

Converting from an income trust to a corporation

*CEO Karen Sheriff discusses the conversion
and answers frequently asked questions*

BellAliant

Creating a simpler corporate structure

We believe that converting from an income trust to a corporation is in the best interest of Bell Aliant.

Dear Unitholder:

I am pleased to invite you to attend our annual and special meeting of unitholders to be held in Halifax, Nova Scotia, on June 16, 2010.



During the meeting, we will review our 2009 performance and our future strategy. In addition, you will have the opportunity to vote, in person or by proxy, for the conversion of Bell Aliant from an income trust to a corporate structure.

Our strategy and performance

In 2009, we did what we set out to do. We set a course for our future success by focusing on five strategic priorities:

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

Our plan is working. We delivered strong financial results, a solid distribution to our unitholders and, at the same time, invested in our customers and our business.

We grew distributable cash more than 8 per cent over the previous year. Our EBITDA margins improved during the year, despite growing competitive activity, largely as a result of action we took to reset our cost structure and grow broadband. We continued to improve our service metrics and with the launch of our *FibreOP*[™] fibre-to-the-home (FTTH) service we are providing a premium Internet and exceptional TV experience for our customers in these markets.

And in 2010, that strategy will remain unchanged as we stay focused on the same five strategic objectives we established in 2009. This includes our commitment to accelerate our investment in fibre technology as a critical cornerstone for achieving our strategic objectives.

Karen Sheriff, president and chief executive officer

The capabilities of FTTH technology and our largely aerial infrastructure make it the ideal architecture to address the growing bandwidth needs of our customers. With our competitive environment increasing in size and intensity, we believe that now is the time to accelerate our investment in this technology. It will help us grow revenue, retain and gain customers, provide more and better services, and reduce future costs. Most importantly, it can meet the technology demands of the future, which we believe will provide us with a significant competitive advantage.

This year, we have made two important announcements regarding our plans for FTTH. In February, we announced that we will more than double our 2009 capital spending for FTTH technology in 2010, to pass 140,000 homes with *FibreOP* services by the end of the year. On May 4, 2010, we announced our plan to invest a further \$350 million in FTTH in 2011 and 2012. This accelerated investment will add approximately \$100 million annually to our current capital program run rate for those years. While almost all of our competitive territory currently has access to our high-speed Internet services, this expansion of FTTH will mean that over 600,000 homes and businesses or approximately one third of our competitive territory will have access to this leading edge technology, significantly increasing our TV coverage area and advancing our competitive position.

FTTH is an important investment for our future and it is important for us to take this critical step now to help ensure we can provide you with a sustainable dividend as we move forward.

Conversion to a corporate structure

As you are likely aware, changes to taxation rules that come into effect January 1, 2011, will result in income trusts like us being subject to taxation as if they were corporations. Given that, the trustees, directors, and management team of Bell Aliant are recommending conversion to a corporate structure.

We believe that conversion is in the best interest of Bell Aliant for three main reasons. First, we lose the current tax advantages of an income trust structure whether we convert or not. Second, we expect a corporate structure will be *simpler*, reducing our administrative costs and making our financial reporting easier to understand. Third, we expect Bell Aliant will be *more comparable* to other similar publicly traded businesses, making it easier for us to be assessed relative to our peers and broadening the potential investor base.

In terms of your investment, upon conversion, you will become a shareholder rather than a unitholder, and receive quarterly dividends rather than monthly distributions. We believe we have taken a responsible, balanced approach in developing our new dividend policy, which seeks to ensure dividend sustainability while maintaining a high payout to investors. Our objective is to provide you with a sustainable dividend, which is supported by a viable underlying business model.

With this in mind, we believe that targeting a payout of approximately 75 to 85 per cent of our expected free cash flow beginning in 2011 is consistent with our objectives. As such, our anticipated initial annual dividend of \$1.90 per share per year is expected to be in this range. We anticipate that the initial dividend will be set at this level starting January 1, 2011, with the first quarterly payment of \$0.475 per share being made in March 2011, subject to declaration by the board of directors of the new corporation.

Given we expect to have sufficient tax shelter to defer incurring obligations to pay cash income taxes until at least late 2012, our expected cash flow in 2011 and 2012 should allow us to accelerate our rollout of FTTH technology and also reduce overall debt levels, thereby improving our underlying financial strength to support our long-term business stability.

