



Bell Aliant Regional Communications Inc. Management's Discussion and Analysis First Quarter 2011

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, 2011, compared to the corresponding period in 2010. This MD&A should be read together with our unaudited consolidated interim financial statements and accompanying notes for the period ended March 31, 2011, (interim financial statements) and the audited consolidated financial statements and accompanying notes of Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP) for the year ended December 31, 2010, and related MD&A. All amounts in this document are in millions of Canadian dollars, except where noted. Our interim financial statements, including the information for the prior year comparative period presented therein, have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting and International Financial Reporting Standard (IFRS) 1, First-time adoption of IFRS.

On January 1, 2011, Bell Aliant Regional Communications Income Fund (the Fund) completed its conversion from an income trust structure to a corporate structure (the Conversion). Bell Aliant Inc. is the successor corporation to the Fund. As part of the Conversion, Bell Aliant Holdings LP was dissolved and certain of its subsidiaries and affiliates amalgamated. Bell Aliant Regional Communications Inc. (Bell Aliant GP) is the successor corporation to Bell Aliant Holdings LP. Throughout this document, unless otherwise specified for 2011 or the context otherwise indicates, "we", "us" and "our" refer to Bell Aliant GP and its subsidiaries and to Bell Aliant Holdings LP and its subsidiaries prior to January 1, 2011.

Additional information about us and Bell Aliant Inc., including annual reports, quarterly financial statements and MD&As, supplementary financial information, as well as annual information forms and information circulars, can be found under "financial reports" on Bell Aliant Inc.'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 5, 2011, 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 "Cash requirements" and "Regulatory developments". The purpose of this forward-looking information is to provide the reader with information about our expectations and plans and priorities for fiscal 2011 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 5, 2011. 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; management's ability to achieve strategies and plans, including expansion of fibre-to-the-home (FTTH) and managing the cost structure; general economic conditions; pension valuation and investment risk; reliance on systems; changing technology; required operating and capital expenditures, and demand for our products and services; our business relationship with BCE Inc. (BCE) and Bell Canada, including the allocation of business opportunities; changing regulations; dependence on key suppliers; maintenance of credit ratings; leverage and restrictive covenants; BCE's governance rights; reliance on key personnel and labour relations, including the requirement for effective business continuity planning; legal contingencies and changes in laws, including laws pertaining to privacy and security of customer information; success of acquisitions and dispositions; and 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, as well as market, 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 "Risk management" section of the Fund's MD&A for the year ended December 31, 2010, and the "Assumptions made in the preparation of forward-looking information" and "Risks that could affect our business and results" sections of our MD&A for the year ended December 31, 2010, which are 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. With our *FibreOPTM* services, we are the first company in Canada to cover an entire city with fibre-to-the-home (FTTH) technology. We offer a complete range of innovative information, communication and technology services including voice, data, Internet, TV, video, wireless and value-added business solutions to our customers across six Canadian provinces.

Our principal operations are carried out by our three operating partnerships, 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.

CORPORATE CONVERSION

On January 1, 2011, the Fund completed its conversion from an income trust structure to the Bell Aliant Inc. corporate structure.

As part of the Conversion, Fund unitholders received one common share of Bell Aliant Inc. for each Fund unit held. BCE and Bell Canada exchanged 100 per cent of their class B exchangeable limited partnership units issued by Bell Aliant LP, 100 per cent of their class 1 exchangeable limited partnership units issued by Bell Aliant Holdings LP, 100 per cent of their special voting units issued by the Fund, and all but one of their voting common shares of Bell Aliant GP for common shares in Bell Aliant Inc. Through a series of steps, Bell Aliant Holdings LP transferred its assets to Bell Aliant GP, which in turn assumed Bell Aliant Holdings LP's liabilities. Bell Aliant Holdings LP was then dissolved, cancelling all of its units. Bell Aliant Regional Communications Holdings Inc. and the predecessor to Bell Aliant GP then amalgamated.

Unitholders' proportionate ownership interests in Bell Aliant Inc. were effectively unchanged by the Conversion.

These transactions were accounted for at carrying values since there was no substantial change in ownership or control. As well, BCE and Bell Canada continue to have the same governance rights and proportionate ownership interest in Bell Aliant Inc. as they had in the Fund (on an as-converted basis) before the Conversion.

The Conversion had no impact on our underlying business model or operating plans, but is expected to reduce administrative costs previously associated with our more complex trust structure, improve comparability of our financial condition and results of operations to our peers, and broaden our potential investor base.

Bell Aliant Inc. common shares began trading on the Toronto Stock Exchange on January 4, 2011, under the trading symbol "BA".

FIRST QUARTER IN REVIEW

Although intense competitive activity and technology substitution continue to exert pressure on our overall operating revenues, for the fourth consecutive quarter our net local network access service (NAS) customer declines were lower than those experienced in the same period a year earlier. We have experienced steady growth in our Internet, Internet Protocol TV (IPTV), and wireless customer bases, which mitigated the effects of NAS customer declines. We continue to pro-actively manage our operating costs to reduce the effects of local, long distance and other data revenue declines on EBITDA and to preserve strong EBITDA margins. In combination, these achievements contributed to our successful delivery of \$88.1 million in free cash flow, before a \$200 million lump sum pension contribution, for the first quarter of 2011. The following table provides a summary of our operating results for the first quarter of 2011.

Summary of operating results

<i>For the three months ended March 31</i>			
<i>(millions of dollars, except as otherwise noted)</i>			
	20 11	20 10	% change
Operating revenues	\$681.6	\$688.7	(1.0)
EBITDA ⁽¹⁾	\$329.3	\$338.7	(2.8)
EBITDA margin ⁽¹⁾	48.3%	49.2%	(1.8)
Operating income	\$171.0	\$156.8	9.1
Net earnings from continuing operations	\$88.8	\$248.0	(64.2)
Net earnings (loss) from discontinued operations	(3.4)	\$0.6	n.m.
Net earnings	\$85.4	\$248.6	(65.6)

n.m. not meaningful

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

Operating revenues decreased 1.0 per cent, or \$7.1 million, in the first quarter of 2011, compared to the first quarter of 2010. The decrease was driven by declines in local and access, long distance, and other revenues, which were only partially offset by growth in our data and wireless revenue. Lower voice revenues are primarily attributable to the decline in NAS customers due to competitive losses and a reduction in primary lines as customers adopt wireless and Voice over Internet Protocol (VoIP) technologies. Other revenues also decreased primarily as a result of a decline in telecommunications equipment sales and rental revenue. Growth in our high-speed Internet, IPTV and wireless customer bases contributed to higher revenues from these services. The trajectory of operating revenues for our Atlantic residential market has improved, with an increase in operating revenues of approximately 3 per cent in the first quarter of 2011, compared to the same quarter in 2010, after a period of decline. Refer to our "Results of operations" section for additional details.

EBITDA decreased by 2.8 per cent, or \$9.4 million, in the first quarter of 2011, compared to the first quarter of 2010. The decline in EBITDA was primarily driven by a change in the mix of operating revenues towards those with lower margins, together with a \$2.3 million increase in operating expense, which was mainly due to an increase in pension current service costs and higher expense from share-based compensation adjustments compared to the same quarter in 2010. Savings from ongoing procurement initiatives and operating efficiencies continue to mitigate cost pressures in 2011, but were offset by these costs and expense increases associated with the ramp-up of our *FibreOP* rollout.

EBITDA margin was 48.3 per cent in the first quarter of 2011, a decline of 0.9 percentage points from the same period in 2010.

Operating income increased 9.1 per cent, or \$14.2 million, during the first quarter of 2011, compared to the first quarter of 2010. The decrease in EBITDA was offset by a \$16.9 million decline in depreciation and amortization, reflecting a decline in our depreciable asset base primarily due to the impairment charge recorded on certain of our finite-life intangible assets in the fourth quarter of 2010, combined with a \$6.7 million decrease in severance and other charges due to the timing of productivity initiatives.

Net earnings decreased 65.6 per cent, or \$163.2 million, in the first quarter of 2011, compared to the first quarter of 2010. This decrease is made up of a \$159.2 million reduction in net earnings from continuing operations and a \$4.0 million reduction in net earnings from discontinued operations.

