

Bell Aliant Regional Communications Holdings, Limited Partnership

Management's Discussion and Analysis

First Quarter 2008

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, 2008 (first quarter of 2008), compared to the corresponding period in 2007. This MD&A should be read together with our unaudited interim consolidated financial statements and accompanying notes for the period ended March 31, 2008, and our audited consolidated financial statements and accompanying notes as at and for the year ended December 31, 2007, and related MD&A. Our consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All amounts in this document are in millions of Canadian dollars, except where otherwise noted.

This MD&A is dated May 6, 2008, and is current to that date unless otherwise stated.

Throughout this document, unless otherwise specified or the context otherwise indicates, "we", "us", "our" and "Bell Aliant Holdings LP" refer to Bell Aliant Regional Communications Holdings, Limited Partnership and its subsidiaries. The term "Aliant" refers to our predecessor, Aliant Inc., and its subsidiaries.

Quarterly reports, annual reports and supplementary financial information, as well as annual information forms and information circulars, can be found under "financial reports" on the Bell Aliant Regional Communications Income Fund (the Fund) website at www.bell.aliant.ca. These and other continuous disclosure documents are also available at www.sedar.com.

Forward-looking information

This MD&A contains forward-looking information related to our future financial condition and results of operations. The purpose of forward-looking information is to provide the reader with information about management's expectations and plans for fiscal 2008 or other future periods. Readers are cautioned that such information may not be appropriate for other purposes. This information is based on our current expectations and estimates about the markets in which we operate and management's beliefs and assumptions regarding these markets. Unless otherwise indicated, forward-looking information in this MD&A describes our expectations at May 6, 2008. In some cases, forward-looking information may be identified by words such as "anticipate", "believe", "could", "expect", "plan", "seek", "may", "intend", "will" 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 factors which could cause results or events to differ materially from current expectations include but are not limited to: our ability to achieve strategies and plans; general economic conditions; the changing competitive environment; changing regulatory conditions or requirements; reliance on IT systems; changing technology; and changing laws and regulations. Some of these factors are largely beyond our control. In addition, a number of assumptions were made by us in providing forward-looking information in this MD&A, such as certain Canadian economic assumptions, market assumptions, operational and financial assumptions, and assumptions about transactions. Refer to the "Assumptions made in the preparation of forward-looking information and risks that could affect our business and results" section of this MD&A for further discussion of these and other assumptions and risk factors. Should any factor affect us in an unexpected manner, or should assumptions underlying the forward-looking information prove incorrect, the actual results or events may differ materially from the results or events predicted. Unless otherwise indicated, forward-looking information does not take into account the effect that transactions or non-recurring or other special items announced or occurring after this information is provided may have on our business. All of the forward-looking information reflected in this document and the documents referred to within are qualified by these cautionary statements. There can be no assurance that the results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences for us. Except as may be required by Canadian securities laws, we disclaim any intention and assume no obligation to update or revise any forward-looking information, even if new information becomes available, as a result of future events or for any other reason. Readers should not place undue reliance on any forward-looking information.

See also our Notice concerning forward-looking information dated February 5, 2008, which is available at www.bell.aliant.ca as well as www.sedar.com.

Our business

We are one of the largest regionally focused telecommunications service providers in North America, with operations primarily in Atlantic Canada, Québec and Ontario. We have been serving customers for over a century and provide a wide range of innovative and traditional voice and data communications services and an array of information technology (IT) consulting, infrastructure management, product fulfillment and advanced technology solutions.

Our principal operations are carried out through Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Télébec, Limited Partnership (Télébec) and NorthernTel, Limited Partnership (NorthernTel). We consolidate the financial

results of these and other subsidiary partnerships and corporations in our financial statements. We operate as one reportable segment, which represents the manner in which we are organized and managed for assessing performance and making resource allocation decisions.

Our business environment

Competitive landscape

Throughout the first quarter of 2008, cable competitors continued to expand their local service areas in our territory and launched aggressive promotional campaigns, which included bundled services. Cable competitors offered telephony services to approximately 51 per cent of households in our territory at the end of March 2008, up from approximately 48 per cent at the end of December 2007. We expect continued gradual growth in the competitive footprint. As a result of this expanded competition, our local residential customer base has been declining as discussed further in the “Results of operations” section.

In order to combat competitive pressures, we continue to enhance our products and services, promote our bundled service packages and innovate with customers to provide complete solutions. We continue to invest in our communities and support activities that are important to our customers and employees. Refer to our achievements as discussed in the “Focus and Strategy for 2008” section for further detail.

Telecommunications regulatory developments

Our business is affected by decisions made by the Canadian Radio-television and Telecommunications Commission (CRTC) and the federal government. Refer to our MD&A for the year ended December 31, 2007, for a complete discussion of regulatory developments which occurred in 2007 and up to and including March 4, 2008. Regulatory developments which have occurred since that date up to and including May 6, 2008, which are significant to our business include the following:

Deferral accounts

Bell Canada’s accumulated deferral account commitment at March 31, 2008, was estimated to be \$152.0 million, with an estimated future annualized commitment of \$1.3 million. The accumulated deferral account commitment takes into account the estimated deferral account drawdown during the first quarter of 2008 associated with the CRTC approved broadband expansion program and the initiatives associated with improving access to communications services for persons with disabilities. On March 3, 2008, along with Bell Canada, we filed proposed reductions to rates for stand-alone local residential telephone access services in regulated exchanges within the non-high cost serving area (non-HCSA) portions of the Ontario and Québec serving areas which, if approved, would eliminate Bell Canada’s future annualized commitment.

The CRTC has approved a total of 102 communities in which Bell Canada can deploy broadband using the funds in the deferral account and has directed Bell Canada to file a proposed broadband roll-out plan. In January 2008, the CRTC also approved Bell Canada’s proposed initiatives to improve access to telecommunications services for person with disabilities. Finally, the CRTC directed Bell Canada to rebate any balance remaining in its deferral account to residential subscribers in urban, non-HCSAs within the Ontario and Quebec portions of the serving areas of Bell Canada and Bell Aliant, and to file proposals to rebate such funds.

The operating territory in Ontario and Quebec that we acquired in 2006 is included in Bell Canada’s deferral account balance. Therefore, subject to the outcome of CRTC decisions and court proceedings, we will be affected by these and further proposals of Bell Canada to satisfy their deferral account obligations, as we have agreed to contribute to the economic spending portion of the project. We are unable to estimate the effect on our financial results at this time.

Wholesale Services Review

On March 3, 2008, the CRTC issued Telecom Decision 2008-17 in which it redefined essential services, assigned individual wholesale services to six separate categories, set out the pricing rules for each, and established transition periods leading to forbearance for some services. While the balance of our wholesale services remain subject to regulation, competitor digital network and ethernet services, which provide fibre access and transport, as well as certain other services, will ultimately be forborne from regulation in three to five years, depending on the specific nature of the service. On April 1, 2008, along with Bell Canada, Télébec and Saskatchewan Telecommunications, we filed a notice of motion seeking leave to appeal Telecom Decision 2008-17 to the Federal Court of Appeal on the basis that the CRTC failed to comply with various provisions of the federal Cabinet’s December 2006 Policy Direction. We are unable to estimate the impact of Telecom Decision 2008-17 on our business at this time.

