



Bell Aliant Regional Communications Holdings, Limited Partnership Management's Discussion and Analysis First Quarter 2010

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, 2010, compared to the corresponding period in 2009. This MD&A should be read together with our unaudited interim consolidated financial statements and accompanying notes for the period ended March 31, 2010, and our audited consolidated financial statements and accompanying notes for the year ended December 31, 2009, and related MD&A. All amounts in this document are in millions of Canadian dollars, except where noted. Our consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP).

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.

Additional information about us and Bell Aliant Regional Communications Income Fund (the Fund), including annual and quarterly reports, supplementary financial information, as well as annual information forms and information circulars, can be found under "financial reports" on the Fund's website at www.bellaliant.ca. These and other continuous disclosure documents are also available at www.sedar.com.

Forward-looking information

This MD&A is dated May 4, 2010, and is current to that date unless otherwise stated. It contains forward-looking information related to our future financial condition and results of operations, and anticipated future events and circumstances, including in particular under the sections "Conversion transaction", "Distributable cash" (with respect to our expectations of generating sufficient cash flow to provide stable cash distributions), "Cash requirements", and "International financial reporting standards". The purpose of this forward-looking information is to provide the reader with information about our expectations and plans and priorities for fiscal 2010 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 4, 2010. In some cases, forward-looking information may be identified by words such as "anticipate", "believe", "could", "expect", "plan", "seek", "may", "intend", "will", "forecast" 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: increasing competition; our ability to achieve strategies and plans; general economic conditions; reliance on systems; changing technology; required operating and capital expenditures and demand for our services; our business relationship with Bell Canada; pension plan funding; changing regulations; dependence on key suppliers; maintenance of credit ratings; leverage and restrictive covenants; BCE Inc.'s (BCE) governance rights; reliance on key personnel and labour relations; legal

contingencies and changes in laws; the success of acquisitions and dispositions; and certain tax related risks. 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. 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 3, 2010, relating to 2009 earnings results and 2010 financial guidance for the Fund and Bell Aliant Holdings LP, which is available at www.bellaliant.ca as well as www.sedar.com.

OUR BUSINESS

We are one of North America's largest regional communications service providers and have been serving customers for over a century. We offer a complete range of voice and data communications services as well as information technology (IT) consulting, infrastructure management, product fulfillment and advanced technology solutions to approximately 5.3 million of our customers across Atlantic Canada, Ontario and Quebec. Communications services we provide include local telephone, long distance, data and Internet, wireless, television (TV) and other products and services. Our IT services include system integration, application development, local and wide area network installations and management, data centre operations, computer hardware, packaged software and IT planning.

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.

FIRST QUARTER IN REVIEW

Summary of results

Our net local network access service (NAS) customer declines in the first quarter of 2010 were consistent with those experienced in the first quarter of 2009, despite increased competitive coverage in our territories. Our Internet, wireless and TV growth was strong. We continue to proactively manage our operating and capital costs with notable improvement. In combination, these achievements contributed to our successful delivery of strong distributable cash for the first quarter of 2010. The following table provides a summary of our operating results for the first quarter of 2010.

<i>For the three months ended March 31</i>			
<i>(millions of dollars, except as otherwise noted)</i>	2010	2009	% change
Operating revenues	\$778.6	\$818.3	(4.9)
EBITDA ⁽¹⁾	\$353.7	\$358.7	(1.4)
EBITDA margin ⁽¹⁾	45.4%	43.8%	3.7
Operating income	\$147.1	\$150.5	(2.3)
Net earnings from continuing operations	\$77.8	\$84.4	(7.8)
Net loss from discontinued operations	-	(\$1.9)	n.m.
Net earnings	\$77.8	\$82.5	(5.7)

n.m. not meaningful

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

Operating revenues decreased 4.9 per cent, or \$39.7 million, in the first quarter of 2010, compared to the first quarter of 2009. The decline was driven by lower IT services and fulfillment revenue after a strong first quarter in 2009, primarily related to a decrease in low margin equipment sales, and declines in local and access, long distance, and other revenues. These declines were only partially offset by growth in our data and Internet and wireless revenue. The lower voice revenues are primarily attributable to the decline in NAS customers, due to competitive losses and a decline in contribution subsidy revenue. Our gains in high-speed Internet, wireless and TV customers contributed to higher data, Internet and wireless revenues. Refer to our "Results of operations" section for additional details.

Despite this decrease in operating revenues, we were able to mitigate the effect on EBITDA through labour-related cost reductions and other cost containment initiatives. Although EBITDA declined 1.4 per cent, or \$5.0 million, in the first quarter of 2010, compared to the first quarter of 2009, EBITDA margin improved 1.6 percentage points to 45.4 per cent, over the same period in 2009.

Operating income decreased 2.3 per cent, or \$3.4 million, during the first quarter of 2010, compared to the first quarter of 2009. The decrease in EBITDA, combined with a \$1.9 million increase in restructuring and other charges was offset by a \$3.5 million decline in depreciation and amortization.

Net earnings decreased 5.7 per cent, or \$4.7 million, in the first quarter of 2010, compared to the first quarter of 2009. This decrease is the result of a reduction in operating income, combined with a lower income tax recovery and higher interest charges, offset by a reduction in non-controlling interest.

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, 2010, and the corresponding period in 2009, 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>	2010	2009	% change
Cash from operating activities	\$145.6	\$210.5	(30.8)
<i>Add (deduct):</i> Cash from operating activities of the Fund and discontinued operations	-	(16.9)	n.m.
Capital expenditures	(94.7)	(107.3)	(11.7)
Standardized distributable cash ⁽¹⁾	\$50.9	\$86.3	(41.0)
<i>Add (deduct):</i> Operating items funded through cash reserves or borrowing	150.8	107.4	40.4
Other adjustments	(1.4)	2.8	n.m.
Distributable cash ⁽¹⁾	\$200.3	\$196.5	1.9
Net earnings	\$77.8	\$82.5	(5.7)
Cash distributions declared ⁽²⁾	\$165.1	\$164.9	0.1
Excess (shortfall) of cash from operating activities over cash distributions declared ⁽³⁾	(\$19.5)	\$28.7	n.m.
Shortfall of net earnings over cash distributions declared	(\$87.3)	(\$82.4)	5.9

n.m. not meaningful

⁽¹⁾ Standardized distributable cash and distributable cash are non-GAAP measures. Refer to the "Non-GAAP financial measures" section for further detail.

⁽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 2010 was \$50.9 million. This represents a decrease of \$35.4 million, or 41.0 per cent, when compared to the same period in 2009, due to a \$64.9 million decrease in cash from operating activities, offset by a \$16.9 million increase in standardized distributable cash from the Fund and discontinued operations and by lower capital spending of \$12.6 million. Cash from operating activities declined due to higher cash requirements to fund changes in operating assets and liabilities, or working capital, while cash from operating activities for the Fund increased due to lower cash requirements to fund changes in working capital. Changes in the Fund's working capital primarily represent repayment of accumulated amounts owing to us, and therefore contribute to equal and opposite cash flows to us. Refer to the "Summary of cash flows" section for additional information.