Current year net earnings from continuing operations are not directly comparable to the prior period due to the effect of the Conversion. The quarter-over-quarter decline is largely attributable to recording in the first quarter of 2010 a \$189.2 million gain on the fair value re-measurement of the class B exchangeable limited partnership units issued by Bell Aliant LP, offset somewhat by a \$52.3 million expense related to distributions declared on these exchangeable limited partnership units. The re-measurement and distribution did not recur in the first quarter of 2011, as these units were transferred to us as part of the Conversion and thus are now eliminated upon consolidation of Bell Aliant LP. Additionally, the decrease in net earnings from continuing operations includes \$43.6 million higher income tax expense in the first quarter of 2011, compared to the same period in 2010, due mainly to the effect of the Conversion, combined with higher earnings before tax. This was slightly offset by a \$4.6 million reduction in net finance expense.

Net loss from discontinued operations was \$3.4 million in the first quarter of 2011, compared to net earnings of \$0.6 million in the same period of 2010, which reflects the loss on the sale of our xwave business.

Free cash flow

The following table provides a summary reconciliation of cash from operating activities to free cash flow, along with cash dividends declared (distributions declared in 2010), for the three months ended March 31, 2011, and the corresponding period in 2010. Since our operations support cash dividends to Bell Aliant Inc. shareholders, free cash flow combines our cash performance with that of Bell Aliant Inc. We have also included the adjusted earnings per share (EPS) of Bell Aliant Inc. as we believe this to be a meaningful measure when assessing our overall performance.

<i>For the three months ended March 31</i>			
<i>(millions of dollars, except per share amounts)</i>	2011	2010	% change
Cash from operating activities	\$7.6	\$151.0	(95.0)
Capital expenditures	(119.5)	(94.3)	26.7
Free cash flow ⁽¹⁾	(\$111.9)	\$56.7	n.m.
Lump sum pension contribution	\$200.0	-	n.m.
Free cash flow ⁽¹⁾ before lump sum pension contribution	\$88.1	\$56.7	55.4
Cash dividends / distributions declared ⁽²⁾	\$108.2	\$165.1	(34.5)
Adjusted earnings per share of Bell Aliant Inc. ⁽¹⁾	\$0.44	n.m.	n.m.

n.m. not meaningful

⁽¹⁾ Free cash flow and Adjusted earnings per share of Bell Aliant Inc. are non-IFRS measures. Refer to the "Non-IFRS financial measures" section for further detail.

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

For the three months ended March 31, 2011, we had negative free cash flow of \$111.9 million, compared to positive free cash flow of \$56.7 million for the same period in 2010, mainly attributable to the \$200.0 million lump sum pension contribution made in the first quarter of 2011, as discussed further in the "Financial and capital management" section. Normalizing for this amount, free cash flow before the lump sum pension contribution was \$88.1 million, an increase of \$31.4 million, or 55.4 per cent, compared to the same period in 2010.

For the three months ended March 31, 2011, cash dividends declared by Bell Aliant Inc. were \$0.475 per common share of Bell Aliant Inc., and represented 122.8 per cent of our combined free cash flow before the lump sum pension contribution. This elevated payout ratio is attributable to the seasonally low free cash flow in the first quarter, and is not indicative of our full year expectations. Free cash flow is historically lowest in the first quarter of the year, as we pay amounts related to prior year

annual incentives, semi-annual interest payments and prepaid property taxes for the year. Refer to the “Summary of cash flows” section for additional information on cash from operating activities.

For the three months ended March 31, 2010, cash distributions declared were 291.2 per cent of combined free cash flow, however distributions made while under an income trust structure were assessed based on distributions declared as a percentage of distributable cash, which differs from our measure of free cash flow, as discussed in the “Free cash flow” section of our MD&A for the year ended December 31, 2010.

Adjusted EPS of Bell Aliant Inc. was \$0.44 in the first quarter of 2011, which is the first time we have presented this non-IFRS financial measure following the Conversion. The amortization of certain finite-life intangible customer relationship assets acquired in previous business combinations relates to assets that will largely not be replaced through future capital spending. Once these assets were purchased as part of a business combination, further costs incurred in relation to acquiring any new subscribers and retaining existing ones are captured in operating expenses. Therefore, we have excluded this amortization to provide, what we believe, is a more meaningful measure of earnings per share. Refer to the “Non-IFRS financial measures” section for more details.

OUR COMPETITIVE LANDSCAPE

Cable companies remain our most significant competitive threat. They continue to expand their local service areas in our regions, although at a slower rate of expansion from what we have seen in recent years. At the end of March 2011, the competitive footprint overlap with cable companies was approximately 69 per cent of residential households in our territories, representing a 2 percentage point increase from a year ago and unchanged from the end of 2010.

During the first quarter of 2011, we have seen cable companies aggressively market price-discounted bundled service offerings especially in the communities where we are providing, or have announced we will provide, our *FibreOP* services. In response to these pressures, we remain committed to delivering the highest quality customer service, choice and convenience to our customers. We continue to focus on making significant investments in fibre optic technology to expand our FTTH network, promote our competitively priced bundles and provide our customers with the most innovative products and enhanced technology to meet all their needs. Refer to our accomplishments as discussed in the “Strategy” section for further details.

STRATEGY

Highlights of strategic achievements in the first quarter of 2011

Progress during the first quarter of 2011 on our five strategic objectives is as follows:

Improve the customer experience

Delivering a superior customer experience continues to be our goal. Our service fundamentals are core to achieving our strategy and have ensured our success in maintaining service levels. In the first quarter of 2011, we continued to drive performance and improve the customer experience by keeping a determined and consistent focus on making it easy for customers to do business with us, by meeting our commitments, and by doing things right the first time.

Retain our customers

Bundles continue to be instrumental in our strategy for retaining customers and owning the whole home. Bundles allow us to remain competitive and relevant in the marketplace, offering a complete and integrated communications, Internet and entertainment solution.

In the first quarter of 2011, we continued to promote bundle offers across all our markets. In *FibreOP* markets, bundles are the primary sales tool and customers seek to purchase additional, high-value services in their bundles, such as higher Internet speed, high-definition (HD) TV programming and personal video recorder (PVR) services. In addition, customers are much less likely to leave us for a competitor as they subscribe to bundles with a greater number of services.

We believe that continuously evolving our products and services to deliver best in class is important to retaining customers. During the first quarter of 2011, we evolved our business voicemail to include our new voicemail-to-email service offering. We are confident that product advancement and innovation will keep us competitive in the marketplace and improve customer satisfaction.

Grow broadband

Our FTTH network has given us a clear advantage that our competitors cannot easily match. Accelerating our investment in our *FibreOP* services allows us to give customers access to leading edge technology, including the fastest Internet speeds and an exceptional TV experience.

We are continuing on the path to expand *FibreOP* services to more than 600,000 homes and businesses by the end of 2012, as the successful execution of our FTTH rollout supports all other strategic objectives of our company. In the first quarter of 2011, we passed an additional 40,000 homes and businesses with *FibreOP* services, bringing the total homes and businesses passed to 178,000. As well, we announced expansion of *FibreOP* service to:

- Halifax Regional Municipality - we are investing \$55 million to serve approximately 160,000 homes and businesses in our largest and most competitive market.
- Truro, Nova Scotia - we are making a \$7 million investment to serve approximately 14,000 homes and businesses.
- St. John's, Newfoundland - we are investing \$22 million to serve approximately 60,000 homes and businesses, representing our first *FibreOP* investment in Newfoundland and Labrador.

Expansion into these important markets not only represents the introduction of our *FibreOP* service to all four Atlantic Canadian provinces but also keeps us on course to passing approximately 300,000 additional homes and business with *FibreOP* by the end of 2011.

In early April 2011, we announced the launch of *FibreOP 2.0* - the next generation in *FibreOP* services. With *FibreOP 2.0*, customers will experience increased Internet speeds and the ability to upload as fast as they download - a first in Canada for any major service provider. *FibreOP 2.0* provides enhanced TV functions and features including whole home PVR, whole home HDTV, video-on-demand service and a next generation interactive guide, with easy-to-use features like picture-in-picture browsing, advanced search capability and the ability to pause a TV program in one room and resume in another.

