

First quarter report 2009

**Bell**Aliant

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**Bell Aliant Regional Communications Income Fund**

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## News Release

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### Bell Aliant reports solid first quarter 2009 results

Halifax, NS – Wednesday, May 06, 2009 – Bell Aliant Regional Communications Income Fund (Bell Aliant or the Fund) (TSX: BA.UN) today reported the Fund's and Bell Aliant Holdings LP's first quarter 2009 financial results, demonstrating continued solid performance.

"We are making good progress on our 2009 strategy and despite the economic downturn, our results for the quarter are solid and well in-line with our expectations," said Karen Sheriff, President and Chief Executive Officer. "We are continuing to invest in broadband expansion and increasing our high-speed customer base. With the completion of a significant management restructuring in mid February, we are resetting our cost structure and beginning to see operational and financial benefits. We expect that this along with our streamlined capital spending plan will support cash flow growth as we move forward."

"The execution of our strategy is well underway. Service to our customers continues to improve and we have taken steps to simplify and strengthen our brand presence. We are introducing Bell Aliant as our market-facing brand in Atlantic Canada. In Ontario and Quebec, we will continue to leverage our existing brands while building a closer linkage to the Bell Aliant brand," said Sheriff.

### Bell Aliant Holdings LP's first quarter financial highlights

(In millions of dollars)	Q1 2009	Q1 2008	Percentage Change
Operating Revenue	828	838	(1.2) %
EBITDA	356	353	0.7 %
Capital Expenditures	107	95	13.0 %
Distributable Cash	197	207	(5.0) %

Operating revenues were down \$10 million or 1.2 per cent in the first quarter of 2009 compared to the first quarter of 2008. Local, long distance, and other revenue declines more than offset increases in Internet and Information Technology (IT) revenues.

Internet revenue grew by \$10 million or 10.8 per cent in the first quarter of 2009, compared to the same period in 2008, with the number of high-speed Internet customers 8.6 per cent higher than a year ago, and residential high-speed Internet average revenue per customer (ARPC) 5.3 per cent higher than the same quarter in 2008.

IT revenue grew \$9 million or 8.6 per cent from the same period last year, with IT equipment sales growth of \$21 million offsetting declines in IT services revenues, resulting from the recognition of deferred revenues for a significant health care project in the first quarter of 2008.

Local service and long distance revenue declined by \$9 million (2.5 per cent) and \$7 million (5.9 per cent), respectively, in the first quarter of 2009 compared to the same quarter in 2008, with network access services (NAS) 3.9 per cent lower than a year ago. After adjusting for the NAS added through the acquisition of the assets of Kenora Municipal Telephone Services (KMTS) in the first quarter of 2008, NAS declines in the first quarter of 2009 increased modestly, by approximately 6,000, from the same period a year earlier, in line with management's expectations discussed in early February.

Other revenues declined \$12 million or 20.4 per cent from the same quarter in 2008, primarily as a result of lower outsourcing and other miscellaneous revenues.

EBITDA in the quarter increased by \$2 million from the same quarter a year earlier, as operating revenue declines were offset by labour-related cost reductions and other cost containment initiatives. EBITDA margin improved to 43.0 per cent, up from 42.2 per cent from the same quarter in 2008.

Capital expenditures in the first quarter of 2009 were \$107 million, up \$12 million (13 per cent) from the same quarter a year ago, driven by the previously announced network enhancements to provide upgraded wireless backhaul functionality for Bell Mobility that began in the fourth quarter of 2008. Capital intensity for the first quarter of 2009 was 13.0 per cent, below the low end of Bell Aliant's 2009 annual guidance of 13.5 – 14.5 per cent, as the first quarter reflected typical seasonality associated with capital spending.

Distributable cash decreased \$10 million (5.0 per cent) in the first quarter of 2009 from the same period in 2008, primarily as a result of higher capital spending as compared to the same period last year. Expected improvements in operating costs as restructuring plans are completed, and lower planned capital spending for the balance of 2009 as compared to 2008, are expected to result in increased distributable cash in 2009 from 2008 levels, consistent with Bell Aliant's 2009 guidance range.

The Fund maintained its distributions to unitholders and reported distributions of \$92 million or \$0.725 per unit for the quarter ended March 31, 2009.

On April 28, 2009 Bell Aliant LP filed a short form base shelf prospectus, allowing for the issuance of up to \$1.5 billion of medium term notes, with maturities of not less than one year. The prospectus expires 25 months from the date of filing. Any notes issued will be unsecured, will rank *pari passu* with all other unsecured and unsubordinated indebtedness incurred by Bell Aliant LP and will be issued at rates of interest or at prices determined by Bell Aliant LP from time to time based on a number of factors, including general market conditions.

On May 1, 2009, CAE and Bell Aliant announced that CAE's acquisition of Bell Aliant's Defence, Security and Aerospace (DSA) business unit, operated by the xwave division of Bell Aliant Regional Communications LP, had been completed with proceeds of \$16 million received on closing. An additional \$8.5 million of proceeds is contingent upon the satisfaction of various conditions.

#### **Analyst conference call**

A conference call to discuss first quarter results with the financial community was held on Thursday, May 7, 2009. A replay of the conference call will be available on our website, [www.bellaliant.ca](http://www.bellaliant.ca), for one year.

#### **Notes**

The information contained in this news release is unaudited.

- (1) Bell Aliant derives virtually all of its income from its indirect ownership in Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP). Bell Aliant Holdings LP's results combine the results of Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Télébec, Limited Partnership (Télébec) and NorthernTel, Limited Partnership (NorthernTel).
- (2) On February 1, 2008, Bell Aliant Holdings LP completed the acquisition of the assets and operations of Kenora Municipal Telephone System (KMTS). Bell Aliant Holdings LP's financial results and subscriber metrics include KMTS data from that date onward.
- (3) Percentage changes quoted in this release related to dollar values are based on amounts rounded to the nearest hundred-thousand, consistent with disclosure in the Fund's and Bell Aliant Holdings LP's management's discussion and analysis and supplementary information package. Dollar values quoted in this release are rounded to the nearest million unless otherwise stated.

- (4) Bell Aliant Holdings LP defines EBITDA, a non-GAAP measure, as operating revenue less expenses (earnings) before interest, income taxes, depreciation and amortization expense, net benefit plans cost, and restructuring and other charges. For a reconciliation of EBITDA to the most closely comparable GAAP measure, please refer to Bell Aliant Holdings LP's management's discussion and analysis for the first quarter of 2009.
- (5) Bell Aliant defines EBITDA margin, a non-GAAP measure, as EBITDA as a percentage of operating revenue.
- (6) Bell Aliant defines capital intensity as capital expenditures as a percentage of operating revenue.
- (7) Bell Aliant defines distributable cash, a non-GAAP measure, as cash from operating activities of continuing and discontinued operations of Bell Aliant Holdings LP and of the Fund, plus operating items funded through cash reserves or borrowings, such as working capital, pension deficit funding, restructuring and other charges and cash capital taxes in excess of normalized levels, plus amounts for current income tax provisions plus other elements of working capital changes that do not affect cash flow, less capital expenditures. For a reconciliation of EBITDA to the most closely comparable GAAP measure, please refer to Bell Aliant Holdings LP's management's discussion and analysis for the first quarter of 2009.

#### **Forward-looking statements**

This news release contains forward-looking statements concerning anticipated future events, results, circumstances or expectations, including statements relating to operating expense reductions, broadband expansion and increasing high-speed customer base, strengthening brand presence, cash flow and distributable cash growth, and capital expenditure plans. Unless otherwise noted, such statements describe management's expectations at May 6, 2009. These statements are based on management's beliefs regarding future events, and are subject to inherent risks and uncertainties that are beyond management's control. Therefore, actual results may differ materially from what is predicted. Assumptions made and risk factors considered in preparing our forward-looking statements are discussed in detail in Bell Aliant's fourth quarter 2008 earnings and 2009 guidance news release dated February 2, 2009, as well as in the Fund's and Bell Aliant Holdings LP's 2008 annual management's discussion and analysis (MD&A) and annual information forms, and their first quarter 2009 MD&As, which are available at [www.bellaliant.ca](http://www.bellaliant.ca) or at [www.sedar.com](http://www.sedar.com). All forward-looking statements in this news release are qualified by these cautionary statements, and there can be no assurance that the results or events predicted will be realized. Except as may be required by Canadian securities laws, Bell Aliant disclaims any intention and assumes 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.

#### **About Bell Aliant**

Bell Aliant (TSX: BA.UN) is one of North America's largest regional communications providers. Through its operating entities it serves customers in six Canadian provinces with innovative information, communication and technology services including voice, data, Internet, video and value-added business solutions. Through its xwave offices, Bell Aliant also provides IT professional services in Canada and the US. Bell Aliant's employees are committed to deliver the highest quality of customer service, choice and convenience. More information can be found at [www.bellaliant.ca](http://www.bellaliant.ca).



## **Bell Aliant Regional Communications Income Fund**

### **Management's Discussion and Analysis**

### **First Quarter 2009**

*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, 2009, compared to the corresponding period in 2008. This MD&A should be read together with our unaudited interim consolidated financial statements and accompanying notes for the period ended March 31, 2009, and our audited consolidated financial statements and accompanying notes, for the year ended December 31, 2008, 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 stated.*

*Throughout this document, unless otherwise specified or the context otherwise indicates, "we", "us", "our" and the "Fund" refer to Bell Aliant Regional Communications Income Fund and its subsidiaries. References to Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP) include that entity and its subsidiaries.*

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

#### **Forward-looking information**

*This MD&A is dated May 6, 2009, and is current to that date unless otherwise stated. It contains forward-looking information related to our future financial condition and results of operations. The purpose of this forward-looking information is to provide the reader with information about our expectations and plans for 2009 or other future periods. Readers are cautioned that such information may not be appropriate for other purposes. This information is based on our current expectations and estimates about the markets in which we and Bell Aliant Holdings LP operate and our beliefs and assumptions regarding these markets. Unless otherwise indicated, forward-looking information in this MD&A describes our expectations at May 6, 2009. 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 risk factors which could cause results or events to differ materially from current expectations include but are not limited to: our dependence on Bell Aliant Holdings LP, and therefore all of the risks and uncertainties to which its operations are subject; stock market volatility; market or business conditions; changing laws and regulations; unpredictability and volatility of our unit price; the nature of Fund units; limitation on non-resident ownership; dilution through issuance of additional units; and changing taxation rules for income trusts. Some of these risk factors are largely beyond our control. Refer to the "Risk management" section of this MD&A for further discussion of these and other risk factors. Should any risk factor affect us in an unexpected manner, or should assumptions underlying the forward-looking information prove incorrect, the actual results or events may differ materially from the results or events predicted. Unless otherwise indicated, forward-looking information does not take into account the effect that transactions or non-recurring or other special items announced or occurring after this information is provided may have on our business. All of the forward-looking information reflected in this document and the documents referred to within are qualified by these*

*cautionary statements. There can be no assurance that the results or developments anticipated will be realized or, even if substantially realized, that they will have the expected consequences for us. Except as may be required by Canadian securities laws, we disclaim any intention and assume no obligation to update or revise any forward-looking information, even if new information becomes available, as a result of future events or for any other reason. Readers should not place undue reliance on any forward-looking information.*

*See also the “Forward-looking information” section of our news release dated February 2, 2009, relating to 2008 earnings results and 2009 financial guidance for the Fund and Bell Aliant Holdings LP, which is available at [www.bell.aliant.ca](http://www.bell.aliant.ca) as well as [www.sedar.com](http://www.sedar.com).*

## **Our business**

We are an unincorporated, open-ended, limited purpose trust governed by the laws of the Province of Ontario. We hold investments in subsidiaries that operate one of the largest regionally focused telecommunications service providers in North America.

We indirectly own an 82.5 per cent interest in Bell Aliant Holdings LP, which in turn consolidates the financial results of Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Télébec, Limited Partnership (Télébec) and NorthernTel, Limited Partnership (NorthernTel). We account for this investment on an equity basis as we exercise significant influence over the operating, investing and financial policies of this entity, but we do not control it. BCE Inc. (BCE) and Bell Canada own the remaining 17.5 per cent interest in Bell Aliant Holdings LP. Bell Canada also owns a 37.9 per cent interest in Bell Aliant LP (34.7 per cent on a proportionate cash distribution basis). These interests are exchangeable into Fund units, which give BCE an effective 44.1 per cent combined interest in us on a fully-diluted basis. Under a Securityholders’ Agreement, BCE has certain governance rights that give it control over Bell Aliant Holdings LP so long as its fully diluted Fund ownership interest is 30.0 per cent or greater and certain commercial agreements are in place with Bell Aliant LP.

We are economically dependent on our significant equity investee, Bell Aliant Holdings LP. As we are affected by the events and transactions, financial and capital management, and risks and uncertainties of Bell Aliant Holdings LP, these factors could materially influence the distributions we receive from them, and in turn, our ability to pay distributions. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes, and MD&A of Bell Aliant Holdings LP for the three month period ended March 31, 2009.

### *Planning for future changes in taxation*

As discussed in our MD&A for the year ended December 31, 2008, as a result of the federal government’s October 2006 announced changes to income tax legislation, starting January 1, 2011, the Fund will be taxed as if it were a corporation. During 2008, the Department of Finance released proposed amendments to the Income Tax Act (Canada) to facilitate the conversion of existing income trusts, such as us, into corporations on a tax-deferred basis (Conversion Rules). These Conversion Rules were enacted into law on March 12, 2009. At this point, we anticipate that we will recommend a conversion transaction to our unitholders to be effective on or by January 1, 2011, and we are carefully considering our particular circumstances and the alternatives available to us in order to determine how best to structure the conversion into a corporation. At this time, we are forecasting that we will have sufficient tax shelter to defer incurring an income tax liability for at least 18 months and as much as 24 months after conversion to a corporation. We are also continuing to investigate strategies and options that could mitigate the effect that the eventual payment of income taxes will have on the distributions that we pay to our unitholders.