Privatization of BCE

As announced on June 30, 2007, our significant stakeholder, BCE Inc. (BCE), entered into a definitive agreement to be acquired by an investment group led by Teachers Private Capital, the private investment arm of the Ontario Teachers Pension Plan, Providence Equity Partners Inc., Madison Dearborn Partners, LLC, and Merrill Lynch Global Private Equity. We are not a party to the transaction and cannot predict the effect that a change of ownership of BCE may have on our organization.

Planning for future changes in taxation

As a result of the Federal Government's October 31, 2006, announced changes to income tax legislation affecting publicly listed or traded income trusts, such as the Fund, starting January 1, 2011, the Fund will be taxed as if they were a corporation, at a blended federal/provincial tax rate that we anticipate being in the range of 25.0 to 30.0 per cent of their taxable income. While it is too early to determine the effect that these changes will have on our cash flow in years after 2010, we are continuing to investigate strategies and options that could mitigate the effect that cash taxes will have on the distributions that we pay and are ultimately able to be paid to Fund unitholders. These options may include, among other things: planning to preserve or enhance our existing tax loss carryforward amounts and other tax deduction or credit pools for utilization after 2010 to reduce taxable income or cash taxes otherwise payable, strengthening our financial position, including reducing the size of our pension plan deficits, to allow greater flexibility in our and the Fund's future distribution policy; investing in productivity initiatives to lower our overall expenses and contribute positively to our future cash flow growth and utilizing excess cash in the period prior to 2011 to repurchase Fund units to reduce total future cash distribution requirements. It is uncertain whether these initiatives, if pursued, will allow us to avoid reducing our per-unit cash distributions, and ultimately distributions made by the Fund; however, this is a focus of our long-term corporate planning.

First quarter in review

Summary of results

<i>For the three months ended March 31</i> <i>(millions of dollars)</i>	2008	2007	% change
Operating revenues	\$865.4	\$851.4	1.6
EBITDA ⁽¹⁾	\$355.1	\$349.5	1.6
Operating income ⁽¹⁾	\$155.7	\$171.6	(9.3)
Net earnings	\$64.3	\$88.5	(27.3)

⁽¹⁾ EBITDA and operating income are non-GAAP financial measures. Refer to the "Non-GAAP financial measures" section for more details.

On February 1, 2008, we completed the acquisition of assets and operations of Kenora Municipal Telephone System (KMTS), and have consolidated their financial results in ours from that date forward.

Operating revenues and EBITDA each increased by 1.6 per cent during the first quarter of 2008, compared to the same period in 2007. Growth in Internet, data, wireless and IT revenues more than offset declines in local access and long distance revenues. EBITDA increased in proportion to operating revenues as accompanying changes in cost of sales and labour were offset by productivity savings in selling, general and administrative expenses and a reduction in capital taxes as compared to the same period in 2007.

Operating income for the first quarter of 2008 declined by \$15.9 million, or 9.3 per cent, compared to the same period in 2007, as a \$5.6 million increase in EBITDA was offset by a \$26.6 million increase in depreciation and amortization due to an increase in our depreciable investment base. This decline was mitigated by a \$4.7 million decrease in net cost of benefit plans due to an increase in our average rate used to discount our obligations effective December 31, 2007, and a \$0.4 million decrease in restructuring and other charges.

Net earnings declined by \$24.2 million, or 27.3 per cent, during the first quarter of 2008, compared to the first quarter of 2007, as the decline in operating income was further compounded by an \$11.2 million write-down of goodwill relating to Atlantic Mobility Products (AMP). Refer to the "Expenses" section for further discussion on items affecting net earnings.

Distributable cash

Since our operations ultimately support distributions to unitholders of the Fund, distributable cash combines our cash performance with that of the Fund.

<i>For the three months ended March 31</i> <i>(millions of dollars)</i>	2008	2007	% change
Distributable cash ⁽¹⁾	\$206.8	\$192.1	7.7
Cash distributions declared ⁽²⁾	\$162.8	\$166.2	(2.0)

⁽¹⁾ Distributable cash is a non-GAAP financial measure. Refer to the "Non-GAAP financial measures" section for further detail.

⁽²⁾ Distributions declared includes amounts declared by the Fund to unitholders and by Bell Aliant Holdings LP to Bell Canada and BCE on units that are exchangeable into Fund units.

Distributable cash grew by \$14.7 million, or 7.7 per cent, in the first quarter of 2008, compared to the first quarter of 2007. The increase is primarily due to a \$20.2 million reduction in capital expenditures in the first quarter due to timing of expenditures on capital programs and a lower anticipated capital program for 2008 compared to 2007, and the \$5.6 million increase in EBITDA. Partially offsetting these positive contributions to the growth in distributable cash was a reduction of distributable cash received from discontinued operations due to the disposal of Aliant Directory Services (ADS) in April 2007. In the first quarter of 2007, ADS added \$8.9 million to our distributable cash. The proceeds from the sale of ADS were transferred to and used by the Fund in 2007 to repurchase units under a normal course issuer bid (NCIB), thereby mitigating the reduced contribution to in distributable cash from ADS on a per unit basis. Excluding the effects of discontinued operations in 2007, distributable cash for the first quarter of 2008 would have grown \$23.6 million, or 12.9 per cent, from the same period in 2007.

The following table provides a summary reconciliation of cash from operating activities to distributable cash for the first quarter of 2008 and 2007. The table provides additional information on the relationship between cash from operating activities, net earnings and cash distributions declared for the periods. In addition, we present standardized distributable cash, a measure recently introduced by the Canadian Institute of Chartered Accountants (CICA) in an effort to improve comparability and transparency in the reporting of financial performance of income trusts.

<i>For the three months ended March 31</i> <i>(millions of dollars)</i>	2008	2007	% change
Cash from operating activities	\$236.3	\$251.7	(6.1)
<i>Add (deduct):</i> Cash from operating activities of the Fund and discontinued operations	(0.2)	8.4	n.m.
Capital expenditures	(95.1)	(115.3)	(17.5)
Standardized distributable cash ⁽¹⁾	\$141.0	\$144.8	(2.6)
<i>Add (deduct):</i> Operating items funded through cash reserves or borrowing	65.2	37.6	73.4
Other adjustments	0.6	9.7	(93.8)
Distributable cash ⁽¹⁾	\$206.8	\$192.1	7.7
Net earnings	\$64.3	\$88.5	(27.3)
Cash distributions declared ⁽²⁾	\$162.8	\$166.2	(2.0)
Excess of cash from operating activities over cash distributions declared ⁽³⁾	\$73.3	\$93.9	(21.9)
Shortfall of net earnings over cash distributions declared	(\$98.5)	(\$77.7)	26.8

n.m. not meaningful

⁽¹⁾ Refer to the "Non-GAAP financial measures" section for a definition and detailed reconciliation of cash from operating activities to standardized distributable cash and distributable cash.