While *FibreOP* is our premier service, we also expanded digital subscriber line and fixed wireless broadband services to an additional 30,875 homes and businesses in the first quarter of 2011. We have now passed approximately 84.5 per cent of homes in our operating territory with high-speed Internet service.

Reset our cost structure

In an intensely competitive market, a disciplined approach to cost reduction is critical. The major cost reduction initiatives for 2011 continue to focus on making our business more efficient through enhanced workforce productivity, controlling discretionary spending and through optimizing the benefits of our commercial agreements with Bell Canada.

In the first quarter of 2011, we continued to see the benefits of the limited retirement offers and the management reductions from the previous year. Workforce management initiatives are continuously used to achieve the optimal size and configuration of our operations. We continue to move employees to higher value-add work, most notably to our rapidly expanding *FibreOP* program, in an ongoing effort to reset our cost structure.

Discretionary and other spending controls continued into the first quarter of 2011. We attained considerable savings through vendor negotiations. As well, a large portion of our maintenance contracts were successfully renegotiated, resulting in better rates and a reduction in contractor cost. Finally, further cost savings were achieved through our commercial agreements with Bell Canada.

Engage employees

Fully engaged and high performing employees are essential to our success. We continue to promote a high performance culture, enhance leadership development and improve communication with employees.

In the first quarter of 2011, we continued to reinforce our business strategy and goals through multiple communications channels. In February, we shared our 2010 financial results and 2011 priorities with all Bell Aliant employees through a webcast hosted by our senior executive. We believe that when our employees understand our business strategy, including its challenges, opportunities and priorities, they are highly motivated to help us succeed.

Having strong leadership in our organization is critical. We continue to educate our leaders of people and develop their talents to enable them to motivate, inspire and challenge every member of their teams to bring forward their best performance, their highest commitment and their will to win.

We are creating development opportunities for our top talent and ensuring succession plans are in place for senior leaders and employees with critical skills. Our ability to attract and retain high performing and fully engaged employees is essential to outperforming our competitors and building a strong future.

RESULTS OF OPERATIONS

<i>For the three months ended March 31</i>			
<i>(millions of dollars)</i>	2011	2010	% change
Local and access	\$310.0	\$322.9	(4.0)
Data	212.7	204.0	4.3
Long distance	94.5	97.1	(2.7)
Wireless	23.3	21.0	11.0
Other revenues	41.1	43.7	(6.0)
Operating revenues	\$681.6	\$688.7	(1.0)
Operating expenses	352.3	350.0	0.7
EBITDA ⁽¹⁾	\$329.3	\$338.7	(2.8)
Depreciation and amortization	153.8	170.7	(9.9)
Severance and other charges	4.5	11.2	(59.8)
Operating income	\$171.0	\$156.8	9.1
Net finance expense	42.2	46.8	(9.8)
Distributions to holders of class B exchangeable partnership units issued by Bell Aliant LP	-	52.3	n.m.
Gain on the re-measurement of the class B exchangeable partnership units issued by Bell Aliant LP	-	(189.2)	n.m.
Other expense	0.1	2.6	n.m.
Income tax expense (recovery)	39.9	(3.7)	n.m.
Net earnings from continuing operations	\$88.8	\$248.0	(64.2)
Net earnings (loss) from discontinued operations	(3.4)	0.6	n.m.
Net earnings for the period	\$85.4	\$248.6	(65.6)

n.m. not meaningful

⁽¹⁾ EBITDA is a non-IFRS financial measure. Refer to the "Non-IFRS 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. Local and access revenue declined 4.0 per cent, or \$12.9 million, in the first quarter of 2011, compared to the same period in 2010, largely driven by a 4.7 per cent drop in our total NAS customers at March 31, 2011, compared to March 31, 2010. Revenue losses continued to be mitigated through programs targeted at retaining our highest value customers and selected price increases that reflect the higher value provided through our bundled packages.

During the first quarter of 2011, our total net NAS declines were approximately 33,000, representing an improvement of approximately 5,400 in net NAS declines compared to those experienced in the same period of 2010. This improvement was driven by a greater number of customers choosing our enhanced bundles, focused customer retention programs and by an easing of the pace of competitive footprint growth.

At March 31, 2011, the number of residential NAS customers was 6.1 per cent lower than at March 31, 2010, and the number of business NAS customers was 2.0 per cent lower than at March 31, 2010. In our residential market, we are continuing to experience NAS losses due to increased competitive intensity and a continued advance of competitive footprint overlap with cable companies, as well as substitution of traditional wireline service by other services, including wireless and VoIP services.

Data

Data revenue is earned through the provision of data access, data circuits, high-speed and dial-up Internet services, managed network services, IPTV and enhanced services and applications. Revenue from these services increased 4.3 per cent, or \$8.7 million, in the first quarter of 2011, compared to the same period in 2010. Internet revenues grew by \$7.8 million, or 7.0 per cent, and IPTV revenues grew by \$4.2 million, or 84.0 per cent, in the first quarter of 2011, compared to the first quarter of 2010. These increases more than offset the decline in other data revenues of \$3.3 million, or 3.8 per cent, which was driven by customer losses and migration from a legacy data network to a more IP-based network, only partially offset by increased data product sales.

At March 31, 2011, the number of IPTV subscribers reached approximately 54,000, up 49.9 per cent from the same period in 2010. Our IPTV customer base continues to expand rapidly, as we expand our IPTV footprint and consumers choose more advanced and innovative TV services.

In addition, our high-speed Internet customer base was 3.8 per cent higher than at March 31, 2010, with growth in both the residential and business markets. We have experienced steady growth in our high-speed Internet customers, although at a lower rate of increase compared to the prior year, consistent with industry trends. Internet revenue growth has been mainly driven by price increases, the growth of bundles and customer migration to our higher value services, like *FibreOP*. These actions have resulted in our highest residential high-speed Internet average monthly revenue per customer (ARPC) to date of \$40.94 in the first quarter of 2011, up 4.8 per cent from \$39.05 in the first quarter of 2010.

Long distance

Long distance revenue, earned through toll and long distance terminating services, declined by 2.7 per cent, or \$2.6 million, in the first quarter of 2011, compared to the first quarter of 2010, due to customer losses and substitution of traditional wireline service by email, cellular calling and VoIP services. One-time favourable billings adjustments and a reduction in long distance promotional plans in the first quarter of 2011 improved the year-over-year decline relative to recent quarters. Although on a quarter-over-quarter basis our average revenue per long distance minute increased by 1.1 per cent as result of network access fees and other price increases, we experienced a 4.4 per cent decline in long distance minutes. Generally, revenue from long distance services will decrease as customers

migrate from legacy long distance plans to our new more price competitive plans that are essential to maintaining our customer base.

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 Ontario and Quebec. Wireless revenue increased by 11.0 per cent, or \$2.3 million, in the first quarter of 2011, compared to the first quarter of 2010, mainly due to a 10.8 per cent increase in the number of wireless customers at March 31, 2011. Wireless ARPC increased marginally by 0.4 per cent, or \$0.25, in the first quarter of 2011, compared to the first quarter of 2010, due to our use of promotional pricing to acquire and retain customers in the face of aggressive competitive offers.

Other revenues

Other revenues consist mainly of terminal rentals and sales, pole attachment revenue, 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 6.0 per cent, or \$2.6 million, in the first quarter of 2011, compared to the same period in 2010. Although pole attachment revenue rose due to price increases in late 2010, the overall decline was largely driven by decreases in telecommunication equipment sales, other rental revenue and outsourcing revenues.

Expenses

Operating expenses

<i>For the three months ended March 31</i>			
<i>(millions of dollars)</i>	2011	2010	% change
Labour costs			
Wages, salaries and related taxes and benefits	\$130.5	\$136.3	(4.3)
Current service costs of post-employment benefit plans	15.5	13.1	18.3
Share-based compensation plan expense	4.2	(0.3)	n.m.
Contractor, outsourcing and other labour costs	16.5	12.5	32.0
Capitalized labour	(34.4)	(33.0)	4.2
Total labour costs	132.3	128.6	2.9
Cost of sales, content costs and payments to other carriers	166.6	165.8	0.5
Real estate expenses	10.4	10.4	-
Operating taxes	9.9	10.9	(9.2)
Bad debt expense	6.3	6.7	(6.0)
Other operating expenses	26.8	27.6	(2.9)
Operating expenses	\$352.3	\$350.0	0.7

Operating expenses were relatively consistent in the first quarter of 2011 with the same period in 2010, increasing by 0.7 per cent, or \$2.3 million.

