



Bell Aliant Regional Communications Holdings, Limited Partnership

Management's Discussion and Analysis

First Quarter 2007

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, 2007, compared to the corresponding period in 2006. This MD&A should be read in conjunction with our unaudited interim consolidated financial statements and accompanying notes for the period ended March 31, 2007, and our December 31, 2006, audited consolidated financial statements and accompanying notes, and related MD&A. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All amounts in this MD&A are in millions of Canadian dollars, except where otherwise noted.

Throughout this MD&A, 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. Throughout this MD&A, the term "Aliant" refers to the former Aliant Inc. and its subsidiaries.

Quarterly reports, annual reports and supplementary financial information, as well as annual information forms and information circulars, can be found under "financial reports" on our 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 April 30, 2007, and is current to that date, unless otherwise stated. This MD&A contains forward-looking statements related to our future financial condition and results of operations. These statements are based on current expectations and estimates about the markets in which we operate and management's beliefs and assumptions regarding these markets. Unless otherwise indicated, forward-looking statements in this MD&A describe our expectations at April 30, 2007. In some cases, forward-looking statements may be identified by words such as "anticipate", "believe", "could", "expect", "plan", "seek", "may", "intend", "will" and similar expressions. These statements are subject to important risks and uncertainties, which are difficult to predict, and assumptions, which may prove to be inaccurate. Some of the factors which could cause results or events to differ materially from current expectations include but are not limited to: our ability to achieve strategies and plans; general economic conditions; the changing competitive environment; changing regulatory conditions or requirements; reliance on IT systems; changing technology; our relationship with BCE Inc.(BCE) and Bell Canada; the lack of assurance that our credit ratings will not be lowered; and the federal government's announcement on income trusts. Some of these factors are largely beyond our control. In addition, a number of assumptions were made by us in making forward-looking statements in this MD&A, such as certain Canadian economic assumptions, market assumptions, operational and financial assumptions, and assumptions about transactions. Should any factor affect us in an unexpected manner, or should assumptions underlying the forward-looking statements prove incorrect, the actual results or events may differ materially from the results or events predicted. Unless otherwise indicated, forward-looking statements do not take into account the effect that transactions or non-recurring or other special items announced or occurring after the statements are made may have on our business. All of the forward-looking statements made 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. Readers should not place undue reliance on any forward-looking statements.

OUR BUSINESS

Our core businesses

We are a regionally focused telecommunications service provider with operations primarily in Atlantic Canada, Quebec and Ontario. We have been serving customers in our regions for over a century, providing a wide range of innovative and traditional voice and data communications services and an array of consulting, infrastructure management and product fulfillment services.

Bell Aliant Holdings LP commenced operations on July 7, 2006, pursuant to the Plan of Arrangement (the Arrangement) that created Bell Aliant Regional Communications Income Fund (the Fund). Details of the Arrangement can be found in Aliant's management information circular dated April 14, 2006. 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. Prior to July 7, 2006, we operated as Aliant.

Our results are accounted for on a continuity of interest basis, therefore our comparative information for any period prior to July 7, 2006, is for Aliant. To allow for more meaningful period-over-period comparison and analysis, we have also presented certain of our results prior to July 7, 2006, on a pro forma basis.

Our business environment

Competitive landscape

We face a number of different competitors for the products and services we provide across the regions we serve. Competition from cable companies continues to be one of the largest risks we face in our business today. Our strategic initiatives for 2007 are designed to mitigate this risk. To date in 2007, cable competitors have launched new local service areas in Nova Scotia, New Brunswick, Quebec and Ontario, and aggressive promotional campaigns across our regions. As a result, as discussed further in the "Operating results" section, we are experiencing local residential customer declines. However, customer losses in the first quarter of 2007 were lower than in the fourth quarter of 2006. We expect continued growth in the competitive footprint throughout 2007, and as competition increases, we remain focused on the successful execution of our strategic priorities. We continue to enhance our products and services, promoting our *Value Packages* and innovating with customers to provide complete solutions, and we continue to invest in our communities and support activities that are important to our employees and customers.

Telecommunications regulatory developments

Our business is affected by decisions made by the Canadian Radio-television and Telecommunications Commission (CRTC or the Commission) and the federal government. Recently, there have been a number of regulatory events that could have a material effect on our financial results. In late 2006, the federal Minister of Industry (the Minister) issued a new Policy Direction requiring the Commission to rely on market forces to the maximum extent feasible, and the federal government varied the Commission's decision with regards to Voice over Internet Protocol (VoIP) so as to remove price regulation of "access independent" VoIP services provided by incumbent local exchange carriers (ILECs). In April 2007, the federal government also varied the Commission's local forbearance decision by removing certain marketing restrictions and changing the criteria to obtain forbearance from price regulation of local telephone service.

Significant regulatory developments that affected our telecommunications business in the first quarter of 2007 and up to and including April 30, 2007, are:

- *Local service regulation* - On April 4, 2007, the Minister issued an order varying Telecom Decision CRTC 2006-15. Effective immediately, the "winback" rule, which prohibited incumbent telecommunications providers from contacting lost customers for an extended period of time, has been eliminated, restrictions on promotions have been eliminated and new forbearance criteria have come into effect. This order follows a proposal made by the Minister on December 11, 2006. The outcome of the order could have an impact on our ability to compete effectively in certain local service markets. In accordance with the revised criteria prescribed in the order, we applied for forbearance from the

regulation of local business and residential telephone service in several local exchanges throughout our operating territory, including a number of exchanges in the Halifax area.

- **Rates** - In a decision issued April 30, 2007, the CRTC established new pricing rules to govern the rates charged by ILECs for regulated telecommunications services. These rules, which are known collectively as the price cap regime, will come into effect on June 1, 2007, and will result in a more flexible, market-oriented regulatory framework. Key elements of this new framework include, among other things, increased flexibility to bundle across service offerings, removal of the price ceiling for optional local services, some additional flexibility to raise rates for business and high cost serving area residential basic telephone service, a freezing of the basic residential telephone rate in non-high cost serving areas, and changes to the contribution regime.
- **Wholesale services** - On November 9, 2006, the Commission initiated a proceeding to review the regulatory regime for wholesale services. This review will consider redefining “essential services” and will review classifications and pricing principles for essential and non-essential services provided by ILECs, competitive local exchange carriers and cable companies to other competitors. We have joined together with Bell Canada and SaskTel in the development of a common submission, filed on March 15, 2007. Our position is consistent with our earlier submission in the Telecom Policy Review proceeding, focusing on the need for greater reliance on market forces and the use of regulation only where necessary. A decision is expected in April 2008.
- **Price based regime for Small Incumbent Telephone Companies (SILECs)** - On March 29, 2006, the Commission rendered its decision with regards to the review of the price-based regime for SILECs, such as NorthernTel. Essentially, the new regime, which will end in 2009, remains the same as before with a few modifications. Under the previous price-based regime, local competition was not permitted in a SILEC’s operating territory. Under the new regime, facilities-based local competition will be allowed on a case-by-case basis. NorthernTel filed its Local Competition Implementation Plan on March 2, 2007. NorthernTel asked that local competition be allowed as of October 1, 2007, or no sooner than four months after the CRTC issues its decision. NorthernTel filed a revised cost recovery proposal on April 18, 2007.
- **Ethernet services** - On January 25, 2007, the CRTC issued a decision prescribing requirements for the provision of ILECs’ wholesale Ethernet services. This ruling requires a material redesign of our wholesale Ethernet service. We and others have filed applications with the Commission requesting that the decision be reviewed and varied on the basis that, among other things, it is inconsistent with the Policy Direction. We have also requested that implementation of the decision be immediately stayed pending the outcome of the applications.
- **Costing issues** - On March 30, 2007, the Commission initiated a proceeding to review certain costing issues with respect to major ILECs and cable companies. The outcome of this proceeding could eventually affect our revenues. A decision is expected in the first quarter of 2008.
- **Deferral accounts** - We estimate the balance in our deferral account to be an accumulated \$3.8 million, with an annual recurring over-contribution of \$4.2 million. These values reflect the estimated impact associated with two recently issued CRTC decisions related to Competitor Digital Network services. Due to the nature and number of uncertainties which remain concerning the disposition of accumulated balances in the deferral accounts, we are unable to estimate the impact on our financial results.

