



What matters to me

Kathleen Defoy, teacher
La Baie, Quebec

Teaching is more than a profession for Kathleen Defoy; it's a devotion. "Seeing a child's proud smile when they learn something new is my biggest reward," says Kathleen. It is for us too. That's why we support a wide range of educational and sports programs for children and youth. For more information about our community investment program, visit our website at www.bell.aliant.ca/community.

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Bell Aliant Regional Communications Income Fund

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News Release

Bell Aliant Reports Second Quarter Results

• 2008 Revenue Guidance Revised for Discontinued Operations

Halifax, NS – August 5, 2008 – Bell Aliant Regional Communications Income Fund (Bell Aliant or the Fund)¹ (TSX:BA.UN) today reported distributions to its unitholders of \$92.1 million or \$0.725 per unit for the quarter ended June 30, 2008.

Bell Aliant Holdings LP's second quarter financial highlights^{2,3} are as follows:

<i>(In millions of dollars)</i>	Q2 2008	Q2 2007	Percentage Change	YTD 2008	YTD 2007	Percentage Change
Operating Revenue	823.0	804.0	2.4 %	1,667.9	1,638.1	1.8 %
EBITDA ⁴	361.7	356.3	1.5 %	715.1	704.3	1.5 %
Capital Expenditures	127.5	143.4	(11.1)%	222.6	258.7	(14.0)%
Distributable Cash ⁵	183.3	162.2	13.0 %	390.1	354.3	10.1 %

"I am very pleased with our revenue growth of 2.4 per cent and EBITDA growth of 1.5 per cent that we have achieved in the second quarter," said Stephen Wetmore, President and Chief Executive Officer. "The success of our productivity initiatives has enabled us to maintain our year-to-date EBITDA margin consistent with that of last year, and will continue to help us going forward."

Highlights of the second quarter of 2008 include the following:

- Operating revenue increased \$19.0 million (2.4 per cent) in the second quarter of 2008 compared to the same period a year ago with strong growth in Information Technology (IT) and Internet revenues.
- Internet revenue grew by \$9.4 million (10.9 per cent) in the second quarter of 2008 compared to the same period in 2007, with high-speed Internet subscribers growing 13.1 per cent from a year earlier.
- IT revenue increased by \$23.1 million (36.1 per cent) in the quarter compared to the same period last year, with increases in services revenue and equipment sales of 23.6 per cent and 45.6 per cent respectively.
- Local service and long distance revenue declined by \$8.5 million (2.4 per cent) and \$5.7 million (4.8 per cent), respectively, in the second quarter of 2008 compared to the second quarter in 2007. Network access services (NAS) were 3.3 per cent lower than a year ago with net NAS declines of 20,669 in the quarter.
- EBITDA increased \$5.4 million (1.5 per cent) in the second quarter of 2008 compared to the second quarter of 2007, with the benefits of cost containment and productivity programs and lower provincial capital taxes offsetting the effects of lower revenue margins.
- Capital expenditures in the second quarter were \$127.5 million, down \$15.9 million (11.1 per cent) from the same quarter a year earlier, as 2007 included higher spending for an accelerated fibre-to-the-node (FTTN) build out.
- Distributable cash increased \$21.1 million (13.0 per cent) in the second quarter of 2008 from the same period 2007, primarily as a result of EBITDA growth and reduced capital expenditures.

Revised Operating Revenue Guidance

During the second quarter, Bell Aliant determined that it will eliminate the wholesale mobility products business of Atlantic Mobility Products Limited Partnership (AMP), a wholly-owned Bell Aliant subsidiary and has reclassified AMP as discontinued operations for accounting purposes. Also, earlier today, Bell Aliant and CAE announced that they have entered into an asset purchase agreement for CAE to acquire Bell Aliant's Defence, Security and Aerospace information technology business unit, which currently operates under the xwave brand. These events remove the revenue streams from these assets for the purposes of Bell Aliant's 2008 operating revenue guidance, therefore necessitating an adjustment to this guidance. Previously issued 2008 guidance ranges for capital intensity and distributable cash are not affected.

Operating Revenue	\$3,370 million to \$3,440 million	\$3,240 million to \$3,310 million
Capital Intensity ⁶	14.5 to 15.5 per cent	unchanged
Distributable Cash	\$720 million to \$740 million	unchanged

Analyst conference call

A conference call to discuss second quarter results with the financial community was held on Wednesday, August 6, 2008. A replay of the conference call will be available on our website, www.bell.aliant.ca/investors, for one year.

Forward-looking Statements

This news release contains forward-looking statements concerning anticipated future events, results, circumstances or expectations, including adjustments to Bell Aliant's 2008 annual guidance necessitated by certain recent events. Unless otherwise indicated, such forward-looking statements describe management's expectations at August 5, 2008. These statements are based on management's beliefs regarding future events, many of which, by their nature are inherently uncertain and beyond management's control. These statements are not guarantees of future performance and are subject to numerous risks and uncertainties which are difficult to predict and assumptions which may prove to be inaccurate.

Many factors could cause results or events to differ materially from current expectations. A number of assumptions are also made in making forward-looking statements, such as economic assumptions, market assumptions, financial and operational assumptions and assumptions about the execution of certain transactions. Please refer to Bell Aliant's Notice Concerning Forward-looking Statements dated February 5, 2008, as well as the Fund's and Bell Aliant Holdings LP's management's discussion and analysis and annual information forms for the year ended December 31, 2007, as updated by the Fund's and Bell Aliant Holdings LP's management's discussion and analysis for the first and second quarters of 2008, which are available at www.bell.aliant.ca or at www.sedar.com, for a detailed discussion of these key risk factors and assumptions. In particular, please refer to the "Assumptions made in the preparation of forward-looking information and risks that could affect our business and results" section of Bell Aliant Holdings LP's management's discussion and analysis for the second quarter of 2008, for a discussion of the factors influencing the aforementioned adjustments to Bell Aliant's 2008 annual guidance.

Should any factor impact Bell Aliant in an unexpected manner, or should assumptions underlying the forward-looking statements prove incorrect, the actual results or events may differ materially from the results or events predicted. All of the forward-looking statements made in this press release are qualified by these cautionary statements, and there can be no assurance that the results or developments anticipated by Bell Aliant will be realized or, even if substantially realized, that they will have the expected consequences for Bell Aliant.

Except as may be required by Canadian securities laws, we disclaim any intention and assume no obligation to update or revise any forward-looking statement even if new information becomes available, as a result of future events or for any other reason. Readers should not place undue reliance on any forward-looking statements. Forward-looking statements are provided for the purpose of providing information about management's current expectations and plans relating to fiscal 2008. Readers are cautioned that such information may not be appropriate for other purposes.

About Bell Aliant

Bell Aliant (TSX: BA.UN) is one of North America's largest regional communications providers. Through its operating entities it serves customers in six Canadian provinces with innovative information, communication and technology services including voice, data, Internet, video and value-added business solutions. Through its xwave offices, Bell Aliant also provides IT professional services in Canada and the US. Bell Aliant's 10,000 employees are committed to deliver the highest quality of customer service, choice and convenience.

¹ Bell Aliant derives all of its income from its indirect ownership in Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP). Bell Aliant Holdings LP's results combine the results of Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Télébec, Limited Partnership (Télébec) and NorthernTel, Limited Partnership (NorthernTel).

² On February 1, 2008 Bell Aliant Holdings LP completed the acquisition of the assets and operations of Kenora Municipal Telephone System (KMETS). Bell Aliant Holdings LP's financial results and subscriber metrics include KMETS data from that date onward.