Total labour costs increased by 2.9 per cent, or \$3.7 million, in the first quarter of 2011 compared to the first quarter of 2010. Contributing to this was a \$2.4 million increase in pension current service costs, a \$4.5 million increase in share-based compensation costs, and a \$4.0 million increase in contractor, outsourcing and other labour costs. The increase in current service costs of our post-employment benefit plans was driven by a lower discount rate used in 2011 compared to 2010 for our defined benefit (DB) pension and other post employment benefit (OPEB) plans, offset to a certain degree by the effect of having fewer active members in these plans. The current service costs of our

defined contribution (DC) plans were consistent with the prior year. Share-based compensation plan expense for the first quarter of 2010 included a reduction in compensation expense related to forfeitures and mark-to-market adjustments of the liability under our executive share-based incentive plan, which were not as significant in the first quarter of 2011. Contractor, outsourcing and other labour costs in the first quarter of 2011 reflected escalating resource needs for our *FibreOP* service expansion and TV demand, including increased contractor costs related to outsourcing arrangements. These increases were partially offset by a decline in wages, salaries and related taxes and benefits expense of \$5.8 million mainly due to the continued efficiencies achieved as a result of our productivity initiatives.

Cost of sales, content costs and payments to other carriers increased by 0.5 per cent, or \$0.8 million, in the first quarter of 2011, compared to the same period in 2010. This was mainly attributable to higher product cost of goods sold associated with higher product revenues, higher hardware subsidies driven by increased wireless activations and renewals, and higher IPTV content costs resulting from growth in our IPTV subscribers. These increases were partially offset by cost savings we achieved through our commercial agreements with Bell Canada, as well as the elimination of pole attachment fees due to our repurchase of an interest in poles in Newfoundland.

Operating taxes decreased 9.2 per cent, or \$1.0 million, in the first quarter of 2011, compared to the first quarter of 2010. This is primarily due to lower provincial capital taxes and to a lesser extent, lower property tax expense.

Bad debt expense decreased 6.0 per cent, or \$0.4 million, in the first quarter of 2011, compared to the same period in 2010, which reflects our continued improvement in accounts receivable management.

Other operating expenses decreased 2.9 per cent, or \$0.8 million, in the first quarter of 2011, compared to the first quarter of 2010. This is mainly attributable to reduced discretionary spending on general and administrative expenses and lower professional fees.

Depreciation and amortization

Depreciation and amortization decreased 9.9 per cent, or \$16.9 million, when comparing the first quarter of 2011 to the same period in 2010. This decrease is primarily the result of the impairment charge recorded on certain of our finite-life intangible assets in the fourth quarter of 2010, which resulted in a significantly lower intangible asset base, offset slightly by shorter estimated useful lives of these intangible assets.

Severance and other charges

Severance and other charges decreased by 59.8 per cent, or \$6.7 million, in the first quarter of 2011, compared to the corresponding period in 2010. During the first quarter of 2011, the continuation of our productivity initiatives resulted in a \$1.6 million severance and benefit charge and a \$2.9 million real estate rationalization charge. In the first quarter of 2010, there were large productivity initiatives underway, including voluntary retirement incentives offered to a limited number of unionized employees in Ontario and Quebec.

Net finance expense

In the first quarter of 2011, net finance expense decreased \$4.6 million, or 9.8 per cent, compared to the same period in 2010. This decline is made up of a \$0.6 million increase in finance expense, which was more than offset by a \$5.2 million increase in finance income.

Finance expense increased slightly in the first quarter of 2011, compared to the same period in 2010, primarily reflecting a higher level of short-term debt at March 31, 2011.

Finance income includes interest earned and the expected returns on pension plan assets. The increase in finance income was driven by higher expected returns on DB pension plan assets as a result of a higher pension asset base.

Distributions to holders of class B exchangeable partnership units issued by Bell Aliant LP

In the first quarter of 2010, distributions to holders of class B exchangeable partnership units issued by Bell Aliant LP of \$52.3 million were expensed due to financial liability classification of the units under IFRS. There was no similar distribution expense recognized in 2011, as these units were transferred to us as part of the Conversion and thus are now eliminated upon consolidation of Bell Aliant LP.

Gain on the re-measurement of the class B exchangeable partnership units issued by Bell Aliant LP

In 2010, Bell Aliant LP's outstanding class B exchangeable limited partnership units were classified as a financial liability, and were marked-to-market at each reporting date, with any changes in value being recognized directly in net earnings for the period. During the first quarter of 2010, we recognized a gain of \$189.2 million, with no similar amount recognized in 2011, as these units were transferred to us as part of the Conversion and thus are now eliminated upon consolidation of Bell Aliant LP.

Other expense

Other expense was \$0.1 million in the first quarter of 2011, representing a decrease of \$2.5 million, from \$2.6 million in the first quarter of 2010. This is primarily due to a reduction in losses on fixed asset retirements, a decrease in foreign exchange losses and a \$0.8 million gain recognized on the sale of land in the first quarter of 2011, with no similar transaction occurring in 2010.

Income tax expense (recovery)

The income tax expense in the first quarter of 2011 was \$39.9 million, compared to a recovery of \$3.7 million in the first quarter of 2010. This increase was a result of various factors, including:

- A higher current income tax recovery of \$1.4 million in the first quarter of 2011 resulting from the settlement of prior years' income tax audit issues;
- A lower deferred tax expense of \$2.7 million as a result of a reduction in our blended weighted average federal and provincial effective tax rate as compared to the same period in 2010; offset by
- A higher deferred income tax expense of \$6.3 million due to higher earnings before tax in the first quarter of 2011, as compared to the first quarter of 2010 after eliminating from 2010 earnings the impact of distributions and gain on re-measurement of the class B exchangeable partnership units issued by Bell Aliant LP; and
- An increase of \$42.2 million in deferred tax expense stemming from: (i) the inclusion in our taxable earnings of income that in prior periods had been attributed to the class B exchangeable partnership units issued by Bell Aliant LP and the partnership units issued by Télébec and NorthernTel held indirectly by the Fund; and (ii) the loss of the tax effectiveness of our income trust structure due to the January 1, 2011, application of the revised tax rules affecting income trusts.

Net earnings (loss) from discontinued operations

In the first quarter of 2011, net loss from discontinued operations of \$3.4 million mainly represents the after-tax loss on the sale of our xwave business on January 1, 2011. In the first quarter of 2010, the operating results of our xwave business contributed \$0.6 million to net earnings from discontinued operations.

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 an IFRS basis, unless otherwise noted.

For the eight quarters ended March 31 (millions of dollars, except per share / unit amounts)	2011	2010				2009 ⁽²⁾		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Operating revenues	\$681.6	\$714.9	\$703.7	\$700.1	\$688.7	\$719.0	\$724.7	\$720.3
EBITDA ⁽¹⁾	\$329.3	\$345.1	\$349.3	\$343.0	\$338.7	\$364.8	\$372.7	\$365.0
Operating income (loss)	\$171.0	(\$1,569.6)	\$175.5	\$163.8	\$156.8	\$145.8	\$163.7	\$163.9
Net earnings (loss):								
Continuing operations	\$88.8	(\$1,388.5)	\$32.5	\$71.0	\$248.0	\$96.5	\$98.5	\$93.0
Discontinued operations	(3.4)	(0.7)	0.6	(2.3)	0.6	(3.9)	(6.7)	(3.7)
Net earnings (loss)	\$85.4	(\$1,389.2)	\$33.1	\$68.7	\$248.6	\$92.6	\$91.8	\$89.3
Basic earnings (loss) per share / unit:								
Continuing operations	\$0.87	(\$8.65)	\$0.20	\$0.44	\$1.54	\$0.60	\$0.61	\$0.58
Discontinued operations	(0.03)	-	0.01	(0.01)	0.01	(0.02)	(0.04)	(0.02)
Basic earnings (loss) per share / unit	\$0.84	(\$8.65)	\$0.21	\$0.43	\$1.55	\$0.58	\$0.57	\$0.56
Diluted earnings (loss) per share / unit:								
Continuing operations	\$0.87	(\$8.65)	\$0.20	\$0.44	\$0.48	\$0.60	\$0.61	\$0.58
Discontinued operations	(0.03)	(0.01)	-	(0.01)	-	(0.02)	(0.04)	(0.02)
Diluted earnings (loss) per share / unit	\$0.84	(\$8.66)	\$0.20	\$0.43	\$0.48	\$0.58	\$0.57	\$0.56

⁽¹⁾ EBITDA is a non-IFRS measure. Refer to the "Non-IFRS financial measures" section for more details.