QUARTER IN REVIEW

Summary of results

For the period ended March 31 (millions of dollars)	Actual			Pro forma ⁽¹⁾		
	2007	2006	% change	2007	2006	% change
Operating revenues	\$851.4	\$527.7	61.3	\$851.4	\$821.9	3.6
EBITDA ⁽¹⁾	\$349.5	\$212.0	64.9	\$349.5	\$352.9	(1.0)
Operating income ⁽¹⁾	\$171.6	\$88.8	93.2	\$171.6	\$171.6	-
Other expense	2.2	12.4	(82.3)			
Interest charges	39.4	17.8	121.3			
Income taxes (recovery)	(4.6)	22.8	n.m.			
Non-controlling interest	51.6	0.5	n.m.			
Net earnings from continuing operations	\$83.0	\$35.3	135.1			
Net earnings from discontinued operations	5.5	4.9	12.2			
Net earnings	\$88.5	\$40.2	120.1			
Distributable cash ⁽¹⁾	\$190.6			\$190.6	\$182.7	4.3
Cash distributions declared	\$166.2			\$166.2	\$153.8	8.1

n.m. - not meaningful

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

Significant increase in our actual operating results in the first quarter of 2007 compared to the same period in 2006.

Net earnings from continuing operations for the first quarter of 2007 compared to the same period in 2006 reflect the increased scale of operations since July 7, 2006, resulting in higher actual revenues and expenses. The increase in interest costs is due to higher long-term debt balances. The income tax recovery reflects the significant reduction in our effective tax rate related to our income trust structure. Non-controlling interest in our earnings for the quarter includes the 36.87 per cent interest in Bell Aliant LP held by Bell Canada and the 36.7 per cent interest in Télébec and NorthernTel that was indirectly held by Bell Nordiq Income Fund unitholders until January 30, 2007, and indirectly by the Fund, through Bell Nordiq Trust, since that time.

Net earnings from discontinued operations mainly represent the earnings of Aliant Directory Services (ADS), producer and distributor of telephone directories in the Atlantic region. On February 19, 2007, we entered into a memorandum of understanding for Yellow Pages Group (YPG) to acquire the net assets of ADS. The transaction closed on April 30, 2007.

Operating revenues increased by 3.6 per cent for the first quarter of 2007 compared to pro forma operating revenues for the same period in 2006.

Strong pro forma operating revenue growth was generated in all areas except local and access and long distance.

- Internet and data revenue increased by 9.9 per cent in the first quarter of 2007 compared to the first quarter of 2006, driven by year-over-year high-speed Internet customer growth of 21.7 per cent.
- IT services and fulfillment revenue increased by 21.9 per cent for the first quarter. Growth in managed services revenue and IT project activity in the healthcare sector drove a 12.3 per cent increase in IT

services revenue, while procurement activity by the federal government and agencies fuelled a 27.3 per cent increase in IT fulfillment revenue for the quarter.

- Wireless revenue grew by 14.1 per cent. The revenue growth generated by a 23.5 per cent increase in customers was partially offset by a 7.9 per cent decline in average revenue per customer (ARPC).
- Other revenues, including Atlantic Mobility Products (AMP), Innovatia Inc. (Innovatia), telecommunications product sales and rentals, and service agreements, increased by 4.4 per cent in the first quarter of 2007 compared to the same period in the prior year, with the growth largely attributed to increased emerging data services settlement revenue.
- Local and access and long distance revenues declined by 1.8 per cent and 3.5 per cent in the first quarter, respectively. Network access services (NAS) customers declined 2.3 per cent and long distance minutes declined 7.7 per cent as a result of competitive pressures and technology substitution.

Operating income for the first quarter of 2007 was consistent with pro forma operating income for the first quarter of 2006.

Increased cost of goods sold resulting from the strong IT fulfillment and hardware sales growth, higher provincial capital taxes and higher consulting and professional fees resulted in a 1.0 per cent decrease in EBITDA for the first quarter of 2007 compared to pro forma EBITDA for the same period in 2006. A 2.4 per cent decrease in depreciation and amortization offset the increased operating costs and resulted in consistent operating income quarter-over-quarter. The decrease in depreciation and amortization was mainly due to a change in the estimated useful lives of certain capital investments that was made in mid-2006.

Distributable cash grew by 4.3 per cent for the first quarter of 2007 compared to pro forma distributable cash for the first quarter of 2006.

Since the operations of Bell Aliant Holdings LP ultimately support distributions to unitholders of the Fund, one of the primary metrics of our financial performance is distributable cash generated in a period. On a pro forma basis, quarter-over-quarter distributable cash growth was due to the inclusion of 36.7 per cent of the distributable cash generated by Télébec and NorthernTel, which was deducted as non-controlling interest in the prior year. As the portion of distributable cash attributable to the 36.7 per cent non-controlling interest in Télébec and NorthernTel, which is indirectly held by the Fund, also supports distributions to unitholders of the Fund, we have included 100.0 per cent of the distributable cash generated by Télébec and NorthernTel in our distributable cash calculation for the first quarter of 2007.

Excluding the effect of acquiring the non-controlling interest in Télébec and NorthernTel, distributable cash decreased by approximately 1.0 per cent. EBITDA for the first quarter of 2007 was lower compared to pro forma EBITDA for the first quarter of 2006, and capital expenditures and defined benefit (DB) current service pension costs were higher, negatively affecting distributable cash.

The following table provides a summary reconciliation of distributable cash to cash from operating activities for the three month period ended March 31, 2007. The table provides additional information on the sources of distributable cash; either from cash from operations or by utilizing cash reserves or borrowing, and net of cash used to make investments in our business.

<i>For the period ended March 31, 2007</i>	Three months distributable cash from:			
<i>(millions of dollars)</i>	Operations	Cash reserves or borrowing	Investments	Total
Cash from operating activities	\$251.7	-	-	\$251.7
Add (deduct):				
Operating items funded through cash reserves or borrowing	-	50.7	-	50.7
Capital expenditures	-	-	(115.3)	(115.3)
Current income tax recovery and other expenses	(5.6)	-	-	(5.6)
Distributable cash of discontinued operations	9.1	-	-	9.1
Distributable Cash ⁽¹⁾	\$255.2	\$50.7	(\$115.3)	\$190.6

⁽¹⁾ Refer to the "Non-GAAP financial measures" section for a definition and reconciliation of pro forma EBITDA to distributable cash as well as a reconciliation of cash from operating activities to distributable cash.

The distributable cash attributable to operations, net of investing activities, met expectations in the first quarter of 2007. Capital expenditures are expected to be approximately 16.0 to 16.5 per cent of operating revenues, including incremental investment to accelerate our deployment of fibre-to-the-node (FTTN). We are making investments to both maintain our network assets and evolve to the next generation of IP network capabilities to accommodate delivery of new services necessary to support sustainability of our revenues. Our capital expenditures for the first quarter of 2007 were 13.5 per cent of revenues, lower than our target due to strong revenue performance and seasonally lower levels of capital spending.