In contrast to standardized distributable cash, our calculation of distributable cash does not include working capital fluctuations, restructuring charges and certain other items we fund through cash reserves or short-term borrowing. On this basis, our calculation of distributable cash for the first quarter of 2010 was \$200.3 million, which represents an increase of \$3.8 million, or 1.9 per cent, when compared to the same period in 2009. This increase in distributable cash mainly reflects lower quarter-over-quarter capital spending partially offset by lower EBITDA which is reflected in the decline in cash from operating activities.

For the three months ended March 31, 2010, cash distributions declared were 82.4 per cent of distributable cash, compared to 83.9 per cent for the comparable period in 2009. The decrease in the distributable cash payout ratio is due to the level of distributions being held consistent with the level of 2009 payouts, while distributable cash has increased in the first quarter of 2010 compared to the same period in 2009.

CONVERSION TRANSACTION

As a result of the federal government's previously announced changes to income tax legislation affecting publicly listed or traded income trusts, such as the Fund, starting January 1, 2011, the Fund will be taxed as if it was a corporation. We anticipate the Fund will be taxed at a blended federal / provincial rate of 29 per cent of taxable income in 2011, dropping to 27 per cent of taxable income

by 2013. Should unitholders determine it is appropriate, a transaction is required to convert the Fund from an income trust structure to a corporate structure (Conversion Transaction). The Department of Finance enacted amendments to the Income Tax Act (Canada) on March 12, 2009, to facilitate the conversion of existing income trusts into corporations on a tax-deferred basis (Conversion Rules).

Subject to approval by unitholders at the Fund's annual and special meeting on June 16, 2010, we expect the Fund to convert to a corporation under a plan of arrangement under the Canada Business Corporations Act, through a tax-deferred exchange of Fund units for shares of a corporation on a one-for-one basis under the Conversion Rules. The conversion, assuming receipt of court and other regulatory approval and satisfaction waived of applicable conditions, is expected to be effective on or by January 1, 2011. The conversion will have no impact on our underlying business model or operating plans, but is expected to reduce administrative costs associated with our existing more complex trust structure, improve comparability of our financial condition and results of operations to peers, and broaden the potential investor base. Following the conversion, BCE and Bell Canada will have the same governance rights and economic interests in us as immediately before the conversion. In addition, Scotia Capital Inc. was engaged and has provided its opinion to the Fund trustees and Bell Aliant Regional Communications Holdings Inc, the Fund's general partner, that the conversion transaction is fair, from a financial point of view, to Fund unitholders. An information circular outlining details about the proposed terms and process for the Conversion Transaction is expected to be mailed to Fund unitholders in late May 2010.

Dividend policy

In considering an appropriate dividend policy for the new corporation for 2011 and onward, the Fund's objectives are to seek to ensure dividend sustainability while maintaining a high dividend payout to investors. Given that the Fund will be subject to income taxes beginning in 2011, regardless of whether the Conversion Transaction occurs, the Fund will need to change the current distribution rate at that time.

The Fund is expected to continue to declare and pay monthly distributions at the current annual rate of \$2.90 per unit throughout 2010. Effective in 2011, the dividend policy of the new corporation will target a payout ratio of 75 to 85 per cent of free cash flow, with the initial dividend expected to be an annual dividend of \$1.90 per share, to be paid quarterly at a rate of \$0.475 per share beginning in March 2011. For taxable retail investors resident in Canada, dividends paid by a corporation are taxed at lower rates than the distributions paid by the Fund, prior to January 1, 2011, as an income trust. As such, under a corporate structure, the dividend tax credit mechanism can be expected to mitigate, in large part, the after-tax effect of a lower dividend for those investors.

Free cash flow

As we prepare for conversion to a corporate structure and target a dividend policy based on free cash flow, we anticipate the distributable cash financial measure will be less meaningful starting in 2011. The differences between distributable cash and free cash flow are mainly the distributable cash from discontinued operations and the items we state as being funded through cash reserves and short-term borrowing such as restructuring charges, pension deficit funding and working capital changes. The following table provides a summary reconciliation of cash from operating activities to free cash flow for the three months ended March 31, 2010, and corresponding period in 2009, and cash distributions declared. Since our operations ultimately support distributions to Fund unitholders, free cash flow combines our cash performance with that of the Fund.

<i>For the three months ended March 31</i>			
<i>(millions of dollars)</i>	2010	2009	% change
Cash from operating activities	\$145.6	\$210.5	(30.8)
<i>Deduct:</i> Cash from operating activities of the Fund	-	(12.0)	n.m.
Total cash from operating activities	145.6	198.5	(26.6)
Capital expenditures	(94.7)	(107.3)	(11.7)
Free cash flow ⁽¹⁾	\$50.9	\$91.2	(44.2)
<i>Add (deduct):</i> Changes in operating assets and liabilities (working capital)	120.6	69.4	73.8
Change in operating assets and liabilities (working capital) of the Fund	(0.6)	11.0	n.m.
Free cash flow before changes in working capital	\$170.9	\$171.6	(0.4)
Cash distributions declared ⁽²⁾	\$165.1	\$164.9	0.1

n.m. not meaningful

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

⁽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.

Free cash flow for the three months ended March 31, 2010, was \$50.9 million, a decrease of \$40.3 million, or 44.2 per cent, from the same period in 2009, mainly due to the cash requirements to fund working capital changes in the quarter of \$120.0 million for us and the Fund combined. Working capital changes are normally a use of cash in the first quarter of the year, as we pay amounts related to annual incentives and interest that were accrued in the fourth quarter of the previous year, as well as large annual payments for property taxes. The effects of working capital on free cash flow typically reverse in later quarters.

OUR BUSINESS ENVIRONMENT

Competitive landscape

We face many different competitors across the regions we service. Cable companies continue to present our most significant competitive threat, as they expand their local service areas and provide bundled service offerings in our regions. The competitive footprint overlap with cable companies grew to approximately 68 per cent of residential households in our territories at the end of March 2010, representing a 9 percentage point increase from 59 per cent a year ago. We expect that cable companies will continue to gradually erode our market share in local and long distance voice services, and to a lesser extent Internet services, both with further expansion into our territories and in intensity of competition. In contrast, we anticipate that our market share in TV services will grow against the cable companies as our footprint for offering these services expands.