⁽²⁾ Distributions declared includes amounts declared by the Fund to unitholders and by Bell Aliant Holdings LP to Bell Canada and BCE on units that are exchangeable into Fund units.

⁽³⁾ Cash from operating activities includes that generated by the Fund and discontinued operations.

Standardized distributable cash for the first quarter of 2008 represents a decrease of \$3.8 million, or 2.6 per cent, when compared to the same period in 2007. The decrease is mainly due to the change in operating assets and liabilities, or working capital. Our working capital requirements fluctuate throughout the year, and changes can be quite large from one quarter to the next. This variability is partially due to the seasonality that can be displayed in both our accounts receivable, and payables

and accruals. In the first quarter of each year, we typically incur negative cash flow from working capital changes due, in part, to semi-annual interest payments made in February of each year and the annual payout of year-end salary incentive plans. In the first quarter of 2008, interest payments were \$14.7 million higher than the same period in 2007, due to the \$1.0 billion of long-term debt issued in February 2007. Cash from working capital changes in the first quarter of 2008 was further negatively affected by the payment of \$3.2 million of restructuring and other charges accrued at December 31, 2007. In the first quarter of 2007, cash flow declines from working capital changes were partially offset by the collection of a \$19.9 million receivable from Bell Canada related to the outsourcing services we provide to Bell Mobility. Refer to the "Summary of cash flows" section for a further discussion on working capital.

Since working capital cash requirements fluctuate during the year, but should reflect our normal growth over a full year, we do not include these cash flows in our distributable cash calculations. Instead, these amounts are financed throughout the year with cash reserves or short-term borrowing. However, these fluctuations are included in the CICA's standardized distributable cash definition.

Both standardized distributable cash and our calculation of distributable cash include capital spending. Capital expenditures in the first quarter of 2008 were 11.0 per cent of operating revenues, lower than our annual target of 14.5 to 15.5 per cent, reflecting delayed timing of 2008 expenditures. We are committed to maintaining and enhancing our network assets in order to support growing demand for high bandwidth Internet protocol (IP) services. Our legacy telephony and related business continues to be our foundation, and notwithstanding recent technological advances and improvements in the useful lives and productive capacity of our telecommunications assets, our maintenance capital expenditures have remained relatively stable over time.

Cash distributions declared in the first quarter of 2008 are 78.7 per cent of distributable cash, compared to 86.5 per cent for the comparable period in 2007, which is below our annual 90.0 per cent targeted payout ratio. However, we expect capital expenditures to increase to more normal levels over the course of the year such that we expect to meet our targeted 90.0 per cent pay out ratio for the full year.

Focus and Strategy for 2008

Superior Customer Experience

Delivering a superior customer experience is the cornerstone of our strategy and we believe that a superior experience is created by providing exceptional customer service, providing value through leading products and services, and being known for strong community involvement. The support of our workforce will enable us to deliver on this strategic priority.

Customer service

We are focusing on making it easier for customers to do business with us and to improve service levels. During the first quarter of 2008, we made several improvements to existing services to improve the experience for our customers. We have significantly improved the picture quality of our IPTV product with superior encoding techniques. We have also introduced enhanced tools into our contact centre environment, providing our agents with a complete view of the customer, enabling them to better serve their needs. Process improvements have also enabled us to significantly reduce the repair waiting times for DSL customers in Atlantic Canada by 29.8 per cent, and by 6.4 per cent for digital TV customers during the first quarter of 2008.

Providing value through leading products and services

We are continuing to develop and introduce innovative products and services in bundles that offer value, convenience and ease of use for consumers and a competitive advantage for businesses.

During the first quarter of 2008, we announced the availability of two new services, Online Voice Mail and Text to Landline Messaging, which allow our Ontario and Québec customers to stay connected to their personal messages anytime and anywhere. We also continued our build-out of fibre-to-the-node (FTTN), and can now offer IPTV and other enhanced services to approximately 196,000 homes. We have introduced High Speed Service-Max and High Speed Service-Professional, increasing speeds for our residential and business customers to 10 Mbps. We also completed negotiations with Apple® to become the first telecommunications provider in North America to offer a combined Internet access service and MacBook® package.

Community involvement

We have a long-standing commitment to the communities we serve and a history of providing support to help strengthen communities socially, culturally and economically. Our commitment to our regions through direct involvement in our communities, as well as the engagement of our employees in our business provides us with a competitive advantage. In addition to our Olympic sponsorship announced in 2006, in March 2008 we announced we would be a major sponsor of the 2009 Canada Games, which will be held across Prince Edward Island.

Operational efficiency

We are aggressively managing our cost structure to grow distributable cash and deliver value to our unitholders and ultimately, unitholders of the Fund. During the first quarter of 2008, we achieved additional productivity savings through process, system and technology enhancements, infrastructure replacement, and consolidation of operations. These productivity savings enabled us to maintain EBITDA margins in the first quarter of 2008 at approximately the same level as the corresponding period in 2007, despite a changing revenue mix.

During the first quarter of 2008, we completed the acquisition of assets and operations of KMTS. We have begun to leverage adjacent networks and technologies, as well as our scale for purchasing and product development, to achieve operating synergies.

Results of operations

<i>For the three months ended March 31</i>			
<i>(millions of dollars)</i>	2008	2007	% change
Local and access	\$346.5	\$354.9	(2.4)
Long distance	112.7	115.2	(2.2)
Data & Internet	194.1	186.8	3.9
IT services and fulfillment	114.3	97.7	17.0
Wireless	17.9	14.6	22.6
Other revenues	79.9	82.2	(2.8)
Operating revenues	\$865.4	\$851.4	1.6
Operating expenses	510.3	501.9	1.7
EBITDA ⁽¹⁾	\$355.1	\$349.5	1.6
Net cost of benefit plans	24.8	29.5	(15.9)
Depreciation and amortization	174.5	147.9	18.0
Restructuring and other charges	0.1	0.5	(80.0)
Operating income ⁽¹⁾	\$155.7	\$171.6	(9.3)
Other expenses	13.1	2.2	n.m.
Interest charges	39.6	39.4	0.5
Income tax expense (recovery)	2.3	(4.6)	n.m.
Non-controlling interest	36.4	51.6	(29.5)
Net earnings from continuing operations	\$64.3	\$83.0	(22.5)
Net earnings from discontinued operations	-	5.5	n.m.
Net earnings	\$64.3	\$88.5	(27.3)

n.m. - not meaningful

⁽¹⁾ EBITDA and operating income are non-GAAP financial measures. Refer to the "Non-GAAP financial measures" section for more details.

Operating revenues

Local and access

Our local and access revenue is earned primarily through the provision of network access services (NAS), along with enhanced service features, contribution payments and competitor network access payments. Despite a 3.3 per cent drop in our total NAS customers since March 31, 2007, rate increases in certain markets and increased features penetration have contained the local and access revenue decline to 2.4 per cent for the first quarter of 2008, compared to the same period in 2007. This decline includes lower contribution and competitor network access payments. Excluding these reductions, local and access revenue would have declined 1.7 per cent in the first quarter of 2008, compared to the same period in 2007. Enhanced service features revenue increased 0.7 per cent in the first quarter of 2008, compared to the first quarter of 2007, due to price increases and higher penetration.