⁽²⁾ Financial results for the quarters of 2009 are presented on a Canadian GAAP basis.

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

- In general, the consolidated revenue trend reflects year-over-year growth in Internet and TV revenues generated from an increasing customer base, which has been more than offset by declines in local, long distance and data service revenues.
- In 2009, as part of our organizational productivity initiatives to create a more efficient cost structure as well as improve our service to customers, we offered limited voluntary retirement incentives to our unionized employees in Atlantic Canada, Ontario and Quebec. We also announced an operational consolidation of certain contact centres in Atlantic Canada and streamlined our management workforce. We recognized severance charges related to these initiatives of \$2.5 million, \$12.1 million and \$13.7 million in the second, third and fourth quarters of 2009, respectively. In 2010, we continued our productivity initiatives which included a further limited voluntary retirement incentive to a number of our unionized employees in Ontario and Quebec, streamlining of our management workforce and real estate rationalization, which resulted in recognizing related severance and other charges of \$10.7 million, \$3.3 million, \$0.5 million and \$12.5 million in the first, second, third and fourth quarters, respectively. In the first quarter of 2011, we continued to streamline our management workforce and rationalize our real estate, recognizing related severance and other charges of \$4.5 million.
- On May 1, 2009, we concluded an asset purchase agreement whereby CAE Professional Services (Canada) Inc. (CAE) acquired our defence, security and aerospace business, which 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 net loss from discontinued operations. In

December 2010, we decreased the \$7.6 million receivable by \$4.6 million to \$3.0 million to recognize a provision for estimated loss on settlement of the post-closing balance sheet adjustments, and accordingly, reduced the gain recognized on sale by an equivalent amount. During the first quarter of 2011, \$1.7 million of this receivable was collected.

- On June 1, 2009, we concluded a share purchase agreement whereby Abilis Solutions Inc. acquired all of the outstanding shares of xwave New England Inc. 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 Inc. 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.
- In the fourth quarter of 2010, as part of our annual balance sheet reviews and in preparation for our conversion to a corporate structure and transition to IFRS, we revisited the original estimates used in valuing assets, such as finite-life intangibles related to customer relationships which we acquired from Bell Canada in 2006 and in 2007 on the privatization of Télébec and NorthernTel. Using revised estimates in 2010, an impairment in the carrying value of certain finite-life intangibles related to customer relationships was identified and we recorded a non-cash write-down of \$1,727.9 million.
- On October 26, 2010, we announced that we had signed an asset purchase agreement, under which Bell Canada would acquire our xwave business. As a result, we reclassified the results of our xwave business operations as discontinued operations. The transaction closed on January 1, 2011, with proceeds on sale of \$38.4 million in cash and \$33.7 million in a receivable from Bell Canada related to post-closing balance sheet adjustments. An after-tax loss on sale of \$3.4 million, which is net of \$8.9 million allocated to goodwill, has been recorded in net loss from discontinued operations in the first quarter of 2011.

Additional details regarding our results for the first quarter of 2011 are discussed throughout this document. Further information on our prior quarterly results, as previously reported under Canadian Generally Accepted Accounting Principles (GAAP), can be found in the respective quarterly financial statements and related MD&As.

FINANCIAL AND CAPITAL MANAGEMENT

Summary of cash flows

<i>For the three months ended March 31</i>			
<i>(millions of dollars)</i>	20 11	20 10	% change
Cash from (used in):			
Operating activities	\$7.6	\$151.0	(95.0)
Financing activities	32.2	(60.0)	n.m.
Investing activities	(118.4)	(94.3)	25.6
Net decrease in cash from continuing operations	(\$78.6)	(\$3.3)	n.m.
Net increase (decrease) in cash from discontinued operations	38.4	(5.8)	n.m.
Net decrease in cash for the period	(\$40.2)	(\$9.1)	n.m.

n.m. - not meaningful

We used net cash of \$40.2 million in the first quarter of 2011, compared to using net cash of \$9.1 million in the first quarter of 2010. This quarter-over-quarter decrease of \$31.1 million is the result of

lower cash from continuing operations of \$75.3 million, partially offset by higher cash flow from discontinued operations of \$44.2 million. The higher cash flow from discontinued operations reflects the \$38.4 million proceeds realized from the sale of our xwave business.

Operating activities

Cash generated from operating activities decreased 95.0 per cent, or \$143.4 million, in the first quarter of 2011, compared to the same period in 2010. Contributing to this decline was a \$195.8 million increase in funding of DB pension and OPEB plans, reflecting the \$200.0 million lump sum pension contribution. This use of cash was partially offset by a \$1.4 million increase in net earnings from continuing operations net of non-cash and other adjustments and a \$47.8 million increase in cash flow from changes in operating assets and liabilities, or working capital.

Cash flow used to fund working capital changes was \$28.8 million in the first quarter of 2011, compared to \$76.6 million in the first quarter of 2010. In the first quarter of 2011, we saw significant improvement in cash flow from accounts receivable over the first quarter in 2010. Our cash flow from accounts receivable contributed \$13.7 million to our cash flows in the first quarter of 2011, but used \$9.6 million in the first quarter of 2010. Cash flow from working capital changes generated \$14.1 million more cash from a reduction in inventory purchases in the first quarter of 2011, compared to the first quarter in 2010. The first quarter of both 2011 and 2010 included large reductions in accounts payable and accruals, \$37.0 million and \$46.9 million, respectively, which are typical for the first quarter of the year as we make large cash outlays for prior year employee incentive plan payments and previously accrued severance charges. In the first quarter of 2011, we used \$9.9 million less cash to reduce payables and accruals in large part due to \$6.6 million lower payments made on previously accrued severance and other charges, as well as lower payments related to our short-term incentive plan, due to a reduction in management headcount and lower incentive payouts.

Pension plan funding is included in the use of cash from operating activities. On March 15, 2011, we made a \$200.0 million lump sum cash contribution to our DB pension plans. Excluding this lump sum pension contribution, cash funding for our DB pension plans for the first quarter of 2011 was \$27.4 million, compared to \$31.6 million for the same period in 2010. In 2011, these amounts included \$12.5 million of current service contributions and \$14.9 million of special deficit funding, compared to \$12.9 million and \$18.7 million in 2010, respectively. The \$0.4 million decline in current service contributions is due to fewer active participants in the plans in 2011, compared to the prior year. Excluding the \$200.0 million lump sum pension contribution, special deficit funding declined by \$3.8 million in the first quarter of 2011, compared to the first quarter in 2010. We plan to apply a portion of our lump sum pension contribution against our required special deficit funding throughout 2011, as discussed below in the "Cash requirement" section.

We are in the process of updating the actuarial valuations of our pension plans as of December 31, 2010. We expect these to be completed and filed by the end of the second quarter of 2011, and we will adjust our 2011 contributions to the plans as necessary based on the valuation results.

Contributions to our OPEB plans to fund benefits were \$2.0 million in the first quarter of 2011, compared to \$1.9 million in the same period of 2010.

Financing activities

Cash generated from financing activities was \$32.2 million for the first quarter of 2011, compared to using cash of \$60.0 million the same period in 2010, resulting in a \$92.2 million increase in cash flows.