In response to these competitive pressures, we remain committed to providing high quality customer service and innovative product offerings to our customers. We are continually enhancing our products and services, promoting our Bell Aliant Bundles, and investing in fibre to build our network capacity. We continue to use our local presence to guide community investment and support activities that are important to our customers and employees. We conduct our business with a clear and consistent focus on the successful execution of our strategic objectives. Refer to our accomplishments 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), pursuant to the Telecommunications Act, the Broadcasting Act and the Radiocommunication Act. The CRTC is an independent agency of

the Government of Canada and is responsible for regulating Canada's telecommunications and broadcasting industries.

The CRTC is expected to rely on market forces to the maximum extent feasible when making policy decisions, and should use regulation that interferes with market forces to the minimum extent necessary. As an interested party, we frequently 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 gain unfair competitive advantages or raise the regulatory burdens in our industry.

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

STRATEGY

Highlights of strategic achievements in the first quarter of 2010

Our 2010 strategy is a continuation of the strategy we implemented in 2009, as it has proven successful and resilient through challenging times in our industry. We believe this has set the course for our future success and therefore we will continue to focus on five strategic objectives, as follows:

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

We continue to focus on our service fundamentals while improving the overall experience for customers. As a result, we have seen continued improvements in our field operations and call centre service results.

Retain our customers

As a proven tool to build loyalty, bundling is key to our retention strategy. In the first quarter of 2010, we refreshed our approach to bundles to increase the awareness and understanding of the value we offer. Particular emphasis was placed on promoting our three-product bundle, which includes home telephone, high-speed Internet and TV.

In the first quarter of 2010, we also introduced our new suite of voicemail services. Customers now have access to more advanced voicemail features, including the ability to send and receive voicemail as email attachments. This innovative voicemail service will be rolled out to customers throughout the remainder of 2010.

Grow broadband

In the first quarter of 2010, we completed the *FibreOP*TM build in Fredericton, New Brunswick, becoming the first communications company in Canada to provide fibre-to-the home (FTTH) technology to an entire city on a 100 per cent fibre optic network. On March 9, 2010, we launched the service in Saint John, New Brunswick, which we anticipate will be complete by mid-year 2010. Approximately 35,000 homes in Fredericton and Saint John are now passed with FTTH technology. In these areas, we have focused on selling *FibreOP* Bundles which combines home phone with *FibreOP* Internet and TV services.

Digital subscriber line expansion continued with an additional 9,000 homes passed in the first quarter of 2010, resulting in over 77 per cent of homes in our territory now passed with high-speed Internet service.

We continued to evolve our TV service with new features that will improve overall usability within the program guide, Personal Video Recorder and menu. These changes provide customers with improvements that include faster loading menus, easier searches, improved layouts and smoother transitions between screens.

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

Reset our cost structure

As revenue growth becomes more challenging to achieve, cost structure improvement is critical to us. The cost reduction strategies for 2010 continue with an intense focus on managing labour cost, renegotiating supplier contracts and controlling discretionary spending. We are experiencing the positive impact on our cost structure of initiatives which went into effect in 2009, as well as those implemented during the first three months of 2010.

Labour costs continue to decline as our contact centre consolidation was completed, with many employees accepting voluntary retirement offers. We have also embarked on a new lower cost approach to managing selected IT back office functions, further contributing to labour cost reductions.

Our efforts in late 2009 to optimize supplier arrangements produced savings in field materials, set-top boxes and Internet carrier costs. Further cost savings were achieved through our commercial agreement for selected services with Bell Canada.

Finally, significant progress has also been made in reducing general and administrative expenses, real estate costs, and information system expenses.

Engage employees

We continued to strengthen the ability of our leaders to engage our workforce with clear direction on our 2010 strategy, improved performance planning tools and leadership development.

In February, we shared our 2010 business strategy with all Bell Aliant employees through a webcast hosted by our senior executives. We believe that when our employees understand our strategies, they are more likely to support them and, in turn, advance them.

We continue to promote a high performance culture with a consistent performance management approach across the business. Access to this system allows leaders of people to work with employees to build and deliver measurable, realistic and actionable goals that contribute to the five strategic initiatives. We have also created a common goal for all leaders of people that will enable them to stay focused on meeting the needs of their employees, either by recognizing contribution that goes above and beyond, or connecting the employee's work to the business strategy through communication. Furthermore, we continue to educate our leaders of people through our leadership development program and remain focused on the development and retention of top talent across the organization.

On April 27, 2010, we announced a significant milestone in that a tentative agreement has been reached with the Communications, Energy and Paperworkers Atlantic Communications Council, which represents approximately 3,000 of our unionized employees in Atlantic Canada. The new tentative agreement is being presented to the membership by union leadership with a

recommendation for acceptance. If ratified, the new agreement will replace the current agreement, which was originally set to expire on December 31, 2011, and will extend to December 31, 2014.

Both we and our employees will benefit from increased labour stability and efficiencies over the next four and a half years. The new agreement will be key to meeting our strategic objectives – engaging employees, ensuring strong customer service, and further assisting us in resetting our cost structure.

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>	2010	2009	% change
Local and access	\$322.9	\$338.2	(4.5)
Long distance	97.1	106.0	(8.4)
Data & Internet	204.1	200.2	1.9
IT services and fulfillment	95.5	112.3	(15.0)
Wireless	21.0	19.8	6.1
Other revenues	38.0	41.8	(9.1)
Operating revenues	\$778.6	\$818.3	(4.9)
Operating expenses	424.9	459.6	(7.6)
EBITDA ⁽¹⁾	\$353.7	\$358.7	(1.4)
Net cost of benefit plans	22.2	22.2	-
Depreciation and amortization	172.8	176.3	(2.0)
Restructuring and other charges	11.6	9.7	19.6
Operating income	\$147.1	\$150.5	(2.3)
Other expenses	0.9	0.2	n.m.
Interest charges	39.5	37.5	5.3
Income tax recovery	(3.8)	(7.9)	(51.9)
Non-controlling interest	32.7	36.3	(9.9)
Net earnings from continuing operations	\$77.8	\$84.4	(7.8)
Net loss from discontinued operations	-	(1.9)	n.m.
Net earnings	\$77.8	\$82.5	(5.7)

n.m. not meaningful

⁽¹⁾ EBITDA is a non-GAAP financial measure. 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 NAS, along with enhanced service features, contribution revenues and competitor network access revenues. Although we experienced a 5.1 per cent drop in our total NAS customers at March 31, 2010, compared to March 31, 2009, we have contained the local and access revenue decline to 4.5 per cent, or \$15.3 million. This includes a \$5.0 million decline in contribution subsidy revenue in the first quarter of 2010, related to the impacts of 2009 deflation on costs for subsidy calculation purposes, compared to the same period in 2009. Revenue losses continued to be mitigated through programs targeted at retaining our highest value customers, select pricing increases and increased features penetration.

During the first quarter of 2010, our net NAS customer declines were 38,580. This represents an improvement of approximately 5,000 in net NAS customer declines compared to the level experienced in the fourth quarter of 2009. NAS declines in the first quarter of 2010 were generally consistent with the same period in 2009.