At March 31, 2008, the number of residential NAS customers was 4.1 per cent lower than at March 31, 2007, reflecting competitive losses, a reduction in second lines and the increasing adoption of wireless and Voice over Internet Protocol (VoIP) services. The number of business NAS customers at March 31, 2008, was 1.5 per cent lower than at March 31, 2007, reflecting competitive losses and the adoption of substitute services. The acquisition of KMTS on February 1, 2008, added

approximately 5,100 residential and 4,100 business NAS customers to our existing base as of that date.

Long distance

Long distance revenue, earned through toll and long distance terminating services, declined by 2.2 per cent in the first quarter of 2008, compared to the first quarter of 2007. Long distance minutes were 3.5 per cent lower in the first quarter of 2008, compared to the same period in 2007, due to competitive losses, substitution by cellular calling and IP-based services. Selected price increases and changes to plans offered to customers, particularly inside a bundled package, helped to mitigate some of the revenue decline during the quarter. Customers have been shifting away from rate-per-minute plans in favour of unlimited or large usage packages for a set monthly price.

Data and Internet

Data revenue is earned through data access, data circuits, high-speed and dial-up Internet service, managed services, and enhanced services and applications, such as security services, music download service and dial-up accelerator. Revenue from these services increased 3.9 per cent for the first quarter of 2008, compared to the same period in 2007. At March 31, 2008, our high-speed Internet customer base was 14.6 per cent higher than at March 31, 2007, with growth primarily in the residential market, including the addition of approximately 2,400 customers from KMTS. Marketing of higher value services to customers, selected price increases and minimizing promotional pricing in the period resulted in a residential high-speed Internet ARPC of \$35.10 during the first quarter of 2008, up from \$34.42 during the fourth quarter of 2007.

IT services and fulfillment revenue

IT services and fulfillment revenue is earned primarily by our xwave division through systems integration, software engineering, IT consulting, hardware and software fulfillment, as well as infrastructure services such as data centre, help desk, security and technical support services. IT services and fulfillment revenue grew 17.0 per cent in the first quarter of 2008, compared to the same period in 2007. IT services revenue grew 74.3 per cent, resulting from the recognition of current and previously deferred revenue associated with a new major healthcare IT project in Québec. Period over period growth has also been realized in each of the healthcare, defence and aerospace industry verticals. IT fulfillment revenue declined by 4.7 per cent in the first quarter of 2008, as the first quarter of 2007 experienced exceptionally strong sales.

Wireless

Wireless revenue is earned through the provision of cellular, paging and mobile radio services over the analog and digital wireless networks in the Télébec, NorthernTel and KMTS territories. Revenue increased by 22.6 per cent in the first quarter of 2008, compared to the first quarter of 2007. This was driven by a 23.0 per cent increase in cellular customers, including the addition of approximately 9,000 new customers from KMTS at the date of acquisition.

Other revenues

Other revenues consist of telecommunication hardware sets and accessories sales, knowledge management, terminal rentals and sales, PC sales, and revenue generated by our outsourcing arrangement with Bell Mobility. Other revenues decreased by 2.8 per cent in the first quarter of 2008, compared to the same period in 2007. Telecommunication hardware set revenue grew due to a mix of higher-priced units sold. However, this was offset by lower sales of other products as the first quarter of 2007 included a few significant one-time business product sales.

Expenses

Operating expenses

<i>For the three months ended March 31</i>			
<i>(millions of dollars)</i>	2008	2007	% change
Cost of sales	\$169.1	\$170.6	(0.9)
Salaries, benefits, contract labour and consulting	184.8	167.3	10.5
Selling, general and administrative	153.4	158.9	(3.5)
Capital taxes	3.0	5.1	(41.2)
Operating expenses	\$510.3	\$501.9	1.7

Operating expenses increased 1.7 per cent in the first quarter of 2008, compared to the corresponding period in 2007. Our productivity initiatives continued throughout the quarter and resulted in declines in our selling, general and administrative costs. The reduction in capital taxes is a result of a reduction in statutory provincial capital tax rates, the shifting of our capital

tax base to lower capital tax rate provinces and a reduction in our capital tax base compared to the same period in 2007.

Cost of sales declined 0.9 per cent when comparing activity in the first quarter of 2008 to the first quarter of 2007. Cost of sales are highly influenced by the level of IT fulfillment, telecommunications hardware sets and accessories and other product sales. The related decline in these revenue streams during the first quarter of 2008 drove a reduction in our costs of goods sold. Increased salaries, benefits, contract labour and consulting mainly represent annual wage increases, growth in IT services contract labour costs and an increase in outsourcing activity.

Net cost of benefit plans

Net cost of benefit plans declined by 15.9 per cent in the first quarter of 2008, mainly due to lower current service costs and lower amortization of actuarial losses, both of which resulted from an increase in the average rate used to discount our obligations in our defined benefit (DB) pension and other post-employment benefit (OPEB) plans to 5.5 per cent from 5.3 per cent in the prior year. Defined contribution pension costs were \$1.8 million in the first quarter of 2008, which is consistent with the same period in 2007.

Depreciation and amortization

The increase in depreciation and amortization was driven mainly by a \$3.4 billion increase in property, plant and equipment and finite-life intangibles in the second quarter of 2007 as a result of the finalization of the purchase price allocation related to the acquisitions of Bell Canada's wireline operation in Ontario and Québec and of Bell Nordiq Group Inc. (which formerly controlled Télébec and NorthernTel). In addition, we decreased the estimated useful life of certain telecommunications equipment during the fourth quarter of 2007.

Restructuring and other charges

We recorded restructuring charges and other charges during the first quarter of 2008 of \$0.1 million related to costs to advance the organization's productivity initiatives leading into 2008.

Other expense

During the first quarter of 2008, we recorded an \$11.2 million write-down of goodwill on Atlantic Mobility Products (AMP). Bell Canada had notified us that it will not be continuing to use AMP as its exclusive distributor of mobility handsets in Atlantic Canada and will begin transitioning this business away from AMP in July 2008, which will result in the loss of material future revenues to AMP. Although we expect that AMP's sales will decline as a result of the loss of this arrangement, we cannot predict the impact on our revenues or EBITDA for 2008. Refer to "Assumptions made in the preparation of forward-looking information" section for further discussion.

Interest charges

Interest charges of \$39.6 million for the first quarter of 2008 is virtually unchanged from the same period during 2007 despite a small increase in the average amount of debt outstanding due to lower average interest rates on debt refinanced during the prior year.

Income tax expense (recovery)

A portion of our income is earned through partnerships. The taxable income earned through partnerships is not subject to tax at the partnership level, but is allocated directly to the respective partners. The tax provision reported relates to our corporate subsidiaries that are subject to tax on their taxable income. Our effective tax rate for the first quarter of 2008 was 2.2 per cent of our pre-tax earnings, a significant increase from the effective tax recovery rate of 3.5 per cent for the same period in 2007. This increase in our overall effective tax rate results from an increase in future tax expense due to higher capital investment related deductions and higher deferral of income for tax purposes in the first quarter of 2008, compared to 2007, offset by a reduction in current tax expense in the first quarter of 2008 relating to the settlement of prior years' tax issues with Canada Revenue Agency.