## Summary of results

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

For the eight quarters ended March 31, 2009 (millions of dollars, except per unit amounts)	2009	2008				2007		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Equity income from investments and other revenues	\$66.4	\$66.0	\$76.2	\$69.4	\$44.1	\$106.8	\$69.9	\$48.7
Net earnings from continuing operations	65.4	65.5	74.7	68.5	43.0	105.6	68.8	45.5
Net earnings (loss) from discontinued operations	0.6	0.1	0.3	(0.7)	-	(0.5)	0.4	204.5
Net earnings	\$66.0	\$65.6	\$75.0	\$67.8	\$43.0	\$105.1	\$69.2	\$250.0
Basic earnings per unit from continuing operations	\$0.51	\$ 0.51	\$ 0.59	\$ 0.54	\$0.34	\$ 0.82	\$ 0.53	\$ 0.34
Basic earnings (loss) per unit from discontinued operations	0.01	\$ 0.01	\$ -	\$ (0.01)	-	-	0.01	1.53
Basic earnings per unit	\$0.52	\$0.52	\$0.59	\$0.53	\$0.34	\$0.82	\$0.54	\$1.87
Diluted earnings per unit from continuing operations	\$0.51	\$ 0.41	\$ 0.58	\$ 0.54	\$0.34	\$ 0.72	\$0.49	\$ 0.25
Diluted earnings (loss) per unit from discontinued operations	-	\$ 0.01	\$ -	(0.01)	-	-	-	1.08
Diluted earnings per unit	\$0.51	\$0.42	\$0.58	\$0.53	\$0.34	\$0.72	\$0.49	\$1.33
Distributions declared	\$92.1	\$92.1	\$92.1	\$92.1	\$91.2	\$89.5	\$90.5	\$92.9

### Net earnings

Net earnings mainly represent equity income from our indirect ownership in the earnings of our investments, increased (decreased) for future tax recovery (expense) related to our proportionate share of temporary differences between the carrying amounts of assets and liabilities reported on the balance sheets of our subsidiaries and their corresponding tax values. Net earnings also include a small amount of interest income earned on cash and cash equivalents and operating expenses. Our net earnings are substantially dependent upon the results of operations of our equity investments. The financial performance of Bell Aliant Holdings LP for the three month period ended March 31, 2009, compared to the same period in 2008, is discussed in its first quarter 2009 MD&A.

Net earnings from continuing operations for the first quarter of 2009 increased \$22.4 million, or 52.1 per cent, from the first quarter of 2008. Our equity income from Bell Aliant Holdings LP in the first quarter of 2009 increased by \$22.3 million, or 50.6 per cent, from the first quarter of 2008 primarily due to an increase in net earnings of that investment. Offsetting this was a decrease of \$10.0 million in future taxes as the first quarter of 2008 had a \$9.4 million recovery relating to temporary differences that are expected to reverse after January 1, 2011, versus a \$0.6 million expense in the first quarter of 2009. In addition, there was a \$14.0 reduction in equity income in the first quarter of 2008 related to a notional depreciation and amortization adjustment that wasn't repeated in 2009.

Net earnings from discontinued operations for the first quarter of 2009 include our proportionate share of the results of operations of Bell Aliant Holdings LP's defence, security and aerospace (DSA) business.

### Distributions declared

During the first quarter of 2009, we declared distributions of \$92.1 million, or \$0.725 per unit, compared to \$91.2 million, or \$0.718 per unit, in the first quarter of 2008. The increase is a result of a slightly higher number of Fund units outstanding, as well as a 2.8 per cent increase in our monthly distribution rate which commenced in February 2008.

We are entirely dependent on distributions from Bell Aliant Holdings LP to make our distributions. A complete discussion of distributions made by Bell Aliant Holdings LP can be found in its MD&A for the three month period ended March 31, 2009.

## Financial and capital management

The following table summarizes our financial position for each of the most recently completed financial periods.

	As at March 31, 2009	As at December 31, 2008
<i>(millions of dollars)</i>		
Total assets	<b>\$4,189.3</b>	\$4,211.6
Total liabilities	<b>\$30.8</b>	\$30.9
Unitholders' equity	<b>\$4,158.5</b>	\$4,180.7

### *Assets and liabilities*

At March 31, 2009, our assets mainly consisted of our indirect investment in, and distributions and other amounts receivable from, Bell Aliant Holdings LP. The carrying value of our investments has decreased by \$25.4 million since December 31, 2008, as our equity income was less than the distributions declared to us by our equity investee. As well, we generally consolidate our excess cash with that of Bell Aliant LP and invest it together in marketable, short-term money market instruments and as such, the balance due from related parties and our cash and cash equivalent balance will fluctuate over time depending on our cash requirements. At March 31, 2009, these assets increased \$3.1 million from the balances at December 31, 2008, principally related to amounts accrued as receivable under our deferred unit plan.

Our liabilities consist mainly of distributions payable to our unitholders, which were \$30.7 million as at March 31, 2009, unchanged from December 31, 2008.

### *Fund units*

At March 31, 2009, there were 127,227,697 Fund units outstanding, 100,373,827 exchangeable limited partnership units and 1,283,206 units notionally issued under our deferred unit plan. Only 437,769 units notionally issued under our deferred unit plan are considered dilutive, as the remainder are subject to certain future performance criteria being met. Accordingly, there were 228,039,293 Fund units outstanding on a fully diluted basis as at March 31, 2009.

At May 1, 2009, there were 127,237,500 Fund units outstanding.

## Related party transactions

As previously discussed in the "Our business" section, we indirectly own an 82.5 per cent equity interest in Bell Aliant Holdings LP. As well, BCE and Bell Canada own 44.1 per cent of our units on a fully-diluted basis. There was no change to the Securityholders' Agreement with BCE during the first quarter of 2009.

Refer to note 8 of our unaudited interim consolidated financial statements for the period ended March 31, 2009, for further information on our related party transaction with Bell Aliant Holdings LP.

## Significant accounting policies and critical accounting estimates

Our accounting policies and methods and critical accounting estimates and assumptions are consistent with those described in note 1 to our annual consolidated financial statements for the year ended December 31, 2008.

### **Future changes in accounting policies**

The Accounting Standards Board of the CICA continually amends 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.

## Business combinations, Consolidated financial statements and Non-controlling interests

The CICA issued Section 1582, Business Combinations, concurrently with Sections 1601, Consolidated financial statements, and 1602, Non-controlling interests. Section 1582, which replaced Section 1581, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. Section 1601, which replaced Section 1600, carries forward the existing Canadian guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition, except for those aspects that deal with non-controlling interests. Section 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination. The new standards apply to interim and annual financial statements for fiscal years beginning on or after January 1, 2011, with early adoption permitted. We are assessing the effect of the new standards on our consolidated financial statements.

## International financial reporting standards (IFRS)

In April 2008, the Accounting Standards Board released an exposure draft, Adopting IFRSs in Canada, which proposes to fully converge Canadian GAAP with IFRS effective January 1, 2011. The convergence will occur over a transitional period, with certain standards adopted prior to 2011 and other standards at the date of transition. The International Accounting Standards Board is continually mandating projects and making pronouncements to evolve IFRS, and as a result, IFRS at the transition date is expected to differ from its current form.

As discussed in our MD&A for the year ended December 31, 2008, we have developed a four-phase approach to transitioning to IFRS as follows:

*Phase 1 – Raise awareness and initial assessment*

*Phase 2 – Detailed assessment*

*Phase 3 – Design*

*Phase 4 – Implementation*

We are currently compiling and analyzing the information obtained in the detailed assessment phase and will be presenting our evaluation of and recommendations for appropriate accounting policy choices to our audit committee in the second quarter of 2009. We will continue to refine these policies as we complete our conversion effort. We have commenced designing operational process changes, which includes information technology and data systems, internal controls over financial reporting, and developing and maintaining two parallel sets of records in 2010. We anticipate substantially completing phase three by the end of the second quarter of 2009.

We anticipate commencing phase four in the second quarter of 2009. We expect phase four will run through to December 31, 2010.

## **Risk management**

During the first quarter of 2009, we have not identified any significant changes to the nature of the risks that we are exposed to in our business.

For a discussion of risks related to the Fund, refer to the “Risk management” section of our MD&A for the year ended December 31, 2008, and the “Risk Factors” section of our 2008 Annual Information Form. For a discussion of risks related to the business of Bell Aliant Holdings LP, refer to the “Risk management” section of Bell Aliant Holdings LP’s MD&A for the year ended December 31, 2008, and the “Risk Factors” section of Bell Aliant Holdings LP’s 2008 Annual Information Form, as updated in Bell Aliant Holdings LP’s MD&A for the first quarter of 2009.

## Controls and procedures

### Internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*. Our system of internal control is based on the framework and criteria published in the report Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and is designed 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 control over financial reporting during the three months ended March 31, 2009, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND****Consolidated balance sheets****(Unaudited)***(millions of dollars)*

	Notes	As at March 31, 2009	As at December 31, 2008
<b>Assets</b>			
Current assets			
Cash and cash equivalents	7	\$ 1.9	\$ 6.2
Distributions receivable	7	31.2	31.2
Due from related parties	7	21.0	13.6
		<b>54.1</b>	51.0
Investments	2	<b>4,135.2</b>	4,160.6
<b>Total assets</b>		<b>\$ 4,189.3</b>	<b>\$ 4,211.6</b>
<b>Liabilities and unitholders' equity</b>			
Current liabilities			
Payables and accruals		\$ 0.1	\$ 0.2
Distributions payable	5	30.7	30.7
		<b>30.8</b>	30.9
Unitholders' equity		<b>4,158.5</b>	4,180.7
<b>Total liabilities and unitholders' equity</b>		<b>\$ 4,189.3</b>	<b>\$ 4,211.6</b>

*See accompanying notes to the consolidated financial statements*

## BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND

### Consolidated statements of earnings

(Unaudited)

For the three months ended March 31

(millions of dollars, except earnings per unit)

	Notes	2009	2008
Equity income from investments	2	\$ 66.4	\$ 44.1
Operating expenses		1.0	1.1
Net earnings from continuing operations		65.4	43.0
Net earnings from discontinued operations	2	0.6	-
<b>Net earnings</b>		<b>\$ 66.0</b>	<b>\$ 43.0</b>
<b>Earnings per unit</b>	4		
Basic from continuing operations		\$ 0.51	\$ 0.34
Basic from discontinued operations		0.01	-
Basic		\$ 0.52	\$ 0.34
Diluted from continuing operations		\$ 0.51	\$ 0.34
Diluted from discontinued operations		-	-
Diluted		\$ 0.51	\$ 0.34

See accompanying notes to the consolidated financial statements

### Consolidated statements of comprehensive earnings

For the three months ended March 31

(Unaudited)

(millions of dollars)

	Note	2009	2008
Net earnings		\$ 66.0	\$ 43.0
Other comprehensive earnings (losses)	2	1.1	(1.7)
<b>Comprehensive earnings</b>		<b>\$ 67.1</b>	<b>\$ 41.3</b>

See accompanying notes to the consolidated financial statements

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND**

**Consolidated statements of unitholders' equity**

**(Unaudited)**

**For the three months ended March 31, 2009**

<i>(millions of dollars)</i>	Notes	Stated capital	Contributed surplus	Accumulated earnings	Distributions declared	Accumulated other comprehensive earnings (loss)	Unitholders' equity
Balance December 31, 2008		\$ 4,184.9	\$ 45.7	\$ 884.1	\$ (899.4)	\$ (34.6)	\$ 4,180.7
Net earnings		-	-	66.0	-	-	66.0
Distributions declared	5	-	-	-	(92.1)	-	(92.1)
Redemption of units	3	(0.1)	-	-	-	-	(0.1)
Deferred unit plan	3, 6	6.4	(3.5)	-	-	-	2.9
Other comprehensive earnings of equity investee		-	-	-	-	1.1	1.1
<b>Balance March 31, 2009</b>		<b>\$ 4,191.2</b>	<b>\$ 42.2</b>	<b>\$ 950.1</b>	<b>\$ (991.5)</b>	<b>\$ (33.5)</b>	<b>\$ 4,158.5</b>

For the three months ended March 31, 2008

<i>(millions of dollars)</i>	Notes	Stated capital	Contributed surplus	Accumulated earnings	Distributions declared	Accumulated other comprehensive earnings (loss)	Unitholders' equity
Balance December 31, 2007		\$ 4,184.0	\$ 31.8	\$ 632.7	\$ (531.9)	\$ (30.4)	\$ 4,286.2
Net earnings		-	-	43.0	-	-	43.0
Distributions declared	5	-	-	-	(91.2)	-	(91.2)
Deferred unit plan	3, 6	0.1	3.6	-	-	-	3.7
Other comprehensive losses of equity investee		-	-	-	-	(1.7)	(1.7)
<b>Balance March 31, 2008</b>		<b>\$ 4,184.1</b>	<b>\$ 35.4</b>	<b>\$ 675.7</b>	<b>\$ (623.1)</b>	<b>\$ (32.1)</b>	<b>\$ 4,240.0</b>

See accompanying notes to the consolidated financial statements

## BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND

### Consolidated statements of cash flows

(Unaudited)

For the three months ended March 31

(millions of dollars)

	Notes	2009	2008
Cash from (used in) operating activities			
Net earnings from continuing operations	\$	65.4	\$ 43.0
Adjustments to reconcile net earnings to cash from operating activities			
Income from equity investments	2	(66.4)	(44.1)
Change in operating assets and liabilities		(11.0)	0.8
		<b>(12.0)</b>	<b>(0.3)</b>
Cash from (used in) financing activities			
Issuance of units	3	6.4	0.1
Redemption of units	3	(0.1)	-
Purchase of units for distribution reinvestment plan	3	(3.4)	(3.3)
Cash distributions paid to unitholders		(88.7)	(87.0)
		<b>(85.8)</b>	<b>(90.2)</b>
Cash from investing activities			
Cash distributions received from equity investments	2	93.5	89.6
		<b>93.5</b>	<b>89.6</b>
Net decrease in cash from continuing operations		<b>(4.3)</b>	<b>(0.9)</b>
Cash and cash equivalents, beginning of year		6.2	2.1
<b>Cash and cash equivalents, end of year</b>	\$	<b>1.9</b>	\$ 1.2

See accompanying notes to the consolidated financial statements

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
**March 31, 2009**

Bell Aliant Regional Communications Income Fund was established in 2006 and is an unincorporated, open-ended, limited purpose trust governed by the laws of Ontario pursuant to a Declaration of Trust. All references to “we”, “us”, “our” or the “Fund” refer to Bell Aliant Regional Communications Income Fund and its subsidiaries. We hold investments in entities whose operations are primarily focused on the provision of regional telecommunications services in Atlantic Canada, Ontario and Quebec. Our principal investment is an 82.5 per cent equity interest in Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP), which consolidates its operating subsidiaries.