At March 31, 2010, the number of residential NAS customers was 6.0 per cent lower than at March 31, 2009, and the number of business NAS customers was 3.4 per cent lower than at March 31, 2009. In our residential market, we are continuing to experience competitive losses due to increased competitive intensity and an expansion in the competitive footprint overlap with cable companies, as well as substitution of traditional wireline service by other services, including wireless and voice over Internet protocol (VoIP) services.

Long distance

Long distance revenue, earned through toll and long distance terminating services, declined by 8.4 per cent, or \$8.9 million, in the first quarter of 2010, compared to the first quarter of 2009. The quarter-over-quarter revenue decline was a result of a 6.6 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 customer losses and substitution of traditional wireline service by email, cellular calling and IP-based services. The decline in average revenue per minute is primarily attributable to customers shifting from per-minute to flat-rate and lower yielding plans. It is a competitive necessity to re-price our long distance revenue as we bundle customers with high-speed Internet and TV. Our challenge is to grow our new revenue through bundles to offset our long distance re-pricing.

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 network services, Internet protocol television (IPTV) and enhanced services and applications, such as security services and music download service. Revenue from these services increased 1.9 per cent, or \$3.9 million, in the first quarter of 2010, compared to the same period in 2009. Internet revenue grew by 8.2 per cent in the first quarter of 2010, compared to the first quarter of 2009, while other data revenues declined by 4.6 per cent.

At March 31, 2010, our high-speed Internet customer base was 6.5 per cent higher than at March 31, 2009, with growth in both the residential and business markets. We have experienced strong growth in our high-speed Internet customers and although the rate of increase over the prior year is lower, it reflects trends across the industry. We have mitigated this declining growth rate by marketing our higher value services to customers and through selected price increases, which resulted in our highest residential high-speed Internet average monthly revenue per customer (ARPC) to date of \$38.99 in the first quarter of 2010, up 5.5 per cent, or \$2.05, from \$36.94 in the first quarter of 2009.

IT services and fulfillment

IT services and fulfillment revenue is earned primarily by our xwave division through systems integration, IT consulting, hardware and software fulfillment. Overall IT services and fulfillment revenue declined in the first quarter of 2010 by 15.0 per cent, or \$16.8 million, compared to the same period in 2009, primarily due to a decrease in low margin IT fulfillment revenue of \$15.6 million, or 17.6 per cent. The decrease in IT fulfillment revenue is due to significant product sales to a large customer in the first quarter of 2009 which were not repeated to the same extent in the first quarter of 2010.

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. Despite a decline in wireless ARPC of 0.3 per cent for the quarter ended March 31, 2010, compared to the quarter ended March 31, 2009, due to promotional pricing used to acquire and retain customers in the face of aggressive competitive offers, wireless revenue increased by 6.1 per cent, or \$1.2 million, in the first quarter of 2010, compared to the first quarter of 2009. This is mainly due to a 6.5 per cent increase in the number of wireless customers compared to the first quarter of 2009.

Other revenues

Other revenues consist mainly of terminal rentals and sales, personal computer sales, telecommunication equipment sales, custom work completed for large customers, and revenue generated by our outsourcing arrangement with Bell Mobility. Other revenues declined 9.1 per cent, or \$3.8 million, in the first quarter of 2010, compared to the same period in 2009. This decline is partially driven by a decrease in outsourcing revenue of \$1.3 million, or 24.4 per cent, due to repatriation of work by Bell Mobility that was previously performed by us. In addition, product sales generating other revenue declined by \$0.6 million, or 4.2 per cent, compared to the first quarter of 2009, primarily attributable to a weaker economy. The balance of the decline is largely due to lower rental revenues.

Expenses

Operating expenses

<i>For the three months ended March 31</i> <i>(millions of dollars)</i>	2010	2009	% change
Cost of sales	\$157.5	\$169.6	(7.1)
Salaries, benefits, contract labour and consulting	136.3	148.8	(8.4)
Selling, general and administrative	130.1	139.1	(6.5)
Capital taxes	1.0	2.1	(52.4)
Operating expenses	\$424.9	\$459.6	(7.6)

Operating expenses decreased by 7.6 per cent, or \$34.7 million, in the first quarter of 2010, compared to the same period in 2009, reflecting a decline in all operating expense categories.

Cost of sales decreased by 7.1 per cent, or \$12.1 million, primarily due to lower product cost of goods sold, reflecting lower overall product sales.

Salaries, benefits, contract labour and consulting expenses decreased by 8.4 per cent, or \$12.5 million, mainly due to the continued efficiencies achieved as a result of our restructuring initiatives, and mark-to-market adjustments which reduced our liabilities at March 31, 2010, under an equity-based incentive plan.

Selling, general and administrative expenses declined by 6.5 per cent, or \$9.0 million, as various cost containment and other expense reduction measures resulted in lower real estate expenses, provincial and municipal property and revenue taxes, bad debt expense and other discretionary expenses.

Net cost of benefit plans

Net cost of defined benefit (DB) and other post employment benefit (OPEB) plans in the first quarter of 2010 was \$20.3 million, consistent with the same period in 2009. The net cost of benefit plans for the first quarter of 2010 includes higher amortization and interest costs on the DB and OPEB obligations, as the size of the obligations increased from the prior year. The increases in these costs were offset by lower current service costs, which reflect a smaller workforce than the prior year, and a higher expected rate of return on DB plan assets as our asset base increased with strong returns in 2009.

Defined contribution (DC) pension costs were \$1.9 million in the first quarter of 2010, consistent with the prior year, as increases resulting from normal salary growth were offset by a decrease in the number of plan participants.

Depreciation and amortization

Depreciation and amortization decreased 2.0 per cent, or \$3.5 million, when comparing the first quarter of 2010 to the same period in 2009. This decrease is a result of a declining and aging depreciable asset base when comparing quarter over quarter.

Restructuring and other charges

Restructuring and other charges increased by 19.6 per cent, or \$1.9 million, in the first quarter of 2010, compared to the corresponding period in 2009. The increase mainly relates to the continuation of initiatives to streamline our management workforce, an additional voluntary retirement incentive offer for a limited number of our unionized employees in Ontario and Quebec, and a change in estimate in the accrual related to the 2009 restructuring initiative to reflect its final costs.

Interest charges

Interest charges in the first quarter of 2010 increased 5.3 per cent, or \$2.0 million, compared to the first quarter of 2009. 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 increase reflects the higher interest rate on long-term debt issued in May 2009, the proceeds of which were used to repay lower rate short-term debt.