It is our expectation that distributable cash generated by ongoing operations, net of normal capital expenditures, will be sufficient to maintain and modestly grow our cash distributions to the Fund and its unitholders up until the year 2011, at which time we anticipate being subject to corporate income taxes on our earnings. Since it is our intention to indirectly distribute to Fund unitholders approximately 90 per cent of distributable cash, there will be approximately 10 per cent of distributable cash that will be available to fund other cash requirements, such as funding pension deficits, repaying long-term debt, and making small acquisitions. In any single period, due to such items as working capital fluctuations, pension deficit funding and cash taxes in excess of normalized levels, actual cash flow may differ from what we have determined to be distributable cash. These fluctuations in cash flow may also be funded through this 10 per cent cash reserve or through temporary borrowing. It is not our intention to borrow to fund regular distributions.

We believe that long-term debt in the range of two times EBITDA is appropriate given our anticipated cash flow stability and our desire to maintain investment grade credit ratings. Our use of a portion of our cash reserves and, if necessary, borrowing to fund working capital fluctuations, pension deficits and cash taxes in excess of normalized levels is consistent with our overall leverage targets.

FOCUS AND STRATEGY FOR 2007

Our two key strategic priorities for 2007 are to provide a superior customer experience and to drive operational efficiency.

Superior customer experience

Delivering a superior customer experience is vital to creating and maintaining customer loyalty. We believe a superior customer experience is created by providing exceptional customer service, offering outstanding value through our leading products and services, and having strong community involvement. The support of our actively engaged, highly skilled workforce will enable us to deliver on our strategic priorities.

Customer service

We are implementing extensive changes in the way we serve our customers. These changes will make it easier for customers to do business with us, when and where it is convenient for them.

During the first quarter of 2007, we implemented improved scheduling for technicians in certain regions and enhancements to our interactive voice response system in Atlantic Canada, and we made progress toward targets of consolidating data centres and retiring certain legacy network technologies. As a result, we have experienced improvements in customer commitments met and the number of first call resolutions, and have shortened the length of time for repairs in many cases.

Providing value through leading products and services

Providing value is about offering the right products and services to customers at a competitive price. We are continually developing and introducing new and innovative products and services that will offer convenience and ease-of-use for residential customers and a competitive advantage for businesses.

During the first quarter of 2007, we continued our focus on introducing a differentiated customer experience for *Value Package* and multi-product customers. We continue to offer our *Value Package* customers with more choice, more flexibility and more features, such as unique opportunities for high-speed Internet service, long distance service and Aliant TV, and as a result, we experienced improved customer satisfaction among *Value Package* customers. In addition, during the first quarter we added fraud protection technology to our suite of security services to further protect our online customers. We continue to expand our footprint for both Internet and TV services through our FTTN build in Atlantic Canada and our high-speed Internet footprint expansion across our regions.

In the small and medium business market, we continue to enhance our service offerings to build complete information and communications technology (ICT) solutions. In the first quarter of 2007, we launched a number of new services to our customers including technology assessment and proactive maintenance services for medium-sized businesses. We began customer trials of our new IT Expert Service for remote monitoring and management of customer owned IT equipment. During the quarter, a trial of Aliant Online Expert for businesses was launched, providing business customers with round-the-clock access to IT help and support. Bundling continues to be a key component of our approach to the small business market. In the Atlantic region, the introduction in early April, 2007, of our new Business Value Package is aimed at simplifying the ICT purchase for small business customers. In keeping with our focus on the needs of specific segments of the market, a new Start-up Bundle offered in Ontario and Quebec has been integrated as a permanent offer after an initial strong response from the market.

During the first quarter of 2007, we also continued our focus on managing our customers' evolution to Internet protocol (IP) in our enterprise market. We made significant progress on next generation voice services with the launch of our managed customer premise equipment (CPE) VoIP solution, providing the benefits of VoIP with the peace of mind of a fully managed CPE voice service. In addition, we advanced on the creation of IP-readiness consulting tools, providing a framework to effectively understand the true benefits and cost of IP evolution. We also continue to work with our customers to deliver innovative ICT solutions. We supported an Atlantic Canadian university in implementing a campus-wide wireless Internet service project which provides full roaming capabilities allowing users to take their device from room to room without losing their connection.

Community

The third element of customer experience is community involvement. With our strong focus on regional customers it is important that we are closely connected to the communities we serve. Empirical evidence indicates that customer loyalty is greatly influenced by company reputation, which in turn is influenced by customers' perception of us as a good corporate citizen in the communities we serve.

We complement the activities of our employees by sponsoring community events and supporting charities, with a focus on helping children and youth reach their full potential. We believe addressing the unique needs of local communities provides us with a competitive advantage.

Operational efficiency

While pursuing top-line revenue growth, we will also aggressively manage our cost structure to grow distributable cash and deliver value to Fund unitholders. Our significant scale, access to leading-edge technology and collaboration with Bell Canada all contribute to improving operational effectiveness and reducing costs. Our commercial agreements with Bell Canada specify scheduled cost reductions as Bell Canada implements its own productivity program, resulting in direct savings for us. Additionally, our operations permit the flexibility to develop customized regional approaches to capture further productivity where opportunities exist.

We achieved approximately \$14 million in productivity savings in the first quarter of 2007, through increased self-serve transactions, supplier contract renegotiations, reduced real estate costs, work force management, contact centre improvements and a reduction in fees under our commercial agreements with Bell Canada.

Strengthening our core business

We continually explore opportunities to increase our focus on or expand our core business. The size of our revenue and fixed asset base, in addition to our proven ability to operate successfully in regional markets, provides us with a strong platform for future acquisitions of other regional and rural operations.

The Fund took Bell Nordiq Income Fund private in early 2007. The transaction was submitted to Bell Nordiq unitholders for approval at a special meeting held on January 16, 2007, where 99.8 per cent of all votes cast and 99.3 per cent of the votes cast by minority unitholders were in favour of the privatization. On January 29, 2007, Bell Nordiq unitholders received a special distribution of \$4.00 per unit, financed through our cash on hand and existing credit facilities, via a loan to Bell Nordiq Income Fund which was subsequently assumed by the Fund, and on January 30, 2007, received 0.4113 of a Fund unit in exchange for each Bell Nordiq Income Fund unit. The privatization was completed on January 30, 2007. Bell Nordiq units ceased trading on the Toronto Stock Exchange (TSX) as of the close of business on January 29, 2007, and were de-listed at the close of business on January 30, 2007.

On February 19, 2007, we announced that we entered into a memorandum of understanding for YPG to acquire the net assets of ADS, a partnership currently held 87.14 per cent by us and the balance by YPG. The \$330.0 million purchase price for our interest in the business was paid in cash upon closing on April 30, 2007. The proceeds will be used by the Fund to repurchase units under its normal course issuer bid (NCIB).

RESULTS OF OPERATIONS

At December 31, 2006, our results of operations were in three reportable segments; Bell Aliant, Bell Nordiq Group and Other Subsidiaries. During the first quarter of 2007, the Fund took Bell Nordiq Income Fund private. In addition, we announced the sale of the net assets of Aliant Directory Services, which comprised a large portion of our Other Subsidiaries segment. As a result, we now manage our business and classify our operations for planning and measuring performance as one segment.

In addition to distributable cash, our financial performance is measured by growth in operating revenues, EBITDA and operating income. In order to assess our operations had we been in existence for the entire year in 2006, certain of our results prior to July 7, 2006, are also presented on a pro forma basis to allow for more meaningful year-over-year comparison and analysis.

Actual results and analysis

For the period ended March 31 (millions of dollars)	Actual		% change
	2007	2006	
Local and access	\$355.2	\$147.7	140.5
Long distance	115.2	54.7	110.6
Data	172.6	82.1	110.2
IT services and fulfillment	105.6	86.3	22.4
Wireless	14.6	110.8	(86.8)
Other revenues	88.2	46.1	91.3
Operating revenues	\$851.4	\$527.7	61.3
Operating expenses	501.9	315.7	59.0
EBITDA ⁽¹⁾	\$349.5	\$212.0	64.9
Net benefit plans cost	29.5	24.2	21.9
Depreciation & amortization	147.9	98.7	49.8
Restructuring and other charges	0.5	0.3	66.7
Operating income ⁽²⁾	\$171.6	\$88.8	93.2

⁽¹⁾ EBITDA (earnings before interest, taxes, depreciation and amortization) is a non-GAAP measure. Refer to the "Non-GAAP financial measures" section for more details.