As an investor, we know that the dividend policy is important to you. Although dividends are expected to be reduced from our current level of distributions, I want to reassure you that Bell Aliant is still a strong and steady business with a solid strategy that is performing for our investors and customers. These changes, for the next year and beyond, reflect the new environment we will be working in, whether in terms of taxation, competition or ensuring our long-term sustainability.

Many of you have questions about what, if any, tax implications you will experience upon and following conversion. On conversion there should be no gain or loss realized for Canadian tax purposes on the exchange of your units for shares. Also, it is important to note that for a taxable individual investor resident in Canada, dividends are taxed at a lower rate than the distributions currently paid by an income trust. So, for these investors, the reduction in the dividend will be largely offset by lower personal income taxes. The tax implications for investors who are not residents of Canada are varied depending on the country of residence and various other factors. Tax information for Canadian and U.S. unitholders and other information about the proposed conversion is described in detail in the attached circular but, as always, we do encourage you to consult a tax or financial advisor for your particular circumstances.

Bell Aliant is your company. I encourage you to read the material that follows so that you understand the proposed changes and what they mean to you. I encourage you to come to the meeting and vote, or if that is not possible, send in your proxy so that your vote can be counted.

Beginning on page 5 of this document we have included a list of questions and answers that will provide more information on the conversion. Should the transaction be approved, further information on what you need to do will be sent to you later in 2010 or in early January 2011.

In closing, Bell Aliant will continue to focus on successful execution of its business strategy with the objective of ensuring continued financial strength, which we believe will enable us to provide a sustainable high payout dividend to our shareholders going forward.

Thank you for your investment and for your continued support of Bell Aliant.

Regards,



Karen Sheriff
President and chief executive officer
May 7, 2010

Frequently asked questions

THE CONVERSION

Why does Bell Aliant want to convert to a corporation?

Beginning January 1, 2011, income trusts will be subject to taxation as if they were corporations, thereby effectively removing the tax advantages of an income trust structure.

Why doesn't Bell Aliant just remain a trust rather than incurring the extra costs associated with a conversion?

Whether we convert to a corporate structure or not, we will become subject to taxation in January 2011. So there is no advantage in remaining an income trust. In fact, over the longer term it is more costly for the business to remain a trust. An income trust structure is complex compared to a corporate structure, which results in higher administrative complexity and higher costs. We expect that converting to a corporate structure will reduce our costs from what they would otherwise be and will make our structure and financial reporting more comparable to others in our industry, allowing investors and others to better understand our business and better assess their investments. We also believe conversion will enhance our access to capital and possibly improve the trading liquidity of your investment in us.

What does the conversion mean to Bell Aliant's operations?

The conversion will not affect our business strategy; we remain as focused as always on driving the business with our five strategic objectives to continue to deliver a stable and strong return to you.

How much is the conversion expected to cost?

In the range of \$3 million to \$5 million. We expect the benefits associated with a simpler corporate structure, including administrative cost reductions, improved reporting comparability, and enhanced access to capital will more than offset these costs over time.

What approvals are needed for the conversion to proceed?

We need at least two-thirds of the votes cast at the unitholder meeting to be in agreement. This includes the votes of BCE and Bell Canada, who currently have a 44 per cent voting interest in Bell Aliant, and who have indicated that they currently plan to vote in favour of the conversion. Approval by the Supreme Court of Nova Scotia and other regulatory approvals are also required.

Are the trustees and directors in favour of the conversion transaction?

Yes. The trustees and directors have completed their own assessment and have concluded that the conversion is fair to all unitholders and is in the best interests of Bell Aliant, and recommend that you vote in favour of the conversion.

How will I know when the conversion has received all approvals and will be implemented?

Bell Aliant intends to issue a press release describing the timing of the conversion when all the necessary approvals have been received and conditions have been satisfied or waived and the timing of the conversion is known. We expect that this press release will describe when shares of the new corporation will be issued to holders of Bell Aliant units.

WHAT DO I HAVE TO DO?

What will happen to my Bell Aliant units?

Your Bell Aliant units will be automatically exchanged on a one-for-one basis for shares in the newly incorporated company if the conversion is approved and implemented. We currently expect this to happen on January 1, 2011. New common shares are expected to begin trading on the Toronto Stock Exchange at the commencement of trading on January 3, 2011, with the trading symbol "BA".

What do I have to do to get my new shares?

