are the key accounting differences that impact our interim financial statements.

Reconciliation of Canadian GAAP to IFRS

Reconciliation of equity

Total equity at January 1, 2010, December 31, 2010, and March 31, 2010, under Canadian GAAP has been reconciled to amounts reported under IFRS as follows:

	Note	At December 31, 2010	At March 31, 2010	At January 1, 2010
Total equity under Canadian GAAP		3,355.8	4,089.7	4,120.8
Investments	A	(2,374.1)	(1,422.0)	(1,515.6)
Total equity under IFRS		981.7	2,667.7	2,605.2

Reconciliation of total comprehensive income (loss)

Net earnings (loss) and comprehensive income (loss) for the three months ended March 31, 2010, and year ended December 31, 2010, under Canadian GAAP have been reconciled to amounts reported under IFRS as follows:

	Note	Year ended December 31, 2010	Three months ended March 31, 2010
Net earnings (loss) under Canadian GAAP		(404.5)	63.2
Income from equity investments	A	(645.0)	238.1
Net earnings (loss) under IFRS		(1,049.5)	301.3

	Note	Year ended December 31, 2010	Three months ended March 31, 2010
Comprehensive income (loss) under Canadian GAAP		(400.8)	64.0
Change in net earnings (loss)		(645.0)	238.1
Other comprehensive loss	A	(213.5)	(144.5)
Comprehensive income (loss) under IFRS		(1,259.3)	157.6

(A) Income from equity investments

Under Canadian GAAP, the class 1 units of Bell Aliant Holdings LP, held by BCE and Bell Canada, were considered to be equity instruments and included in non-controlling interest of Bell Aliant Holdings LP. As such, we equity accounted for our 82.46 per cent investment in Bell Aliant Holdings LP.

Under IFRS, the terms and conditions of the exchange and liquidity rights issued in connection with the class 1 units allow for the class 1 units to be exchanged for Fund units or cash at the option of the holder, and are therefore considered to be a financial liability. As a result of this change in presentation, we equity accounted for 100 per cent of the net assets and net earnings (loss) of Bell Aliant Holdings LP.

11. TRANSITION TO IFRS (Continued)

Impact of transition to IFRS (continued)

Reconciliation of Canadian GAAP to IFRS (continued)

Upon transition to IFRS at January 1, 2010, the fair value of the class 1 units of \$789.6 million was recorded which increased equity and decreased our investment. Changes in the fair value of the class 1 units are recorded in income from equity investments and amounted to \$73.8 million and \$57.5 million for the three months ended March 31, 2010, and year ended December 31, 2010, respectively. As the class 1 units were intended to be, to the greatest extent practicable, the economic equivalents of the Fund units, the fair value of the class 1 units was established based on the quoted market price of the Fund units at the reporting period date.

Distributions declared by Bell Aliant Holdings LP on the class 1 units in the amount of \$20.5 million and \$81.7 million for the three months ended March 31, 2010, and year ended December 31, 2010, respectively, were recognized as a decrease to income from equity investments.

For a complete description of the differences and adjustments to the net assets and net earnings (loss) recognized by Bell Aliant GP upon transition to IFRS at January 1, 2010, for the three months ended March 31, 2010, and for the year ended December 31, 2010, refer to note 25 of Bell Aliant GP's unaudited interim consolidated financial statements for the three months ended March 31, 2011.