⁽²⁾ Operating income is a non-GAAP measure. Refer to the "Non-GAAP financial measures" section for more details.

Operating revenues and operating expenses, as reported in our financial statements, increased significantly in 2007, reflecting the much larger geographic area and customer base created by the Arrangement. From March 31, 2006, to March 31, 2007, local access customers increased by approximately 126 per cent and high-speed Internet customers increased by approximately 169 per cent. Offsetting this was a decline in wireless revenue as Aliant's wireless operations were transferred to Bell Canada pursuant to the Arrangement.

The expanded operations have also resulted in higher costs to support the increased customer base and capital infrastructure across the vast service area. The increase in depreciation and amortization for the first quarter of 2007 compared to the same period in the prior year reflects the increased capital base resulting from the Arrangement, partially offset by a change in the estimated useful lives of certain capital investments.

In order to assess the underlying growth, we present our analysis on a pro forma basis below.

Pro forma results and analysis

For the period ended March 31 (millions of dollars)	Pro forma ⁽²⁾		
	2007 ⁽¹⁾	2006	% change
Local and access	\$355.2	\$361.6	(1.8)
Long distance	115.2	119.4	(3.5)
Data	172.6	157.0	9.9
IT services and fulfillment	105.6	86.6	21.9
Wireless	14.6	12.8	14.1
Other revenues	88.2	84.5	4.4
Operating revenues	\$851.4	\$821.9	3.6
Operating expenses	501.9	469.0	7.0
EBITDA	\$349.5	\$352.9	(1.0)
Net benefit plans cost	29.5	29.5	-
Depreciation & amortization	147.9	151.5	(2.4)
Restructuring and other charges	0.5	0.3	66.7
Operating income	\$171.6	\$171.6	-

(1) The period ended March 31, 2007, represent actual results, not pro forma.

(2) Pro forma operating revenues, EBITDA, pro forma EBITDA, operating income and pro forma operating income are non-GAAP measures. Refer to the "Non-GAAP financial measures" section for more details.

Local and access

Local and access revenue is earned through the provision of NAS, enhanced service features, contribution payments and competitor network access payments.

Local and access revenue decreased 1.8 per cent in the first quarter of 2007, compared to pro forma local and access revenue for the same period in 2006, as a result of a 2.3 per cent decline in NAS customers, which is directly related to increasing competition and product substitution.

The majority of our local and access revenue is earned through the provision of NAS. NAS revenues for the first quarter of 2007 declined 2.0 per cent compared to the same period in 2006. At March 31, 2007, residential NAS customers were 3.3 per cent lower than at the same date in 2006, reflecting competitive losses, reduction in second lines and adoption of wireless and VoIP. Business NAS customers at March 31, 2007, were 0.2 per cent lower than at March 31, 2006. Local revenue continues to decline at a slower pace than NAS customer declines due to efforts to increase feature penetration and retain our highest value customers, and due to implementation of rate increases where market conditions allow.

Long distance

Long distance revenue is earned through toll and long distance terminating services.

Long distance revenues declined 3.5 per cent in the first quarter of 2007 compared to pro forma revenues for the first quarter of 2006. Long distance minutes declined by 7.7 per cent in the quarter due to substitution for cellular calling and IP-based services, dial-around erosion, and technology impacts such as integrated voice

response systems. Selected price increases contributed to a 3.9 per cent increase in the average revenue per minute, which helped to mitigate some of the revenue decline.

Data

Data revenue is earned through data access revenue, data circuit revenue, high-speed and dial-up Internet service, and enhanced services and applications, such as TV on my PC™, security services, music download service and dial-up accelerator.

The pro forma growth in data revenue for the first quarter 2007 was 9.9 per cent and is attributable to an approximate 23 per cent increase in high-speed Internet revenue. High-speed customers increased by 21.7 per cent period over period. High-speed Internet revenue growth also reflects an increase in residential high-speed Internet ARPC to \$36.41 from \$34.77, mainly due to increased adoption by customers of enhanced services and ultra high-speed service.

Wireless

Wireless revenue is earned through the provision of cellular, paging and mobile radio services over the analog and digital wireless networks of Télébec and NorthernTel.

Wireless revenue increased 14.1 per cent in the first quarter of 2007 compared to the pro forma wireless revenue for the first quarter of 2006, driven by a 23.5 per cent increase in cellular customers. The overall average revenue per customer decreased by 7.9 per cent, due to lower roaming rates with a large customer, promotional pricing offers, and an increase in the number of customers adopting prepaid service.

IT services and fulfillment revenue

IT services and fulfillment revenue is earned primarily by our xwave division through systems integration, software engineering, business consulting and infrastructure services, such as data centre, help desk, security and technical support services.

In the first quarter of 2007, IT services and fulfillment revenue grew 21.9 per cent over pro forma amounts for the first quarter of 2006. IT services revenue increased 12.3 per cent, mainly due to growth in managed services revenue and IT project activity across key industry verticals including healthcare, defence, security and aerospace, and justice and public safety. IT fulfillment revenue grew by 27.3 per cent, driven largely by increase in procurement activity by the federal government and agencies associated with their fiscal year end.

Other revenues

Other revenues consist of AMP revenues, Innovatia revenues, terminal rentals and sales, PC sales, professional services, pole and building rental revenue, and revenue generated by our outsourcing arrangement with Bell Mobility.

Other revenues increased by 4.4 per cent in the first quarter of 2007 compared to pro forma other revenues for the same period in 2006. The increase was driven by higher emerging data services revenue related to the Ontario and Quebec region, and higher revenues generated by our outsourcing agreement with Bell Mobility. The increases were partially offset by lower building rental revenue, as we move away from owning office space, and lower e-learning revenue, particularly from Innovatia's US customers.

Operating expenses

For the period ended March 31 (millions of dollars)	Pro forma		
	2007 ⁽¹⁾	2006	% change
Cost of sales	\$177.1	\$156.5	13.2
Salaries, benefits, contract labour and consulting	170.0	161.9	5.0
Capital taxes	5.1	-	n.m.
Selling, general & admin	149.7	150.6	(0.6)
Operating expenses	\$501.9	\$469.0	7.0

⁽¹⁾ The period ended March 31, 2007, represent actual results, not pro forma.

n.m. - not meaningful

Operating expenses increased by 7.0 per cent in the first quarter of 2007 compared to pro forma operating expenses for the same period in the prior year, mainly due to increased cost of sales, higher labour costs, and higher capital taxes. Increased cost of sales is largely related to the growth in IT fulfillment and hardware sales. Increased salaries, benefits, contract labour and consulting represent annual wage increases and higher consulting and professional fees compared to the prior year. In addition, contract labour costs increased due to the growth in IT services revenue. Provincial capital taxes related primarily to our larger capital structure resulted in a \$5.1 million increase in operating expenses. Provincial capital taxes were reflected in other expense prior to the Arrangement and were not reclassified in our pro forma balances due to the insignificant size. Selling, general and administrative costs for the first quarter of 2007 decreased by 0.6 per cent, as these costs were contained through productivity savings.

Operating income

Higher operating expenses led to lower EBITDA compared to pro forma EBITDA for the first quarter of 2006, however, a decrease in depreciation and amortization expense resulting from the change in estimated useful lives of certain capital investments offset the increased operating costs, resulting in operating income for the quarter that is consistent with pro forma operating income for the same period in 2006. Net benefit plans cost for the first quarter was consistent with pro forma net benefit plans cost for the first quarter of 2006, as increased current service costs were offset by a higher expected return on assets in our DB plans.