In the first quarter of 2011, we had net repayments of debt (including short and long-term debt, capital leases and notes payable to related parties) of \$83.3 million, compared to net proceeds of \$106.1 million in the same period of 2010. We had net repayments of short-term promissory notes under our commercial paper program of \$31.2 million in the first quarter of 2011, while for the same period in 2010 we had net proceeds of \$110.1 million from short-term debt facilities. The repayments in the first quarter of 2011 were facilitated in part by the proceeds from disposition received on our sale of the xwave business and in part from proceeds of the preferred share issue, described below. In

the first quarter of 2010 net proceeds were required to fund higher working capital requirements. Also, in the first quarter of 2011, we repaid a \$43.3 million note payable to a related Bell Aliant entity that represented final distributions under the income trust structure.

We had total gross proceeds on the preferred share issuance by Bell Aliant Preferred Equity Inc. (Prefco) of \$287.5 million in the first quarter of 2011, with no similar transaction in 2010. Share issue costs of \$9.1 million were incurred, resulting in net proceeds of \$278.4 million. These proceeds were used to make the \$200.0 million lump sum pension contribution previously referred to, as well as to repay short-term debt as discussed above.

In the first quarter of 2011, financing activities also included total dividends of \$109.0 million, paid to Bell Aliant Inc. and total distributions of \$53.9 million, which represented the final disbursements required for distributions under the income fund structure. For the first quarter of 2010, total distributions paid to the Fund and to holders of class B exchangeable partnership units issued by Bell Aliant LP were \$166.1 million.

Investing activities

Cash used in investing activities increased by 25.6 per cent, or \$24.1 million, in the first quarter of 2011, compared to the first quarter of 2010. Purchases of property, plant and equipment were \$119.5 million in the first quarter of 2011, compared to \$94.3 million in the same period in 2010, representing an increase of 26.7 per cent, or \$25.2 million. Consistent with our strategic priority to grow broadband, specifically related to FTTH, we continue to accelerate the rollout of our *FibreOP* network. Capital expenditures were 17.5 per cent of operating revenues in the first quarter of 2011, which is in line with our annual target of 17.5 per cent to 18.0 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 anticipate generating enough cash from our operating activities to pay for property, plant and equipment, dividends to shareholders, and other commitments as they arise.

Our capital structure is as follows:

<i>(millions of dollars, except as otherwise noted)</i>	March 31, 2011		December 31, 2010	
Shareholders' / partners' capital	\$3,505.7	50.7%	\$1,666.0	34.6%
Non-controlling interest	281.9	4.1%	-	-
Net debt	3,118.4	45.2%	3,148.8	65.4%
Total capital	\$6,906.0	100.0%	\$4,814.8	100.0%

Shareholders' capital

Common shares

As at March 31, 2011, our authorized capital consists of an unlimited number of two classes of shares, voting common shares and non-voting common shares, neither of which are publicly traded. Non-voting common shares have not been issued.

For further details of these common shares, refer to note 14 of our interim financial statements.

The number of common shares issued and outstanding at March 31, 2011, was 101,373,833 voting common shares, with Bell Aliant Inc. owning all but 1 voting common share which is held indirectly by BCE.

Partners' capital

As at December 31, 2010, we had an unlimited number authorized of each of the three classes of units, which were not publicly traded. The number of units issued and outstanding was 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.

On January 1, 2011, all outstanding partnership units were cancelled as part of the dissolution of Bell Aliant Holdings LP during the Conversion, as described earlier in the "Corporate conversion" section.

Non-controlling interests

Preferred shares issued by a subsidiary

On January 31, 2011, Prefco was incorporated under the Canada Business Corporations Act for the sole purpose of being the issuer of preferred shares. We own 100 per cent of Prefco's common shares.

On March 15, 2011, Prefco issued 10,000,000 Cumulative 5-Year Rate Reset Series A Preferred Shares (the Series A Preferred Shares) at a price of \$25.00 per Series A Preferred Share. On March 25, 2011, Prefco closed the sale of an additional 1,500,000 Series A Preferred Shares at the same price, following the exercise in full by the underwriters of the over-allotment option. The Series A Preferred Shares will pay cumulative dividends, if, as and when declared by the board of directors, of \$1.2125 per share per annum, yielding 4.85 per cent, payable quarterly (with the first quarterly dividend to be paid June 30, 2011), for the initial five year period ending March 31, 2016. For further details concerning the offering of these preferred shares, refer to note 15 of our interim financial statements and Bell Aliant Inc.'s press release dated February 22, 2011. Non-controlling interests at March 31, 2011, represents the Series A Preferred Shareholders' ownership interest in Prefco.

Debt

We have a total of \$2,605.0 million in unsecured and unsubordinated medium-term notes outstanding under Bell Aliant LP's trust indenture dated September 14, 2006.

Our long-term debt has not significantly changed during the first quarter of 2011 and primarily reflects scheduled debt repayments. In April 2011, we issued \$300.0 million of medium-term notes, as discussed below in the "Cash requirements" section.

During the first quarter of 2011, we decreased the total amount available for use under our short-term operating credit facilities by \$5.1 million, resulting in an amount available of \$1,250.2 million. The commercial terms of our available short-term credit facilities have not changed significantly since December 31, 2010, although certain amendments were required in relation to the Conversion. We continue to maintain a \$400.0 million commercial paper program, supported by unused capacity on our revolving operating facilities.

Amounts drawn under our short-term credit facilities decreased to \$344.0 million at March 31, 2011, compared to \$377.2 million at December 31, 2010. We repaid \$31.2 million of short-term promissory notes under our commercial paper program during the first quarter of 2011. We also repurchased \$2.0 million under the revolving accounts receivable securitization program. In addition, during the first quarter of 2011, the amount of issued letters of credit decreased by \$11.0 million, to a total of \$275.1 million. Included in the letters of credit at December 31, 2010, is \$11.1 million for discontinued operations, with no such amount at March 31, 2011. Refer to our "Summary of cash flows" section for additional details.

As of March 31, 2011, 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, 2010, except for amendments required relating to the Conversion.

Ratings

There were no changes to our debt ratings in the first quarter of 2011, however, at our request in April 2011, the debt ratings for Télébec and NorthernTel have been withdrawn by S&P and DBRS as these entities will not be issuing public debt in the future.

	S&P	DBRS
Bell Aliant LP senior unsecured debt	BBB, stable outlook	BBB (high), stable trend
Bell Aliant LP commercial paper	Not rated	R-1 (low), stable trend
Bell Aliant Preferred Equity Inc. preference shares	P-3 (high), stable outlook	Pfd-3 (high), stable trend

Cash requirements

We require a significant amount of cash to execute our business strategy. Our cash requirements for the first quarter of 2011 consisted of dividends to shareholders, purchases of capital, pension plan funding, repayment of short and long-term debt, and payments of other commitments. It is anticipated that cash requirements for 2011 will result in the use of cash as follows:

- The annual cash requirement to pay dividends to Bell Aliant Inc. shareholders (subject to their declaration in the discretion of the directors) is estimated to be in the range of \$432 million to \$435 million for 2011. For the three months ended March 31, 2011, we paid \$109.0 million in dividends to enable Bell Aliant Inc. to fund its dividends and expenses. In addition, we paid \$53.9 million in settlement of amounts that represented the final distribution to unitholders under the income fund structure.
- We anticipate 2011 capital expenditures to be in the range of \$520 million to \$560 million. For the three months ended March 31, 2011, capital expenditures were \$119.5 million, or 17.5 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 \$405.0 million outstanding principal amount of medium-term notes due to mature on September 26, 2011. On April 26, 2011, we issued \$300.0 million of 7-year unsecured medium-term notes and on the same day we gave notice of our intention to redeem, on May 6, 2011, the same amount of the Bell Aliant LP notes due to mature in September 2011. We anticipate we will repay the remaining balance of the September 2011 notes outstanding with cash flow or short-term borrowing.
- Our DB pension plans have funding deficits. In 2010, the pension plans achieved a return on assets that exceeded our expected rate of return. However, we anticipate that the discount rates utilized to calculate our solvency funding liabilities for active employees at December 31, 2010, will be lower than those used at December 31, 2009. In addition, our December 31, 2010, funding requirements will reflect increased liabilities resulting from early retirements in 2010. We estimate that required cash funding of our DB pension deficits for 2011 will be in the range of approximately \$100 to \$120 million, compared to \$86.3 million for 2010. However, as part of our 2011 financing plans, on March 15, 2011, we used a portion of the proceeds from the issuance of Series A Preferred Shares, described above in the "Preferred shares issued by a subsidiary" section to make a \$200.0 million lump sum cash contribution to our DB pension plans. We will apply a portion of this lump sum amount against our required 2011 deficit funding. We believe that taking this step now removes future volatility that solvency valuations have on our cash flows, strengthens our credit profile, improves our cash flow generation, represents an attractive return on investment, and enhances the security of pension benefits for retirees and employees in our DB pension plans. In addition, we estimate that a further \$25 million to \$50 million in cash deficit funding payments, which approximates our going concern funding requirements, will be contributed to the pension plans in 2011. We will continue to use

letters of credit to fund solvency special payments as required under the 2006 and 2009 solvency relief regulations.