If you are a registered unitholder, following completion of the conversion, a letter of transmittal will be sent to you requesting the return of Bell Aliant unit certificates in exchange for a certificate representing the applicable number of new common shares. You must present your unit certificate representing your Bell Aliant units to CIBC Mellon Trust Company in order to receive a certificate representing the number of shares to which you are entitled. We expect to send a letter of transmittal to former Bell Aliant unitholders following the completion of the conversion in early January 2011 explaining how to do this.

If you are a non-registered unitholder, we expect that the shares to be received by you will be credited to your account with your broker, trust company or other intermediary. However, you should contact your intermediary if you have any questions regarding this process.

Should I deliver my certificates now?

No. We do not expect the conversion to be implemented until on or about January 1, 2011. Until implementation of the conversion, you will still be a Bell Aliant unitholder.

The conversion, upon implementation, will automatically result in the exchange of your Bell Aliant units for Bell Aliant common shares. Following completion of the conversion, you will no longer be a Bell Aliant unitholder, and any unit certificate you may have will instead represent only your entitlement to shares and/or cash proceeds derived from the sale of shares for certain U.S. unitholders under the terms of the conversion.

For more information, see the information circular section entitled "The Arrangement – Procedure for Exchange of Fund Units".

What if I do not have or can not find a certificate for my units?

CIBC Mellon can issue a replacement certificate for you. There are forms on our website that will need to be completed to do this. There will be a charge of 2 per cent of market price charged to you to replace missing certificates or a minimum fee of \$30.

What happens if I don't turn my unit certificate in?

Your holdings of Bell Aliant units will be automatically converted to shares on the conversion date and you will receive dividends as and when paid by the new corporation. However, in order to transfer the shares you will need to obtain a new certificate.

When will I get my new share certificate?

CIBC Mellon will mail a new share certificate within five business days of receipt of the completed letter of transmittal and existing unit certificate.

DIVIDENDS

What is going to happen to the dividend?

The dividend is expected to be lower than the current distribution. These dividends are initially expected to be set by the board at \$0.475 per quarter (\$1.90 per year) per share. We have taken a responsible, balanced approach that seeks to ensure dividend sustainability while maintaining a high payout to investors in developing our new dividend policy. As we will be subject to taxation as of January 1, 2011, we will have income tax liabilities in the future that we currently do not have. As a result, we will ultimately have less cash to pay to our unitholders and the dividend will be lower than the current distribution we pay to you. However, it is important to note that for a taxable individual investor who is a resident of Canada, dividends are taxed at a lower rate than distributions currently paid by an income trust. So, for these investors, we expect that the reduction in the dividend will be mitigated, to a large part, by lower taxes.

What happens to the distribution if the conversion is not completed?

We expect that Bell Aliant's distribution policy would be changed in 2011 regardless of whether the conversion occurs. Given that Bell Aliant will be subject to income taxes beginning in 2011, our existing distribution is not expected to be sustainable.

How will the dividends for the new corporation be paid?

It is expected that the new corporation will pay quarterly dividends to its shareholders. We expect the dividends would be paid to shareholders of record as of the 15th day of the last month of each quarter (i.e. March, June, September, and December) and would be paid on the last business day of the quarter.

Why is Bell Aliant not continuing to pay dividends monthly?

Consistency with our peers in the telecom industry led us to our decision to pay dividends quarterly rather than monthly. This practice will make us more comparable with others and reduce administrative costs.

Will there be a Dividend Reinvestment Plan (DRP) for Bell Aliant shares?

Yes. Bell Aliant unitholders enrolled in the current DRP plan when the conversion is implemented will automatically be converted to the Bell Aliant Dividend Reinvestment and Optional Purchase Plan. CIBC Mellon will be mailing new plan details to registered shareholders with additional information on the plan.

TAX IMPLICATIONS

Is this a taxable transaction like when Aliant became Bell Aliant? What is my new cost base?

No. For Canadian tax purposes, this transaction will occur automatically on a tax "rollover" basis – so there is no requirement to claim a taxable gain or loss as a result of exchanging your units for shares. You will only need to do that when you dispose of your shares. The cost base of your new shares will be the same as your cost base for the Bell Aliant units that you currently own.

What is the difference between how Bell Aliant's distributions are currently taxed under the income trust structure and how dividends will be taxed under a corporate structure?

Generally, for taxable individual investors who are residents of Canada, the taxes on dividends from the new corporation will be lower than the taxes currently incurred on our distributions.