**1. SIGNIFICANT ACCOUNTING POLICIES**

***Consolidated financial statements***

We have prepared these consolidated financial statements in accordance with Canadian generally accepted accounting principles (Canadian GAAP) using the same basis of presentation and accounting policies as our audited consolidated financial statements for the year ended December 31, 2008. These financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2008, along with the audited consolidated financial statements for the year ended December 31, 2008, and the unaudited interim consolidated financial statements for three months ended March 31, 2009, of Bell Aliant Holdings LP.

***Economic dependence***

We are economically dependent on Bell Aliant Holdings LP, and our ability to pay distributions is entirely dependent on the distributions received from them. Significant events or transactions in Bell Aliant Holdings LP could materially influence our ability to pay distributions.

***Future changes in accounting policies***

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

***Business combinations, Consolidated financial statements, and Non-controlling interests***

The CICA issued Section 1582, Business combinations, concurrently with Sections 1601, Consolidated financial statements, and 1602, Non-controlling interests. Section 1582, which replaced Section 1581, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. Section 1601, which replaced Section 1600, carries forward the existing Canadian guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition except for those dealing with non-controlling interests. Section 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination. The new standards apply to interim and annual financial statements for fiscal years beginning on or after January 1, 2011, with early adoption permitted. We are currently assessing the effect of the new standards on our consolidated financial statements.

**2. INVESTMENTS**

At March 31, 2009, our principal investment was in Bell Aliant Holdings LP.

Equity income and other comprehensive earnings (losses) from our investment in Bell Aliant Holdings LP, and distributions declared and received from them were as follows:

For the three months ended March 31			
<i>(millions of dollars)</i>		2009	2008
Equity income - continuing operations	\$	66.4	\$ 44.1
Equity income - discontinued operations		0.6	-
Other comprehensive earnings (losses)		1.1	(1.7)
Distributions declared		93.5	92.2
Distributions received		93.5	89.6

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
**March 31, 2009**

**2. INVESTMENTS (Continued)**

Equity income from continuing operations includes \$0.6 million future income tax expense (March 31, 2008 - \$9.4 million future income tax recovery) relating to our proportionate share of temporary differences in certain subsidiaries of Bell Aliant Holdings LP that are expected to reverse after January 1, 2011.

**3. UNITHOLDERS' CAPITAL**

*Issued and outstanding*

	As at March 31, 2009		As as December 31, 2008	
	Number of units	Stated capital	Number of units	Stated capital
<i>(millions of dollars, except as otherwise noted)</i>				
Units	127,227,697	\$ 4,191.2	126,983,707	\$ 4,184.9
Special voting units	100,373,827	-	100,373,827	-
		\$ 4,191.2		\$ 4,184.9

*Units*

The following table provides the details of the change in our issued and outstanding units.

	2009		2008	
	Number of units	Stated capital	Number of units	Stated capital
<i>(millions of dollars, except as otherwise noted)</i>				
For the three months ended March 31				
Units, beginning of period	126,983,707	\$ 4,184.9	126,949,663	\$ 4,184.0
Deferred unit plan units exercised (note 6)	245,545	6.4	3,412	0.1
Redemption of units	(1,551)	(0.1)	(1,108)	-
Fractional unit adjustment	(4)	-	(15)	-
Units, end of period	127,227,697	\$ 4,191.2	126,951,952	\$ 4,184.1

*Distribution reinvestment and optional unit purchase plan*

For the three months ended March 31, 2009, we bought 150,631 units (March 31, 2008 – 137,535 units) on the open market for unitholders participating in the distribution reinvestment plan in lieu of paying \$3.4 million in cash distributions (March 31, 2008 - \$3.3 million), and in respect of optional unit purchase plan cash payments received we bought additional units for \$0.3 million (March 31, 2008 - \$0.6 million).

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
**March 31, 2009**

**4. EARNINGS PER UNIT**

For the three months ended March 31 <i>(millions of dollars, except as otherwise noted)</i>	<b>2009</b>	2008
<b>Basic:</b>		
Net earnings from continuing operations	\$ 65.4	\$ 43.0
Net earnings from discontinued operations	0.6	-
Net earnings	\$ 66.0	\$ 43.0
Weighted average number of units outstanding	<b>127,097,939</b>	129,951,417
Basic earnings per unit from continuing operations	\$ 0.51	\$ 0.34
Basic earnings per unit from discontinued operations	0.01	-
Basic earnings per unit	\$ 0.52	\$ 0.34
<b>Diluted:</b>		
Net earnings from continuing operations	\$ 65.4	\$ 43.0
Add non-controlling interest of holders of exchangeable units:		
Bell Aliant Holdings LP	14.7	11.6
Bell Aliant LP	36.3	36.4
	<b>116.4</b>	91.0
Net earnings from discontinued operations	0.6	-
Add non-controlling interest of holders of exchangeable units:		
Bell Aliant Holdings LP	0.1	-
	<b>0.7</b>	-
Diluted net earnings	\$ 117.1	\$ 91.0
Weighted average number of units outstanding	<b>127,097,939</b>	126,951,417
Add exchangeable limited partnership units:		
Class 1 exchangeable limited partnership units of Bell Aliant Holdings LP	<b>28,168,803</b>	28,168,803
Class B exchangeable limited partnership units of Bell Aliant LP	<b>72,205,024</b>	72,205,024
Deferred units under unit-based compensation plan	<b>437,769</b>	467,611
	<b>227,909,535</b>	227,792,855
Diluted earnings per unit from continuing operations	\$ 0.51	\$ 0.40
Diluted earnings per unit from discontinued operations	-	-
Diluted earnings per unit	\$ 0.51	\$ 0.40

The exchangeable limited partnership units are intended to be, to the greatest extent practicable, the economic equivalent of our units. If holders of the exchangeable limited partnership units were to trigger an exchange for our units, the distributions currently being paid to the holders by Bell Aliant Holdings LP and Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP) would be paid directly to us. For the three months ended March 31, 2008, the exchangeable limited partnership units were anti-dilutive. The deferred units under unit-based compensation plans, as discussed in note 6, relating to the 2006 grant and a portion of the 2007 and 2008 grants, are dilutive.

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
**March 31, 2009**

**5. DISTRIBUTIONS DECLARED TO UNITHOLDERS**

Distributions declared were as follows:

<i>(millions of dollars, except per unit amounts)</i>	2009		2008	
	Monthly distributions	Distributions per unit	Monthly distributions	Distributions per unit
<b>Record date:</b>			<b>Record date:</b>	
<b>January 30</b>	\$ 30.7	\$ 0.2417	January 31	\$ 29.8 \$ 0.2350
<b>February 27</b>	30.7	0.2417	February 29	30.7 0.2417
<b>March 31</b>	30.7	0.2417	March 31	30.7 0.2417
	\$ 92.1	\$ 0.7251		\$ 91.2 \$ 0.7184

**6. UNIT-BASED COMPENSATION PLANS**

*Employee unit purchase plans*

For the three months ended March 31, 2009, we bought 577,203 units (March 31, 2008 – 489,949 units), at a total cost of \$14.2 million (March 31, 2008 – \$14.2 million), on the open market for employees of certain subsidiaries of Bell Aliant Holdings LP participating in the employee unit purchase plans. Of these totals, \$2.3 million (March 31, 2008 - \$2.3 million) was recorded as compensation expense in certain subsidiaries of Bell Aliant Holdings LP, and the remainder was contributed by employees through payroll deduction, interest earned or distributions reinvested in employee plan accounts.

*Deferred unit plan*

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

For the three months ended March 31	2009	2008
Deferred units outstanding, beginning of period	1,181,958	794,980
Granted:		
Service period fiscal 2009 to 2011	350,492	-
Reinvested distributions	30,909	19,621
	381,401	19,621
Forfeited	(34,608)	(5,087)
Exercised (note 3)	(245,545)	(3,412)
Deferred units outstanding, end of period	1,283,206	806,102
Deferred units vested, end of period	437,769	358,232

For the three months ended March 31, 2009, the weighted average grant-date fair value of the 381,401 units (March 31, 2008 – 19,621 units) granted was \$10.0 million, or \$26.14 per deferred unit (March 31, 2008 - \$0.6 million, or \$28.73 per deferred unit).

As the deferred units will be settled with our units when exercised, for the three months ended March 31, 2009, we have recorded in contributed surplus the equivalent of the compensation expense that was recorded in certain subsidiaries of Bell Aliant Holdings LP of \$2.9 million (March 31, 2008 - \$3.7 million). We issued 245,545 units (March 31, 2008 – 3,412 units) out of treasury at an average market value of \$26.15 per unit (March 31, 2008 – \$28.22 per unit) related to the deferred units exercised in the period. When exercised an amount of \$6.4 million (March 31, 2008 - \$0.1 million) was reclassified from contributed surplus to stated capital.

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
**March 31, 2009**

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**7. RELATED PARTY TRANSACTIONS**

*Bell Aliant Holdings LP*

We are entirely dependent on the distributions we receive from Bell Aliant Holdings LP (note 2) to make our distributions (note 6). At March 31, 2009, \$31.2 million was included in distributions receivable (December 31, 2008 - \$31.2 million).

We loan our excess cash to Bell Aliant LP through a series of promissory notes. Payments are requested as required for operating purposes. The \$6.2 million promissory note that was receivable from Bell Aliant LP at December 31, 2008, was repaid on January 15, 2009. Promissory notes carried rates of interest from 0.76 per cent to 1.81 per cent per annum, resulting in an immaterial amount of interest revenue being earned during the three month period ended March 31, 2009 (March 31, 2008 - immaterial amount). At March 31, 2009, a \$1.2 million promissory note was receivable from Bell Aliant LP, which bears interest at 0.76 per cent per annum and matures on April 15, 2009. This balance is included in cash and cash equivalents.

At March 31, 2009, \$21.0 million was due from related parties (December 31, 2008 - \$13.6 million), which relates to the net of operating expenses payable as well as amounts receivable from the deferred unit plan, as described in note 6.



## **Bell Aliant Regional Communications Holdings, Limited Partnership**

### **Management's Discussion and Analysis**

#### **First Quarter 2009**

*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, 2009, compared to the corresponding period in 2008. This MD&A should be read together with our unaudited interim consolidated financial statements and accompanying notes for the period ended March 31, 2009, and our audited consolidated financial statements and accompanying notes for the year ended December 31, 2008, 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.*

*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.*

*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 (Bell Aliant Income Fund or the Fund) website at [www.bell.aliant.ca](http://www.bell.aliant.ca). These and other continuous disclosure documents are also available at [www.sedar.com](http://www.sedar.com).*

#### **Forward-looking information**

*This MD&A is dated May 6, 2009, and is current to that date unless otherwise stated. It contains forward-looking information related to our future financial condition and results of operations. The purpose of this forward-looking information is to provide the reader with information about our expectations and plans for fiscal 2009 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 our beliefs and assumptions regarding these markets. Unless otherwise indicated, forward-looking information in this MD&A describes our expectations at May 6, 2009. 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 risk 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; increasing competition; changing regulations; reliance on systems; dependence on key suppliers; changing technology; required operating and capital expenditures; our relationship with BCE Inc. (BCE) and Bell Canada; pension plan funding; liquidity and financing risk; leverage and restrictive covenants; BCE's governance rights; reliance on key personnel and labour relations; success of acquisitions and dispositions; legal contingencies and changes in laws. Some of these risk 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, financial and operational 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 risk factor affect us in an unexpected manner, or should assumptions underlying the forward-looking information prove incorrect, the actual results or events may differ materially from the results or events predicted. Unless otherwise indicated, forward-looking information does not take into account the effect that transactions or non-recurring or other special items announced or occurring after this information is provided may have on our business. All of the forward-looking information reflected in this document and the documents referred to within are qualified by these cautionary statements. There can be no assurance that the results or developments anticipated 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 the “Forward-looking information” section of our news release dated February 2, 2009, relating to 2008 earnings results and 2009 financial guidance for the Fund and Bell Aliant Holdings LP, which is available at [www.bell.aliant.ca](http://www.bell.aliant.ca) as well as [www.sedar.com](http://www.sedar.com).*

## **Our business**

We are one of North America’s largest regionally focused telecommunications service providers and have been serving customers for over a century. We offer customers across Atlantic Canada, Ontario and Quebec a complete range of voice and data communications services as well as information technology (IT) consulting, infrastructure management, product fulfillment and advanced technology solutions.