- Productivity initiatives, announced during 2010, 2009 and 2008, are expected to result in the use of cash for severance, benefits and real estate rationalization costs of approximately \$10 million to \$15 million in 2011. For the three months ended March 31, 2011, we paid \$9.3 million in accrued severance charges and real estate rationalization costs.
- We will also use cash for other commitments, such as operating leases and purchase commitments for equipment and other network infrastructure.

Other financial arrangements

Contractual obligations

We have various operating leases for equipment and other network infrastructure, and purchase commitments under various service and commercial agreements, including our commercial agreements with Bell Canada. Further details of these commitments are described in notes 22 and 25 to our audited consolidated financial statements for the year ended December 31, 2010, and in note 20 to our interim financial statements.

RELATED PARTY TRANSACTIONS

Our significant related parties continue to be BCE, Bell Canada and Bell Aliant Inc. 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, 2010, and to note 21 of our interim financial statements.

SIGNIFICANT ACCOUNTING POLICIES

International financial reporting standards (IFRS)

Our interim financial statements represent the initial presentation of our results and financial position under IFRS and have been prepared in accordance with IAS 34, *Interim Financial Reporting*, and with IFRS 1, *First-time Adoption of IFRS*, as issued by the International Accounting Standards Board (IASB) and in accordance with the accounting policies we expect to apply in our financial statements for the year ending December 31, 2011. They do not include all of the information required for full annual financial statements. Previously, our consolidated annual and interim financial statements were prepared in accordance with Canadian GAAP. The adoption of IFRS has not had a material impact on our overall performance, strategic decisions or underlying trends of our operations.

Impact of transition to IFRS

IFRS 1, *First-time adoption of international financial reporting standards* sets forth guidance for the initial adoption of IFRS. Our analysis of IFRS and comparison to our accounting policies under Canadian GAAP determined that we were generally aligned with IFRS in many areas, but also identified a number of key differences. Refer to our interim financial statements and our MD&A for the year ended December 31, 2010, for explanations of these differences and adjustments.

IFRS 1 provides both mandatory exceptions and optional exemptions. In general, we have chosen to apply certain optional exemptions to reduce the complexity involved in converting to IFRS, as the cost of not applying the exemptions would far outweigh the benefit to the users of our financial statements. Refer to note 22 of our interim financial statements for more detail on the significant IFRS 1 exemptions we have taken and reconciliations between our 2010 results previously prepared under Canadian GAAP and to those under IFRS. The reconciliations include the Total equity as at January 1, 2010, March 31, 2010, and December 31, 2010, and Net earnings (loss) and Comprehensive income (loss), for the three months ended March 31, 2010, and year ended December 31, 2010. Our IFRS accounting policies are provided in note 2 to our interim financial statements.

Future changes in accounting policies

A number of new standards, amendments to standards, and interpretations are not yet effective for the year ending December 31, 2011, and have not been applied in preparing our financial statements as at March 31, 2011, as follows:

IFRS 7, Financial Instruments: Disclosure

The IASB issued IFRS 7, *Financial Instruments: Disclosure*, which requires increased disclosure surrounding the transfer of financial assets, particularly where there is a disproportionate amount of transfer transactions that take place at the end of a reporting period. The amendments to IFRS 7 come into effect for periods beginning on or after July 1, 2011.

IFRS 9, Financial Instruments

The IASB issued IFRS 9, *Financial Instruments*, which is the first phase of the IASB's three phase project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. It is applicable to financial assets and requires classification and measurement in either the amortized cost or the fair value category. IFRS 9 comes into effect for periods beginning on or after April 1, 2013.

IAS 12, Income Taxes

The IASB issued IAS 12, *Income Taxes*, which sets presumptions for the recovery of certain assets and is relevant in those cases where different tax consequences can arise depending on how the carrying amounts are recovered. The amendments to IAS 12 come into effect for periods beginning on or after January 1, 2012.

We are evaluating the effect, if any, that these new standards will have on our financial results.

REGULATORY DEVELOPMENTS

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.

For a discussion of regulatory proceedings underway in 2011 which are, or may be, significant to our business, see the Regulatory Developments section of our 2010 annual MD&A dated March 9, 2011. The following is an update to certain proceedings described in that document to reflect developments which have occurred since that date:

- *Review of usage-based billing (UBB)*

On March 17, 2011, the CRTC expanded its review proceeding to include an online consultation, an interrogatory process, and a public hearing in July 2011. On March 28, 2011, Bell Canada and Bell Aliant LP filed their initial submission in that proceeding, proposing a new aggregate volume pricing model for their residential wholesale Gateway Access Service.

- *Customer transfer process*

On March 18, 2011, the CRTC issued Broadcasting and Telecom Regulatory Policy 2011-191 which simplified the transfer process when customers wish to change the provider from which they receive telecommunications and/or broadcasting services. The existing customer transfer processes for local, long distance and wireless services will be extended to Internet and television services such that the customer's new service provider will be able to cancel service from the current provider on the customer's behalf if the customer so authorizes.

- *Review of local, wireless, and toll interconnection regimes*

On March 23, 2011, the CRTC initiated a proceeding to review the local, wireless, and toll interconnection regulatory regimes. This will be a broad policy review of network interconnection matters aimed at determining to what extent existing interconnection regimes can be simplified and consolidated. The CRTC will also be considering whether changes are

necessary to enhance competition, benefit consumers and to ensure technological neutrality. This proceeding will include a public hearing which will begin on October 24, 2011. It is not known at this time what impact the review will have on us.

- *Canadian broadcasting in new media*

On March 24, 2011, the Supreme Court of Canada granted leave to appeal the Federal Court of Appeal's decision which had concluded that Internet service providers (ISPs) do not carry on, in whole or in part, broadcasting undertakings when, in their role as ISPs, they provide access through the Internet to "broadcasting" requested by end-users.

- *Petition regarding CRTC deferral account mechanism*

As discussed in our annual MD&A dated March 7, 2011, Rogers Communications Partnership Inc. (Rogers) submitted a petition to the Governor-in-Council concerning Telecom Decision 2010-805, *Bell Canada - Applications to review and vary certain determinations in Telecom Decision CRTC 2010-637 concerning the use of high-speed packet access wireless technology and the deferral account balance*. Until October 29, 2011, the Governor-in-Council may choose to vary or rescind the decision or refer it back to the CRTC for reconsideration. On March 28, 2011, Bell Canada challenged the legality of Rogers' petition and sought an order from the Federal Court to prohibit Cabinet from considering the petition on the grounds that it addresses issues that were not part of the original decision that Rogers is challenging. We do not expect the outcome of the CRTC's decision or of Rogers' petition to materially affect our financial results in light of our arrangement with Bell Canada, as described in note 22 to our audited consolidated financial statements for the year ended December 31, 2010.

- *Support structure rates*

As discussed in our annual MD&A dated March 7, 2011, on December 2, 2010, the CRTC approved new support structure rates, retroactive to July 21, 2009, resulting in net revenue increases for us. On March 30, 2011, a consortium of cable companies filed a review and variance application seeking to reduce the rates established in the December decision.

- *Télébec toll interconnection rates*

On February 14, 2011, MTS Allstream Inc. (MTS Allstream) filed an application with the Commission seeking reductions in the toll interconnection rates charged by Télébec and TELUS Communications Company in the province of Quebec. Télébec filed its response on March 16, 2011, and the parties await the Commission's decision. The outcome of this proceeding is not known at this time.

