

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. These and other continuous disclosure documents are also available at 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 as well as 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*[™] 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>	2009	2008	% change
Operating revenues	\$828.0	\$837.9	(1.2)
EBITDA ⁽¹⁾	\$355.7	\$353.3	0.7
Operating income ⁽¹⁾	\$146.0	\$153.9	(5.1)
Net earnings from continuing operations	\$81.7	\$74.2	10.1
Net earnings (loss) from discontinued operations	\$0.8	(\$9.9)	n.m.
Net earnings	\$82.5	\$64.3	28.3

n.m. not meaningful

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

Operating revenues 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>	2009	2008	% change
Cash from operating activities	\$210.2	\$236.1	(11.0)
<i>Add (deduct):</i> Cash from operating activities of the Fund and discontinued operations	(11.3)	1.5	n.m.
Capital expenditures	(107.5)	(95.1)	13.0
Standardized distributable cash ⁽¹⁾	\$91.4	\$142.5	(35.9)
<i>Add (deduct):</i> Operating items funded through cash reserves or borrowing	102.9	63.8	61.3
Other adjustments	2.2	0.5	340.0
Distributable cash ⁽¹⁾	\$196.5	\$206.8	(5.0)
Net earnings	\$82.5	\$64.3	28.3
Cash distributions declared ⁽²⁾	\$164.9	\$163.3	1.0
Excess of cash from operating activities over cash distributions declared ⁽³⁾	\$34.0	\$74.3	(54.2)
Shortfall of net earnings over cash distributions declared	(\$82.4)	(\$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>	2009	2008	% change
Local and access	\$338.2	\$346.8	(2.5)
Long distance	106.0	112.7	(5.9)
Data & Internet	200.2	193.8	3.3
IT services and fulfillment	116.5	107.3	8.6
Wireless	19.8	17.9	10.6
Other revenues	47.3	59.4	(20.4)
Operating revenues	\$828.0	\$837.9	(1.2)
Operating expenses	472.3	484.6	(2.5)
EBITDA ⁽¹⁾	\$355.7	\$353.3	0.7
Net cost of benefit plans	22.2	24.8	(10.5)
Depreciation and amortization	177.2	174.5	1.5
Restructuring and other charges	10.3	0.1	n.m.
Operating income ⁽¹⁾	\$146.0	\$153.9	(5.1)
Other expenses (income)	(0.4)	1.9	(121.1)
Interest charges	37.5	39.6	(5.3)
Income tax expense (recovery)	(9.1)	1.8	n.m.
Non-controlling interest	36.3	36.4	(0.3)
Net earnings from continuing operations	\$81.7	\$74.2	10.1
Net earnings (loss) from discontinued operations	0.8	(9.9)	n.m.
Net earnings	\$82.5	\$64.3	28.3

n.m. not meaningful

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

Operating revenues

Local and access

Our local and access revenue is earned primarily through the provision of network access services (NAS), along with enhanced service features, contribution payments and competitor network access payments. Despite a 3.9 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>	2009	2008	% change
Cost of sales	\$169.8	\$146.3	16.1
Salaries, benefits, contract labour and consulting	157.2	180.1	(12.7)
Selling, general and administrative	143.2	155.2	(7.7)
Capital taxes	2.1	3.0	(30.0)
Operating expenses	\$472.3	\$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 ⁽¹⁾	\$355.7	\$365.6	\$371.0	\$361.0	\$353.3	\$365.6	\$369.8	\$355.2
Operating income ⁽¹⁾	\$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 ⁽¹⁾	\$196.5	\$146.2	\$179.3	\$183.3	\$206.8	\$169.5	\$177.6	\$162.2
Cash distributions declared ⁽²⁾	\$164.9	\$164.8	\$164.9	\$164.9	\$163.3	\$160.1	\$161.3	\$163.5

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

⁽²⁾ 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, and filed on SEDAR at 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>	2009	2008	% change
Cash from (used in):			
Operating activities	\$210.2	\$236.1	(11.0)
Financing activities	(89.2)	(150.8)	(40.8)
Investing activities	(107.5)	(122.7)	(12.4)
Net increase (decrease) in cash from continuing operations	\$13.5	(\$37.4)	n.m.
Net increase (decrease) in cash from discontinued operations	(4.4)	0.2	n.m.
Net increase (decrease) in cash for the period	\$9.1	(\$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>	March 31, 2009		December 31, 2008	
Partners' equity	\$4,852.9	52.0%	\$4,882.9	52.5%
Non-controlling interest	1,646.4	17.6%	1,662.5	17.8%
Net debt	2,837.2	30.4%	2,768.5	29.7%
Total capital	\$9,336.5	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>	2009	2008
Operating revenues	\$828.0	\$837.9
Expenses	682.0	684.0
Operating income	\$146.0	\$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>	2009	2008
Operating income	\$146.0	\$153.9
Add: Net cost of benefit plans	22.2	24.8
Depreciation and amortization	177.2	174.5
Restructuring charges	10.3	0.1
EBITDA	\$355.7	\$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>	2009	2008
Cash from operating activities	\$210.2	\$236.1
Add (deduct):		
Cash from operating activities of discontinued operations	0.7	1.8
Cash from operating activities of the Fund	(12.0)	(0.3)
Capital expenditures	(107.5)	(95.1)
<i>Standardized distributable cash</i>	91.4	142.5
Add (deduct):		
Operating items funded through cash reserves or borrowing:		
Change in operating assets and liabilities (working capital)	66.7	49.1
Change in operating assets and liabilities (working capital) of the Fund	11.0	(0.8)
Pension deficit funding	13.7	12.4
Restructuring charges	9.4	0.1
Cash capital taxes in excess of normalized levels	2.1	3.0
Other adjustments:		
Current income tax (expense) recovery	-	(3.9)
Other non-cash items provided for in working capital changes	2.2	4.4
Distributable cash	\$196.5	\$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.