³ In the second quarter of 2008 Bell Aliant adopted discontinued operations presentation for Atlantic Mobility Products. Prior period information has been restated to reflect this change.

⁴ Bell Aliant defines EBITDA, a non-GAAP measure, as earnings before interest, income taxes, depreciation and amortization expense, net benefit plans cost, and restructuring and other charges.

⁵ Bell Aliant defines distributable cash, a non-GAAP measure, as cash from operating activities plus operating items funded through cash reserves or borrowings, such as working capital, pension deficit funding, restructuring costs and cash taxes in excess of normalized levels, plus amounts for current income tax provisions, less capital expenditures.

⁶ Capital intensity, a non-GAAP measure, is defined as capital expenditures divided by operating revenues.

Bell Aliant Regional Communications Income Fund

Management's Discussion and Analysis

Second Quarter 2008

This document provides management's discussion and analysis (MD&A) of our financial condition as at, and results of operations for, the three and six months ended June 30, 2008, compared to the corresponding periods in 2007. This MD&A should be read together with our unaudited interim consolidated financial statements and accompanying notes for the period ended June 30, 2008, and our audited consolidated financial statements and accompanying notes as at and for the year ended December 31, 2007, and related MD&A. Our consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All amounts in this document are in millions of Canadian dollars, except where otherwise noted.

This MD&A is dated August 5, 2008, and is current to that date unless otherwise stated.

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

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

Forward-looking information

This MD&A contains forward-looking information related to our future financial condition and results of operations. The purpose of forward-looking information is to provide the reader with information about management's expectations and plans for fiscal 2008 or other future periods. Readers are cautioned that such information may not be appropriate for other purposes. This information is based on current expectations and estimates about the markets in which we operate and management's beliefs and assumptions regarding these markets. Unless otherwise indicated, forward-looking information in this MD&A describes our expectations at August 5, 2008. In some cases, forward-looking information may be identified by words such as "anticipate", "believe", "could", "expect", "plan", "seek", "may", "intend", "will" and similar expressions. This information is subject to important risks and uncertainties, which are difficult to predict, and assumptions, which may prove to be inaccurate. Some of the factors which could cause results or events to differ materially from current expectations include but are not limited to: our dependence on Bell Aliant Holdings LP, and therefore all of the risks and uncertainties to which its operations are subject; stock market volatility; market or business conditions; and changing laws and regulations. Some of these factors are largely beyond our control. Refer to the "Risk management" section of this MD&A for further discussion of these and other risk factors. Should any factor affect us in an unexpected manner, or should assumptions underlying the forward-looking information prove incorrect, the actual results or events may differ materially from the results or events predicted. Unless otherwise indicated, forward-looking information does not take into account the effect that transactions or non-recurring or other special items announced or occurring after this information is provided may have on our business. All of the forward-looking information reflected in this document and the documents referred to within are qualified by these cautionary statements. There can be no assurance that the results or developments anticipated will be realized or, even if substantially realized, that they will have the expected consequences for us. Except as may be required by Canadian securities laws, we disclaim any intention and assume no obligation to update or revise any forward-looking information, even if new information becomes available, as a result of future events or for any other reason. Readers should not place undue reliance on any forward-looking information.

See also our Notice concerning forward-looking information dated February 5, 2008, which is available at www.bell.aliant.ca as well as at www.sedar.com.

Our Business

We are an unincorporated, open-ended, limited purpose trust governed by the laws of the province of Ontario pursuant to a Declaration of Trust dated March 30, 2006, as amended and restated on July 6, 2006. We hold investments in subsidiaries that operate one of the largest regionally focused telecommunications service providers in North America.

On January 1, 2008, we transferred our 36.7 per cent indirect ownership interest in Télébec, Limited Partnership (Télébec) and NorthernTel, Limited Partnership (NorthernTel) to our subsidiary, Bell Aliant Holdings LP, in return for

8,246,429 class 2 limited partnership units of Bell Aliant Holdings LP. Since there was no substantive change in ownership of our 36.7 per cent indirect interest in Télébec and NorthernTel, the transfer was accounted for at carrying value. For the periods prior to January 1, 2008, we equity accounted for this investment as we exercised significant influence over the operating, investing and financial policies of these entities, but we did not control them.

We indirectly own an 82.5 per cent equity interest in Bell Aliant Holdings LP, which in turn consolidates the financial results of Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Télébec and NorthernTel. We equity account for this investment, as we exercise significant influence over the operating, investing and financial policies of this entity, but we do not control it. BCE Inc. (BCE) and Bell Canada own the remaining 17.5 per cent interest in Bell Aliant Holdings LP. Bell Canada also owns a 36.1 per cent interest in Bell Aliant LP. These interests are exchangeable into Fund units which gives BCE an effective 44.2 per cent combined interest in us on a fully-diluted basis. Under a Securityholders' Agreement, BCE has certain governance rights which give it control over Bell Aliant Holdings LP so long as its fully-diluted ownership interest is 30.0 per cent or greater and certain commercial agreements are in place with Bell Aliant LP.

Privatization of BCE

As announced on June 30, 2007, our significant stakeholder, BCE, entered into a definitive agreement to be acquired by an investment group led by Teachers Private Capital, the private investment arm of the Ontario Teachers Pension Plan, Providence Equity Partners Inc., Madison Dearborn Partners, LLC, and Merrill Lynch Global Private Equity. We are not a party to the transaction and cannot predict the effect that a change of ownership of BCE may have on our organization.

Changes to Trustees and Board of Directors

In our press release dated July 11, 2008, we announced that Lawson Hunter has been replaced by Siim Vanaselja as trustee and chair of the Fund; and it was announced that Mr. Vanaselja, George Cope and David Wells will replace Mr. Hunter, Michael Sabia and Patrick Pichette on the boards of directors of our operating subsidiaries. Mr. Cope was elected chair of these boards.

Planning for future changes in taxation

As a result of the Federal Government's October 31, 2006 announced changes to income tax legislation affecting publicly listed or traded income trusts, such as us, starting January 1, 2011, we will be taxed as if we were a corporation, at a blended federal/provincial tax rate we anticipate being in the range of 25.0 to 30.0 per cent of taxable income. While it is too early to determine the effect that these changes will have on our cash flow in years after 2010, we are continuing to investigate strategies and options that could mitigate the effect that cash taxes will have on the distributions that we pay to our unitholders. These options may include, among other things: planning to preserve or augment our tax loss carryforward amounts and other tax deduction or credit pools for utilization after 2010 to reduce taxable income or cash taxes otherwise payable by Bell Aliant Holdings LP; strengthening the financial position of Bell Aliant Holdings LP, including reducing the size of pension plan deficits, to allow greater flexibility in our future distribution policy; investing in productivity initiatives at Bell Aliant Holdings LP to lower our overall expenses and contribute positively to our future cash flow growth; and utilizing excess cash in the period prior to 2011 to repurchase our units to reduce total future cash distribution requirements. It is uncertain whether these initiatives, if pursued, will allow Bell Aliant Holdings LP to avoid reducing its per-unit cash distributions, and ultimately distributions made by us to Fund unitholders.

On July 14, 2008, the Department of Finance (Finance) released proposed amendments to the Income Tax Act (Canada) (Tax Act) to facilitate the conversion of existing income trusts, such as us, into corporations on a tax-deferred basis (Conversion Rules). These Conversion Rules, which will be available until January 2013, were expected and satisfy the commitment made by Finance when it announced the new tax rules on income trusts in October 2006 to provide existing income trusts with tax efficient structuring options to convert to corporate form.