- *Review of unbundled local loop rates*

As discussed in our annual MD&A dated March 7, 2011, in Telecom Decision 2011-24, the CRTC approved revised monthly recurring rates for certain unbundled loops and revised service charge rates for other unbundled local loops. These rates apply retroactively to the date of the CRTC's prior interim approval, December 14, 2009. On March 7, 2011, MTS Allstream filed a review and variance application in connection with Telecom Decision 2011-24, arguing that the rates should be even lower than they were before the December 2009 interim approval date. On April 26, 2011, Bell Canada and Bell Aliant LP also filed a review and variance application seeking approval of rates, on a final basis, for each of Bell Canada and Bell Aliant LP that reflect certain adjustments discussed in the application, effective on the date the unbundled local loop rates were made interim. On May 4, 2011, Primus Telecommunications Canada Inc. filed a further application asking that the Commission review and vary and stay its determinations related to the retroactive application of the rates set out in Decision 2011-24. In light of the small volume of this service for Bell Aliant, the effect on us is not expected to be material.

- *Obligation to serve*

On May 3, 2011, the CRTC released Telecom Regulatory Policy 2011-291, *Obligation to serve and other matters*. In this proceeding, the CRTC reviewed the current contribution regime and

whether it should be changed or expanded to include broadband, and considered to whom and for what services the obligation to serve should apply. The Commission also considered whether and on what terms competition should be allowed in small incumbent local exchange carrier (SILEC) territories. In the Policy, the Commission determined to retain the basic service obligation for incumbent local exchange carriers (ILECs) in regulated exchanges, subject to minor modifications to reduce print directory distribution requirements. In regulated high-cost serving areas, the Commission determined that only ILECs should receive subsidy, as they are the only carriers with an obligation to serve. In forborne exchanges, the Commission generally eliminated the ILECs' obligation to serve, but retained the obligation for ILECs to provide stand-alone primary exchange service (which includes unlimited local calling at a flat monthly rate and a choice of long distance service provider), which can be satisfied by mobile wireless voice services. In forborne high-cost serving areas, the subsidy regime was eliminated, except in the case of SILECs, and no subsidies will be available effective June 1, 2011. The Commission retained the current subsidy regime and invited ILECs to update their costing information. It also determined that it was no longer appropriate to impute a continuing increase in efficiency to ILECs in computing the cost component of the subsidy calculation. Therefore, the Commission eliminated the productivity offset factor from ILECs' subsidy calculations effective June 1, 2011. Prices in regulated high-cost serving areas can increase over a three-year period to the lower of \$30 or the amount required to eliminate the subsidy; in forborne areas, the price ceiling has been relaxed to permit prices to rise over a three-year period to \$30 and thereafter by the annual rate of inflation. The Commission declined to extend the obligation to serve to broadband internet services, indicating that the expansion of such services has been successful through a combination of market forces and targeted government funding and public-private partnerships. However, the Commission set universal target speeds of 5 megabits per second downstream and 1 megabit per second upstream that should be available to all Canadian internet customers by the end of 2015, either through wireline, wireless or satellite technology. The CRTC will monitor progress towards achieving these targets and may revisit this issue over time. Finally, in connection with the SILEC regulatory regime, the Commission determined to allow local competition to continue to be introduced, subject to the continuation of the subsidy mechanism and a cost recovery measure applicable to SILECs serving 3,000 NAS or fewer. We are still godanalysing the impacts of this complex policy document.

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, 2010, 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, 2010, 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 2011. These assumptions include economic, market, financial and operational and transaction assumptions, and have not changed significantly up to May 5, 2011.

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, 2010, and our 2010 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 2011, 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, 2010, and our 2010 Annual Information Form. We have provided updates on our regulatory and competitive environments in the "Regulatory developments" and "Our competitive landscape" sections.

NON-IFRS FINANCIAL MEASURES

In addition to our results reported in accordance with IFRS we use certain non-IFRS financial measures as supplemental indicators of our operating performance and financial position and for internal planning purposes. These non IFRS-measures include:

- EBITDA (earnings before interest, taxes, depreciation and amortization);
- EBITDA margin;
- Free cash flow; and
- Adjusted earnings per share (EPS) of Bell Aliant Inc.

The above terms do not have any standardized meanings prescribed by IFRS. They are therefore unlikely to be comparable to similar measures presented by other reporting issuers. EBITDA, EBITDA margin, free cash flow and adjusted EPS of Bell Aliant Inc. 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, and severance and other charges. Operating income is calculated before net finance expense 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>	2011	2010
Net earnings	\$85.4	\$248.6
Add: Net finance expense	42.2	46.8
Distributions to holders of class B exchangeable partnership units issued by Bell Aliant LP	-	52.3
Gain on the re-measurement of the class B exchangeable partnership units issued by Bell Aliant LP	-	(189.2)
Other expense	0.1	2.6
Income tax expense (recovery)	39.9	(3.7)
Net earnings (loss) from discontinued operations	3.4	(0.6)
Operating income	\$171.0	\$156.8
Add: Depreciation and amortization	153.8	170.7
Severance and other charges	4.5	11.2
EBITDA	\$329.3	\$338.7

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, and severance and other charges. We exclude depreciation and amortization expense 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 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, pay dividends to shareholders and to meet other payment obligations, and as a common valuation measurement in the telecommunications industry. EBITDA should not be confused with net earnings or operating income, which are the most comparable IFRS measures.

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

Free cash flow

We define free cash flow as cash from operating activities less capital expenditures. Since our operations ultimately support dividends to Bell Aliant Inc. shareholders, free cash flow combines our cash performance with that of Bell Aliant Inc. We present free cash flow both including and excluding the lump sum pension contribution made in the first quarter of 2011 as the contribution was exceptional and funded from proceeds of a preferred share issue of a subsidiary and not cash from operating activities.

We believe that certain investors and analysts use free cash flow to assess our ability to pay dividends to shareholders, service debt, and to meet other payment obligations, and as a common valuation measurement in our industry.

Free cash flow should not be confused with cash from operating activities, which is the most comparable IFRS 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>	2011	2010
Cash from operating activities	\$7.6	\$151.0
Capital expenditures	(119.5)	(94.3)
Free cash flow	(\$111.9)	\$56.7
Lump sum pension contribution	200.0	-
Free cash flow before lump sum pension contribution	\$88.1	\$56.7

Adjusted EPS of Bell Aliant Inc.

We define adjusted EPS of Bell Aliant Inc. as diluted EPS of Bell Aliant Inc., adjusted for the after-tax per share effect of amortizing purchase price allocation amounts, which represent the adjustments to historical cost of tangible and intangible assets acquired in business combinations.

The following table provides a reconciliation of diluted EPS to adjusted EPS of Bell Aliant Inc.

<i>For the three months ended March 31, 2011</i>		
<i>(millions of dollars, except per share amounts)</i>	amount	per share
Diluted earnings per share of Bell Aliant Inc.		\$0.37
Purchase price allocation amortization, net of income taxes	\$16.6	0.07
Adjusted earnings per share of Bell Aliant Inc.		\$0.44

We use adjusted EPS of Bell Aliant Inc., among other measures, to assess the contribution of our operating performance on the earnings attributable to Bell Aliant Inc. common shareholders without the after-tax effect of the purchase price allocation amortization. We exclude this item as the amortization of certain finite-life intangible assets related to customer relationships acquired in

previous business combinations will largely not be replaced through future capital spending. Future costs incurred in relation to acquiring any new subscribers or retaining existing ones are captured in ongoing operating expenses. We exclude this item because it can affect the comparability of our financial results and those of Bell Aliant Inc. and could potentially distort the analysis of trends in business performance. Excluding this item does not imply it is non-recurring.

We believe certain investors and analysts use this measure to assess Bell Aliant Inc.'s ability to pay dividends, which are entirely dependent on our dividends, and as a common valuation measurement in our industry.

Adjusted EPS of Bell Aliant Inc. should not be confused with diluted EPS, which is the most comparable IFRS financial measure.

CONTROLS AND PROCEDURES

Internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*. Our internal control framework is based on the criteria published in the report Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The CEO and CFO evaluated the design of our internal control over financial reporting as at March 31, 2011, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There have been no changes in our internal control over financial reporting during the three months ended March 31, 2011, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.