Our principal operations are carried on by Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Télébec, Limited Partnership (Télébec) and NorthernTel, Limited Partnership (NorthernTel). We consolidate 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 planning, assessing performance and making resource allocation decisions.

## **Our business environment**

### **Competitive landscape**

We face a number of different competitors across the regions we service, with cable companies continuing to present our most significant competitive threat. Throughout the first quarter of 2009, cable competitors continued to expand their local service areas in our regions. Cable competitors offered telephony services, including local and long distance services, to approximately 59 per cent of households in our territories at the end of March 2009, representing an 8 percentage point increase since the same period a year ago. We expect continued growth in the competitive footprint and, as competition increases, we remain focused on the successful execution of our strategic priorities.

In response to competitive pressures, we continue to enhance our products and services, promote our bundled and *Value Package*<sup>™</sup> service offerings, and work with customers to provide innovative and complete solutions to maintain the high level of customer service and innovative product offerings our customers expect. 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 “Strategy” section for further details.

### **Regulatory landscape**

Our business is affected by decisions made by the Canadian Radio-television and Telecommunications Commission (CRTC or the Commission) and the federal government, pursuant to the Telecommunications Act and the Broadcasting Act. We regularly participate in the public processes leading up to these decisions, submitting evidence, opinions and comments to the CRTC. We also work with other industry and interested parties in lobbying for regulatory reform, where we feel necessary and warranted, while similarly opposing those parties seeking to raise the regulatory burdens in our industry.

For a discussion of these and other reforms, refer to the “Regulatory developments” section.

## Planning for future changes in taxation rules

As discussed in our MD&A for the year ended December 31, 2008, as a result of the federal government's October 2006 announced changes to income tax legislation, starting January 1, 2011, the Fund will be taxed as if it were a corporation. During 2008, the Department of Finance released proposed amendments to the Income Tax Act (Canada) to facilitate the conversion of existing income trusts, such as the Fund, into corporations on a tax-deferred basis (Conversion Rules). These Conversion Rules were enacted into law on March 12, 2009. At this point, we anticipate that we will recommend a conversion transaction to Fund unitholders to be effective on, or by January 1, 2011, and we are carefully considering our particular circumstances and the alternatives available to us in order to determine how best to structure the conversion into a corporation. At this time, we are forecasting that we will have sufficient tax shelter to defer incurring an income tax liability for at least 18 months and as much as 24 months after conversion to a corporation. We are also continuing to investigate strategies and options that could mitigate the effect that the eventual payment of income taxes will have on the distributions that we pay and are ultimately paid to Fund unitholders.

## Organizational changes

On January 12, 2009, we announced a new organizational structure. We are now organized more by function rather than geography and, as a result, the number of senior executive positions directly reporting to our Chief executive officer has been reduced from 11 to seven. Further details on this restructuring initiative can be found in the "Strategy" section and in our MD&A for the year ended December 31, 2008.

## First quarter in review

### Summary of results

<i>For the three months ended March 31</i> <i>(millions of dollars)</i>	<b>2009</b>	<b>2008</b>	<b>% change</b>
Operating revenues	<b>\$828.0</b>	\$837.9	(1.2)
EBITDA <sup>(1)</sup>	<b>\$355.7</b>	\$353.3	0.7
Operating income <sup>(1)</sup>	<b>\$146.0</b>	\$153.9	(5.1)
Net earnings from continuing operations	<b>\$81.7</b>	\$74.2	10.1
Net earnings (loss) from discontinued operations	<b>\$0.8</b>	(\$9.9)	n.m.
Net earnings	<b>\$82.5</b>	\$64.3	28.3

n.m. not meaningful

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

Operating revenues decreased 1.2 per cent, or \$9.9 million, in the first quarter of 2009, compared to the first quarter of 2008, as declines in local and access, long distance, and other revenues were offset substantially by growth in data and Internet, IT and wireless revenue. The quarter-over-quarter decline was also caused in part by the recognition, in the first quarter of 2008, of previously deferred IT services revenue. Refer to our "Results of operations" section for additional details.

Despite this decrease in operating revenues, EBITDA increased by 0.7 per cent, or \$2.4 million, during the first quarter of 2009, compared to the first quarter of 2008, as savings were generated through our expense reduction programs implemented during the first quarter of 2009.

Operating income decreased 5.1 per cent, or \$7.9 million, during the first quarter of 2009, compared to the first quarter of 2008. The increase in contribution from EBITDA was offset by an increase in

restructuring charges, reflecting a retirement incentive offer for a limited number of unionized staff in Atlantic Canada.

Net earnings increased by \$18.2 million in the first quarter of 2009, compared to the first quarter of 2008. This increase is made up of a \$7.5 million increase in net earnings from continuing operations and a \$10.7 million increase in net earnings from discontinued operations. The increase in net earnings from continuing operations reflects the lower operating income, which was more than offset by a \$10.9 million higher income tax recovery in 2009, \$2.1 million lower interest charges and \$2.3 million higher other income. The increase in net earnings from discontinued operations in 2009 relates primarily to the \$11.2 million write-down of goodwill related to Atlantic Mobility Products (AMP) that was recorded in the first quarter of 2008.

### Distributable cash

The following table provides a summary reconciliation of cash from operating activities to standardized distributable cash and distributable cash for the three months ended March 31, 2009, and 2008, and additional information on the relationship between cash from operating activities, net earnings and cash distributions declared. Since our operations ultimately support distributions to Fund unitholders, 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>	<b>2009</b>	<b>2008</b>	<b>% change</b>
Cash from operating activities	<b>\$210.2</b>	\$236.1	(11.0)
<i>Add (deduct):</i> Cash from operating activities of the Fund and discontinued operations	<b>(11.3)</b>	1.5	n.m.
Capital expenditures	<b>(107.5)</b>	(95.1)	13.0
Standardized distributable cash <sup>(1)</sup>	<b>\$91.4</b>	\$142.5	(35.9)
<i>Add (deduct):</i> Operating items funded through cash reserves or borrowing	<b>102.9</b>	63.8	61.3
Other adjustments	<b>2.2</b>	0.5	340.0
Distributable cash <sup>(1)</sup>	<b>\$196.5</b>	\$206.8	(5.0)
Net earnings	<b>\$82.5</b>	\$64.3	28.3
Cash distributions declared <sup>(2)</sup>	<b>\$164.9</b>	\$163.3	1.0
Excess of cash from operating activities over cash distributions declared <sup>(3)</sup>	<b>\$34.0</b>	\$74.3	(54.2)
Shortfall of net earnings over cash distributions declared	<b>(\$82.4)</b>	(\$99.0)	(16.8)

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, which are non-GAAP financial measures.

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

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

Standardized distributable cash for the first quarter of 2009 was \$91.4 million, which represents a decrease of \$51.1 million, or 35.9 per cent, when compared to the same period in 2008. While net earnings from continuing operations increased in the first quarter of 2009, compared to the first quarter of 2008, standardized distributable cash declined mainly due to higher cash requirements to fund changes in operating assets and liabilities (working capital), and capital expenditures as discussed in the "Summary of cash flows" section.

Our calculation of distributable cash for the first quarter of 2009 was \$196.5 million, which represents a decrease of \$10.3 million, or 5.0 per cent, when compared to the same period in 2008. Since working capital requirements fluctuate throughout 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. In addition, we also finance restructuring charges through cash reserves or borrowings and as a result, these charges have not been

included in distributable cash. The decrease in distributable cash mainly reflects EBITDA growth offset by the higher quarter-over-quarter capital expenditures.

For the three months ended March 31, 2009, cash distributions declared were 83.9 per cent of distributable cash, compared to 79.0 per cent for the comparable period in 2008.

## Strategy

### Highlights of strategic achievements in the first quarter of 2009

Our 2009 strategy builds on our past strategies and the success we have been able to achieve in recent years. In response to the current economic environment and the realities of the competitive marketplace we operate in, we have updated our vision and clearly articulated the strategic objectives that we believe will support our financial success in the future.

Our vision is simple and straightforward, and fundamental to everything we do:

*To be recognized by customers as the leading communications provider in the markets we serve.*

In 2009 we are focused on achieving five strategic objectives:

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

#### *Improve the customer experience*

One of our key strategies for 2009 is a continuation of our focus on improving the customer experience.

During the first quarter of 2009, we utilized our new records management tool to increase the accuracy of equipment assignment and improve high-speed Internet activation time. In Ontario and Quebec, we made improvements to the training and tools used by our technical solutions workforce, driving overall productivity. We changed the priority on digital subscriber line (DSL) and TV service troubles to provide faster response to our customer and adopted a common, shared focus across all levels of management with results reviewed weekly and progress monitored closely. Additionally, we improved the high-speed Internet installation ordering process during the quarter.

Our Customer Service Index (CSI) is an internal measure comprised of five key components which we track to monitor the experience we are providing to our customers. We continue to improve the customer experience as evidenced by a 1.4 point increase in CSI in the first quarter of 2009, compared to the same period in 2008. These results are a clear reflection of the initiatives we have focused on, making continued improvements to service fundamentals which are supported by operational improvements to our processes, tools and training.

#### *Retain our customers*

We believe we have powerful brands across all of our markets and in 2009 we will seek to increase the strength of our brands. In the first quarter of 2009, we announced that *Bell Aliant* will become our market-facing brand in Atlantic Canada. In Ontario and Quebec, we will continue to leverage our existing brands while building a closer linkage to *Bell Aliant* brand. We will add "a division of Bell Aliant" to the *Télébec*, *NorthernTel*, *Cablevision*, and *KMTS* brands, as we do for *xwave* and *Innovatia* today. In Bell-branded territories in Ontario and Quebec, we will continue to use the *Bell* brand.

Retaining our customers is very important to us. We have adopted a locally focused sales organization with regional leaders across each of our territories in order to reduce customer churn or loss. We will increase our retention efforts and seek to increase the penetration of all our products and services. We will continue to focus on bundling strategies to secure our customers and protect against competitive offers.

### *Grow broadband*

Our broadband network delivers the products and services that enable our customers to connect with each other, and provides them with the information they need to be productive. Broadband is the core growth area of our business. We are making investments in areas which promise attractive returns and in ways which we believe will make us stronger in the future. Our investment for 2009 is prioritized to expand our broadband footprint, expand our fibre services and develop new Internet protocol (IP) enhanced services.

In the first quarter of 2009 we were successful in extending the reach of our broadband services:

- We completed a trial to extend the range of our DSL footprint to serve more customers in a more cost effective manner;
- We expanded our DSL footprint through network expansion that enabled us to reach an additional 8,875 homes passed by the end of the first quarter 2009, compared to the same period last year; and
- We deployed fibre technology to more households, reaching approximately 239,000 customers at the end of the first quarter of 2009.

Additionally, in February 2009, we enhanced the service experience of Aliant TV by launching a Personal Video Recorder (PVR) service, enabling customers to record, pause and rewind live television. The inclusion of a PVR service increases the competitiveness of Aliant TV and complements the launch of our high definition service in the fourth quarter of 2008.

### *Reset our cost structure*

In the fourth quarter of 2008 we began a significant restructuring initiative which continued in the first quarter of 2009. The organization is now more nimble, and our managers have increased spans of control allowing more strategic and quicker decision making. We also announced a limited voluntary retirement offer to some of our unionized staff. With a more optimal sized employee base we have focused on the most important tasks and activities and we are well underway with our objective to reduce non-labour costs throughout the remainder of 2009.

### *Engage employees*

In 2009 we are committed to reinforcing a performance-based culture by more closely aligning personal performance with corporate objectives, and by continuing to invest in leadership development.

During the first quarter of 2009, we worked to ensure that all employees understood our vision and strategic objectives and how they individually contribute to the achievement of these objectives. Numerous internal communications events were hosted by our President and senior executive management team during the quarter. This initiative comprised visiting 15 cities across six provinces, which provided an opportunity for employees to interact with our senior leaders, learn more about our 2009 business plan and strategic objectives, and to ask questions.

Our Leadership Fundamentals program was extended in early in 2009. More than 200 employees are now actively engaged in the program, which provides a comprehensive curriculum of training to build a solid foundation in the essentials of effectively managing and leading others.

## Results of operations

In addition to distributable cash, our financial performance is measured by operating revenues, EBITDA and operating income.

<i>For the three months ended March 31</i>			
<i>(millions of dollars)</i>	<b>2009</b>	<b>2008</b>	<b>% change</b>
Local and access	<b>\$338.2</b>	\$346.8	(2.5)
Long distance	<b>106.0</b>	112.7	(5.9)
Data & Internet	<b>200.2</b>	193.8	3.3
IT services and fulfillment	<b>116.5</b>	107.3	8.6
Wireless	<b>19.8</b>	17.9	10.6
Other revenues	<b>47.3</b>	59.4	(20.4)
Operating revenues	<b>\$828.0</b>	\$837.9	(1.2)
Operating expenses	<b>472.3</b>	484.6	(2.5)
EBITDA <sup>(1)</sup>	<b>\$355.7</b>	\$353.3	0.7
Net cost of benefit plans	<b>22.2</b>	24.8	(10.5)
Depreciation and amortization	<b>177.2</b>	174.5	1.5
Restructuring and other charges	<b>10.3</b>	0.1	n.m.
Operating income <sup>(1)</sup>	<b>\$146.0</b>	\$153.9	(5.1)
Other expenses (income)	<b>(0.4)</b>	1.9	(121.1)
Interest charges	<b>37.5</b>	39.6	(5.3)
Income tax expense (recovery)	<b>(9.1)</b>	1.8	n.m.
Non-controlling interest	<b>36.3</b>	36.4	(0.3)
Net earnings from continuing operations	<b>\$81.7</b>	\$74.2	10.1
Net earnings (loss) from discontinued operations	<b>0.8</b>	(9.9)	n.m.
Net earnings	<b>\$82.5</b>	\$64.3	28.3

n.m. not meaningful

<sup>(1)</sup> 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 3.9 per cent drop in our total NAS customers at March 31, 2009, compared to March 31, 2008, we have contained the local and access revenue decline to 2.5 per cent, or \$8.6 million, in the first quarter of 2009 compared to the same period in 2008. Revenue losses were mitigated through programs targeted at retaining our highest value customers, pricing increases and increased features penetration.