Non-controlling interest

On January 1, 2008, the Fund's 36.7 per cent indirect interest in Télébec and NorthernTel was transferred to us in exchange for 8,246,429 class 2 limited partnership units. We now directly or indirectly own 100.0 per cent of Télébec and NorthernTel and thus the non-controlling interest recorded by us at December 31, 2007, related to this investment has been eliminated. For more information relating to the transfer of the Fund's indirect interest to us, refer to note 2 of our unaudited interim consolidated financial statements for the period ended March 31, 2008. Non-controlling interest at March 31, 2008, represents Bell Canada's 35.2 per cent interest in Bell Aliant LP. The per-unit distributions attributable and paid to Bell Canada are equal, to the greatest extent practicable, to per-unit distributions paid by the Fund to holders of Fund units. The non-controlling interest related to Bell Canada's interest in Bell Aliant LP is based on Bell Canada's pro-rata share of cash distributions from Bell Aliant LP each quarter.

During the first quarter of 2008, we recorded non-controlling interest in our earnings of \$36.4 million versus \$51.6 million for the corresponding period in 2007. Distributions declared by our subsidiaries to the non-controlling interest in the first quarter

of 2008 and the corresponding period in 2007 were \$51.8 million and \$59.9 million, respectively. This decline in distribution is due to the payment in January 2007 of the final December 2006 distribution by Télébec and NorthernTel to minority holders in Bell Nordiq Income Fund.

Net earnings from discontinued operations

Net earnings from discontinued operations in first quarter of 2007 reflect the results of Salesbridge Canada Corp., a subsidiary in which we own a 51.0 per cent interest and which is being wound up, and ADS which was sold in April 2007. No activity has occurred in discontinued operations during the three months ended March 31, 2008.

Selected quarterly financial information

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

For the eight quarters ended March 31, 2008 (millions of dollars, except per unit / share amounts)	2006			2007				2008
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Operating revenues	\$516.5	\$802.8	\$837.3	\$851.4	\$825.4	\$837.9	\$858.7	\$865.4
EBITDA ⁽¹⁾	\$216.0	\$355.6	\$363.9	\$349.5	\$358.1	\$372.4	\$370.2	\$355.1
Operating income ⁽¹⁾	\$91.7	\$184.4	\$185.9	\$171.6	\$55.8	\$142.3	\$145.7	\$155.7
Net earnings (loss):								
Continuing operations	\$47.9	\$2,930.1	(\$132.6)	\$83.0	\$44.9	\$72.7	\$118.1	\$64.3
Discontinued operations	5.3	5.5	5.6	5.5	260.3	0.5	(0.7)	-
Net earnings (loss)	\$53.2	\$2,935.6	(\$127.0)	\$88.5	\$305.2	\$73.2	\$117.4	\$64.3
Basic and diluted earnings per unit / share:								
Continuing operations	\$0.36	\$20.07	(\$0.87)	\$0.54	\$0.29	\$0.48	\$0.78	\$0.40
Discontinued operations	0.04	0.04	0.04	0.04	1.71	0.00	0.00	-
Basic and diluted earnings per unit / share	\$0.40	\$20.11	(\$0.83)	\$0.58	\$2.00	\$0.48	\$0.78	\$0.37
Distributable cash ⁽¹⁾	-	\$185.9	\$186.8	\$192.1	\$162.2	\$177.6	\$169.5	\$206.8
Cash distributions declared	-	\$141.0	\$153.8	\$166.2	\$163.5	\$161.3	\$160.1	\$162.8
Preferred share dividends declared	\$2.4	-	-	-	-	-	-	-
Common share dividends declared	\$39.5	-	-	-	-	-	-	-

⁽¹⁾ EBITDA, operating income and distributable cash are non-GAAP measures. Refer to the "Non-GAAP financial measures" section for more details.

The results for the second quarter of 2006 reflect the operations of Aliant prior to our reorganization to an income trust structure, and are not directly comparable to the subsequent seven quarters, which reflect the operations of Bell Aliant Holdings LP. The following significant transactions affected the 2006 quarterly results:

- The third quarter of 2006 represents the first reported results following completion of the Plan of Arrangement (the Arrangement) that created the Fund's income trust structure on July 7, 2006, and net earnings for the period reflect certain Arrangement transactions including a \$1.95 billion gain on the sale of Aliant's wireless operation and shares of DownEast Ltd., as well as a \$1.0 billion dilution gain that resulted from the Arrangement.
- In the fourth quarter of 2006, net earnings were negatively affected by future tax expense of \$225.1 million related to the third quarter gain on disposal of Aliant's wireless operation.

The quarterly operating results for 2007 reflect the following significant transactions and trends:

- We finalized the purchase price allocation related to the Arrangement in the second quarter of 2007, which led to an increase in depreciation and amortization of \$125.3 million, of which \$62.0 million related to the period from July 7, 2006, to December 31, 2006, and \$31.5 million related to the period from January 1, 2007, to March 31, 2007, and \$31.8 million related to the period from April 1, 2007 to June 30, 2007.
- We sold the net assets and operations of ADS in the second quarter of 2007, which generated \$258.2 million, representing our share of the after-tax gain, and was reflected in net earnings from discontinued operations.
- We commenced a restructuring program to advance the organization's productivity initiatives, the total cost of which was \$27.4 million for 2007. The third quarter results included \$20.8 million of restructuring and other charges with another \$5.2 million recorded in the fourth quarter.
- We recorded a pension valuation allowance of \$21.4 million in the fourth quarter of 2007 against an accounting surplus in one of our pension plans.

- We recorded a future tax recovery of \$43.6 million in the second quarter of 2007, mainly due to the effect of tax rate changes as well as the amortization of intangible assets acquired as part of the Arrangement, and a tax recovery of \$60.7 million in the fourth quarter, mainly related to the revaluation of net future tax assets and liabilities as a result of tax rate changes.

Details regarding our results for the first quarter of 2008 are discussed throughout this document. Further information on our quarterly results can be found in the respective quarterly financial statements and MD&As on our website at www.bell.aliant.ca, and as filed on SEDAR at www.sedar.com.

Financial and capital management

Summary of cash flows

<i>For the three months ended March 31</i> (millions of dollars)	2008	2007	% change
Cash from (used in):			
Operating activities	\$236.3	\$251.7	(6.1)
Financing activities	(150.8)	(33.7)	n.m.
Investing activities	(122.7)	(315.1)	(61.1)
Net decrease in cash from continuing operations	(\$37.2)	(\$97.1)	(61.7)
Net increase in cash from discontinued operations	-	4.8	n.m.
Net decrease in cash for the period	(\$37.2)	(\$92.3)	(59.7)

n.m. - not meaningful

We used net cash of \$37.2 million in the first quarter of 2008, compared to \$92.3 million in the first quarter of 2007.