The Conversion Rules, as proposed, would permit two basic tax-efficient conversion strategies. In general, income trusts may convert by either (i) having unitholders directly exchange their income trust units for shares of a Canadian corporation (Exchange Method), or (ii) redeeming the outstanding income trust units by distributing to unitholders the shares of an underlying Canadian corporation that directly or indirectly owns the business (Distribution Method). The Conversion Rules would permit further rationalization of the structure by allowing the dissolution of the income trust and certain subsidiary trusts on a tax-deferred basis. Under both methods, the conversion is effected on a tax deferred basis for both trusts and their unitholders without the need to file any tax elections.

The Conversion Rules are complex and technical, and the Federal Department of Finance has proposed a number of alternatives for completing a conversion. Accordingly, we will be carefully considering our particular circumstances in order to determine whether to propose a conversion transaction to our unitholders and, if so, how to structure a conversion into a corporation.

Summary Financial Information

The following table shows selected consolidated financial results for the most recent eight quarters. This quarterly information is unaudited, but has been prepared on the same basis as our annual and interim consolidated financial statements. The financial information presented for Q3 2006 is inclusive of activity only after July 6, 2006, when the Fund began its operations.

For the eight quarters ended June 30, 2008 (millions of dollars, except per unit amounts)	2006		2007				2008	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Equity income from investments and other revenues	\$45.1	\$75.4	\$74.8	\$48.7	\$69.9	\$106.8	\$44.1	\$69.4
Net earnings from continuing operations	45.1	74.4	167.5	45.5	68.8	105.6	43.0	68.5
Net earnings (loss) from discontinued operations	4.1	4.6	4.4	212.2	0.4	(0.5)	-	(0.7)
Net earnings	\$49.2	\$79.0	\$171.9	\$257.7	\$69.2	\$105.1	\$43.0	\$67.8
Basic earnings per unit from continuing operations	\$0.37	\$0.60	\$1.26	\$0.34	\$0.54	\$0.83	\$0.34	\$ 0.54
Basic earnings (loss) per unit from discontinued operations	0.03	0.04	0.03	1.59	0.00	0.00	-	(0.01)
Basic earnings per unit	\$0.40	\$0.64	\$1.30	\$1.93	\$0.54	\$0.83	\$0.34	\$ 0.53
Diluted earnings per unit from continuing operations	\$0.40	\$0.58	\$0.57	\$0.25	\$0.49	\$0.72	\$0.34	\$ 0.54
Diluted earnings per unit from discontinued operations	0.02	0.03	0.02	1.11	0.00	0.00	-	(0.01)
Diluted earnings per unit	\$0.42	\$0.61	\$0.59	\$1.36	\$0.49	\$0.72	\$0.34	\$ 0.53
Cash distributions declared	\$77.9	\$85.1	\$96.0	\$92.9	\$90.5	\$89.5	\$91.2	\$183.3

Net earnings

Net earnings represent equity income from our indirect ownership in the earnings of our investments, increased (decreased) for future tax recovery (expense) related to our proportionate share of temporary differences between the carrying amounts of assets and liabilities reported on the balance sheets of our subsidiaries and their corresponding tax values less our expenses. As such, we are entirely dependent upon the results of operations of our investments. During the second quarter of 2008, our equity income from Bell Aliant Holdings LP increased over that reported for the same period in 2007 due to the increased amortization recorded by Bell Aliant Holdings LP in 2007 upon the finalization of the purchase price allocation on the acquisition of Bell Canada's regional wireline operation in Ontario and Quebec and Bell Nordiq Group. Net earnings in discontinued operations for the second quarter of 2008 relate to the reclassification of Atlantic Mobility Products (AMP) as discontinued operations. Net earnings from discontinued operations in previous quarters include our proportionate share of the results of operations of Aliant Directory Services (ADS) until April 2007, when an after-tax gain of \$258.2 million was recorded on the disposal of its net assets and operations, and SalesBridge Canada Corp., which is being wound up. The financial performance of Bell Aliant Holdings LP for the three and six month periods ended June 30, 2008, compared to the same periods in 2007, is discussed in its second quarter 2008 MD&A.

Distributions declared

We make monthly cash distributions to our unitholders. During the second quarter of 2008, we declared distributions totalling \$92.1 million, or \$0.725 per unit, compared to \$92.9 million, or \$0.705 per unit, in the second quarter of 2007. The quarter-over-quarter increase reflects a 2.9 per cent increase in our monthly distribution rate commencing February 2008, offset slightly by a lower average outstanding Fund unit balance due to the repurchase and cancellation of 10,630,000 Fund units under our normal course issuer bid (NCIB), which ran from February 28, 2007, to February 27, 2008.

We are entirely dependent on distributions from Bell Aliant Holdings LP to make our distributions. A discussion of distributions made by Bell Aliant Holdings LP can be found in its second quarter 2008 MD&A.

(millions of dollars)	As at June 30, 2008	As at December 31, 2007
Total assets	\$4,259.4	\$4,324.1
Total liabilities	\$31.0	\$30.2
Unitholders' equity	\$4,228.4	\$4,293.9

Assets and liabilities

At June 30, 2008, our assets mainly consisted of our indirect investment in, and distributions and other amounts receivable from, Bell Aliant Holdings LP. We generally consolidate our excess cash with that of Bell Aliant LP and invest it together in marketable, short-term money market instruments and as such, the balance receivable from or

payable to Bell Aliant LP will fluctuate over time depending on these cash balances. At June 30, 2008, we had \$2.3 million in promissory notes receivable from Bell Aliant LP. These notes are receivable, together with interest calculated thereon at 3.25 per cent per annum, and are included in cash and cash equivalents.

Our liabilities consist mainly of distributions payable to our unitholders, which were \$30.7 million as at June 30, 2008, and \$29.8 million as at December 31, 2007.

Fund units

We commenced an NCIB on February 28, 2007, which enabled us to purchase, from time to time, up to 13,738,000 of our outstanding units, representing approximately 10.0 per cent of our public float outstanding on February 26, 2007. The NCIB expired on February 27, 2008. Purchases under the NCIB were made with cash, at market prices, through the facilities of the TSX. No purchases were made under the NCIB during 2008. During the six months ended June 30, 2007, we purchased 6,776,400 units for an aggregate price of \$208.5 million.

As at June 30, 2008, there were 126,952,243 Fund units outstanding, 100,373,827 exchangeable limited partnership units and 1,228,013 units notionally issued under our deferred unit plan. Only 480,991 units are considered dilutive, as the remainder are subject to certain performance criteria being met. Therefore, there were 227,807,061 Fund units outstanding on a fully-diluted basis as at June 30, 2008. As at July 30, 2008, there were 126,976, 823 Fund units outstanding.

Related Party Transactions

As previously discussed in the "About our business" section, we indirectly own an 82.5 per cent (December 31, 2007 – 81.5 per cent) equity interest in Bell Aliant Holdings LP. As well, BCE and Bell Canada own, directly and indirectly, 44.2 per cent (December 31, 2007 – 44.2 per cent) of Fund units on a fully-diluted basis. There was no change to the Securityholders' Agreement with BCE during the second quarter of 2008.

Throughout the second quarter of 2008, we continued to loan our excess cash to Bell Aliant LP, through a series of promissory notes. Payments are requested as required for operating purposes. Refer to note 8 to our unaudited interim consolidated financial statements for the period ended June 30, 2008, for further information.

Significant Accounting Policies and Critical Accounting Estimates

Our accounting policies and methods and critical accounting estimates and assumptions are consistent with those described in note 1 to our audited consolidated financial statements for the year ended December 31, 2007, with the exception of the adoption on January 1, 2008, of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535, Capital Disclosures.