During the first quarter of 2009, our net NAS customer declines were 37,872. This represents a 4,092 reduction from the net NAS customer declines experienced in the fourth quarter of 2008. After adjusting for the NAS added through the acquisition of Kenora Municipal Telephone Services (KMTS) in the first quarter of 2008, NAS declines in the first quarter of 2009 increased by approximately 6,000 from the same period in 2008.

At March 31, 2009, the number of residential NAS customers was 4.7 per cent lower than at March 31, 2008, and the number of business NAS customers was 2.3 per cent lower than at March 31, 2008.

These declines reflect competitive losses, driven by aggressive pricing and increased promotional activity by competitors as well as an expansion in the cable competitive footprint, and substitution by other services, including wireless and voice over Internet protocol (VoIP) services. The business NAS decline was further impacted by the continued migration of customers driven by the loss of a federal government contract in 2008, and the termination of an agreement with a wholesale customer during the quarter. As of March 31, 2009, approximately 59 per cent of households in our territory were passed by a competing cable telephony service versus approximately 51 per cent at March 31, 2008.

#### *Long distance*

Long distance revenue, earned through toll and long distance terminating services, declined by 5.9 per cent, or \$6.7 million, in the first quarter of 2009, compared to the first quarter of 2008. The quarter-over-quarter revenue decline was a result of a 3.4 per cent decline in long distance minutes and a 2.2 per cent decline in average revenue per minute. The decline in long distance minutes is due to competitive losses and substitution by cellular calling and IP-based services, while the decline in average revenue per minute is due to price reductions, primarily with our enterprise customers, and customers continuing to shift away from rate-per-minute plans in favour of set-price unlimited or large usage packages.

#### *Data and Internet*

Data and Internet revenue is earned through the provision of data access, data circuits, high-speed and dial-up Internet services, managed services, and enhanced services and applications, such as security services, music download service, dial-up accelerator and Internet protocol television (IPTV). Revenue from these services increased 3.3 per cent, or \$6.4 million, for the first quarter of 2009, compared to the same period in 2008. Internet revenue grew by 10.8 per cent in the first quarter of 2009 compared to the first quarter of 2008, while other data revenues declined by 3.6 per cent.

High-speed Internet customer net additions during the first quarter of 2009 were 14,522. This represents a 2,316 increase in net additions compared to the fourth quarter of 2008. Although our net additions have declined compared to the first quarter of 2008, we are still experiencing strong year-over-year growth in our customer base. At March 31, 2009, our high-speed Internet customer base was 8.6 per cent higher than at March 31, 2008, with growth in both the residential and business markets. Marketing of higher value services to customers and selected price increases resulted in residential high-speed Internet average monthly revenue per customer (ARPC) of \$36.94 during the first quarter of 2009, up 5.3 per cent from \$35.09 during the first quarter of 2008.

#### *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. Overall IT services and fulfillment revenue was higher in the first quarter of 2009, increasing 8.6 per cent, or \$9.2 million, compared to the same period in 2008. This increase reflects higher IT fulfillment revenues of \$21.0 million, or 31.1 per cent, due to significant product sales to a large customer during the quarter. Offsetting this was lower IT services revenues of \$11.8 million or 29.7 per cent, as previously deferred revenues associated with a major healthcare IT project in Quebec were recognized as part of a particularly strong first quarter of 2008 for IT services.

#### *Wireless*

Wireless revenue is earned through the provision of cellular, paging and mobile radio services over digital wireless networks in our Télébec, NorthernTel and KMTS-branded territories in Quebec and Ontario. Revenue increased by 10.6 per cent, or \$1.9 million, in the first quarter of 2009, compared to the first quarter of 2008, which was driven by a 7.5 per cent increase in wireless customers at March 31, 2009, compared to March 31, 2008. We had 43 wireless customer net additions during the first quarter of 2009. This represents a decrease of 224 in net customer additions compared to the fourth quarter of 2008 and a decrease of 2,020 net customer additions compared to the first quarter of 2008, normalized for the 9,000 KMTS wireless customers acquired on February 1, 2008. This lower rate of wireless customer net

additions is mainly due to weaker economic conditions affecting our pre-paid consumer market, where we typically earn lower profit margins than our other revenue streams.

#### *Other revenues*

Other revenues consist of knowledge management services provided through our subsidiary, Innovatia Inc., terminal rentals and sales, personal computer sales, revenue generated by our outsourcing arrangement with Bell Mobility and other sources. Other revenues declined 20.4 per cent, or \$12.1 million, in the first quarter of 2009, compared to the same period in 2008. This decline is predominantly driven by a decrease in outsourcing revenue of \$6.0 million, or 51.0 per cent, due to repatriation of work by Bell Mobility that was previously performed by us. Telephone equipment rentals revenue also declined \$1.0 million, or 13.3 per cent, as customers shift from renting to purchasing their own devices. Product sales also declined \$0.7 million, predominately due to reduced customer spending. The remaining decline reflects normal fluctuations in various other sources of revenues.

### **Expenses**

#### *Operating expenses*

<i>For the three months ended March 31 (millions of dollars)</i>	<b>2009</b>	<b>2008</b>	<b>% change</b>
Cost of sales	<b>\$169.8</b>	\$146.3	16.1
Salaries, benefits, contract labour and consulting	<b>157.2</b>	180.1	(12.7)
Selling, general and administrative	<b>143.2</b>	155.2	(7.7)
Capital taxes	<b>2.1</b>	3.0	(30.0)
<b>Operating expenses</b>	<b>\$472.3</b>	\$484.6	(2.5)

Operating expenses decreased by \$12.3 million, or 2.5 per cent, in the first quarter of 2009, compared to the same period in 2008, primarily due to lower labour and selling, general and administrative costs. The decrease in salaries, benefits, contract labour and consulting expenses mainly relates to the restructuring initiatives in late 2008 and early 2009 which introduced a leaner organizational structure. In addition, there was a decrease in contract work and outsourcing labour in 2009, which mainly relates to the IT healthcare project in Quebec. This project was started in 2007 with both revenues and expenses deferred until the first quarter of 2008 when the contract was signed.

The decline in selling, general and administrative expenses of \$12.0 million, or 7.7 per cent, in the first quarter of 2009, compared to the same period in 2008, relates mainly to a decrease of \$4.7 million in costs related to the Quebec healthcare project discussed above, with 2007 expenses deferred until the first quarter of 2008, and \$4.1 million in cost reductions as part of productivity initiatives under our commercial agreements with Bell Canada.

Partially offsetting these decreases was a \$23.5 million increase in cost of sales, due primarily to the \$21.0 million increase in IT fulfillment revenues, as growth in revenue drove higher associated costs of goods sold. Costs of sales were further impacted by increased costs associated with an IP access solution provided to certain wholesale customers.

#### *Net cost of benefit plans*

Net cost of benefit plans declined \$2.6 million, or 10.5 per cent, in the first quarter of 2009, compared to the same period in 2008. The decrease is mainly due to lower current service costs resulting from an increase in the average rate used to discount the obligations of our defined benefit (DB) pension and other post-employment benefit (OPEB) plans with predominately active employee members to 7.0 per cent from 5.6 per cent in the prior year. We also have fewer active employees in these plans than a year earlier.

Defined contribution (DC) pension costs were \$1.9 million in the first quarter of 2009, compared to \$1.8 million in the prior year, with the increase attributed to normal salary growth and a small increase in the number of participants in our DC plans.

#### *Depreciation and amortization*

Depreciation and amortization increased 1.5 per cent, or \$2.7 million, when comparing the first quarter of 2009 to the same period in 2008. During 2008, we shortened the estimated useful lives on certain capital assets, which prospectively increased depreciation. There were no significant changes to our asset base in the past year.

#### *Restructuring and other charges*

Restructuring and other charges for the first quarter of 2009 increased \$10.2 million from the first quarter of 2008. The increase mainly relates to the continuation of productivity initiatives and organizational structure changes from 2008, and specifically represents an announced retirement incentive offer for a limited number of unionized staff in Atlantic Canada.

#### *Interest charges*

Interest charges in the first quarter of 2009 were comparable with the first quarter of 2008, decreasing 5.3 per cent, or \$2.1 million. Debt levels are largely unchanged year over year and approximately 90 per cent of our debt is effectively subject to fixed rates of interest. The decrease reflects significantly lower interest costs on the portion of our debt that is subject to floating rates of interest.

#### *Income tax recovery*

A portion of our income is earned through limited partnerships. The taxable income earned through limited partnerships is not subject to tax at the limited 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. The income tax recovery in the first quarter of 2009 increased \$10.9 million compared to a provision of \$1.8 million for the first quarter of 2008. There are a combination of factors that give rise to the \$10.9 million increase in income tax recovery in the first quarter of 2009, compared to the same period in 2008, including \$1.2 million resulting from lower earnings before tax in the first quarter of 2009 compared to the same period in 2008; \$2.5 million related to tax rate changes; \$4.0 million due to a change in the reversal pattern of tax temporary differences; and \$2.7 million related to a settlement of prior period audit issues with Canada Revenue Agency in the first quarter of 2008 that did not occur in the comparative period in 2009.

#### *Non-controlling interest*

Non-controlling interest at March 31, 2009, represents Bell Canada's 37.9 per cent ownership interest in Bell Aliant LP (34.7 per cent on a proportionate cash distribution basis). The per unit distributions attributable and paid to Bell Canada equal, to the greatest extent practicable, the 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.

Non-controlling interest in our earnings decreased \$0.1 million, or 0.3 per cent, in the first quarter of 2009, compared to the corresponding period in 2008, which reflects the small quarter-over-quarter change in net earnings of Bell Aliant LP.

#### *Net earnings (loss) from discontinued operations*

Net earnings (loss) from discontinued operations reflect the results of our defence, security and aerospace (DSA) business in the first quarter of 2009 and the same period in 2008. This discontinued operation generated \$0.7 million more net earnings in the first quarter of 2009, compared to 2008. However, the first quarter of 2008 also included AMP's operations, which reflected an \$11.2 million write-down of goodwill in that period.

## Selected quarterly financial information

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

For the eight quarters ended March 31 (millions of dollars, except per unit amounts)	2009	2008				2007		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Operating revenues	\$828.0	\$813.2	\$815.3	\$815.6	\$837.9	\$819.1	\$808.5	\$795.4
EBITDA <sup>(1)</sup>	\$355.7	\$365.6	\$371.0	\$361.0	\$353.3	\$365.6	\$369.8	\$355.2
Operating income <sup>(1)</sup>	\$146.0	\$111.1	\$169.3	\$161.5	\$153.9	\$141.2	\$139.8	\$53.1
Net earnings (loss):								
Continuing operations	\$81.7	\$79.8	\$93.1	\$84.8	\$74.2	\$114.5	\$71.0	\$42.9
Discontinued operations	0.8	0.2	0.4	(0.4)	(9.9)	2.9	2.2	252.7
Net earnings	\$82.5	\$80.0	\$93.5	\$84.4	\$64.3	\$117.4	\$73.2	\$295.6
Basic and diluted earnings (loss) per unit:								
Continuing operations	0.51	0.50	\$0.58	\$0.53	\$0.46	\$0.75	\$0.47	\$0.28
Discontinued operations	-	-	-	-	(0.06)	0.02	0.01	1.66
Basic and diluted earnings per unit	\$0.51	\$0.50	\$0.58	\$0.53	\$0.40	\$0.77	\$0.48	\$1.94
Distributable cash <sup>(1)</sup>	\$196.5	\$146.2	\$179.3	\$183.3	\$206.8	\$169.5	\$177.6	\$162.2
Cash distributions declared <sup>(2)</sup>	\$164.9	\$164.8	\$164.9	\$164.9	\$163.3	\$160.1	\$161.3	\$163.5

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

<sup>(2)</sup> Cash distributions declared include amounts declared by the Fund to unitholders and by Bell Aliant Holdings LP and Bell Aliant LP to Bell Canada and BCE on units that are exchangeable into Fund units.

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

- The first quarter of every year typically experiences stronger IT fulfillment revenue from customers in the government sector.
- We finalized the purchase price allocation related to the acquisition of Bell Canada's wireline operation in Ontario and Quebec and Bell Nordiq Group Inc. 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, \$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 Aliant Directory Services in the second quarter of 2007, which generated \$248.6 million as our share of the after-tax gain. The gain was reflected in net earnings from discontinued operations.
- We commenced a restructuring program to advance our productivity initiatives, the total cost of which was \$27.4 million for 2007. The third quarter results for 2007 included \$20.8 million of restructuring and other charges with another \$5.2 million recorded in the fourth quarter. A further restructuring initiative was launched in 2008 when a \$60.6 million charge was recorded in the fourth quarter to facilitate a new organizational structure.
- 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, which was subsequently reversed during the fourth quarter of 2008.
- We recorded a future tax recovery of \$44.1 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 acquisition of Bell Canada's wireline operation in Ontario and Quebec and Bell Nordiq Group Inc., and a tax recovery of \$60.6 million in the fourth quarter of 2007, mainly related to the revaluation of net future tax assets and liabilities as a result of tax rate changes.