Operating activities

Cash generated from operating activities decreased by \$15.4 million in the first quarter of 2008, compared to the same period in 2007, mainly due to decreased cash flow from changes in operating assets and liabilities (working capital) of \$24.0 million. In addition, we increased our funding of our DB pension and other OPEB plans by \$4.5 million. Partially offsetting this increased use of cash during the first quarter of 2008 was \$13.1 million additional cash generated in our net earnings.

The decrease in cash flow from working capital changes reflects normal growth in our accounts receivable balance, as a significant effort was made in 2007 to increase collection efforts to reduce the balance. Payables and accruals used more cash in the first quarter of 2008 primarily due to higher cash interest payments related to the timing of semi-annual coupon payments on long-term debt issued during the first quarter of 2007, and the payment of restructuring and other charges accrued at December 31, 2007.

Total funding of our DB pension plans for the first quarter of 2008 was \$25.9 million, compared to \$21.2 million for the same period in 2007. Included in the funding for the first quarter of 2008 is \$13.5 million for current service cost funding and \$12.4 million for special deficit-reducing payments, compared to \$12.7 million and \$8.5 million, respectively, in the first quarter of 2007. The increased funding of current service costs reflect the natural effects of a maturing workforce and general salary increases, offset slightly by retirements. Our special deficit-reducing payments in 2007 were net of the application of a higher amount of prior years' voluntary contributions.

We are in the process of updating the actuarial valuations of our pension plans as of December 31, 2007. We expect these to be completed and filed by the end of the second quarter of 2008, and we will adjust our contributions to the plans, if necessary, based on the valuation results.

Contributions to our OPEB plans were \$1.7 million in the first quarter of 2008, a slight decrease over the same period in 2007 due to the timing of benefit payments.

Financing activities

Cash used in financing activities increased by \$117.1 million during the first quarter of 2008, as compared to the same period in 2007, mainly due to \$100.5 million lower net proceeds from short-term and long-term debt financing activities in 2008. As well, in 2008 we repurchased \$55.0 million of our accounts receivable under our purchase and sale agreement with a securitization trust, which did not occur in 2007. In 2007, we paid cash of \$30.5 million to counterparties on the settlement of interest rate swaps with notional principal amounts totalling \$1.0 billion, which did not occur in 2008.

We had net proceeds of short-term debt of \$68.7 million in the first quarter of 2008, versus repayments of \$2.9 million during the comparative period in 2007. Most of this short-term borrowing was used to repurchase the \$55.0 million of securitized accounts receivable, with the remainder used to finance working capital changes. In the first quarter of 2007, proceeds of long-term debt net of repayments was \$169.4 million as we refinanced a portion of our non-revolving credit facilities and commercial paper with medium-term notes. Cash used in the first quarter of 2008 reflects \$2.7 million in scheduled long-term debt repayments.

Total distributions paid to the Fund and non-controlling interests for the first quarter of 2008, and for the corresponding period in 2007, were \$161.0 million and \$166.1 million, respectively. The quarter-over-quarter decrease is due mainly to the final distribution paid by Télébec and NorthernTel to the minority holders in Bell Nordiq Income Fund, which occurred in January 2007. Distributions paid to the Fund in the first quarter of 2008 are just slightly below those paid in the same period in 2007. Our distributions are determined based on what the Fund requires to make its distributions. Although the monthly Fund distribution rate increased, the Fund required less total cash for its distributions due there being fewer average Fund units outstanding as a result of the NCIB completed during 2007.

Investing activities

Cash used in investing activities decreased by \$192.4 million in the first quarter of 2008, compared to the first quarter of 2007, primarily due to the issuance of \$200.9 million of notes receivable to the Fund during the first quarter of 2007 to finance the Fund's NCIB. In addition, the purchase of the KMTS assets and operations in February 2008 required \$27.6 million in cash. As discussed in the "Distributable Cash" section, capital expenditures declined by \$20.2 million for the first quarter of 2008, compared to the same period in 2007.

Liquidity

Sources of liquidity

We derive most of our liquidity from our recurring cash from operating activities, as well as bank credit facilities, a medium-term note shelf prospectus, a commercial paper program, and our accounts receivable securitization program. We anticipate generating enough cash from our operating activities to pay for capital investments, distributions, pension plan funding and other commitments. Despite the difficulties experienced in credit markets since the third quarter of 2007, we continue to have access to bank financing and our accounts receivable securitization program. After a brief disruption in the latter part of 2007, we began issuing commercial paper again during the first quarter of 2008. Among other measures, we mitigate capital market risks by diversifying funding sources, maintaining sufficient capacity on our back-up bank lines of credit and diversifying our pension plan investments. We have not experienced any material adverse consequences from recent market events.

Our capital structure is as follows:

<i>(millions of dollars, except as otherwise noted)</i>	March 31, 2008		December 31, 2007	
Partners' equity	\$4,979.4	52.1%	\$4,516.4	49.7%
Non-controlling interest	1,725.2	18.1%	1,829.6	20.1%
Net debt	2,848.8	29.8%	2,744.1	30.2%
Total capital	\$9,553.4	100.0%	\$9,090.1	100.0%

Partners' capital

We have an unlimited number authorized of each of the three classes of units and the number of units issued and outstanding at March 31, 2008, is as follows:

- 28,168,803 class 1 exchangeable limited partnership units;
- 132,367,606 class 2 limited partnership units; and
- 54,000 general partnership units.

Our units are not publicly traded. On January 1, 2008, we transferred 8,246,429 class 2 limited partnership units to the Fund in exchange for its 36.7 per cent indirect interest in Télébec and NorthernTel. For further details on the terms and conditions associated with our units, refer to note 16 of our audited consolidated financial statements for the year ended December 31, 2007.

Debt

We have a \$3.0 billion medium-term note shelf prospectus that expires in October 2008, under which we have issued \$2.25 billion in medium-term notes. We have \$100.0 million drawn under our non-revolving term bank facility, which expires in July 2009. We also have \$754.0 million in various short-term operating and letter of credit facilities, under which \$70.0 million was

drawn on our revolving bank credit facility, \$1.4 million was drawn on other lines of credit and \$166.3 million was issued in letters of credit and guarantees (off balance-sheet) as at March 31, 2008. Our operating bank facilities have various terms, but the majority expire in July 2011.

We maintain a \$400.0 million commercial paper program, supported by unused capacity on our bank facilities. As at March 31, 2008, we had \$214.0 million issued under our commercial paper program and have used the proceeds to reduce bank borrowing and repurchase our securitized accounts receivable.

As market conditions permit, we still anticipate being able to refinance the majority of these short-term borrowings and a \$50.0 million Télébec debenture maturing in June 2008 with either bank financing or capital market issuances within the next year.

We also have a \$450.0 million non-revolving pension reserve bank facility that may be used to finance pension deficit funding. At March 31, 2008, there were no amounts drawn on this facility, but we have reduced its capacity by \$35.2 million with the issuance of letters of credit to support our application of federal 10-year solvency funding relief regulations.