Commencing January 1, 2008, we adopted Section 1535, Capital Disclosures, which establishes standards for disclosing qualitative and quantitative information about an entity's capital and how it is managed.

The Accounting Standards Board of the CICA continually amends and improves 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.

Effective January 1, 2011, International Financial Reporting Standards (IFRS) will replace Canadian GAAP. The Accounting Standards Board has released an exposure draft that outlines the standards. We have developed a four phase approach to transitioning to IFRS as follows:

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

The first two phases involve the development of an initial project plan and structure, training and educating, and performing impact assessments on the various aspects of our operations and financial reporting. In the third phase, we will begin to make accounting policy decisions based on the assessments and design any related implementation plans. The final phase is the actual implementation of the conversion. Our preliminary timeline is to complete the first two phases in 2008 and the final two phases by December 31, 2009, with minor changes in 2010.

At June 30, 2008, the majority of the first phase was completed and we are currently in the second phase, assessing the effect that this transition will have on our operations and financial reporting.

Risk Management

For a discussion of risks related to the Fund, refer to the “Risk management” section of our December 31, 2007, MD&A and the “Risk Factors” section of our 2007 Annual Information Form. For a discussion of risks related to the business of Bell Aliant Holdings LP, refer to the “Risk management” section of Bell Aliant Holdings LP’s MD&A for the year ended December 31, 2007, and the “Risk Factors” section of Bell Aliant Holding LP’s 2007 Annual Information Form, as updated by Bell Aliant Holding LP’s MD&As for the first and second quarters of 2008.

Internal Controls Over Financial Reporting

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

There have been no changes in our internal controls over financial reporting during the six months ended June 30, 2008, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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

	Notes	As at June 30, 2008	As at December 31, 2007
Assets			
Current assets			
Cash and cash equivalents	8	\$ 2.6	\$ 2.1
Distributions receivable		31.2	28.5
Due from related parties		8.6	3.0
		42.4	33.6
Investments	2	4,217.0	4,290.5
Total assets		\$ 4,259.4	\$ 4,324.1
Liabilities and unitholders' equity			
Current liabilities			
Payables and accruals		\$ 0.3	\$ 0.4
Distributions payable	6	30.7	29.8
		31.0	30.2
Unitholders' equity		4,228.4	4,293.9
Total liabilities and unitholders' equity		\$ 4,259.4	\$ 4,324.1

See accompanying notes to the consolidated financial statements

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND

Consolidated statements of earnings

(Unaudited)

For the period ended June 30

<i>(millions of dollars, except earnings per unit)</i>	Notes	Three months		Six months	
		2008	2007	2008	2007
Equity income from investments	2	\$ 69.4	\$ 46.8	\$ 113.5	\$ 121.6
Other revenues		-	1.9	-	1.9
		69.4	48.7	113.5	123.5
Operating expenses		0.9	2.3	2.0	3.2
		68.5	46.4	111.5	120.3
Interest charges		-	0.9	-	2.0
Net earnings from continuing operations		68.5	45.5	111.5	118.3
Net earnings from discontinued operations	2	(0.7)	212.2	(0.7)	216.6
Net earnings		\$ 67.8	\$ 257.7	\$ 110.8	\$ 334.9
Earnings per unit					
	5				
Basic from continuing operations		\$ 0.54	\$ 0.34	\$ 0.88	\$ 0.89
Basic from discontinued operations		(0.01)	1.59	(0.01)	1.63
Basic		\$ 0.53	\$ 1.93	\$ 0.87	\$ 2.52
Diluted from continuing operations		\$ 0.54	\$ 0.25	\$ 0.88	\$ 0.82
Diluted from discontinued operations		(0.01)	1.11	(0.01)	1.14
Diluted		\$ 0.53	\$ 1.36	\$ 0.87	\$ 1.96

Consolidated statements of comprehensive earnings

(Unaudited)

For the period ended June 30

<i>(millions of dollars)</i>	Note	Three months		Six months	
		2008	2007	2008	2007
Net earnings		\$ 67.8	\$ 257.7	\$ 110.8	\$ 334.9
Other comprehensive earnings (losses)	2	2.1	5.0	0.4	7.9
Comprehensive earnings		\$ 69.9	\$ 262.7	\$ 111.2	\$ 342.8

See accompanying notes to the consolidated financial statements

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND

Consolidated statements of unitholders' equity

(Unaudited)

For the period ended June 30, 2008

<i>(millions of dollars)</i>	Notes	Stated capital	Contributed surplus	Accumulated earnings	Distributions declared	Accumulated other comprehensive earnings (loss)	Unitholders' equity
Balance December 31, 2007		\$ 4,184.0	\$ 31.8	\$ 640.4	\$ (531.9)	\$ (30.4)	\$ 4,293.9
Net earnings for the period		-	-	110.8	-	-	110.8
Distributions declared	6	-	-	-	(183.3)	-	(183.3)
Redemption of units	3	(0.1)	-	-	-	-	(0.1)
Deferred unit plan	3, 7	0.1	6.6	-	-	-	6.7
Other comprehensive earnings of equity investee		-	-	-	-	0.4	0.4
Balance June 30, 2008		\$ 4,184.0	\$ 38.4	\$ 751.2	\$ (715.2)	\$ (30.0)	\$ 4,228.4

For the period ended June 30, 2007

<i>(millions of dollars)</i>	Notes	Stated capital	Contributed surplus	Accumulated earnings	Distributions declared	Accumulated other comprehensive earnings (loss)	Unitholders' equity
Balance December 31, 2006		\$ 4,140.7	\$ -	\$ 128.0	\$ (163.0)	\$ -	\$ 4,105.7
Net earnings for the period		-	-	334.9	-	-	334.9
Distributions declared	6	-	-	-	(188.9)	-	(188.9)
Issuance of units	3	394.0	-	-	-	-	394.0
Redemption of units	3	(0.2)	-	-	-	-	(0.2)
Units purchased for cancellation	3	(223.4)	14.9	-	-	-	(208.5)
Deferred unit plan		-	6.3	-	-	-	6.3
Reclassification adjustment of equity investee		-	-	0.6	-	(32.8)	(32.2)
Other comprehensive earnings of equity investee		-	-	-	-	7.9	7.9
Balance June 30, 2007		\$ 4,311.1	\$ 21.2	\$ 463.5	\$ (351.9)	\$ (24.9)	\$ 4,419.0

See accompanying notes to the consolidated financial statements

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND

Consolidated statements of cash flows

(Unaudited)

For the period ended June 30

<i>(millions of dollars)</i>	Notes	Three months		Six months	
		2008	2007	2008	2007
Cash from (used in) operating activities					
Net earnings from continuing operations		\$ 68.5	\$ 45.5	\$ 111.5	\$ 118.3
Adjustments to reconcile net earnings to cash from operating activities					
Income from equity investments	2	(69.4)	(46.8)	(113.5)	(121.6)
Change in operating assets and liabilities		0.7	(1.1)	1.6	0.4
		(0.2)	(2.4)	(0.4)	(2.9)
Cash from (used in) financing activities					
Repayment of loan to related party		-	(200.9)	-	(200.9)
Proceeds of loans received from related party		-	-	-	69.9
Repurchase of units	3	-	(137.6)	-	(208.5)
Redemption of units	3	(0.1)	(0.1)	(0.1)	(0.2)
Purchase of units for distribution reinvestment plan	3	(3.4)	(3.3)	(6.7)	(6.5)
Cash distributions paid to unitholders		(88.7)	(91.2)	(175.7)	(180.0)
		(92.2)	(433.1)	(182.5)	(526.2)
Cash from (used in) investing activities					
Cash distributions received from equity investments	2	93.8	102.3	183.4	195.4
Return of capital		-	460.9	-	460.9
		93.8	563.2	183.4	656.3
Net increase in cash from continuing operations		1.4	127.7	0.5	127.2
Cash and cash equivalents, beginning of period		1.2	0.2	2.1	0.7
Cash and cash equivalents, end of period		\$ 2.6	\$ 127.9	\$ 2.6	\$ 127.9
Supplementary disclosure					
Interest paid		\$ -	\$ 0.9	\$ -	\$ 2.0