Income tax recovery

The income tax recovery in the first quarter of 2010 decreased 51.9 per cent, or \$4.1 million, compared to the first quarter of 2009. Lower earnings before tax in the first quarter of 2010 resulted in a higher future tax recovery of \$0.8 million, as compared to the first quarter of 2009. This was offset by an increase of \$4.9 million in our estimated future tax liability, stemming from a \$4.0 million change in the reversal pattern of our temporary differences, and \$0.9 million related to higher capital investment related deductions for tax purposes than reported for financial statement purposes in the first quarter of 2010, as compared to the same period in 2009.

Non-controlling interest

Non-controlling interest at March 31, 2010, represents Bell Canada's 37.9 per cent ownership interest in Bell Aliant LP (36.75 per cent on a proportionate cash distribution basis).

Non-controlling interest in our earnings decreased by 9.9 per cent, or \$3.6 million, in the first quarter of 2010, compared to the same period in 2009, reflecting the quarter-over-quarter change in net earnings of Bell Aliant LP.

Net loss from discontinued operations

In the first quarter of 2010, we had no discontinued operations. Discontinued operations in 2009 include the operating results of Innovatia Inc. (Innovatia), xwave New England Corp (xwave New England) and our Defence, Security and Aerospace (DSA) business, which had a combined net loss of \$1.9 million.

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)	2010	2009				2008		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Operating revenues	\$778.6	\$785.6	\$785.8	\$784.5	\$818.3	\$803.2	\$806.6	\$806.8
EBITDA ⁽¹⁾	\$353.7	\$365.6	\$374.9	\$367.2	\$358.7	\$365.6	\$371.0	\$360.4
Operating income	\$147.1	\$142.9	\$163.7	\$164.5	\$150.5	\$112.7	\$171.3	\$161.8
Net earnings (loss):								
Continuing operations	\$77.8	\$95.1	\$98.8	\$94.7	\$84.4	\$81.0	\$95.1	\$85.0
Discontinued operations	-	(2.5)	(7.0)	(5.4)	(1.9)	(1.0)	(1.6)	(0.6)
Net earnings	\$77.8	\$92.6	\$91.8	\$89.3	\$82.5	\$80.0	\$93.5	\$84.4
Basic and diluted earnings (loss) per unit:								
Continuing operations	0.48	0.59	\$ 0.62	\$ 0.59	0.53	0.50	\$ 0.59	\$ 0.53
Discontinued operations	-	(0.01)	(0.05)	(0.03)	(0.02)	-	(0.01)	-
Basic and diluted earnings per unit	0.48	\$0.58	\$0.57	\$0.56	\$0.51	\$0.50	\$0.58	\$0.53
Distributable cash ⁽¹⁾	\$200.3	\$182.5	\$207.8	\$186.6	\$196.5	\$146.2	\$179.3	\$183.3
Cash distributions declared ⁽²⁾	\$165.1	\$165.1	\$165.1	\$165.1	\$164.9	\$164.8	\$164.9	\$164.9

⁽¹⁾ EBITDA 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:

- In general, we have seen a decline in revenues from local and access, long distance IT services and other revenues over the past eight quarters, while revenue earned from data and Internet and wireless have increased. IT fulfillment revenue can fluctuate from quarter to quarter, with the first quarter of the year typically experiencing stronger revenue from customers in the government sector.
- A restructuring initiative was launched in 2008 with a \$60.3 million charge recorded in the fourth quarter to facilitate a new organizational structure. To continue our productivity initiatives in 2009 and create a more efficient cost structure as well as improve our service to customers, we offered a voluntary retirement incentive to a limited number of our unionized employees in Atlantic Canada, Ontario and Quebec. We also announced an operational consolidation of certain contact centres in Atlantic Canada. We recognized restructuring charges related to these initiatives of \$9.3 million, \$2.6 million, \$13.0 million and \$16.0 million in the first, second, third and fourth quarters of 2009, respectively. In the first quarter of 2010, we continued our organizational restructuring initiatives which resulted in recognizing a related \$11.1 million of restructuring charges.
- Cost containment and other expense reduction initiatives implemented during 2009 in response to our strategic objectives reduced our selling, general and administration expenses by \$47.9 million, or 7.9 per cent, in 2009 compared to 2008. In the first quarter of

2010, this trend continued, as selling, general and administration expenses declined \$9.0 million, compared to the same period in 2009.

- On May 1, 2009, we concluded an asset purchase agreement whereby CAE Professional Services (Canada) Inc. (CAE) acquired our DSA business, which had operated under the xwave brand. The proceeds on closing were \$16.3 million in cash and \$7.6 million in receivables from CAE related to post-closing balance sheet adjustments, with an additional \$8.5 million of proceeds contingent upon the occurrence of certain future events, for potential total proceeds of \$32.4 million. A pre-tax gain on sale of \$1.7 million was recorded in the second quarter of 2009, which was reflected in the net loss from discontinued operations.
- On June 1, 2009, we concluded a share purchase agreement whereby Abilis Solutions Inc. acquired all of the outstanding shares of xwave New England. The proceeds on closing were \$4.9 million, resulting in a pre-tax loss on sale of \$3.5 million being recognized during the second quarter of 2009.
- On November 1, 2009, we concluded a share purchase agreement under which the senior leaders of Innovatia acquired all of its outstanding shares. In anticipation of the disposal, we recorded a write-down of net assets in the third quarter of 2009 of \$6.1 million. The proceeds on closing were \$1.5 million, resulting in a pre-tax loss on sale of \$1.5 million being recognized in the fourth quarter of 2009.

Additional details regarding our results for the first quarter of 2010 are discussed throughout this document. Further information on our prior quarterly results can be found in the respective quarterly financial statements and related MD&As 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>	2010	2009	% change
Cash from (used in):			
Operating activities	\$145.6	\$210.5	(30.8)
Financing activities	(60.0)	(89.2)	(32.7)
Investing activities	(94.7)	(107.3)	(11.7)
Net increase (decrease) in cash from continuing operations	(\$9.1)	\$14.0	n.m.
Net decrease in cash from discontinued operations	-	(4.9)	n.m.
Net increase (decrease) in cash for the period	(\$9.1)	\$9.1	n.m.

n.m. - not meaningful

We used net cash of \$9.1 million in the first quarter of 2010, compared to generating cash of \$9.1 million in the first quarter of 2009. This quarter-over-quarter decrease includes the impact of \$4.9 million lower cash flow from discontinued operations in 2009, with no such activity in 2010.

Operating activities

Cash generated from operating activities decreased 30.8 per cent, or \$64.9 million, in the first quarter of 2010, compared to the same period in 2009. Contributing to this decline is a \$9.5 million decrease in net earnings from continuing operations, net of non-cash adjustments, a \$51.2 million

decrease in cash flow from changes in operating assets and liabilities, or working capital, and an increase of \$4.2 million in funding of DB pension and OPEB plans.