Our credit facilities contain customary covenants and provisions that could trigger an event of default. Continued access to our credit facilities under normal operating conditions is not contingent on the maintenance of a specific credit rating. However, the applicability of certain covenants is tied to maintaining investment grade credit ratings. For example, we would have a new financial ratio covenant to comply with and could be forced to restrict distributions if we were downgraded below an 'investment grade' rating (generally below the 'BBB' level). Also, there may be a 'change of control' event of default if someone other than BCE or Bell Canada obtains control of us and our credit ratings are downgraded to below investment grade.

Further details of our long-term debt can be found in note 13 to our audited consolidated financial statements for the year ended December 31, 2007.

Cash requirements

We require a significant amount of cash to execute our business strategy. Our cash requirements for 2008 consist of distributions to unitholders, investments in capital, pension plan funding, repayment of short and long-term debt, and payments of other commitments. Specifically, it is anticipated that these requirements will result in the use of cash as follows:

- The annual rate of distributions to holders of Fund units as at December 31, 2007, was \$2.82 per unit. On February 5, 2008, the Fund announced an increase in the annual rate of distributions to holders of Fund units to \$2.90 per unit, commencing with the payment of the February 2008 distribution. Fund distributions are approved monthly at the discretion of the Fund trustees. The Fund is entirely dependent upon distributions from us to make its distributions. The annual cash requirement to make distributions to Fund unitholders and pro-rata distributions to BCE and Bell Canada on exchangeable limited partnership units is estimated to be in the range of \$655 to \$660 million for 2008.
- Capital expenditures in the range of 14.5 to 15.5 per cent of operating revenues will be made as required to support our existing infrastructure and to advance our initiatives.
- Funding of our DB pension plans' deficits in 2008 is estimated to be in the range of \$50 to \$60 million, net of application of prior years' voluntary contributions and after application of 10-year solvency funding schedules for eligible plans.
- We are required to repay short and long-term debt according to its terms. We intend to refinance much of this debt as it comes due, as discussed in the "Liquidity" section.

Other financial arrangements

Contractual obligations

We have various operating leases for equipment and other network infrastructure, and purchase commitments under various service and commercial agreements, including our commercial agreements with Bell Canada. Further details of these commitments are described in note 13 to our unaudited interim consolidated financial statements for the period ended March 31, 2008.

Accounts receivable securitization

Under a revolving purchase and sale agreement, we sell certain accounts receivable to a securitization trust. Under this agreement, we repurchased \$55.0 million of accounts receivable from the securitization trust during the first quarter of 2008 and received net cash proceeds of \$165.0 million as at March 31, 2008.

Further details of this arrangement is described in notes 1 and 3 to our audited consolidated financial statements for the year ended December 31, 2007, and in note 3 to our unaudited interim consolidated financial statements for the period ended March 31, 2008.

Use of derivative financial instruments

We use derivative financial instruments periodically in the management of interest rate and foreign currency exposures associated with our long-term debt and specific firm commitments. Details of our use of derivative financial instruments and the accounting policies we follow are provided in notes 1 and 14 to our audited consolidated financial statements for the year ended December 31, 2007, and in note 9 to our unaudited interim consolidated financial statements for the period ended March 31, 2008. At March 31, 2008, we had outstanding fixed-floating interest rate swap contracts with notional values totalling \$200.0 million. These swap contracts are being accounted for as hedges of a portion of our floating-rate debt.

Related party transactions

Our significant related parties continue to be BCE, Bell Canada and the Fund. For greater detail on our related party transactions and our relationship with BCE and Bell Canada, refer to note 23 to our audited consolidated financial statements for the year ended December 31, 2007, and to note 15 of our unaudited interim consolidated financial statements for the period ending March 31, 2008.

Significant accounting policies

Our accounting policies and methods and critical accounting estimates and assumptions are consistent with those as described in note 1 to our audited consolidated financial statements for the year ended December 31, 2007, with the exception of the adoption on January 1, 2008, of new accounting policies under CICA Handbook Section 1535, Capital Disclosures, and Section 3031, Inventories.

Capital disclosures

Commencing January 1, 2008, we adopted Section 1535, Capital Disclosures, which establishes standards for disclosing qualitative and quantitative information about an entity's capital and how it is managed.

Inventories

Commencing January 1, 2008, we adopted Section 3031, Inventories, which establishes new standards for the measurement, recognition and disclosure of inventories. There were no material effects as a result of this change.

Other than as described above, there were no changes in accounting standards or guidelines which have resulted in changes to our accounting policies and methods in the first quarter of 2008.

The Accounting Standards Board of the CICA continually amends and improves certain standards or guidelines contained in the CICA Handbook. We monitor these changes as they are proposed and will make changes to our accounting policies and disclosures as necessary. Effective January 1, 2011, International Financial Reporting Standards will replace Canadian GAAP. The Accounting Standards Board has released an exposure draft that outlines the standards. We are currently assessing the effect that this transition will have on our operations and financial reporting.

Assumptions made in the preparation of forward-looking information and risks that could affect our business and results

Assumptions made in the preparation of forward-looking information

Forward-looking statements made in our MD&A for the year ended December 31, 2007, and in this MD&A are based on a number of assumptions that we believed were reasonable on the day we made the forward-looking statements. In our MD&A for the year ended December 31, 2007, we outlined the principal assumptions that we made in the preparation of our forward-looking statements relating to our expected financial and operational performance in 2008. These assumptions include economic, market, financial and operational assumptions, and except as outlined below, have not changed significantly during the first quarter of 2008, or up to May 6, 2008.

As mentioned in the "Other expenses" section, Bell Canada notified us that it will not be continuing to use AMP as its exclusive distributor of mobility handsets in Atlantic Canada and will begin transitioning this business away from AMP in July 2008. Although we expect that AMP's sales will decline as a result of the loss of this arrangement, we cannot predict the impact on our revenues or EBITDA for 2008. It is also possible that, as a result of the loss of this arrangement, it may become necessary to treat AMP as a discontinued operation for accounting purposes. If this occurs, accounting standards require that the operating revenues and expenses contributed by AMP to our consolidated results be combined and classified in our financial statements as net earnings from discontinued operations. This may have an impact on our 2008 Guidance as the anticipated operating revenues stated in that guidance is based on AMP's operating revenue being included in our

consolidated operating revenues, which would no longer be the case if AMP is treated as a discontinued operation for accounting purposes. Should we commence treatment as discontinued operations, at that point, all prior and future operating revenues and expenses generated by AMP will be reclassified as net earnings from discontinued operations.

Risk management

Risk management is fundamental to the long-term success of any organization. For us, risk is defined as the level of exposure to uncertainties that the enterprise must understand and effectively manage as we execute our strategies to achieve our business objectives and create value for our unitholders. We employ an integrated, enterprise-wide framework to identify, assess and manage the risks across the organization.

We recognize that we are exposed to a number of risks in the normal course of business that could have a negative effect on our financial condition or results of operations. Refer to our MD&A for the year ended December 31, 2007, and our 2007 Annual Information Form, for a list of significant risks to which we believe we are exposed. The risks noted may not be exhaustive as there may be other risks that we are currently unaware of or that we presently consider insignificant to our consolidated operations.