See accompanying notes to the consolidated financial statements

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND
Notes to the consolidated financial statements
(Unaudited)
June 30, 2008

Bell Aliant Regional Communications Income Fund is an unincorporated, open-ended, limited purpose trust governed by the laws of Ontario pursuant to a Declaration of Trust dated March 30, 2006, as amended and restated on July 6, 2006. All references to “we”, “us”, “our” or the “Fund” refer to Bell Aliant Regional Communications Income Fund.

Through Bell Aliant Holdings Trust and Bell Nordiq Trust, we have an 82.46 per cent equity interest in Bell Aliant Regional Communications Inc. and Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP), which consolidates the operating subsidiaries of the Fund. These financial statements should be read in conjunction with the audited consolidated financial statements as at December 31, 2007, of Bell Aliant Holdings LP and the interim consolidated financial statements as at June 30, 2008, of Bell Aliant Holdings LP.

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

We have prepared these unaudited interim consolidated financial statements in accordance with Canadian generally accepted accounting principles (Canadian GAAP) using the same basis of presentation and accounting policies as our audited consolidated financial statements for the year ended December 31, 2007, with the exception of the adoption of new accounting policies discussed below. These unaudited interim consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2007.

Capital disclosures

Commencing January 1, 2008, we adopted Section 1535, Capital Disclosures, which was issued by the Canadian Institute of Chartered Accountants (CICA) and establishes standards for disclosing qualitative and quantitative information about an entity's capital and how it is managed. Refer to note 4 for our capital management discussion.

Income taxes

Beginning in 2011, we will be subject to tax as if we were a corporation. Income taxes are accounted for using the asset and liability method of tax allocation. Under this method, our proportionate share of equity income from investments will be reduced (increased) for future tax expense (recovery) to reflect the expected future tax consequences of our proportionate share of the temporary differences between the carrying amounts of assets or liabilities reported on the balance sheets of our subsidiaries and their corresponding tax values, as well as the benefit of our subsidiaries' losses that will more likely than not be realized and carried forward to future years to reduce income taxes. Future income taxes are computed using substantially enacted rates applicable to the years in which the differences are expected to reverse. For the Fund, only temporary differences expected to reverse after January 1, 2011, are taken into account in the determination of the future tax expense (recovery).

Future changes in accounting policies

The Accounting Standards Board of the CICA continually amends and improves 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.

Effective January 1, 2011, International Financial Reporting Standards will replace Canadian GAAP. The Accounting Standards Board has released an exposure draft that outlines the standards. We are currently assessing the effect that this transition will have on our operations and financial reporting.

Economic dependence

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

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND
Notes to the consolidated financial statements
(Unaudited)
June 30, 2008

2. INVESTMENTS

<i>(millions of dollars)</i>	As at June 30, 2008		As at December 31, 2007	
Bell Aliant Holdings LP	\$	4,217.0	\$	3,763.0
Télébec and NorthernTel		-		527.5
	\$	4,217.0	\$	4,290.5

On January 1, 2008, we transferred our 36.7 per cent ownership interest in Télébec, Limited Partnership (Télébec) and NorthernTel, Limited Partnership (NorthernTel) to Bell Aliant Holdings LP in return for 8,246,429 class 2 limited partnership units of Bell Aliant Holdings LP. Since there is no substantive change in ownership of our 36.7 per cent ownership interest in Télébec and NorthernTel, the transfer was accounted for at its carrying value of \$527.5 million less a \$14.0 million notional depreciation and amortization adjustment related to the finalization of the notional purchase price allocation and other minor charges. In addition, an adjustment to record a future tax recovery relating to our 36.7 per cent proportionate share of temporary differences that are expected to reverse after January 1, 2011, of Télébec and NorthernTel increased the investment account by \$8.8 million. These adjustments were recognized in the equity income from our investment in Bell Aliant Holdings LP for the period ended June 30, 2008.

Equity income and other comprehensive earnings (loss) from our investments, and distributions declared and received from our equity investments were as follows:

<i>(millions of dollars)</i>	2008			2007		
	Bell Aliant Holdings LP	Télébec and NorthernTel	Total	Bell Aliant Holdings LP	Télébec and NorthernTel	Total
Equity income - continuing operations	\$ 113.5	\$ -	\$ 113.5	\$ 104.3	\$ 17.3	\$ 121.6
Equity income - discontinued operations	(0.7)	-	(0.7)	216.6	-	216.6
Other comprehensive earnings (loss)	0.4	-	0.4	7.9	-	7.9
Distributions declared	186.1	-	186.1	181.1	19.1	200.2
Distributions received	183.4	-	183.4	179.5	15.9	195.4

3. UNITHOLDERS' CAPITAL

Issued and outstanding

<i>(millions of dollars, except as otherwise noted)</i>	As at June 30, 2008		As at December 31, 2007	
	Number of units	Stated capital	Number of units	Stated capital
Units	126,952,243	\$ 4,184.0	126,949,663	\$ 4,184.0
Special voting units	100,373,827	-	100,373,827	-
		\$ 4,184.0		\$ 4,184.0

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND
Notes to the consolidated financial statements
(Unaudited)
June 30, 2008

3. UNITHOLDERS' CAPITAL (Continued)

Issued and outstanding (continued)

The following tables provide the details of the change in our issued and outstanding units.

For the six month period ended June 30	2008		2007	
<i>(millions of dollars, except as otherwise noted)</i>	Number of units	Stated capital	Number of units	Stated capital
Units, beginning of period	126,949,663	\$ 4,184.0	124,115,890	\$ 4,140.7
Issuance of units in exchange for assets and liabilities of Bell Nordiq Income Fund	-	-	13,467,791	394.0
Deferred unit plan units exercised (note 7)	4,397	0.1	-	-
Redemption of units	(1,796)	(0.1)	(6,066)	(0.2)
Fractional unit adjustment	(21)	-	(141)	-
Units purchased for cancellation	-	-	(6,776,400)	(223.4)
Units, end of period	126,952,243	\$ 4,184.0	130,801,074	\$ 4,311.1

We commenced a normal course issuer bid (NCIB) on February 28, 2007, which enabled us to purchase, from time to time, up to 13,738,000 of our outstanding units, representing approximately 10.0 per cent of our public float outstanding on February 26, 2007. The NCIB expired on February 27, 2008, with us having purchased a total of 10,630,000 units. Purchases under the NCIB were made with cash, at market prices, through the facilities of the Toronto Stock Exchange. No purchases have been made under the NCIB in 2008. During the six months ended June 30, 2007, we purchased 6,776,400 units for an aggregate price of \$208.5 million, which reduced our stated capital by \$223.4 million and increased contributed surplus by \$14.9 million.