Cash flow used to fund working capital changes was \$120.6 million in the first quarter of 2010, compared to \$69.4 million in the first quarter of 2009. Our management of accounts receivable contributed \$4.8 million to our cash flows in the first quarter of 2009, but required cash of \$14.6 million in the first quarter of 2010. In the first quarter of 2009, the Fund repaid \$11.0 million to us for accumulated receivable amounts. As well, the early positive results of accounts receivable management initiatives that began in 2008 started to be realized, and these improvements were significant enough to entirely offset what is normally a large increase in receivables from IT fulfillment sales in the first quarter of the year. In the first quarter of 2010, improvements were more modest and insufficient to offset the increased customer accounts receivable from March IT fulfillment sales. Cash flow to fund working capital changes was also negatively impacted quarter over quarter due to a \$9.8 million increase in inventory purchases to support our Bell Aliant TV and high-speed Internet services and a \$7.2 million increase in income tax receivable due to the payment resulting from an audit of our scientific research and experimental development tax credits which remains under appeal. The first quarter of both 2010 and 2009 included large cash payments for accounts payable and accruals, of \$73.4 million and \$56.8 million, respectively, which are typical for the first quarter of the year mainly as a result of semi-annual interest payments and incentive plan payments

Funding for our DB pension and OPEB plans for the first quarter of 2010 was \$33.5 million, compared to \$29.3 million for the same period in 2009. In 2010, we had increases in our special deficit-reducing payments of \$4.9 million, which reflected higher contribution requirements to repay deficits incurred in 2008, as determined by our December 31, 2008, actuarial valuations that were filed in August 2009. We are in the process of updating the actuarial valuations of our pension plans as of December 31, 2009. We expect these to be completed and filed by the end of the second quarter of 2010, and we will adjust our 2010 contributions to the plans based on the valuation results.

Financing activities

Cash used in financing activities decreased 32.7 per cent, or \$29.2 million, for the first quarter of 2010, compared to the same period in 2009.

In the first quarter of 2010, we had net proceeds of short-term advances on our bank credit facilities and other short-term borrowings of \$110.1 million, while for the same period in 2009 we had net proceeds of \$85.2 million from these facilities. Typically, we require short-term borrowing in the first quarter of each year to fund working capital changes. Cash from operating activities of \$145.6 million in the first quarter of 2010 was net of cash required to fund working capital changes of \$120.6 million and, without the incremental \$110.1 million of short term borrowing, would have been insufficient to support our distributions and capital investing activities in the quarter. We expect working capital changes to reverse over the course of a full year and these short-term borrowings to be repaid. Financing activities also include total distributions paid to the Fund and non-controlling interests, which were \$166.1 million in the first quarter of 2010 and \$166.3 million in the same period in 2009. In the first quarter of 2010, compared to the same period in 2009, there was a small increase in the number of Fund units outstanding, while the distribution rate paid by the Fund remained unchanged. The Fund required slightly less cash from us to fund its operating expenses in the first quarter of 2010 compared to the same period in 2009.

Investing activities

Cash used in investing activities decreased by 11.7 per cent, or \$12.6 million, in the first quarter of 2010, compared to the first quarter of 2009.

Capital investments were \$94.7 million in the first quarter of 2010, compared to \$107.3 million in the same period in 2009. We have reduced our capital spending, reflecting a prioritization of capital

projects that improve our profitability and productivity. In addition, the first quarter of 2009 included incremental spending for the Bell Mobility backhaul project that was not incurred in the same period in 2010. Capital expenditures were 12.2 per cent of operating revenues in the first quarter of 2010, which is slightly below our annual target of 14.0 per cent to 15.0 per cent.

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 as they arise. With a possible increase in pension deficit funding requirements for 2010, we may draw on our dedicated pension reserve bank facility to supplement our operating cash flows to make these contributions. Employing this special-purpose credit facility, as we did to a limited extent in 2009, will preserve capacity and access to liquidity for general operating purposes under our revolving credit facilities.

Our capital structure is as follows:

<i>(millions of dollars, except as otherwise noted)</i>	March 31, 2010		December 31, 2009	
Partners' equity	\$4,764.2	51.5%	\$4,799.4	52.3%
Non-controlling interest	1,568.3	17.0%	\$1,587.9	17.3%
Net debt	2,913.1	31.5%	2,792.6	30.4%
Total capital	\$9,245.6	100.0%	\$9,179.9	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 4, 2010, which is unchanged from December 31, 2009, 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 \$2.6 billion in unsecured and unsubordinated medium-term notes outstanding under Bell Aliant LP's trust indenture dated September 14, 2006. In April of 2009, we filed a new medium-term note shelf prospectus that is available to cover future medium-term note issuances for a 25-month period.

Our long-term debt has not significantly changed during the first quarter of 2010 and primarily reflects scheduled debt repayments.

During the first quarter of 2010, we decreased the total amount available for use under our short-term operating credit facilities by \$0.6 million, resulting in an amount available of \$1,121.3 million. We continue to maintain a \$400.0 million commercial paper program, supported by unused capacity on our revolving operating facilities. In addition, during the first quarter of 2010, the amount of issued letters of credit decreased by \$2.1 million, to a total of \$267.5 million. Refer to our "Summary of cash flows" section for additional details.

Amounts drawn under our short-term credit facilities increased to \$150.1 million at March 31, 2010, compared to \$40.0 million at December 31, 2009. We issued \$110.1 million of short-term promissory notes under our commercial paper program during the first quarter of 2010.

As of March 31, 2010, 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, 2009.

Cash requirements

We require a significant amount of cash to execute our business strategy. Our cash requirements for the first quarter of 2010 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 2010 are expected to be similar to 2009. 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 \$660 million to \$665 million for 2010. For the three months ended March 31, 2010, we paid \$166.1 million in distributions.
- We anticipate 2010 capital expenditures to be in the range of 14.0 to 15.0 per cent of operating revenues. For the three months ended March 31, 2010, capital expenditures were \$94.7 million, or 12.2 per cent of operating revenues.
- We are required to repay short-term and long-term debt according to its terms. We ensure at all times that sufficient undrawn capacity exists on our revolving operating facilities to support the issuance of commercial paper. We have no significant long-term debt maturities in 2010.
- All of our DB pension plans have funding deficits. In 2009, the pension plans achieved a return on assets that was well above our expected rate of return. However, the discount rates utilized to calculate our solvency funding liabilities at December 31, 2009, will be lower than those used at December 31, 2008. In addition, our December 31, 2009, funding deficits will reflect a portion of our 2008 equity market losses that were deferred in 2009 through permitted asset smoothing mechanisms. Therefore, we estimate that our deficit funding for 2010 may be in the range of approximately \$80 to \$110 million, compared to \$73.8 for the full year 2009. These estimates do not consider any potential effects resulting from new pension legislation that was proposed by the federal government in late October 2009. We will continue to assess the effects of any new legislation to our plans as more information becomes available.
- Restructuring initiatives, announced during 2010, 2009 and 2008, are expected to result in the use of cash of approximately \$50 million in 2010. For the three months ended March 31, 2010, we paid \$23.0 million in accrued restructuring charges.
- We also expect to 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 22 and 25 to our audited consolidated financial statements for the year ended December 31, 2009, and in note 11 to our unaudited interim consolidated financial statements for the period ended March 31, 2010.