- We recorded an \$11.2 million write-down of goodwill in AMP during the first quarter of 2008, which was reflected in net earnings (loss) from discontinued operations. We commenced reporting AMP as discontinued operations in the second quarter of 2008.
- In 2008, we announced that we had entered into an asset purchase agreement for CAE Professional Services (Canada) Inc. (CAE) to acquire our DSA business, which currently operates under the xwave brand and commenced reporting our DSA business as discontinued operations. The transaction closed on May 1, 2009. The proceeds on closing were \$16.3 million, with an additional \$8.5 million of proceeds contingent upon the occurrence of certain events, for potential total proceeds of \$24.8 million.

Details regarding our results for the first quarter of 2009 are discussed throughout this document. Further information on our prior quarterly results can be found in the respective quarterly financial statements and related MD&A on our website at [www.bell.aliant.ca](http://www.bell.aliant.ca), and filed on SEDAR at [www.sedar.com](http://www.sedar.com).

## Financial and capital management

### Summary of cash flows

<i>For the three months ended March 31</i>			
<i>(millions of dollars)</i>	<b>2009</b>	<b>2008</b>	<b>% change</b>
Cash from (used in):			
Operating activities	<b>\$210.2</b>	\$236.1	(11.0)
Financing activities	<b>(89.2)</b>	(150.8)	(40.8)
Investing activities	<b>(107.5)</b>	(122.7)	(12.4)
Net increase (decrease) in cash from continuing operations	<b>\$13.5</b>	(\$37.4)	n.m.
Net increase (decrease) in cash from discontinued operations	<b>(4.4)</b>	0.2	n.m.
Net increase (decrease) in cash for the period	<b>\$9.1</b>	(\$37.2)	n.m.

n.m. - not meaningful

We generated cash of \$9.1 million in the first quarter of 2009, compared to using cash of \$37.2 million in the corresponding period of 2008.

#### *Operating activities*

Cash generated from operating activities decreased \$25.9 million, or 11.0 per cent, in the first quarter of 2009 compared to the same period in 2008. Cash flow used to fund working capital changes was \$66.7 million in the first quarter of 2009, a \$17.6 million increase over the first quarter of 2008. In the first quarter of each year we typically incur negative cash flow from working capital changes due, in part, to property tax payments, semi-annual interest payments and the annual payout of year-end salary incentive plans. In the first quarter of 2009, we also experienced a \$10.0 million decrease in payables and accruals related to the payment of severance under the restructuring accrual set up at the end of 2008. In addition to these increased cash requirements from working capital changes, the first quarter of 2009 also had a larger adjustment to net earnings from continuing operations for the non-cash future income tax recovery recognized in the period and \$1.7 million higher pension and OPEB funding requirements.

Total funding of our DB pension plans for the first quarter of 2009 was \$27.5 million, compared to \$25.9 million for the same period in 2008. Increases in our special deficit-reducing payments of \$1.3 million reflect higher contribution requirements to repay deficits incurred in 2007, as determined by our December 31, 2007, actuarial valuations which were filed in 2008. We are in the process of updating the actuarial valuations of our pension plans as of December 31, 2008. We expect these to be completed and filed by the end of the second quarter of 2009, and we will adjust our 2009 contributions to the plans based on the valuation results. We anticipate a material increase in our funding requirements based on

the results of these valuations, with total special deficit-reducing payments for 2009 expected to be in the range of \$90 to \$110 million, compared to \$49.2 million for the full year 2008.

#### *Financing activities*

Cash used in financing activities decreased by \$61.6 million for the first quarter of 2009, compared to the same period in 2008. This decrease is primarily due to a \$55.0 million repurchase of accounts receivable from the securitization trust in the first quarter of 2008, with no similar activity occurring under the program in the first quarter of 2009. We increase or decrease the amount of accounts receivable we sell to the securitization trust based on the amount of our eligible accounts receivable and our determination of the cost effectiveness of this program.

In the first quarter of 2009, we had net proceeds of short-term advances on our bank credit facilities and other short-term borrowing of \$85.2 million, while in 2008 we had net proceeds of \$68.7 million from these facilities. Net repayments of long-term debt, capital lease obligations and related party lending activities used cash of \$8.1 million in the first quarter of 2009, compared to using cash of \$3.5 million in the same period in 2008. Refer to the “Financing and liquidity” section for further discussion on our short-term and long-term debt.

Financing activities also include total distributions paid to the Fund and non-controlling interests, which were \$166.3 million in the first quarter of 2009 and \$161.0 million in the same period in 2008. The quarter-over-quarter increase was to enable the Fund to pay its increased distributions as there was a small increase in the number of Fund units outstanding combined with a per unit distribution rate increase effective February 2008.

#### *Investing activities*

Cash used in investing activities decreased by \$15.2 million in the first quarter of 2009, compared to the first quarter of 2008. Capital investments were \$107.5 million in the first quarter of 2009, compared to \$95.1 million in the same period 2008, representing an increase of \$12.4 million, or 13.0 per cent. Capital expenditures were higher due to the commencement of spending related to a long-term agreement with Bell Mobility to provide an enhanced transport network connecting cell sites in Atlantic Canada and regions of Quebec and Ontario. Capital expenditures were 13.0 per cent of operating revenues in the first quarter of 2009, which is slightly below our annual target of 13.5 per cent to 14.5 per cent, but higher than the prior year comparative of 11.3 per cent. We also used net cash of \$27.6 million in the first quarter of 2008 to purchase the assets and operations of KMTS on February 1, 2008, with no similar investment in the first quarter of 2009, which more than offset the quarter-over-quarter increase in capital expenditures.

### **Financing and liquidity**

#### *Sources of liquidity*

We derive most of our liquidity from cash from operating activities, as well as bank credit facilities, a commercial paper program, and our accounts receivable securitization program. We normally anticipate generating enough cash from our operating activities to pay for capital investments, distributions and other commitments. However, with an anticipated increase in pension deficit funding requirements for 2009, it is likely that we will draw on our dedicated pension reserve bank facility to supplement our operating cash flows to make these contributions. Utilizing this special-purpose credit facility will preserve capacity and access to liquidity for general operating purposes under our revolving credit facilities. We continue to monitor the global credit situation and take action such as this to preserve our access to necessary liquidity. We have not experienced, and do not anticipate, any material adverse consequences to date from recent market events with respect to our liquidity capacity.

Our capital structure is as follows:

<i>(millions of dollars, except as otherwise noted)</i>	<b>March 31, 2009</b>		<b>December 31, 2008</b>	
Partners' equity	<b>\$4,852.9</b>	52.0%	\$4,882.9	52.5%
Non-controlling interest	<b>1,646.4</b>	17.6%	1,662.5	17.8%
Net debt	<b>2,837.2</b>	30.4%	2,768.5	29.7%
Total capital	<b>\$9,336.5</b>	100.0%	\$9,313.9	100.0%

#### *Partners' capital*

We have an unlimited number authorized of each of the three classes of units. Our units are not publicly traded. The number of units issued and outstanding at May 6, 2009, which is unchanged from December 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.

#### *Debt*

We have a total of \$2.25 billion in unsecured and unsubordinated medium-term notes outstanding under Bell Aliant LP's trust indenture dated September 14, 2006. On April 28, 2009, Bell Aliant LP filed a new medium-term note shelf prospectus that will be available for future medium-term note issuances for a 25-month period. Amounts drawn under our non-revolving term bank facilities include \$100.0 million, which expires in July 2009, and \$50.0 million, which expires in June 2010. In addition, Télébec and NorthernTel have an aggregate \$143.8 million in debentures outstanding under their trust indentures, and there is \$22.5 million outstanding under capital lease obligations and other long-term debt. Our long-term debt has not significantly changed during the first quarter of 2009 and primarily reflects scheduled debt repayments.

There were no significant changes to our short-term credit facilities since December 31, 2008. Amounts drawn under these facilities increased during the first quarter of 2009 by \$85.2 million, to \$293.4 million at March 31, 2009. Of this increase, amounts drawn under our revolving operating facility increased \$57.0 million and under our pension reserve facility by \$10.0 million. We also maintain a \$400.0 million commercial paper program, supported by unused capacity on our revolving operating facilities. There was \$17.8 million issued under our commercial paper program at March 31, 2009, with no amounts issued at December 31, 2008.

There have been no changes to the covenants and provisions contained in our credit facilities as disclosed in our MD&A for the year ended December 31, 2008.

#### *Cash requirements*

We require a significant amount of cash to execute our business strategy. Our cash requirements for the first quarter of 2009 consisted of distributions to unitholders, investments in capital, pension plan funding, repayment of short and long-term debt, and payments of other commitments. Cash requirements in 2009 are expected to be similar to 2008. Specifically, it is anticipated that these requirements will result in the use of cash as follows:

- 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 million to \$660 million for 2009.
- We anticipate 2009 capital expenditures to be in the range of 13.5 to 14.5 per cent of operating revenues.

- We repay short-term and long-term debt according to its terms. In 2009, we have a \$100.0 million non-revolving term bank loan facility that expires and we anticipate being able to finance this repayment by drawing on our revolving operating facilities.
- All of our DB pension plans have funding deficits. Declining equity markets and government bond yields have caused these deficits to increase. We expect our required deficit funding for 2009 to increase to approximately \$90 to \$110 million. We plan to utilize our pension reserve bank facility to fund our pension deficit payments in 2009.
- Restructuring initiatives, announced during the fourth quarter of 2008 and first quarter of 2009, are expected to result in the use of cash of approximately \$70 million in fiscal 2009.
- We will also use cash for other commitments, such as operating leases and purchase commitments for equipment and other network infrastructure.

## **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 notes 21 and 24 to our audited consolidated financial statements for the year ended December 31, 2008, and in note 9 to our unaudited interim consolidated financial statements for the period ended March 31, 2009.

### *Accounts receivable securitization*

Under a revolving purchase and sale agreement, we sell certain accounts receivable to a securitization trust. During the quarter ended March 31, 2009, we received net cash proceeds of \$165.0 million, unchanged from December 31, 2008. Further details of these agreements are described in notes 1 and 3 to our audited consolidated financial statements for the year ended December 31, 2008.

### *Use of derivative financial instruments*

We use derivative financial instruments in the management of interest rate exposures associated with our long and short-term debt and specific firm commitments. At March 31, 2009, we had outstanding fixed-floating interest rate swap contracts with notional values totalling \$250.0 million and fair values totalling \$14.7 million in favour of the counterparty. The fair values are recorded as derivative liabilities. These swap contracts are being accounted for as hedges of a portion of our floating-rate debt. Further details of our use of derivative financial instruments and the accounting policies we follow are provided in notes 1 and 15 to our audited consolidated financial statements for the year ended December 31, 2008.

## **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 24 to our audited consolidated financial statements for the year ended December 31, 2008, and to note 10 of our unaudited interim consolidated financial statements for the period ended March 31, 2009.

## **Significant accounting policies**

Our consolidated financial statements as at and for the three months ended March 31, 2009, have been prepared in accordance with Canadian GAAP. Our accounting policies and methods and critical accounting estimates and assumptions are consistent with those as described in note 1 to our consolidated financial statements for the year ended December 31, 2008, except for the adoption of the new accounting standard related to goodwill and intangible assets.

## Goodwill and intangible assets

Commencing January 1, 2009, we adopted Section 3064, Goodwill and Intangible Assets, issued by the Canadian Institute of Chartered Accountants (CICA), which provides guidance on the management, recognition, presentation and disclosure of these assets. The adoption of this Section did not have a material effect on our operations or financial reporting.

### *Future changes in accounting policies*

The Accounting Standards Board of the CICA continually updates 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.

## Business Combinations, Consolidated Financial Statements, and Non-Controlling Interests

The CICA issued Section 1582, Business combinations, concurrently with Sections 1601, Consolidated financial statements, and 1602, Non-controlling interests. Section 1582, which replaced Section 1581, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. Section 1601, which replaced Section 1600, carries forward the existing Canadian guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition, except for those dealing with non-controlling interests. Section 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination. The new standards apply to interim and annual financial statements for fiscal years beginning on or after January 1, 2011, with early adoption permitted. We are currently assessing the effect of the new standards on our consolidated financial statements.

## International financial reporting standards (IFRS)

In April 2008, the Accounting Standards Board released an exposure draft, Adopting IFRSs in Canada, which proposes to fully converge Canadian GAAP with IFRS effective January 1, 2011. The convergence will occur over a transitional period, with certain standards adopted prior to 2011 and other standards at the date of transition. The International Accounting Standards Board is continually mandating projects and making pronouncements to evolve IFRS, and as a result, IFRS at the transition date is expected to differ from its current form.

As discussed in our MD&A for the year ended December 31, 2008, we have developed a four-phase approach to transitioning to IFRS as follows:

*Phase 1 – Raise awareness and initial assessment*

*Phase 2 – Detailed assessment*

*Phase 3 – Design*

*Phase 4 – Implementation*

We are currently compiling and analyzing the information obtained in the detailed assessment phase and will be presenting our evaluation of and recommendations for appropriate accounting policy choices to our audit committee in the second quarter of 2009. We will continue to refine these policies as we complete our conversion effort. We have commenced designing operational process changes, which includes IT and data systems, internal controls over financial reporting, and developing and maintaining two parallel sets of records in 2010. We anticipate substantially completing phase three by the end of the second quarter of 2009.

We anticipate commencing phase four in the second quarter of 2009. We expect phase four will run through to December 31, 2010.