Other expenses

Interest charges

Interest expense increased by 121.3 per cent in the first quarter of 2007 compared to the same period in 2006, due to the significant increase in long-term debt since the Arrangement, partially offset by lower coupon rates of interest.

Income taxes (recovery)

A portion of our income is earned through partnerships. Therefore, that portion of our income is not subject to tax at the partnership level, as the taxable income is allocated directly to our partners. The tax provision reported relates to our corporate subsidiaries that are subject to tax on their taxable income. Our effective tax rate for the first quarter of 2007 was negative 3.5 per cent, a significant reduction from the effective tax rate of 38.9 per cent for the same period in 2006, which is mainly due to \$55.1 million of inter-company interest income earned by partnerships and \$33.2 million of taxable income allocated to non-controlling interest.

Non-controlling interest

Non-controlling interest represents Bell Canada's 36.87 per cent interest in Bell Aliant LP and the Fund's 36.7 per cent indirect interest in Télébec and NorthernTel. The distributions attributable and paid to Bell Canada are equal, to the greatest extent practicable, to per-unit distributions paid by the Fund to holders of Fund units. The non-controlling interest related to Bell Canada's interest in Bell Aliant LP is based on Bell Canada's pro-rata share of cash distributions from Bell Aliant LP. As such, both distributions and non-controlling interest

attributable to Bell Canada may be different from Bell Canada's percentage ownership in Bell Aliant LP. During the three months ended March 31, 2007, we recorded non-controlling interest in our earnings of \$51.6 million. Distributions declared by our subsidiaries to the non-controlling interest in the same period were \$59.9 million, of which \$50.4 million was paid by Bell Aliant LP to Bell Canada and \$9.5 million was paid by Télébec and NorthernTel indirectly to the Fund. In addition, \$3.6 million of other cash payments were made on settlement of certain Bell Nordiq Income Fund unit options in connection with the Bell Nordiq privatization.

FINANCIAL AND CAPITAL MANAGEMENT

Summary of cash flows

<i>For the period ended March 31</i>			
<i>(millions of dollars)</i>	2007	2006	% change
Cash from (used in):			
Operating activities	\$251.7	\$92.0	173.6
Financing activities	(33.7)	(132.4)	(74.5)
Investing activities	(315.1)	(80.9)	289.5
Net decrease in cash from continuing operations	(\$97.1)	(\$121.3)	(20.0)

We used \$97.1 million in cash during the first quarter of 2007. Cash generated from operating activities was \$159.7 million higher in the first quarter of 2007 compared to the same period in 2006, reflecting higher net earnings from our larger operations. Net financing activities used \$98.7 million less cash in 2007 compared to 2006 due mainly to proceeds from the issuance of long-term debt of \$994.5 million being used to make repayments on long-term debt of \$823.1 million and settle related derivative contract for \$30.5 million in 2007, compared to a long-term debt repayment of \$50.0 million in 2006. As well, in 2007 the cash distributions paid by us and our subsidiaries to non-controlling interests were \$89.2 million higher than the dividends paid by Aliant in 2006. Net investing activities for the first quarter of 2007 used \$234.2 million more cash than for the same period in 2006, as we spent \$34.4 million more for the purchase of capital investments and we issued \$200.9 million in notes receivable to the Fund.

Key components of our net decrease in cash in the first quarter of 2007 were as follows.

DB pension and other post-employment benefit (OPEB) plans

Total funding of our DB pension plans for the first quarter of 2007 was \$21.2 million, compared to \$21.5 million in total funding made to Aliant's DB plans in the first quarter of 2006. Additional funding in the first quarter of 2007 related to pension plans we began sponsoring on July 7, 2006, was more than offset by the reduction in funding attributable to our application of solvency funding relief measures to many of our plans.

Actuarial valuations of our pension plans, excluding the plans of Télébec and NorthernTel, were performed as of July 7, 2006, and filed in March 2007, with most plans reflecting funding deficits as measured on both a solvency and going-concern basis. We have applied to adopt solvency funding relief measures to most of our July 7, 2006, actuarial valuations. Under applicable regulations, we are permitted to consolidate previously established solvency payment schedules and to extend the period for making cash solvency funding payments to 10 years from the current 5-year requirement. We estimate total special payments required for 2007 to be in the range of \$40 to \$50 million, which reflects 10-year solvency funding schedules for many plans, and is net of the application of prior years' voluntary contributions.

Actuarial valuations of all our DB pension plans are being performed as of December 31, 2006, and will be completed by June 30, 2007. We will adjust our DB pension plan contributions, if necessary, based on the outcome of these valuations.

OPEB funding increased by 18.8 per cent to \$1.9 million in the first quarter of 2007, mainly a result of more retired beneficiaries and increasing costs of benefits provided under legacy plans.

Change in operating assets and liabilities

The change in operating assets and liabilities used cash of \$38.3 million in the first quarter of 2007, and used cash of \$49.0 million in the same period in 2006. A seasonal increase in prepaid assets and the annual payout of variable compensation in February resulted in a use of cash from operating activities in the first quarter of 2007 as well as the first quarter of 2006. In addition, large interest coupon payments made in March 2007 related to the medium-term notes issued in September 2006 contributed to the \$38.3 million use of cash in the first quarter of 2007.

Long-term debt

On January 15, 2007, we repaid \$100.0 million of maturing Aliant Telecom Inc. medium-term notes.

Pursuant to a shelf prospectus we filed in September 2006, on February 26, 2007, we issued:

- \$400.0 million of 7 year medium-term notes, maturing February 26, 2014;
- \$300.0 million of 12 year medium-term notes, maturing February 26, 2019; and
- \$300.0 million of 30 year medium-term notes, maturing February 26, 2037.

The Notes were issued at a discount carrying a coupon of 4.95 per cent, 5.52 per cent and 6.17 per cent, respectively. Proceeds, net of debt issue costs, were \$994.6 million and were used to repay \$722.3 million of our non-revolving credit facility, to repay \$164.0 million of commercial paper, and for general and operating purposes. We issued commercial paper in the first quarter of 2007, as maturing Aliant Telecom Inc. notes were repaid and \$131.0 million was loaned in relation to the Bell Nordiq privatization transaction.

Interest rate derivatives

In February 2007, with the issuance of medium-term notes discussed above, we settled interest rate swaps with notional principal amounts totalling \$1.0 billion. On February 26, 2007, we paid cash of \$30.5 million to the counterparties on the settlement of the contracts.

Distributions

Distributions paid during the first quarter of 2007 totalled \$166.2 million, of which \$59.8 million represents distributions paid by subsidiaries to non-controlling interest.

Capital expenditures

Capital expenditures in the first quarter of 2007 totalled \$115.3 million. We continue to invest in our traditional wireline infrastructure to sustain our existing business and the reliability of our network, and we have invested in expanding and augmenting our high-speed Internet footprint, increasing our investment in FTTN, increasing the Aliant TV footprint and transforming our network to support next-generation IP applications.

Notes receivable from the Fund

During the quarter, we loaned \$131.0 million to Bell Nordiq Income Fund to finance a special distribution to its unitholders. The loan was subsequently assumed by the Fund as part of the privatization transaction. In addition, during the quarter we advanced the Fund \$69.9 million, primarily for the purchase of units under its NCIB.

Liquidity

Cash requirements

We require a significant amount of cash to execute our business strategy. Our cash requirements for 2007 will consist of distributions to unitholders, investments in capital, pension plan contributions, and payments of other commitments, including loans to the Fund to enable the repurchase of Fund units under an NCIB. In particular, it is anticipated that these requirements will result in the use of cash as follows:

- Distributions to holders of Fund units were \$0.2283 per unit for the month of January 2007, and \$0.2350 per unit per month beginning in February 2007, as approved by the trustees of the Fund on February 1, 2007. The Fund is entirely dependent upon distributions from us and Bell Nordiq Trust to make its distributions. Cash requirements to make Fund distributions and distributions to BCE and Bell Canada are estimated to be in the range of \$644 to \$660 million for 2007.
- Total funding of our DB pension plans in 2007 is anticipated to be in the range of \$85 million to \$95 million, net of application of prior years' voluntary contributions, and after application of 10-year solvency funding schedules for eligible plans. Contribution estimates include \$40 to \$50 million in deficit funding, with the remainder representing current service funding. Required funding for 2007 may be adjusted based on the outcome of December 31, 2006, actuarial reviews, which are expected to be completed in June 2007.