Distribution reinvestment and optional unit purchase plan

For the three and six months ended June 30, 2008, we bought 125,662 units and 263,197 units, respectively (June 30, 2007 – 122,509 units and 253,549 units, respectively) on the open market for unitholders in lieu of paying \$3.4 million and \$6.7 million in cash distributions, respectively (June 30, 2007 - \$3.3 million and \$6.5 million, respectively) and in respect of optional cash payments received we bought additional units for \$0.4 million and \$1.0 million, respectively (June 30, 2007 – \$0.5 million and \$1.1 million, respectively).

4. CAPITAL MANAGEMENT

We do not carry on any active business operations as our activities are generally restricted to holding securities of our equity investees. We hold indirect equity investments in our operating subsidiaries and we do not incur debt to finance these investments. Therefore, our capital structure is composed solely of our unitholders' equity.

We also have a small amount of current assets financed by our current liabilities as our objective is to manage the timing of the receipt of cash distributions from our equity investees and the payment of our operating expenses and distributions to our unitholders. In order to make additional investments or to manage our capital and the income mix of distributions made to our unitholders, from time to time we consider and may adjust our distribution policy, issue or repurchase units or return capital to our unitholders.

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND
Notes to the consolidated financial statements
(Unaudited)
June 30, 2008

5. EARNINGS PER UNIT

For the period ended June 30 <i>(millions of dollars, except as otherwise noted)</i>	Three months		Six months	
	2008	2007	2008	2007
Basic:				
Net earnings from continuing operations	\$ 68.5	\$ 45.5	\$ 111.5	\$ 118.3
Net earnings from discontinued operations	(0.7)	212.2	(0.7)	216.6
Net earnings	\$ 67.8	\$ 257.7	\$ 110.8	\$ 334.9
Weighted average number of units outstanding	126,952,226	133,199,607	126,951,819	132,961,258
Basic earnings per unit from continuing operations	\$ 0.54	\$ 0.34	\$ 0.88	\$ 0.89
Basic earnings per unit from discontinued operations	(0.01)	1.59	(0.01)	1.63
Basic earnings per unit	\$ 0.53	\$ 1.93	\$ 0.87	\$ 2.52
Diluted:				
Net earnings from continuing operations	\$ 68.5	\$ 45.5	\$ 111.5	\$ 118.3
Add non-controlling interest of holders of exchangeable units:				
Bell Aliant Holdings LP	15.3	8.3	26.6	23.7
Bell Aliant LP	41.8	5.3	78.2	49.9
	125.6	59.1	216.3	191.9
Net earnings from discontinued operations	(0.7)	212.2	(0.7)	216.6
Add non-controlling interest of holders of exchangeable units:				
Bell Aliant Holdings LP	(0.1)	48.2	0.1	49.2
	(0.8)	260.4	(0.6)	265.8
Diluted net earnings	\$ 124.8	\$ 319.5	\$ 215.7	\$ 457.6
Weighted average number of units outstanding	126,952,226	133,199,607	126,951,819	132,961,258
Add exchangeable limited partnership units:				
Class 1 exchangeable limited partnership units of Bell Aliant Holdings LP	28,168,803	28,168,803	28,168,803	28,168,803
Class B exchangeable limited partnership units of Bell Aliant LP	72,205,024	72,205,024	72,205,024	72,205,024
Deferred units under unit-based compensation plan	480,991	322,831	480,991	322,831
	227,807,044	233,896,265	227,806,637	233,657,916
Diluted earnings per unit from continuing operations	\$ 0.55	\$ 0.25	\$ 0.95	\$ 0.82
Diluted earnings per unit from discontinued operations	-	1.11	-	1.14
Diluted earnings per unit	\$ 0.55	\$ 1.36	\$ 0.95	\$ 1.96

The exchangeable limited partnership units are intended to be, to the greatest extent practicable, the economic equivalent of our units and in 2008 are anti dilutive in the above calculations of earnings per unit. If holders of the exchangeable limited partnership units were to trigger an exchange for our units, the distributions currently being paid to the holders by Bell Aliant Holdings LP and Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP) would be paid directly to us. The deferred units under unit-based compensation plans, as discussed in note 7, relating to the 2006 grant and a portion of the 2007 grant are dilutive.

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND
Notes to the consolidated financial statements
(Unaudited)
June 30, 2008

6. DISTRIBUTIONS DECLARED TO UNITHOLDERS

<i>(millions of dollars, except per unit amounts)</i>	2008		2007	
	Monthly distributions	Distributions per unit	Monthly distributions	Distributions per unit
Record date:			Record date:	
January 31	\$ 29.8	\$ 0.2350	January 31	\$ 31.4 \$ 0.2283
February 29	30.7	0.2417	February 28	32.3 0.2350
March 31	30.7	0.2417	March 30	32.3 0.2350
April 30	30.7	0.2417	April 30	31.3 0.2350
May 30	30.7	0.2417	May 31	30.9 0.2350
June 30	30.7	0.2417	June 29	30.7 0.2350
	\$ 183.3	\$ 1.4435		\$ 188.9 \$ 1.4033

7. UNIT-BASED COMPENSATION PLANS

Employees' unit purchase plans

For the three and six months ended June 30, 2008, we bought 429,088 units and 919,037 units respectively (June 30, 2007 – 394,224 units and 961,040 units, respectively) at a total cost of \$12.8 million and \$27.0 million, respectively (June 30, 2007 - \$12.4 million and \$28.9 million, respectively), on the open market for employees of certain subsidiaries of Bell Aliant Holdings LP. Of these totals, \$2.3 million and \$4.6 million, respectively (June 30, 2007 - \$2.7 million and \$5.1 million) were recorded as compensation expense in certain subsidiaries of Bell Aliant Holdings LP, and the remainder was contributed by employees through payroll deduction, interest earned or distributions reinvested in employees' plan accounts.

Deferred unit plan (DUP)

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

For the six month period ended June 30	2008	2007
Deferred units outstanding, beginning of period	794,980	-
Granted:		
Service period fiscal 2006 to 2008	-	316,717
Service period March 2007 to March 2010	-	453,742
Service period fiscal 2008 to 2010	411,768	-
Reinvested distributions	42,247	17,377
	1,248,995	787,836
Forfeited	(16,585)	(6,512)
Exercised (note 3)	(4,397)	-
Deferred units outstanding, end of period	1,228,013	781,324
Deferred units vested, end of period	369,496	106,971

For the six months ended June 30, 2008, the weighted average grant-date fair value of the 454,015 units (June 30, 2007 – 787,836) granted was \$13.6 million, or \$30.05 per deferred unit (June 30, 2007 - \$23.0 million, or \$29.24 per deferred unit).

As the deferred units will be settled with our units when exercised, for the three and six months ended June 30, 2008, we have recorded in contributed surplus the equivalent of the compensation expense that was recorded in certain subsidiaries of Bell Aliant Holdings LP of \$2.9 million and \$6.6 million, respectively (June 30, 2007 - \$1.9 million and \$6.3 million, respectively). We issued 4,397 units (June 30, 2007 - NIL) out of treasury at an average market value of

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND
Notes to the consolidated financial statements
(Unaudited)
June 30, 2008

7. UNIT-BASED COMPENSATION PLANS (Continued)

Deferred unit plan (DUP) (continued)

\$29.13 per unit (June 30, 2007 - NIL) related to the deferred units exercised in the period. When exercised an amount of \$0.1 million (June 30, 2007 - NIL) was reclassified from contributed surplus to stated capital.

8. RELATED PARTY TRANSACTIONS

On January 1, 2008, we transferred our 36.7 per cent ownership interest in NorthernTel and Télébec to Bell Aliant Holdings LP in return for 8,246,429 class 2 limited partnership units of Bell Aliant Holdings LP. The transfer was accounted for at its carrying value. For further details refer to note 2.