## Regulatory developments

Regulatory developments in 2009, up to and including May 6, 2009, which are, or may be, significant to our business, include the following:

- *Forbearance* - Forbearance has been granted in 159 exchanges for residential service and 41 exchanges for business service, of which 2 exchanges for residential service were granted in 2009.
- *Review of regulatory measures* – On March 24, 2009, consistent with their previously issued policy direction, the CRTC issued Telecom Regulatory Policy CRTC 2009-156 in which it eliminated certain regulatory requirements to provide information to customers. On April 8, 2009, the CRTC issued Telecom Regulatory Policy 2009-183 in which it eliminated or modified the regulatory requirement to monitor and report data for certain telecommunication services.
- *Access to Next Generation Access Services* - On January 26, 2009, the CRTC initiated a proceeding to consider issues regarding the appropriate configuration, classification, and feasibility of an unbundled asymmetric digital subscriber line (ADSL) access service for use by competitors. Pending disposition of our joint application with Bell Canada that the above proceeding should be considered in parallel to a proceeding requested by a competitor with respect to the unbundling of cable plant networks, the above proceeding has been suspended until further notice.

On March 11, 2009, together with Bell Canada, we jointly, and Telus separately, filed petitions requesting that the Governor in Council rescind Telecom Order CRTC 2009-111, and vary Telecom Decision 2008-117 which set out the requirements to provide aggregated wholesale digital subscriber line (DSL) services to match the speeds of retail Internet services including those offered over our fibre-to-the-node access facilities. We also jointly filed an application asking the Commission for a stay of execution of Telecom Decision 2008-117 and Telecom Order CRTC 2009-111 as they relate to this requirement, pending a determination of the petitions to the Governor in Council. Also on March 11, 2009, a petition was filed by a competitor asking that the Governor in Council direct the Commission to require more unbundling of wholesale Ethernet and ADSL services and to reclassify such services as essential, thus lowering the price of those services. The Governor in Council sought comments regarding these petitions by May 4, 2009.

- *Other Developments* - In Telecom Decision 2009-187, the Commission denied Rogers Communications Inc (“Rogers”) application to review and vary Telecom Decision 2008-62 where the Commission determined that our obligations to them under a 2002 Support Structure Agreement had ended in March 2004 when New Brunswick Power Distribution and Customer Service Corporation (NB Power) terminated the underlying Joint Sub-Agreement: Support Structure – Third Party Attachments between NB Power and ourselves, under which we administered certain NB Power support structures. The media has reported that Rogers intends to pursue this matter further through legal action, although at this time we are not yet aware of any legal action against us relating to this matter.

## 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, 2008, and in this MD&A are based on a number of assumptions that we believe were reasonable on the day we made the forward-looking statements. In our MD&A for the year ended December 31, 2008, 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 2009. These assumptions include economic, market, financial and operational and transaction assumptions, and except as outlined below, have not changed significantly up to May 6, 2009.

## 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 organization 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, 2008, and our 2008 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 do not presently consider material to our consolidated operations.

During the first quarter of 2009, 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, 2008, and our 2008 Annual Information Form. We have provided updates on our regulatory and competitive environments in the “Regulatory developments” and “Our business environment” sections.

## Non-GAAP financial measures

The terms operating income, EBITDA (earnings before interest, taxes, depreciation and amortization), 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>	<b>2009</b>	<b>2008</b>
Operating revenues	<b>\$828.0</b>	\$837.9
Expenses	<b>682.0</b>	684.0
<b>Operating income</b>	<b>\$146.0</b>	\$153.9

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 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>		
	<b>2009</b>	<b>2008</b>
Operating income	<b>\$146.0</b>	\$153.9
Add: Net cost of benefit plans	<b>22.2</b>	24.8
Depreciation and amortization	<b>177.2</b>	174.5
Restructuring charges	<b>10.3</b>	0.1
<b>EBITDA</b>	<b>\$355.7</b>	\$353.3

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 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; and
- (ii) 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 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, Quebec, New Brunswick and Nova Scotia. At this point, all of these provinces have announced phased elimination of capital taxes in prior budgets; therefore, 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>	<b>2009</b>	<b>2008</b>
Cash from operating activities	<b>\$210.2</b>	\$236.1
Add (deduct):		
Cash from operating activities of discontinued operations	<b>0.7</b>	1.8
Cash from operating activities of the Fund	<b>(12.0)</b>	(0.3)
Capital expenditures	<b>(107.5)</b>	(95.1)
<b>Standardized distributable cash</b>	<b>91.4</b>	142.5
Add (deduct):		
Operating items funded through cash reserves or borrowing:		
Change in operating assets and liabilities (working capital)	<b>66.7</b>	49.1
Change in operating assets and liabilities (working capital) of the Fund	<b>11.0</b>	(0.8)
Pension deficit funding	<b>13.7</b>	12.4
Restructuring charges	<b>9.4</b>	0.1
Cash capital taxes in excess of normalized levels	<b>2.1</b>	3.0
Other adjustments:		
Current income tax (expense) recovery	-	(3.9)
Other non-cash items provided for in working capital changes	<b>2.2</b>	4.4
<b>Distributable cash</b>	<b>\$196.5</b>	\$206.8

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 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.

## Controls and Procedures

### Internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*. Our system of internal control is based on the framework and criteria published in the report Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and is designed 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 control over financial reporting during the three months ended March 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP**  
**Consolidated balance sheets**

<b>(Unaudited)</b>		<b>As at</b>	<b>As at</b>
<i>(millions of dollars)</i>	<b>Notes</b>	<b>March 31, 2009</b>	<b>December 31, 2008</b>
<b>Assets</b>			
Current assets			
Cash and cash equivalents		\$ 23.7	\$ 14.6
Accounts receivable		351.1	348.4
Inventory		14.1	13.3
Prepayments		34.4	16.5
Future income tax asset		48.8	40.8
Income tax receivable		13.8	9.1
Current assets of discontinued operations	2	17.4	15.0
		<b>503.3</b>	<b>457.7</b>
Capital investments			
Property, plant and equipment		3,693.6	3,726.1
Finite-life intangibles	3	3,183.1	3,218.3
		<b>6,876.7</b>	<b>6,944.4</b>
Other assets			
Long-term receivables		34.7	34.9
Deferred charges		15.1	15.9
Future income tax asset		6.9	7.1
Accrued benefit asset	4	402.9	398.9
Indefinite-life intangibles		125.2	125.2
Goodwill		2,766.6	2,766.6
Non-current assets of discontinued operations	2	2.1	2.3
		<b>3,353.5</b>	<b>3,350.9</b>
<b>Total assets</b>		<b>\$ 10,733.5</b>	<b>\$ 10,753.0</b>
<b>Liabilities and partners' equity</b>			
Current liabilities			
Notes payable to related party	10	\$ 1.2	\$ 6.2
Payables and accruals	5	401.1	451.2
Distributions payable	10	55.4	55.4
Future income tax liability		0.7	0.5
Short-term debt	6	293.4	208.2
Long-term debt due within one year		114.8	114.7
Current liabilities of discontinued operations	2	5.0	7.6
		<b>871.6</b>	<b>843.8</b>
Future income tax liability		452.0	453.2
Long-term debt		2,451.5	2,454.0
Derivative liabilities		14.7	15.2
Accrued benefit liability	4	416.9	421.9
Deferred credits and other long-term liabilities	5	27.5	19.5
		<b>4,234.2</b>	<b>4,207.6</b>
Non-controlling interest		1,646.4	1,662.5
Partners' equity		4,852.9	4,882.9
<b>Total liabilities and partners' equity</b>		<b>\$ 10,733.5</b>	<b>\$ 10,753.0</b>

*See accompanying notes to the consolidated financial statements*

## BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP

### Consolidated statements of earnings

For the three months ended March 31

(Unaudited)

<i>(millions of dollars, except earnings per unit)</i>	Notes	2009		2008	
Operating revenues		\$	828.0	\$	837.9
Expenses					
Operating expenses			494.5		509.4
Depreciation and amortization			177.2		174.5
Restructuring and other charges	5		10.3		0.1
			<b>682.0</b>		684.0
			<b>146.0</b>		153.9
Other expenses (income)			(0.4)		1.9
Interest charges					
Interest on long-term debt			34.4		34.3
Other interest expense			3.1		5.3
			<b>37.5</b>		39.6
Earnings before underlisted items			<b>108.9</b>		112.4
Income taxes					
Current tax recovery			-		(3.9)
Future tax expense (recovery)			(9.1)		5.7
			<b>(9.1)</b>		1.8
Earnings before non-controlling interest			<b>118.0</b>		110.6
Non-controlling interest			<b>36.3</b>		36.4
Net earnings from continuing operations			<b>81.7</b>		74.2
Net earnings (loss) from discontinued operations	2		<b>0.8</b>		(9.9)
<b>Net earnings</b>		<b>\$</b>	<b>82.5</b>	<b>\$</b>	<b>64.3</b>
<b>Earnings per unit</b>					
Basic from continuing operations		<b>\$</b>	<b>0.51</b>	<b>\$</b>	0.46
Basic from discontinued operations			-		(0.06)
Basic		<b>\$</b>	<b>0.51</b>	<b>\$</b>	0.40

See accompanying notes to the consolidated financial statements

### Consolidated statements of comprehensive earnings

For the three months ended March 31

(Unaudited)

<i>(millions of dollars)</i>	2009		2008	
Net earnings	\$	82.5	\$	64.3
Other comprehensive earnings (losses), net of tax:				
Gains (losses) on derivatives designated as cash flow hedges, net of tax of \$0.1 (2008 - \$0.9)		0.4		(3.4)
Reclassification to net earnings of losses on derivatives designated as cash flow hedges, net of tax of \$0.3 (2008 - \$0.2)		1.0		1.0
		<b>1.4</b>		(2.4)
<b>Comprehensive earnings</b>	<b>\$</b>	<b>83.9</b>	<b>\$</b>	<b>61.9</b>

See accompanying notes to the consolidated financial statements

**BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP**  
**Consolidated statements of partners' equity**  
**(Unaudited)**

For the three months ended March 31, 2009		Partners' capital	Contributed surplus	Accumulated earnings	Distributions declared to unitholders	Retained earnings	Accumulated other comprehensive earnings (loss)	Total partners' equity
<i>(millions of dollars)</i>	Notes							
Balance December 31, 2008		\$ 2,061.5	\$ 0.4	\$ 1,056.2	\$ (1,065.7)	\$ 2,873.2	\$ (42.7)	\$ 4,882.9
Net earnings		-	-	82.5	-	-	-	82.5
Distributions declared on:								
Class 1 exchangeable limited partnership units		-	-	-	(20.4)	-	-	(20.4)
Class 2 limited partnership units	10	-	-	-	(93.5)	-	-	(93.5)
Other comprehensive earnings, net of tax		-	-	-	-	-	1.4	1.4
<b>Balance March 31, 2009</b>		<b>\$ 2,061.5</b>	<b>\$ 0.4</b>	<b>\$ 1,138.7</b>	<b>\$ (1,179.6)</b>	<b>\$ 2,873.2</b>	<b>\$ (41.3)</b>	<b>\$ 4,852.9</b>

For the three months ended March 31, 2008		Partners' capital	Contributed surplus	Accumulated earnings	Distributions declared to unitholders	Retained earnings	Accumulated other comprehensive earnings (loss)	Total partners' equity
<i>(millions of dollars)</i>	Notes							
Balance December 31, 2007		\$ 1,548.0	\$ 0.2	\$ 734.0	\$ (611.4)	\$ 2,873.2	\$ (37.2)	\$ 4,506.8
Net earnings		-	-	64.3	-	-	-	64.3
Issuance of class 2 limited partnership units on business combination		513.5	-	-	-	-	-	513.5
Distributions declared on:								
Class 1 exchangeable limited partnership units		-	-	-	(20.2)	-	-	(20.2)
Class 2 limited partnership units	10	-	-	-	(92.2)	-	-	(92.2)
Other comprehensive losses, net of tax		-	-	-	-	-	(2.4)	(2.4)
<b>Balance March 31, 2008</b>		<b>\$ 2,061.5</b>	<b>\$ 0.2</b>	<b>\$ 798.3</b>	<b>\$ (723.8)</b>	<b>\$ 2,873.2</b>	<b>\$ (39.6)</b>	<b>\$ 4,969.8</b>

See accompanying notes to the consolidated financial statements

**BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP**  
**Consolidated statements of cash flows**  
**For the three months ended March 31**  
**(Unaudited)**

<i>(millions of dollars)</i>	<b>Notes</b>	<b>2009</b>		<b>2008</b>
<b>Cash from (used in) operating activities</b>				
Net earnings from continuing operations	\$	<b>81.7</b>	\$	74.2
Adjustments to reconcile net earnings to cash from operating activities				
Depreciation and amortization		<b>177.2</b>		174.5
Future income tax expense (recovery)		<b>(9.1)</b>		5.7
Net cost of benefit plans	4	<b>20.3</b>		23.0
Funding of defined benefit pension and other post-employment benefit plans	4	<b>(29.3)</b>		(27.6)
Non-controlling interest		<b>36.3</b>		36.4
Other		<b>(0.2)</b>		(1.0)
Change in operating assets and liabilities		<b>(66.7)</b>		(49.1)
		<b>210.2</b>		236.1
<b>Cash from (used in) financing activities</b>				
Repurchase of accounts receivable		-		(55.0)
Net proceeds of short-term debt		<b>85.2</b>		68.7
Net repayments of notes payable to related party		<b>(5.0)</b>		(0.8)
Repayment of long-term debt		<b>(0.9)</b>		(0.8)
Repayment of capital lease obligations		<b>(2.2)</b>		(1.9)
Distributions paid by subsidiaries to non-controlling		<b>(52.4)</b>		(55.9)
Distributions paid		<b>(113.9)</b>		(105.1)
		<b>(89.2)</b>		(150.8)
<b>Cash used in investing activities</b>				
Purchase of capital investments		<b>(107.5)</b>		(95.1)
Business acquisition, net of cash received		-		(27.6)
		<b>(107.5)</b>		(122.7)
Net increase (decrease) in cash from continuing		<b>13.5</b>		(37.4)
Net increase (decrease) in cash from discontinued operations	2	<b>(4.4)</b>		0.2
Cash and cash equivalents, beginning of year		<b>14.6</b>		48.1
<b>Cash and cash equivalents, end of year</b>	<b>\$</b>	<b>23.7</b>	<b>\$</b>	<b>10.9</b>
<b>Supplementary disclosure</b>				
Interest paid	\$	<b>63.8</b>	\$	64.2
Income taxes paid (recovered), net	\$	<b>0.2</b>	\$	(0.9)

*See accompanying notes to the consolidated financial statements*

**BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
**March 31, 2009**

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

Our operations are principally focused on regional telecommunications services in Atlantic Canada, Quebec and Ontario. We provide a wide range of innovative and traditional voice and data communications services as well as information technology (IT) consulting, infrastructure management, product fulfillment and advanced technology solutions. We provide these services through our principal operating subsidiaries which include Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Télébec, Limited Partnership (Télébec), NorthernTel, Limited Partnership (NorthernTel), and Innovatia Inc.