Funding of our OPEB plans for 2007 is estimated to be \$6 to \$8 million and DC pension funding is estimated to be \$7 to \$8 million.

- Capital expenditures in the range of 16.0 to 16.5 per cent of revenues will be made as required to support our existing infrastructure and to advance our strategic initiatives. Included in this level of capital expenditures is \$35 to \$45 million of investment to accelerate the deployment of our FTTN investment.
- The Fund commenced an NCIB on February 28, 2007, which allows it to purchase, from time to time, up to 13,738,000 of outstanding Fund units at market prices, with cash, through the facilities of the TSX. The NCIB will expire on February 27, 2008. We will make a return of capital to the Fund, as required, to allow the Fund to repurchase units under its NCIB.
- Other commitments, such as operating leases and purchase commitments for equipment and other network infrastructure, and contingencies are disclosed in notes 20 and 23 to our consolidated financial statements for the year ended December 31, 2006.

Sources of liquidity

We derive most of our liquidity from the strength of our recurring cash from operating activities, as well as bank credit facilities, a \$3.0 billion medium-term note shelf prospectus, a \$400.0 million commercial paper program, and our accounts receivable securitization program. We anticipate generating enough cash from our operating activities in 2007 to pay for capital expenditures, distributions, and required pension funding.

Capital structure

<i>(millions of dollars, except as otherwise noted)</i>	March 31, 2007		December 31, 2006	
Partners' equity	\$4,780.1	49.7%	\$4,836.6	51.3%
Non-controlling interest	1,907.1	19.8%	1,919.1	20.3%
Debt	2,930.4	30.5%	2,680.3	28.4%
Total capital	\$9,617.6	100.0%	\$9,436.0	100.0%

Debt

We have issued \$2.25 billion in medium-term notes under our \$3.0 billion shelf prospectus. At March 31, 2007, we had \$512.4 million drawn on our non-revolving bank credit facility, which we intend to refinance through further capital market issuances.

We also have a \$450.0 million non-revolving pension reserve facility that may be used to finance pension deficit funding. At March 31, 2007, there were no amounts drawn on this facility, but we have reduced its capacity by \$30.7 million with the issuance of letters of credit to support our application of the solvency funding relief regulations.

We maintain a \$400.0 million commercial paper program. As at March 31, 2007, no notes were issued under this facility. We will ensure at all times that sufficient undrawn capacity exists on our \$550.0 million revolving operating facility to support issuances of commercial paper.

Ratings

Standard and Poor's (S&P) and Dominion Bond Rating Service (DBRS) have issued the following ratings for our subsidiaries. The ratings are unchanged since December 31, 2006.

	S&P	DBRS
Bell Aliant LP senior unsecured debt	BBB, stable trend	BBB (high) stable trend
Bell Aliant LP commercial paper	Not rated	R-1 (low) stable trend
Télébec and NorthernTel debentures	BBB, stable trend	BBB (high) stable trend

A rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn at any time.

Partners' equity

We have an unlimited number authorized of each of three classes of units:

- Class 1 exchangeable limited partnership units;
- Class 2 limited partnership units; and
- General partnership units.

For details of the terms and conditions associated with the units, refer to note 14 of our consolidated financial statements for the year ended December 31, 2006.

Units of Bell Aliant Holdings LP are not publicly traded, and there has been no change in ownership since December 31, 2006.

New accounting rules require that we present a consolidated statement of comprehensive income which reflects changes in accumulated other comprehensive income as a result of changes in the fair value of derivatives designated as cash flow hedges, to the extent that they are effective. Accumulated other comprehensive income is a separate component of partners' equity, and at March 31, 2007 the balance in accumulated other comprehensive income had the effect of reducing our partners' equity by \$36.7 million. Refer to the "Significant accounting policies" section for further details.

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 the commercial agreements with Bell Canada for our Ontario and Quebec operations. The amounts of estimated future payments under such arrangements are detailed in note 20 to our consolidated financial statements for the year ended December 31, 2006, and note 13 to our unaudited interim consolidated financial statements for the period ended March 31, 2007. Details of our long-term debt can be found in note 12 to our consolidated financial statements for the year ended December 31, 2006.

Accounts receivable securitization

Under a purchase and sale agreement, we sell certain accounts receivable to a securitization trust. Further details of this arrangement are described in note 3 to our consolidated financial statements for the year ended December 31, 2006. At March 31, 2007, we had net cash proceeds in our securitization trust totalling \$120.0

million, unchanged from December 31, 2006. We plan to expand our accounts receivable securitization program in the second quarter of 2007, to allow for up to \$225.0 million in sales of our accounts receivable to the trust.

Use of derivative financial instruments

We use derivative financial instruments periodically in the management of interest rate and foreign currency exposures associated with our long-term debt or specific firm commitments. Details of our use of derivative financial instruments and the accounting policies we follow are provided in notes 1 and 11 to our unaudited interim consolidated financial statements for the period ended March 31, 2007. At March 31, 2007, we had an outstanding forward starting interest rate swap contract with a notional value of \$250.0 million.

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 21 of our consolidated financial statements for the year ended December 31, 2006.

SIGNIFICANT ACCOUNTING POLICIES

Our unaudited interim consolidated financial statements as at March 31, 2007, 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, 2006. As discussed in note 1 to our unaudited interim consolidated financial statements as at March 31, 2007, on January 1, 2007, we adopted sections 1530, 3251, 3855, 3862, 3863, and 3865 of the CICA Handbook, relating to comprehensive income, financial instruments and hedges.

As a result of adopting these new accounting standards, certain financial assets and liabilities are measured at fair market value with the remainder recorded at amortized cost. The significant components of our implementation to the standards include:

- Derivative financial instruments are recorded on the balance sheet at fair value as either other assets or other liabilities with changes in fair value related to the effective portion of cash flow interest rate hedges recorded in other comprehensive income, net of related income tax provisions. Changes in fair value related to the ineffective portion of cash flow hedges or other derivative financial instruments are reported in other income on the consolidated statement of earnings;

A reclassification adjustment of \$40.2 million was recorded in accumulated other comprehensive earnings (losses) and \$0.8 million was recorded as an adjustment to opening accumulated earnings on the balance sheet to reflect the fair value of the effective and ineffective portions of our cash flow hedges, respectively;

- We have transitioned from the straight-line method to the effective interest method to calculate the amortized cost of financial assets and financial liabilities, where it is practical to do so, and amortize the costs over the relevant period to maturity. The difference arising from recording long-term debt using the effective interest method instead of the straight-line method is not material. It is impracticable to use the effective interest method in circumstances such as bank operating credit facilities, which are drawn on or repaid frequently. Costs relating to these credit facilities will continue to be amortized using straight-line amortization over the life of the debt; and

Debt issue costs in the amount of \$12.8 million were reclassified from deferred charges and applied against the long-term debt with which they are associated. Costs related to credit facilities that have not been drawn upon will continue to be classified as deferred charges and will be amortized on a straight-line basis over the life of the facility.

Accounting policy developments

We constantly monitor changes in accounting standards and guidelines to ensure that we continue to adhere to Canadian GAAP. Other than described above, there have not been any changes in accounting standards or guidelines which have resulted in changes to our accounting in the first three months of 2007.