Throughout the first six months of 2008, we continued to loan our excess cash to Bell Aliant LP through a series of promissory notes. Payments are requested as required for operating purposes. The \$1.9 million promissory note that was receivable from Bell Aliant LP at December 31, 2007, was repaid on January 15, 2008. Subsequently issued promissory notes carried rates of interest from 3.21 per cent to 4.68 per cent per annum, resulting in an immaterial amount of interest revenue being earned. At June 30, 2008, a \$2.3 million promissory note was receivable from Bell Aliant LP, which bears interest at 3.25 per cent per annum. This balance is included in cash and cash equivalents.

Bell Aliant Regional Communications Holdings, Limited Partnership

Management's Discussion and Analysis

Second Quarter 2008

This document provides management's discussion and analysis (MD&A) of our financial condition as at, and results of operations for, the three and six months ended June 30, 2008, compared to the corresponding periods in 2007. This MD&A should be read together with our unaudited interim consolidated financial statements and accompanying notes for the period ended June 30, 2008, and our audited consolidated financial statements and accompanying notes as at and for the year ended December 31, 2007, and related MD&A. Our consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All amounts in this document are in millions of Canadian dollars, except where otherwise noted.

This MD&A is dated August 5, 2008, and is current to that date unless otherwise stated.

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. The term "Aliant" refers to our predecessor, Aliant Inc., and its subsidiaries.

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

Forward-looking information

This MD&A contains forward-looking information related to our future financial condition and results of operations. The purpose of forward-looking information is to provide the reader with information about management's expectations and plans for fiscal 2008 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 management's beliefs and assumptions regarding these markets. Unless otherwise indicated, forward-looking information in this MD&A describes our expectations at August 5, 2008. In some cases, forward-looking information may be identified by words such as "anticipate", "believe", "could", "expect", "plan", "seek", "may", "intend", "will" and similar expressions. This information is subject to important risks and uncertainties, which are difficult to predict, and assumptions which may prove to be inaccurate. Some of the factors which could cause results or events to differ materially from current expectations include but are not limited to: our ability to achieve strategies and plans; general economic conditions; the changing competitive environment; changing regulatory conditions or requirements; reliance on IT systems; changing technology; and changing laws and regulations. Some of these factors are largely beyond our control. In addition, a number of assumptions were made in providing forward-looking information in this MD&A, such as certain Canadian economic assumptions, market assumptions, operational and financial assumptions, and assumptions about transactions. Refer to the "Assumptions made in the preparation of forward-looking information and risks that could affect our business and results" section of this MD&A for further discussion of these and other assumptions and risk factors. Should any factor affect us in an unexpected manner, or should assumptions underlying the forward-looking information prove incorrect, the actual results or events may differ materially from the results or events predicted. Unless otherwise indicated, forward-looking information does not take into account the effect that transactions or non-recurring or other special items announced or occurring after this information is provided may have on our business. All of the forward-looking information reflected in this document and the documents referred to within are qualified by these cautionary statements. There can be no assurance that the results or developments anticipated will be realized or, even if substantially realized, that they will have the expected consequences for us. Except as may be required by Canadian securities laws, we disclaim any intention and assume no obligation to update or revise any forward-looking information, even if new information becomes available, as a result of future events or for any other reason. Readers should not place undue reliance on any forward-looking information.

See also our Notice concerning forward-looking information dated February 5, 2008, which is available at www.bell.aliant.ca as well as at www.sedar.com.

Our business

We are one of the largest regionally focused telecommunications service providers in North America, with operations primarily in Atlantic Canada, Québec and Ontario. We have been serving customers for over a century and provide a wide range of innovative and traditional voice and data communications services and an array of information technology (IT) consulting, infrastructure management, product fulfillment and advanced technology solutions.

Our principal operations are carried out through Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Télébec, Limited Partnership (Télébec) and NorthernTel, Limited Partnership (NorthernTel). We consolidate the financial results of 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 assessing performance and making resource allocation decisions.

Our business environment

Competitive landscape

Throughout the second quarter of 2008, cable competitors continued to expand their local service areas in our territory and launched aggressive promotional campaigns, which included bundled services. Cable competitors offered telephony services to approximately 54 per cent of households in our territory at the end of June 2008, up from approximately 51 per cent at the end of March 2008. We expect continued gradual growth in the competitive footprint. As a result of this expanded competition, our local network access service customer base has been declining as discussed further in the “Results of operations” section.

In order to combat competitive pressures, we continue to enhance our products and services, promote our bundled service packages and innovate with customers to provide complete solutions. We continue to invest in our communities and support activities that are important to our customers and employees. Refer to our achievements as discussed in the “Focus and Strategy for 2008” section for further detail.

Telecommunications regulatory developments

Our business is affected by decisions made by the Canadian Radio-television and Telecommunications Commission (CRTC) and the Federal Government. Refer to our MD&A for the year ended December 31, 2007, and for the quarter ended March 31, 2008, for a complete discussion of regulatory developments which occurred in 2007 and up to and including May 6, 2008. Regulatory developments in the second quarter of 2008 and up to and including August 5, 2008, which are significant to our business, include the following:

Forbearance

Since July 2007, the CRTC has granted forbearance from regulation of local telephone service in numerous communities throughout all six provinces where we operate, giving our business much more flexibility. At the end of June 2008, forbearance has been granted in 150 exchanges for residential service and 37 exchanges for business service.

Rates

During 2007, certain parties filed a petition to the federal Cabinet asking that Telecom Decision 2007-27, the new pricing framework for regulated telecommunications services, be referred back to the CRTC for reconsideration of the portion of the decision permitting payphone rates to rise. A separate petition was filed with the federal Cabinet requesting the Governor in Council rescind Decision 2007-27 because it established different pricing rules for basic residential local service in high-cost serving areas relative to non-high cost serving areas. On April 17, 2008, the Governor in Council dismissed both petitions, agreeing with our response that Decision 2007-27 is consistent with Canada’s Telecommunications policy objectives and the federal Cabinet’s 2006 Policy Direction.

Wholesale Services Review

On June 20, 2008, the Federal Court of Appeal dismissed the April 1, 2008, applications by Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Bell Canada, Saskatchewan Telecommunications and Télébec for leave to appeal Telecom Decision 2008-17, which prescribed the new regulatory framework for wholesale services.

In a series of applications filed May 15, 2008, Bell Aliant LP, along with Bell Canada, Saskatchewan Telecommunications and Télébec, requested that the CRTC review and vary certain portions of Decision 2008-17. The applicants requested a number of modifications to the decision to allow greater flexibility and reflect market realities for wholesale Asynchronous Digital Subscriber Line (ADSL) access and other wholesale services. The applicants also filed a proposed forbearance framework for all new non-essential wholesale services, except those non-essential services that the CRTC determines are public good or interconnection services. In addition, in two separate applications, competitors have requested contrary modifications to certain portions of Decision 2008-17 so as to reclassify and reprice all wholesale DSL and Ethernet services as essential services, and that the CRTC require incumbent telephone companies to provide wholesale DSL services at speeds equivalent to all of their retail Internet offerings or determine the conditions under which these services should be made available to competitors. We continue to evaluate the decision and are unable to estimate the impact of Telecom Decision 2008-17 on our business at this time.