Accounts receivable securitization

Under a revolving purchase and sale agreement, we sell certain accounts receivable to a securitization trust. Under this agreement, the net cash proceeds received was \$165.0 million as at

March 31, 2010, unchanged from December 31, 2009. Further details of these agreements are described in notes 1 and 2 to our annual consolidated financial statements for the year ended December 31, 2009.

Use of derivative financial instruments

Periodically, we use derivative financial instruments in the management of interest rate exposures associated with our long and short-term debt and specific firm commitments. We do not use derivative instruments for speculative purposes. Since we do not trade actively in derivative instruments, we are not exposed to any significant liquidity risks relating to them.

At March 31, 2010, we had no derivative financial instruments outstanding, unchanged from December 31, 2009. Further details of our use of derivative financial instruments and the accounting policies we follow are provided in notes 1 and 13 to our audited consolidated financial statements for the year ended December 31, 2009.

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 25 to our audited consolidated financial statements for the year ended December 31, 2009, and to note 13 of our unaudited interim consolidated financial statements for the period ended March 31, 2010.

SIGNIFICANT ACCOUNTING POLICIES

Our unaudited interim consolidated financial statements as at March 31, 2010, 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, 2009.

Future changes in accounting policies

The Accounting Standards Board of the Canadian Institute of Chartered Accountants (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 CICA's 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.

We will prepare our financial statements in accordance with IFRS commencing January 1, 2011.

IFRS changeover plan and progress towards completion

Our IFRS changeover plan consists of a four-phase approach to transitioning to IFRS, which include:

- Phase 1 – Raise awareness and initial assessment
- Phase 2 – Detailed assessment
- Phase 3 – Design
- Phase 4 – Implementation

We have substantially completed the first three phases and are currently focusing our efforts on implementation, the fourth phase. Refer to our MD&A for the year ended December 31, 2009, for a detailed description of our changeover plan and our progress to that date.

Phase 4 – Implementation

This phase involves finalizing preliminary accounting policy decisions, preparing our IFRS opening balance sheet at January 1, 2010, preparing our comparative financial statements and notes under IFRS for 2010, implementing the system and process changes identified in the design phase throughout the organization, delivering the required training on new accounting standards, monitoring, refining and testing the effectiveness of the revised internal control over financial reporting processes and disclosure controls and procedures, preparing and delivering external communications plans, and providing quarterly communications to our audit committee.

Phase 4 is currently underway and will carry us through to our changeover date of January 1, 2011. We are tracking favourably against our project plan, meeting all plan milestones and deliverables. We have completed the design and testing for system modifications to support dual reporting, and are producing both IFRS and Canadian GAAP accounting records on a recurring transactional level. During 2010, we will continue to report our results under Canadian GAAP but will also internally record preliminary results under IFRS, refining these results throughout the year as processes are improved and accounting policy choices are finalized.

Our analysis of IFRS and comparison to our accounting policies under Canadian GAAP has identified a number of differences. Many of these differences are not expected to have a significant effect on our financial position or operational results. While we have identified the key differences we believe will affect our financial statements, we have also determined that we are generally aligned with IFRS in many areas. For a description of certain key differences that may affect our financial statements, refer to our MD&A for the year ended December 31, 2009. We are nearing completion of the assessment and effect of our one-time transition choices upon adoption and on-going policies. We are working with and receiving feedback from our auditors as significant milestones are met, which includes the preparation of supporting documentation for audit purposes. We have also designed or revised internal controls where deemed necessary to address IFRS differences. Testing and evaluation of these controls has commenced and will continue throughout 2010. Our internal control certification process will be updated by the fourth quarter of 2010.

We will continue to monitor changes to IFRS throughout 2010, and review and assess accordingly prior to our changeover.

REGULATORY DEVELOPMENTS

For a discussion of a number of regulatory proceedings underway in 2010, see the Regulatory Developments section of our annual MD&A dated March 10, 2010. The following is an update to certain proceedings described in that document to reflect developments which have occurred since that date:

- *Deferral accounts*

Telecom Decision 2007-27, which established a new pricing framework for regulated telecommunications services, also eliminated the deferral account mechanism. As a result, Bell Aliant LP's deferral account, which covered our territory in Atlantic Canada, was cleared and closed during 2007. However, we are still affected by Bell Canada's deferral account, as Bell's deferral account includes amounts that arose from customers located in Ontario and Quebec, which are now in our operating territory.

Bell Canada's accumulated deferral account commitment is estimated at \$488.0 million. In Telecom Decision 2008-1, the CRTC approved Bell Canada's proposed initiatives to improve access to telecommunications services for persons with disabilities using \$24.0 million from its deferral account. The CRTC also approved the use of the remaining deferral account funds, estimated at \$464.0 million, to fund the uneconomic cost of expanding broadband services to 112 communities, and determined that if such uneconomic cost is less than \$464.0 million, then the remainder should be returned to residential customers in urban, non-high-cost serving areas within the Ontario and Québec portions of the serving areas of Bell Canada and ourselves.

On March 30, 2010, we and Bell Canada advised the CRTC that the uneconomic cost associated with the proposal to provide wireless broadband services to the approved communities in all of the 112 approved areas of the broadband expansion program is \$463.6 million. As only an insignificant residual amount is left in Bell Canada's deferral account, we and Bell Canada also proposed not to return any amounts to residential customers at this time.

The CRTC decision on these proposals is pending. The CRTC may accept the proposal or make adjustments which could affect the amount of the deferral account funds that would be needed for the broadband expansion program. This could therefore result in possible returns to eligible customers. A decision is expected in the second half of 2010.

These deferral account proposals will impact customers in our territory, but we do not expect them to materially affect our financial results in light of our arrangements with Bell Canada.

On September 14, 2007, the CRTC directed Télébec to amortize its cumulative deferral account shortfall in equal amounts over a four-year period and also approved an exogenous factor of \$3.0 million for the recovery of the recurring shortfall each year. As of March 31, 2009, Télébec's cumulative deferral account shortfall is estimated at \$1.3 million and the recurring shortfall is now estimated at \$0.8 million, considering the rate increase approved by the CRTC on June 1, 2009.