ASSUMPTIONS MADE IN THE PREPARATION OF FORWARD-LOOKING STATEMENTS AND RISKS THAT COULD AFFECT OUR BUSINESS AND RESULTS

Assumptions made in the preparation of forward-looking statements

Forward-looking statements made in our 2006 MD&A and in this MD&A are based on a number of assumptions that we believed were reasonable on the day we made the forward-looking statements. In our MD&A for the year ended December 31, 2006, 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 2007. These assumptions include economic, market, financial and operational assumptions, and except as outlined below, have not changed significantly during the first quarter of 2007, or up to April 30, 2007.

- On February 16, 2007, we announced our intention to make a take-over bid to acquire all of the outstanding trust units of Amtelecom Income Fund, with the offer formally commencing on February 28, 2007. Our offer expired on April 18, 2007 without meeting the conditions for the transaction to proceed. The incremental revenue and distributable cash that may have been generated by the proposed Amtelecom transaction is not material to the guidance we issued in February 2007.

Risk management

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

We are confident about our long-term prospects, but 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, 2006, for a list of significant risks to which we believe we are exposed. The risks noted may not be exhaustive as there may be other risks that we are currently unaware of or that we presently consider insignificant to our consolidated operations.

To date in 2007, 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, 2006. We have provided updates to our regulatory and competitive environments in the “Our business environment” section.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

There have been no changes in our internal controls over financial reporting during the three months ended March 31, 2007, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

NON-GAAP FINANCIAL MEASURES

Where indicated throughout this MD&A, operating revenues, operating income and EBITDA have been restated to include pro forma historical results as though Bell Aliant Holdings LP had been in existence for the entire year in 2006. We believe that presenting these non-GAAP measures will allow for more meaningful year-over-year comparisons and analysis.

The terms pro forma operating revenues, operating income, pro forma operating income, EBITDA, pro forma EBITDA, 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 companies. Pro forma operating revenues, operating income, pro forma operating income, EBITDA, pro forma EBITDA, and distributable cash are presented on a consistent basis from period to period.

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

Pro forma operating revenues and pro forma operating income represent operating revenues and operating income adjusted to reflect the pro forma historical results of the operations related to the net assets bought and sold under the Arrangement had it occurred on January 1, 2005. Therefore, pro forma operating revenues and pro forma operating income represent operating revenues or operating income of the predecessor company, Aliant, excluding operating revenues or operating income related to Aliant's wireless operation and DownEast Ltd. and including operating revenues or operating income related to Bell Canada's regional wireline operation, Télébec and NorthernTel.

The following table reconciles operating revenues to pro forma operating revenues, operating revenues and expenses to operating income and operating income to pro forma operating income on a consolidated basis.

<i>For the period ended March 31</i>		
<i>(millions of dollars)</i>	2007 ⁽¹⁾	2006
Operating revenues	\$851.4	\$527.7
Add (less):		
Aliant Wireless Operations and DownEast Ltd.	-	(91.0)
Bell Canada Regional Wireline Operation	-	296.5
Bell Nordiq Group Inc.	-	90.3
Intercompany eliminations	-	(1.6)
Pro forma operating revenues	\$851.4	\$821.9
Operating revenues	\$851.4	\$527.7
Expenses	679.8	438.9
Operating income	\$171.6	\$88.8
Add (less):		
Aliant Wireless Operations and DownEast Ltd.	-	(44.9)
Bell Canada Regional Wireline Operation	-	98.5
Bell Nordiq Group Inc.	-	29.2
Pro forma operating income	\$171.6	\$171.6

⁽¹⁾ The period ended March 31, 2007, represent actual results, not pro forma.

We use pro forma operating revenues and pro forma operating income, among other measures, to assess the operating performance of Bell Aliant Holdings LP had it been in existence for the entire year in 2006, which allows us to compare our operating performance on a consistent basis. We believe that certain investors and analysts use pro forma operating revenues and pro forma operating income to measure our ability to grow, or as a common valuation measurement in the telecommunications industry.

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

EBITDA and pro forma EBITDA

We define EBITDA as operating revenues less operating expenses, which means it represents operating income before depreciation and amortization expense, net benefit plans cost, and restructuring and other charges. Pro forma EBITDA represents EBITDA adjusted to reflect the pro forma historical results of the operations related to the net assets bought and sold under the Arrangement had it occurred on January 1, 2005. Therefore, pro forma EBITDA represents EBITDA of the predecessor company, Aliant, excluding EBITDA related to Aliant's wireless operation and DownEast Ltd. and including EBITDA related to Bell Canada's regional wireline operation, as well as Télébec and NorthernTel.

The following table is a reconciliation of operating income to EBITDA and EBITDA to pro forma EBITDA on a consolidated basis.

<i>For the period ended March 31</i>		
<i>(millions of dollars)</i>	2007 ⁽¹⁾	2006
Operating income	\$171.6	\$88.8
Add:		
Net benefit plans cost	29.5	24.2
Depreciation and amortization	147.9	98.7
Restructuring and other charges	0.5	0.3
EBITDA	349.5	212.0
Add (less):		
Aliant Wireless Operations and DownEast Ltd.	-	(57.8)
Bell Canada Regional Wireline Operation	-	154.4
Bell Nordiq Group Inc.	-	44.3
Pro forma EBITDA	\$349.5	\$352.9

⁽¹⁾ The period ended March 31, 2007, represent actual results, not pro forma.

We use EBITDA, among other measures, to assess the operating performance of our ongoing businesses without the effects of depreciation and amortization expense, net benefit plans cost, and restructuring and other charges. We exclude depreciation and amortization expense and net benefit plans cost 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 fund performance of a company's pension plans. We exclude these items because they affect the comparability of our financial results and could potentially distort the analysis of trends in business performance. Excluding restructuring and other charges does not imply they are necessarily non-recurring.

We use pro forma EBITDA, among other measures, to assess the operating performance of Bell Aliant Holdings LP had it been in existence for the entire year in 2006. EBITDA and pro forma EBITDA allow us to compare our operating performance on a consistent basis. We believe that certain investors and analysts use these measures to assess our ability to service debt, make capital distributions to unitholders and to meet other payment obligations, or as a common valuation measurement in the telecommunications industry.

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

Distributable cash

Distributable cash is the cash generated from operating activities that is available for distribution. We calculate it using EBITDA or pro forma EBITDA and add or deduct any cash items not included in EBITDA but that are required for operating purposes in the current period, including the following items:

- (i) Cash funding requirement for current service pension costs for defined benefit pension plans and other employee benefit plans to the extent not already deducted in determining EBITDA;
- (ii) Interest expense;
- (iii) Capital expenditures;
- (iv) Other cash income or expenses that may be incurred to the extent not included in EBITDA;
- (v) An adjustment to cash capital taxes to reflect a normalized level that will be achieved once announced provincial tax rate reductions come into effect in future years;
- (vi) Expenses incurred by the Fund as these are not included in the EBITDA of Bell Aliant Holdings LP;
- (vii) Adjustments for certain one-time or other normalizing expense items;
- (viii) The portion of our consolidated distributable cash that is generated for the benefit of the non-controlling interest in our controlled subsidiaries; and
- (ix) The portion of distributable cash generated by discontinued operations.

Prior to July 7, 2006, the majority of the adjustments represent pro forma results. Subsequent to July 7, 2006, all of the adjustments to determine distributable cash can be found in our consolidated financial statements or records with the exception of the normalization for cash capital taxes. This adjustment is a calculation where some management judgement is exercised in estimating the level of capital taxes that we will pay when future tax rate changes come into effect.