During the first quarter of 2008, we have not identified significant changes to the nature of the risks that we are exposed to in our current business, as described in our MD&A for the year ended December 31, 2007, and our 2007 Annual Information Form. We have provided updates to our regulatory and competitive environments in the "Our business environment" section.

Internal controls over financial reporting

Management has designed internal controls over financial reporting (as defined in Canadian Securities Administrators' Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

There have been no changes in our internal controls over financial reporting during the three months ended March 31, 2008, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Non-GAAP financial measures

The terms operating income, EBITDA, standardized distributable cash and distributable cash do not have any standardized meanings prescribed by Canadian GAAP. They are therefore unlikely to be comparable to similar measures presented by other reporting issuers. Operating income, EBITDA, standardized distributable cash and distributable cash are presented on a consistent basis from period to period.

Operating income

Operating income represents operating revenues less expenses. We use operating income, among other measures, to assess the operating performance of our ongoing business.

The following table provides a reconciliation of operating revenues and expenses to operating income on a consolidated basis.

<i>For the three months ended March 31</i> <i>(millions of dollars)</i>	2008	2007
Operating revenues	\$865.4	\$851.4
Expenses	709.7	679.8
Operating income	\$155.7	\$171.6

Operating income allows us to compare our operating performance on a consistent basis. We believe that certain investors and analysts use operating income to measure our ability to grow, or as a common valuation measurement in the telecommunications industry.

Operating income should not be confused with operating revenues or expenses, which are the most comparable Canadian GAAP financial measures.

EBITDA

We define EBITDA as operating revenues less operating expenses, which means it represents operating income before depreciation and amortization expense, net cost of benefit plans, and restructuring and other charges. Operating income is calculated before interest and taxes are deducted.

The following table provides a reconciliation of operating income to EBITDA on a consolidated basis.

<i>For the three months ended March 31</i>		
<i>(millions of dollars)</i>	2008	2007
Operating income	\$155.7	\$171.6
Add: Net cost of benefit plans	24.8	29.5
Depreciation and amortization	174.5	147.9
Restructuring and other charges	0.1	0.5
EBITDA	\$355.1	\$349.5

We use EBITDA, among other measures, to assess the operating performance of our ongoing business without the effects of interest, taxes, depreciation and amortization expense, net cost of benefit plans, and restructuring and other charges. We exclude depreciation and amortization expense and net cost of benefit plans because they largely depend on the accounting methods and assumptions a company uses, as well as non-operating factors, such as the historical cost of capital investments and the performance of a company's pension plan assets. We exclude these items because they affect the comparability of our financial results and could potentially distort the analysis of trends in business performance.

EBITDA allows us to compare our operating performance on a consistent basis. We believe that certain investors and analysts use this measure to assess our ability to service debt, make distributions to unitholders and to meet other payment obligations, and as a common valuation measurement in the telecommunications industry.

EBITDA should not be confused with operating revenues or expenses, which are the most comparable Canadian GAAP measures.

Standardized distributable cash and distributable cash

Standardized distributable cash and distributable cash are both measures of cash generated from operating activities that may be available for distribution. We calculate standardized distributable cash from a cash flow perspective following CICA guidance, which uses cash from operating activities and adds or deducts the following items that affect cash flow:

- (i) Cash from operating activities of discontinued operations and the Fund, as this represents operating cash from activities other than our continuing operations which is available for distribution;
- (ii) The amount of standardized distributable cash that would be attributable to the minority interest in controlled subsidiaries (i.e., Télébec and NorthernTel prior to January 2007) as this represents cash which is not available for distribution; and
- (iii) Capital expenditures.

CICA guidance on the calculation of standardized distributable cash measures would also include deductions related to any restrictions imposed on the amount of cash distributions as a result of compliance with financial covenants restrictions at the date of calculation. Our credit agreements only impose a restriction that distributions cannot exceed distributable cash over the last year if our credit ratings fall below investment grade. Since our ratings are within the investment grade categories, we are under no such restrictions.

We further adjust standardized distributable cash by the following items to determine our distributable cash:

- (i) Operating items funded through cash reserves or borrowings, such as changes in operating assets and liabilities (working capital), pension deficit funding, restructuring and other charges, and cash capital taxes in excess of normalized levels;
- (ii) Current income tax provisions (recoveries) are added back (deducted) as we have tax strategies in place to ensure that they are not payable (receivable) in cash; and
- (iii) Other elements of working capital changes that should not result in actual current or future cash flows.

All of these adjustments to determine standardized distributable cash and distributable cash can be found in our consolidated financial statements or records or the Fund's consolidated financial statements or records, with the exception of the normalization of cash capital taxes. This adjustment is a calculation where some management judgment is exercised in estimating the level of capital taxes that we will pay when future tax rate changes come into effect. We have assumed a stable capital base and the future enactment of all previously announced provincial capital tax rate reductions or eliminations by the provinces of Ontario, Québec, New Brunswick and Nova Scotia. At this point, all of these provinces have announced phased elimination of capital taxes in prior budgets; therefore beginning with the third quarter of 2007, our determination of distributable cash includes no cash capital taxes. The actual tax rates may differ materially as they are subject to future

enacted tax laws.

The following table provides a reconciliation of cash from operating activities to standardized distributable cash and distributable cash.

<i>For the three months ended March 31</i>		
<i>(millions of dollars)</i>	2008	2007
Cash from operating activities	\$236.3	\$251.7
Add (deduct):		
Cash from operating activities of discontinued operations	-	8.9
Cash from operating activities of the Fund	(0.2)	(0.5)
Capital expenditures	(95.1)	(115.3)
Standardized distributable cash	141.0	144.8
Add (deduct):		
Operating items funded through cash reserves or borrowing:		
Change in operating assets and liabilities (working capital)	50.7	26.7
Change in operating assets and liabilities (working capital) of the Fund	(0.9)	(1.5)
Pension deficit funding	12.4	8.5
Restructuring and other charges	0.1	0.5
Cash capital taxes in excess of normalized levels	3.0	3.4
Other adjustments:		
Current income tax (expense) recovery	(3.9)	5.6
Other non-cash items provided for in working capital changes	4.4	4.1
Distributable cash	\$206.8	\$192.1

The calculation of standardized distributable cash and distributable cash has been prepared using reasonable and supportable assumptions, all of which reflect our planned courses of action given management's judgement about the most probable set of economic conditions. Actual results may vary, perhaps materially, from the forward-looking assumptions used.

One of the primary metrics of our financial performance is distributable cash generated in a period. We use distributable cash, among other measures, to assess the financial performance of our ongoing business. We report standardized distributable cash to meet compliance with the new CICA guidance for income trusts and other flow-through entities. These measures should not be seen as measures of liquidity or as substitutes for comparable metrics prepared in accordance with Canadian GAAP. We believe that certain investors and analysts use distributable cash to assess our ability and that of the Fund to generate a sustainable return for unitholders. Standardized distributable cash and distributable cash should not be confused with cash from operating activities, which is the most comparable Canadian GAAP financial measure.