For taxable individual investors who are resident in Canada, Bell Aliant's distributions are largely treated as "other income" for tax purposes and are taxed at an individual's marginal tax rate on ordinary income. Under a corporate structure, dividends will be eligible for the enhanced dividend tax credit, which results in the effective tax rate on the dividend being significantly less than the tax rate paid on distributions. As an example, for a Canadian taxpayer in the highest tax bracket, the effective tax rate on an eligible dividend can be approximately 20 percentage points less than the tax rate on ordinary income.

What are the tax implications for non-resident investors?

The tax implications for investors who are not residents of Canada are varied depending on the unitholder's country of residence and various other factors. We have described the expected implications for U.S. unitholders in "The Arrangement – Certain United States Federal Income Tax Considerations" section of the information circular. However, we encourage you to consult a tax advisor for your particular circumstances.

BCE'S INTEREST

How much of Bell Aliant will BCE and its affiliates own?

BCE and its affiliates currently have an approximate 44 per cent interest in Bell Aliant. We expect that after conversion BCE and its affiliates will continue to have the same interest as they had immediately prior to the conversion.

How much of Bell Aliant will BCE and its affiliates own? *continued*

Governance practices and policies of the new corporation will be the same as those of the Fund. BCE will continue to have the right to appoint the majority of the directors of the operating entities of Bell Aliant so long as it, directly or indirectly, owns 30 per cent or more of the new corporation's shares and certain commercial agreements are in place. BCE will also continue to have certain veto rights over fundamental transactions and activities as long as it directly or indirectly owns 20 per cent or more of the shares.

VOTING PROCEDURES

How do I vote?

Registered unitholders

You can vote at our annual and special meeting on June 16, 2010, in Halifax, Nova Scotia. Registered unitholders of Bell Aliant units as of the close of business on April 28, 2010, are entitled to attend and vote at the meeting on all matters. Or, if you are unable to attend the meeting in person, please complete and deliver the applicable unitholder proxy enclosed with the information circular to CIBC Mellon Trust Company by mail, facsimile or Internet. Instructions on how to vote using this form of proxy are found in the "General Proxy Matters – How to Vote – Registered Unitholders" section of the information circular.

Non-registered beneficial unitholders

If your Bell Aliant units are held on your behalf, or for your account, by a broker, securities dealer, bank, trust company or similar entity (an "Intermediary"), you should carefully follow the instructions provided by your Intermediary or contact your Intermediary for assistance. See the "General Proxy Matters – How to Vote – Non-Registered Unitholders" section of the information circular.

MORE INFORMATION

Where can I get further information?

Unitholders can call Bell Aliant Investor Relations to get further information.

Toll-free in Canada and United States: 1-877-248-3113

Fax: 1-877-498-2464

Email: investors@bellaliant.ca

Bell Aliant

Investor Relations

One Brunswick Square, 18th Floor

Saint John, New Brunswick E2L 4L4

Unitholders who have questions about deciding how to vote should contact their professional advisors.

Forward-Looking Statements

This document contains forward-looking statements concerning anticipated future events and expectations, in particular regarding Bell Aliant's anticipated conversion from an income trust to a corporate structure and its plan to accelerate its investment in fibre-to-the-home technology and the anticipated consequences and benefits thereof. Unless otherwise indicated, such forward-looking statements describe our expectations at May 7, 2010. These statements are based on management's beliefs regarding future events, which by their nature are inherently uncertain and beyond management's control. These statements are not guarantees of future events and are subject to risks and uncertainties which are difficult to predict and assumptions which may prove to be inaccurate, including the assumption that Bell Aliant will complete the conversion to a corporate structure and the implementation of an accelerated fibre-to-the-home program as currently contemplated. Actual results or events may differ from the results or events predicted. Please refer to the "Information Circular – Forward-Looking Statements" section of the Bell Aliant Regional Communications Income Fund Notice of annual and special meeting of unitholders and information circular dated May 7, 2010, and the "Forward-looking information" section of the Bell Aliant Regional Communications Holdings, Limited Partnership first quarter 2010 management's discussion and analysis for a detailed discussion regarding such forward-looking information, including material assumptions and risks relating thereto. Except as may be required by Canadian securities laws, we disclaim any intention and assume no obligation to update or revise any forward-looking statement even if new information becomes available, as a result of future events, or for any other reason. Readers should not place undue reliance on any forward-looking statements.

This document should be read in conjunction with, and is qualified in its entirety by the more detailed information contained in the Bell Aliant Regional Communications Income Fund Notice of annual and special meeting of unitholders and information circular dated May 7, 2010.