## **1. SIGNIFICANT ACCOUNTING POLICIES**

### ***Consolidated financial statements***

We have prepared these unaudited interim consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP) using the same basis of presentation and accounting policies as our audited consolidated financial statements for the year ended December 31, 2008, with the exception of the adoption of a new accounting policy discussed below. These unaudited interim consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2008.

### ***Goodwill and intangible assets***

Commencing January 1, 2009, we adopted Section 3064, Goodwill and intangible assets, issued by the Canadian Institute of Chartered Accountants (CICA), which provides guidance on the measurement, recognition, presentation and disclosure of these items. The adoption of this Section did not have a material effect on our operations or financial reporting.

### ***Future changes in accounting policies***

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

### ***Business combinations, Consolidated financial statements, and Non-controlling interests***

The CICA issued Section 1582, Business combinations, concurrently with Sections 1601, Consolidated financial statements, and 1602, Non-controlling interests. Section 1582, which replaced Section 1581, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. Section 1601, which replaced Section 1600, carries forward the existing Canadian guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition except for those dealing with non-controlling interests. Section 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination. The new standards apply to interim and annual financial statements for fiscal years beginning on or after January 1, 2011, with early adoption permitted. We are currently assessing the effect of the new standards on our consolidated financial statements.

## **2. DISCONTINUED OPERATIONS**

### ***Defence, Security and Aerospace business (DSA)***

In 2008, Bell Aliant Holdings LP and CAE Professional Services (Canada) Inc. (CAE) entered into an asset purchase agreement for CAE to acquire our DSA business unit, which currently operates under the xwave brand. The transaction closed on May 1, 2009. The proceeds on closing were \$16.3 million, with an additional \$8.5 million of proceeds contingent upon the occurrence of certain events, for potential total proceeds of \$24.8 million.

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**2. DISCONTINUED OPERATIONS (Continued)**

*Atlantic Mobility Products Limited Partnership (AMP)*

Effective July 4, 2008, Bell Canada discontinued using AMP as their exclusive distributor of mobility products in Atlantic Canada, which resulted in the elimination of our mobility hardware and accessories wholesale distribution business. As a result, the results of operations of this business were presented as discontinued operations in 2008.

*Presentation of discontinued operations*

The net assets of our DSA business unit are presented in the consolidated balance sheets as assets and liabilities of discontinued operations at their carrying amounts. The following table shows the major categories of the assets and liabilities of the discontinued operations:

<i>(millions of dollars)</i>	<b>As at</b>		<b>As at</b>	
	<b>March 31, 2009</b>		<b>December 31, 2008</b>	
Current assets of discontinued operations				
Accounts receivable	\$	17.0	\$	14.9
Prepayments		0.4		0.1
	\$	17.4	\$	15.0
Non-current assets of discontinued operations				
Capital investments				
Property, plant and equipment	\$	0.5	\$	0.7
Finite-life intangibles		-		0.1
Deferred charges		1.6		1.5
	\$	2.1	\$	2.3
Current liabilities of discontinued operations				
Payables and accruals	\$	5.0	\$	7.6

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

<i>(millions of dollars)</i>	<b>2009</b>		<b>2008</b>		
	<b>DSA</b>		<b>DSA</b>	<b>AMP</b>	<b>Total</b>
For the three months ended March 31					
Operating revenues	\$	7.2	\$	7.0	\$
Expenses		6.3		6.9	18.8
Write-down of goodwill		-		-	11.2
Income tax expense		0.1		-	0.5
Net earnings (loss) from discontinued operations	\$	0.8	0.1	(10.0)	(9.9)

The cash used in the operating activities of the DSA business during the three months ended March 31, 2009, was \$4.4 million (March 31, 2008 – cash used in the operating activities of our DSA business was \$1.5 million, and cash from operating activities of AMP was \$1.7 million).

**3. FINITE-LIFE INTANGIBLES**

During the three months ended March 31, 2009, the cost of the acquired finite-life intangibles was \$5.4 million (March 31, 2008 – \$5.3 million), and the cost of the internally developed finite-life intangibles was \$12.3 million (March 31, 2008 – \$11.5 million). In the first quarter of 2008, we also acquired \$181.9 million in finite-life intangibles related to the transfer by the Fund of their 36.7 per cent interest in Télébec and NorthernTel to us.

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**4. POST-EMPLOYMENT BENEFITS**

*Accrued benefit asset (liability)*

The following table shows the status of the defined benefit (DB) pension and other post employment benefit (OPEB) plans and changes during the period.

<i>(millions of dollars)</i>	DB pension plans	OPEB plans	Total
Accrued benefit asset (liability) as at December 31, 2008	\$ 199.5	\$ (222.5)	\$ (23.0)
Net cost of benefit plans	(18.8)	(1.5)	(20.3)
Contributions	27.5	1.8	29.3
Accrued benefit asset (liability) as at March 31, 2009	\$ 208.2	\$ (222.2)	\$ (14.0)
Accrued benefit asset	\$ 402.9	\$ -	\$ 402.9
Accrued benefit liability	(194.7)	(222.2)	(416.9)
	\$ 208.2	\$ (222.2)	\$ (14.0)

*Net cost of benefit plans*

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

<i>(millions of dollars)</i>	2009	2008
<i>For the three months ended March 31</i>		
<i>DB pension plans</i>		
Current service cost	\$ 11.7	\$ 15.5
Interest on the accrued benefit obligation	39.9	40.3
Expected return on plan assets	(38.6)	(39.8)
Amortization of deferred amounts:		
Past service costs	1.4	1.4
Net actuarial losses	4.4	3.9
	\$ 18.8	\$ 21.3
<i>OPEB plans</i>		
Current service cost	\$ 0.4	\$ 0.5
Interest on the accrued benefit obligation	2.7	2.8
Amortization of deferred amounts:		
Past service costs	(2.0)	(2.0)
Net actuarial losses	0.4	0.4
	\$ 1.5	\$ 1.7
Total net cost of DB pension and OPEB plans	\$ 20.3	\$ 23.0

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**4. POST-EMPLOYMENT BENEFITS (Continued)**

*Benefit plan contributions*

Our contributions to DB and defined contribution (DC) pension plans as well as OPEB plans are as follows:

For the three months ended March 31 <i>(millions of dollars)</i>	<b>2009</b>	2008
DB pension plans contributions	<b>\$ 27.5</b>	\$ 25.9
OPEB plans contributions	<b>1.8</b>	1.7
Funding of DB pension and OPEB plans	<b>\$ 29.3</b>	\$ 27.6
DC pension plans contributions	<b>1.9</b>	1.8
Total contributions	<b>\$ 31.2</b>	\$ 29.4

**5. RESTRUCTURING AND OTHER CHARGES**

On March 26, 2009, we offered a voluntary retirement incentive to a limited number of our unionized employees in Atlantic Canada. The offer supports our productivity initiatives and will create a more efficient cost structure. As a result, we estimated and recorded a pre-tax restructuring charge of \$9.4 million in employee costs, which will be paid as employees retire in 2009.

During 2008, we recorded pre-tax restructuring and other charges of \$60.7 million related to our continued organizational productivity initiatives and the departure of senior executive. The charge included \$59.8 million of severance and benefit costs, \$6.5 million of real estate rationalization costs, and a \$5.6 million reduction to the estimated cost of the 2007 restructuring liability to reflect its final costs.

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

<i>(millions of dollars)</i>		
Restructuring charge liability as at December 31, 2008	<b>\$</b>	<b>65.1</b>
Employee costs		<b>9.4</b>
Cash payments		<b>(19.4)</b>
Restructuring charge liability as at March 31, 2009	<b>\$</b>	<b>55.1</b>

As at March 31, 2009, the restructuring charge liability included \$6.5 million in real estate rationalization costs, which are included in other long-term liabilities as they will be drawn down after 2009.

During the three months ended March 31, 2009, we incurred \$0.9 million of other charges, which mainly related to rebranding.

**6. SHORT-TERM DEBT**

Amounts drawn under operating facilities are as follows:

<i>(millions of dollars)</i>	<b>As at March 31, 2009</b>	As at December 31, 2008
Drawn amounts:		
Revolving operating facilities	<b>\$ 250.0</b>	\$ 193.0
Non-revolving pension reserve facilities	<b>25.0</b>	15.0
Commerical paper program	<b>17.8</b>	-
Other	<b>0.6</b>	0.2
	<b>\$ 293.4</b>	\$ 208.2

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**6. SHORT-TERM DEBT (Continued)**

Bankers' Acceptance advances of \$275.0 million (December 31, 2008 - \$208.0 million) outstanding under our revolving operating and non-revolving pension reserve facilities bear interest at rates from 0.95 to 1.19 per cent per annum and mature on dates from April 1 to May 22, 2009.

We ensure at all times that sufficient undrawn capacity exists on our revolving operating facilities to support issuances of commercial paper. Short-term promissory notes issued under our commercial paper program bear interest at 0.90 per cent per annum and mature on April 28, 2009.

**7. FINANCIAL INSTRUMENTS**

*Fair value of financial instruments*

The carrying value of all financial instruments approximate fair value with the exception of long-term debt and the amount due within one year, which at March 31, 2009, has a carrying value of \$2,566.3 million and a fair value of \$2,388.9 million (December 31, 2008 – \$2,568.7 million and \$2,318.3 million, respectively).

**8. UNIT-BASED COMPENSATION PLANS**

*Employee unit purchase plans*

The total number of Fund units bought on the open market for our employees during the three months ended March 31, 2009, was 577,203 (March 31, 2008 – 489,949). Compensation expense related to the employee unit purchase plans of \$2.3 million was recorded for the three months ended March 31, 2009 (March 31, 2008 – \$2.3 million).

*Deferred unit plan*

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

For the three months ended March 31	2009	2008
Deferred units outstanding, beginning of period	1,181,958	794,980
Granted:		
Service period fiscal 2009 to 2011	350,492	-
Reinvested distributions	30,909	19,621
	381,401	19,621
Forfeited	(34,608)	(5,087)
Exercised	(245,545)	(3,412)
Deferred units outstanding, end of period	1,283,206	806,102
Deferred units vested, end of period	437,769	358,232

The weighted average grant-date fair value of the 381,401 deferred units granted in the three months ended March 31, 2009, totals \$10.0 million (March 31, 2008 – 19,621 deferred units granted totals \$0.6 million). For the three months ended March 31, 2009, compensation expense of \$2.9 million (March 31, 2008 – \$3.7 million) was recorded related to the deferred units outstanding.

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**9. COMMITMENTS**

*Operating leases and purchase commitments*

The estimated future minimum lease payments under operating leases and purchase commitments are as follows:

<i>(millions of dollars)</i>	Remainder of					
	2009	2010	2011	2012	2013	Thereafter
Operating leases	\$ 29.7	\$ 37.2	\$ 34.6	\$ 32.2	\$ 32.0	\$ 322.8
Purchase commitments	268.8	324.0	306.1	304.3	292.2	2,188.3
	\$ 298.5	\$ 361.2	\$ 340.7	\$ 336.5	\$ 324.2	\$ 2,511.1

**10. RELATED PARTY TRANSACTIONS**

The Fund is entirely dependent on the distributions we pay to them to make their distributions. For the three months ended March 31, 2009, we declared distributions to them of \$93.5 million (March 31, 2008 – \$92.2 million). At March 31, 2009, \$31.2 million was included in distributions payable (December 31, 2008 – \$31.2 million).

The Fund loans us their excess cash through a series of promissory notes. The Fund requests repayments as required for operating purposes. The \$6.2 million promissory note that was payable to the Fund at December 31, 2008, was repaid on January 15, 2009. Subsequently issued promissory notes carried rates of interest from 0.76 per cent to 1.81 per cent per annum, resulting in an immaterial amount of interest expense being incurred during the three months ended March 31, 2009. At March 31, 2009, a \$1.2 million promissory note was payable to the Fund, which bears interest at 0.76 per cent per annum and matures on April 15, 2009.

**11. SUBSEQUENT EVENTS**

*Future taxes*

On April 14, 2009, the New Brunswick provincial government introduced legislation to enact tax changes, which called for a phased-in reduction in the provincial general corporate income tax rate from 13 per cent in 2008 to 8 percent by 2012. We estimate these substantively enacted tax rates will reduce our future tax liability, as reported at March 31, 2009, by approximately \$9.6 million.