- *Fee-for-carriage / value-for-signal*

On March 22, 2010, the CRTC issued a new TV policy framework, including a ruling on a new fee-for-carriage / value-for-signal regime. This regime responds to the requests of television broadcasters for compensation from TV service providers (such as Bell Aliant TV) for distribution of conventional television signals. Broadcasters can either elect to 1) negotiate with TV service providers for compensation in exchange for the TV service provider's right to distribute conventional local TV signals, or 2) follow the existing regulatory regime. A broadcaster's election will remain valid for three years. This new regime will not apply to the Canadian Broadcasting Corporation (CBC) / Société Radio-Canada (SRC). In making this ruling, the CRTC has asked the Federal Court of Appeal to rule on the issue of its legal jurisdiction. It therefore remains unclear whether this will affect us or our Bell Aliant TV service. We will continue to be required to contribute to the Local Programming Improvement Fund (LPIF) at 1.5 per cent of our gross annual broadcasting revenues until the CRTC conducts a review of the LPIF in 2012.

- *Other developments*

In Telecom Decision 2009-187, the Commission denied Rogers Communications Inc.'s (Rogers) request to review and vary Telecom Decision 2008-62 where the Commission determined that our obligations to Rogers under a 2002 support structure agreement in relation to the administration of poles owned by New Brunswick Power Distribution and Customer Service Corporation (NB Power) had ended when NB Power terminated our underlying agreement. Rogers was granted leave to appeal Telecom Decision 2009-187 to the Federal Court of Appeal. The appeal was heard by the Federal Court of Appeal on April 27, 2010, at which time the court issued an immediate decision from the bench, dismissing Rogers' appeal. A sixty day appeal period will now run from the date of the decision during which Rogers may seek leave to appeal to the Supreme Court of Canada. In June 2008, Rogers had filed a civil action against Bell Aliant in the New Brunswick Court of Queen's bench relating to the same subject matter. That case has been dormant since July 2008, and it is yet to be seen whether Rogers will proceed with the action.

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, 2009, 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, 2009, 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 2010. These assumptions include economic, market, financial and operational and transaction assumptions, and have not changed significantly up to May 4, 2010, following conversion of the Fund from an income trust to a corporate structure.

In stating our expectation that the anticipated 2011 dividend rate of \$1.90 per share annually for the new corporation will be approximately 75 to 85 per cent of free cash flow and that we expect to invest \$350 million to pass over 600,000 homes and businesses with our FTTH network by the end of 2012, we have made certain financial and market assumptions for the period starting in 2011. We assume that: 1) our operating and financial performance trends will be approximately the same as those in 2009 and 2010; 2) we will be able to defer incurring an obligation to pay cash income taxes until late 2012; 3) income tax rates we will be subject to will be approximately 29 per cent in 2011 and decline to 27 per cent by 2013; and 4) the cost of and returns from our investment in FTTH will continue to make the proposed investment an attractive investment opportunity for us. In addition to all of the risks and uncertainties discussed in the Fund's 2009 earnings results and 2010 guidance news release dated February 3, 2010, as well as in our and the Fund's 2009 annual MD&As and annual information forms, these assumptions are subject to additional risks and uncertainties including: 1) that tax losses we currently have may not be allowed as deductions due to reassessment, changes in laws, or misinterpretation of existing laws; 2) that corporate tax rates to which we will be subject may not decline as previously announced by federal and provincial governments; and 3) that costs of or returns from our investment in FTTH may change due to changes in market conditions.

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, 2009, and our 2009 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 currently consider material to our consolidated operations.

During the first quarter of 2010, 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, 2009, and our 2009 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 EBITDA (earnings before interest, taxes, depreciation and amortization), standardized distributable cash, distributable cash and free cash flow 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. EBITDA, standardized distributable cash, distributable cash and free cash flow are presented on a consistent basis from period to period.

EBITDA

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

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

<i>For the three months ended March 31</i>		
<i>(millions of dollars)</i>	2010	2009
Net earnings	\$77.8	\$82.5
Add: Other expenses	0.9	0.2
Interest charges	39.5	37.5
Future income tax recovery	(3.8)	(7.9)
Non-controlling interest	32.7	36.3
Net loss from discontinued operations	-	1.9
Operating income	\$147.1	\$150.5
Add: Depreciation and amortization	172.8	176.3
Restructuring and other charges	11.6	9.7
Net cost of benefit plans	22.2	22.2
EBITDA	\$353.7	\$358.7

We use EBITDA, among other measures, to assess the operating performance of our ongoing business without the effects of interest, taxes, depreciation and amortization expense, net cost of benefit plans, and restructuring and other charges. We exclude depreciation and amortization expense and net cost of benefit plans because they largely depend on the accounting methods and assumptions a company uses, as well as non-operating factors, such as the historical cost of capital

investments and the performance of a company's pension plan assets. We exclude these items because they affect the comparability of our financial results and could potentially distort the analysis of trends in business performance.

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

EBITDA margin is defined as EBITDA as a percentage of our operating revenues.

EBITDA should not be confused with net earnings or operating income, 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>	2010	2009
Cash from operating activities	\$145.6	\$210.5
Add (deduct):		
Standardized distributable cash of discontinued operations	-	(4.9)
Cash from operating activities of the Fund	-	(12.0)
Capital expenditures	(94.7)	(107.3)
Standardized distributable cash	50.9	86.3
Add (deduct):		
Operating items funded through cash reserves or borrowing:		
Change in operating assets and liabilities (working capital)	120.6	69.4
Change in operating assets and liabilities (working capital) of the Fund	(0.6)	11.0
Change in operating assets and liabilities (working capital) and other non-cash items of the discontinued operations	-	1.9
Pension deficit funding	18.7	13.7
Restructuring charges	11.1	9.3
Cash capital taxes in excess of normalized levels	1.0	2.1
Other adjustments:		
Other non-cash items provided for in working capital changes	(1.4)	2.8
Distributable cash	\$200.3	\$196.5

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.

Free cash flow

Beginning in 2011, our anticipated dividend policy is expected to target a payout of 75 to 85 per cent of free cash flow. We believe that certain investors and analysts use free cash flow to assess our ability to make distributions to unitholders, service debt, and to meet other payment obligations, and as a common valuation measurement in our industry and will do so following conversion of the Fund to a corporate structure, assuming such a transaction is implemented.

We define free cash flow as cash from operating activities less capital expenditures. Since our operations ultimately support distributions to Fund unitholders, free cash flow combines our cash performance with that of the Fund. We may present free cash flow both including and excluding changes in operating assets and liabilities (working capital) in a period as these changes can be significant given the timing of these cash flows through the year or from one year to the next.

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

The following table provides a reconciliation of cash from operating activities to free cash flow.

<i>For the three months ended March 31</i>		
<i>(millions of dollars)</i>	2010	2009
Cash from operating activities	\$145.6	\$210.5
Add (deduct):		
Cash from operating activities of the Fund	-	(12.0)
Capital expenditures	(94.7)	(107.3)
Free cash flow	50.9	91.2

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, 2010, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.