In order to discuss and analyze distributable cash in reference to prior periods, we have produced the following calculations from pro forma EBITDA:

<i>For the period ended March 31</i>			
<i>(millions of dollars)</i>	2007 ⁽¹⁾	2006	% change
<i>Reconciled to EBITDA or pro forma EBITDA</i>			
EBITDA or Pro forma EBITDA	\$349.5	\$352.9	(1.0)
⁽²⁾ Cash funding of current service cost for net benefit plans	(16.4)	(15.9)	3.1
Pro forma adjustments not reflected in EBITDA prior to July 7, 2006	-	1.4	n.m.
⁽³⁾ Cash capital taxes included in EBITDA	5.1	0.3	n.m.
Fund expenses	(0.9)	-	n.m.
⁽⁴⁾ Non-controlling interest	-	(16.6)	n.m.
Other income (expenditures)	(0.9)	(0.7)	28.6
⁽⁵⁾ Interest expense	(37.7)	(36.6)	3.0
⁽³⁾ Normalized cash capital taxes	(1.7)	(1.7)	-
⁽⁶⁾ Capital expenditures	(115.3)	(108.0)	6.8
Distributable cash of discontinued operations	8.9	7.6	17.1
Distributable cash	\$190.6	\$182.7	4.3

n.m. - not meaningful

⁽¹⁾ The period ended March 31, 2007, represent actual results, not pro forma.

⁽²⁾ The cash funding requirement related to current service costs for net benefit plans for the period. The portion of cash funding required for net benefit plans cost that exceeds current service cost will be funded through cash reserves or borrowing.

⁽³⁾ Capital taxes actually paid that are in excess of normalized levels will be funded through cash reserves or borrowing.

⁽⁴⁾ The proportionate share of the EBITDA of Bell Nordiq Group Inc. and AMP that is attributable to the non-controlling interest in these businesses.

⁽⁵⁾ For periods prior to July 7, 2006, represents management's estimate of interest expense, assuming total drawn debt of \$2.6 billion for Bell Aliant LP at an estimated interest rate of 5.5 per cent had it been in operations for the entire year 2006. Interest expense also includes Bell Aliant Holdings LP's proportionate share of interest expense for Bell Nordiq Group Inc. and AMP.

⁽⁶⁾ For periods prior to July 7, 2006, represents management's estimate of capital expenditures for Bell Aliant Holdings LP, had it been in operation for the entire year 2006.

⁽⁷⁾ The operations of SalesBridge Canada Inc. and Aliant Directory Services have been restated in discontinued operations. Their contribution to distributable cash is shown separately.

We also calculate distributable cash from a cash flow perspective using cash from operating activities and adding or deducting any items that affect cash flow, including the following:

- (i) Operating items funded through cash reserves or borrowings, such as changes in operating assets and liabilities (working capital), pension deficit funding, restructuring and other charges, and cash capital taxes in excess of normalized levels;
- (ii) Current income tax provisions are added back as we have tax strategies in place to ensure that they are not payable in cash;
- (iii) Capital expenditures;
- (iv) Expenses incurred by the Fund as these are not included in the EBITDA of Bell Aliant Holdings LP; and
- (v) Other elements of operating cash flows that may or may not result in actual current or future cash flows. For example, \$1.3 million of non-cash other expenses are intended to be settled other than by paying cash.

All of these adjustments to determine distributable cash can be found in our consolidated financial statements or records, with the exception of the normalization of cash capital taxes as discussed above.

For the period ended March 31, 2007

(millions of dollars)

<i>Reconciled to cash from operating activities</i>	
Cash from operating activities	\$251.7
Add (deduct):	
Operating items funded through cash reserves or borrowing:	
Change in operating assets and liabilities (working capital)	38.3
Pension deficit funding	8.5
Restructuring and other charges	0.5
Cash capital taxes in excess of normalized levels	3.4
Current income tax recovery	(6.0)
Capital expenditures	(115.3)
Non-cash items in other income	1.3
Fund expenses	(0.9)
Distributable cash of discontinued operations	9.1
Distributable cash	\$190.6

We use distributable cash, among other measures, to assess the financial performance of our ongoing business. It should not be seen as a measure of liquidity or as a substitute for comparable metrics prepared in accordance with Canadian GAAP. We believe that certain investors and analysts use distributable cash to measure our, as well as other open-ended trusts', ability to generate a sustainable return for unitholders.

Distributable cash should not be confused with cash from operating activities, which is the most comparable Canadian GAAP financial measure.

SUPPLEMENTARY FINANCIAL INFORMATION

The accompanying table shows selected consolidated financial data for the most recent eight quarters. This quarterly information has been prepared on the same basis as the consolidated financial statements.

For the eight quarters ended March 31								
(millions of dollars, except for per unit / share amounts)	2005			2006				2007
	Q2	Q3	Q4	Q1	Q2	Q3	Q4 ⁽¹⁾	Q1 ⁽¹⁾
Operating revenues	\$498.2	\$501.0	\$516.4	\$527.7	\$516.5	\$802.8	\$837.3	\$851.4
Pro forma operating revenues ⁽²⁾	\$805.5	\$811.4	\$822.1	\$821.9	\$814.9	\$825.1	\$837.3	\$851.4
EBITDA ⁽²⁾	\$212.9	\$215.3	\$216.1	\$212.0	\$216.0	\$355.6	\$363.9	\$349.5
Pro forma EBITDA ⁽²⁾	\$360.4	\$362.9	\$367.6	\$352.9	\$363.2	\$366.7	\$363.9	\$349.5
Operating income ⁽²⁾	\$89.9	\$94.5	\$97.3	\$88.8	\$91.7	\$184.3	\$186.0	\$171.6
Pro forma operating income ⁽²⁾	\$181.3	\$184.0	\$188.0	\$171.6	\$180.8	\$194.2	\$186.0	\$171.6
Net earnings (loss) from continuing operations	\$44.0	\$44.7	\$50.6	\$35.3	\$47.9	\$2,930.1	(\$132.6)	\$83.0
Net earnings from discontinued operations	5.8	6.1	4.6	4.9	5.3	5.5	5.6	5.5
Net earnings (loss)	\$49.8	\$50.8	\$55.2	\$40.2	\$53.2	\$2,935.6	(\$127.0)	\$88.5
Basic and diluted earnings per unit / share from continuing operations	\$0.32	\$0.33	\$0.38	\$0.26	\$0.36	\$20.07	(\$0.87)	\$0.54
Basic and diluted earnings per unit / share from discontinued operations	0.04	0.04	0.03	0.04	0.04	0.04	0.04	0.04
Basic and diluted earnings per unit / share	\$0.36	\$0.37	\$0.41	\$0.30	\$0.40	\$20.11	(\$0.83)	\$0.58
Distributable cash ⁽²⁾						\$185.9	\$185.9	\$190.6
Cash distributions declared						\$141.0	\$141.0	\$166.2
Preferred share dividends	\$2.4	\$2.4	\$2.4	\$2.4	\$2.4	-	-	-
Common share dividends declared	\$38.5	\$38.1	\$37.6	\$39.5	\$39.5	-	-	-

⁽¹⁾ The period ended December 31, 2006 and March 31, 2007, represent actual results, not pro forma.

⁽²⁾ Pro forma operating revenues, EBITDA, pro forma EBITDA, operating income, pro forma operating income and distributable cash are non-GAAP measures. Refer to the "Non-GAAP financial measures" section for more details.

Our 2005 results, which reflect the operations of Aliant, exhibit strong growth and a full recovery from the 2004 labour disruption. Net earnings for the first quarter of 2006 were negatively affected by a \$13.1 million financial derivative loss related to the exercise of an interest rate swaption contract and the extinguishment of the associated unamortized premium, \$8.3 million after income taxes. The third quarter of 2006 represented the first reported results following completion of the Arrangement and earnings for the period reflect a \$1.95 billion gain on the sale of Aliant's wireless operation and shares of DownEast Ltd., as well as a \$1.0 billion dilution gain that resulted from the reorganization. The results for the fourth quarter of 2006 were negatively impacted by future tax expense of \$225.1 million related to the gain on the disposal of Aliant's wireless operation.