Commissioner for Complaints for Telecommunications Services (CCTS)

On May 30, 2008, the CRTC reviewed and varied certain aspects of an earlier decision, which had approved the governance and structure of the CCTS. The CRTC maintained a mandatory membership requirement for all service providers whose annual revenues exceed \$10 million, but only for a period of three years, at which time the mandatory requirement will be reviewed. The CRTC also clarified the circumstances under which the agency can provide remedies related to consumer complaints and certain aspects related to monetary compensation awards.

Other Developments

The CRTC has initiated three further proceedings to examine its regulatory measures for compliance with the federal Cabinet's Policy Direction:

- Telecom Public Notice 2008-4, which will review the regulatory requirements associated with the retail quality of service regime in non-forborne markets;
- Telecom Public Notice 2008-5, which will review the continued appropriateness of imputation tests for retail services and existing wholesale services costing methodologies; and
- Telecom Public Notice 2008-7, which will review regulatory requirements regarding the provision of information to customers including mandatory disclosures in directories, bill inserts and marketing materials.

On June 10, 2008, the CRTC initiated a proceeding to address issues related to the accessibility of telecommunications and broadcasting services to persons with disabilities.

On May 15, 2008, the CRTC issued a broadcasting public notice where it is seeking comments on the scope of a future proceeding on Canadian broadcasting in new media to determine if the new media broadcasting environment is contributing sufficiently to the achievement of Canadian broadcasting policy objectives and whether new media broadcasting should continue to be exempt from broadcasting regulation as was determined in a 1999 CRTC decision. The CRTC considers broadcasting in new media to be the distribution of audio or video content over new technologies such as the Internet or mobile devices. Coinciding with the Public Notice, the CRTC released a research paper, 'Perspectives on Canadian Broadcasting in New Media'. Among other issues, this research paper raises the issue of whether funding mechanisms for the creation and promotion of Canadian new media broadcasting content, including potential direct financial contribution from content aggregators, Internet service providers and portal operators, would be appropriate.

Although recent regulatory developments have given incumbent local exchange carriers (ILECs) more flexibility to compete, there is a risk that future CRTC decisions relating to regulated services may create additional obligations.

Privatization of BCE

As announced on June 30, 2007, our significant unitholder, BCE Inc. (BCE), entered into a definitive agreement to be acquired by an investment group led by Teachers Private Capital, the private investment arm of the Ontario Teachers Pension Plan, Providence Equity Partners Inc., Madison Dearborn Partners, LLC, and Merrill Lynch Global Private Equity. We are not a party to the transaction and cannot predict the effect that a change of ownership of BCE may have on our organization.

Changes to Board of Directors

In the Fund's press release dated July 11, 2008, it was announced that George Cope, Siim Vanaselja and David Wells will replace Michael Sabia, Lawson Hunter and Patrick Pichette on the boards of directors of our general partner and main operating subsidiaries, and that Mr. Cope was elected chair of these boards.

Planning for future changes in taxation

As a result of the Federal Government's October 31, 2006 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 were a corporation, at a blended federal/provincial tax rate we anticipate being in the range of 25.0 to 30.0 per cent of taxable income. While it is too early to determine the effect that these changes will have on our cash flow in years after 2010, we are continuing to investigate strategies and options that could mitigate the effect that cash taxes will have on the distributions that we pay and are ultimately able to be paid to Fund unitholders. These options may include, among other things: planning to preserve or augment our tax loss carryforward amounts and other tax deduction or credit pools for utilization after 2010 to reduce taxable income or cash taxes otherwise payable; strengthening our financial position, including reducing the size of our pension plan deficits, to allow greater flexibility in our and the Fund's future distribution policy; investing in productivity initiatives to lower our overall expenses and contribute positively to our future cash flow growth; and utilizing excess cash in the period prior to 2011 to repurchase Fund units to reduce total future cash distribution requirements. It is uncertain whether these initiatives, if pursued, will allow us to avoid reducing our per-unit cash distributions, and ultimately distributions made by the Fund.

On July 14, 2008, the Department of Finance (Finance) released proposed amendments to the Income Tax Act (Canada) (Tax Act) to facilitate the conversion of existing income trusts, such as the Fund, into corporations on a tax-deferred basis (Conversion Rules). These Conversion Rules, which will be available until January 2013, were expected and satisfy the commitment made by Finance when it announced the new tax rules on income trusts in October 2006 to provide existing income trusts with tax efficient structuring options to convert to corporate form.

The Conversion Rules, as proposed, would permit two basic tax-efficient conversion strategies. In general, income trusts may convert by either (i) having unitholders directly exchange their income trust units for shares of a Canadian corporation (Exchange Method), or (ii) redeeming the outstanding income trust units by distributing to unitholders the shares of an underlying Canadian corporation that directly or indirectly owns the business (Distribution Method). The Conversion Rules would permit further rationalization of the structure by allowing the dissolution of the income trust and certain subsidiary trusts on a tax-deferred basis. Under both methods, the conversion is effected on a tax deferred basis for both trusts and their unitholders without the need to file any tax elections.

The Conversion Rules are complex and technical, and the Federal Department of Finance has proposed a number of alternatives for completing a conversion. Accordingly, we will be carefully considering our particular circumstances in order to determine whether to propose a conversion transaction to our unitholders and, if so, how to structure a conversion into a corporation.

Key Management Changes

The following senior management changes were recently announced:

- Stephen Wetmore will be leaving his position as President and CEO effective December 31, 2008.
- Frank Fagan retired as Chief Operating Officer.
- Karen Sheriff, former President of Small and Medium Business with Bell Canada, was appointed to the role of Chief Operating Officer.

For further information regarding these changes, refer to our press releases during the quarter available on our website at www.bell.aliant.ca as well as at www.sedar.com.

Second quarter in review

Summary of results

For the period ended June 30 (millions of dollars)	Three months			Six months		
	2008	2007	% change	2008	2007	% change
Operating revenues	\$823.0	\$804.0	2.4	\$1,667.9	\$1,638.1	1.8
EBITDA ⁽¹⁾	\$361.7	\$356.3	1.5	\$715.1	\$704.3	1.5
Operating income ⁽¹⁾	\$162.1	\$54.1	199.6	\$316.1	\$224.2	41.0
Net earnings from continuing operations	\$85.2	\$43.7	95.0	\$159.5	\$125.9	26.7
Net earnings from discontinued operations	(\$0.8)	\$261.5	n.m.	(\$10.8)	\$267.8	n.m.
Net earnings	\$84.4	\$305.2	(72.3)	\$148.7	\$393.7	(62.2)

n.m. not meaningful

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

Operating revenues increased by 2.4 per cent during the second quarter of 2008, compared to the same period in 2007. Growth in data and Internet, wireless and IT services and fulfillment revenues more than offset declines in local and access, long distance and other revenues. EBITDA increased by \$5.4 million, or 1.5 per cent, as much of the growth in operating revenue carried lower margins that were not completely offset by expense productivity measures.

Operating income for the second quarter of 2008 improved by \$108.0 million compared to the second quarter of 2007, as 2007 included a one-time depreciation and amortization adjustment of \$93.5 million related to prior periods due to the finalization of the purchase price allocation on the acquisition of Bell Canada's wireline operation in Ontario and Québec and of Bell Nordiq Group Inc. (the acquisition is part of the transactions in 2006 referred to as the Plan of Arrangement or Arrangement), and an increasing age of our depreciable capital base in the second quarter of 2008 has resulted in lower depreciation and amortization compared to the second quarter of 2007. In addition, during the second quarter there was a \$3.5 million decrease in net cost of benefit plans due to an increase in the average rate used to discount our obligations effective December 31, 2007. When comparing the year-to-date results for the six

month period ended June 30, 2008, to June 30, 2007, operating income increased 41.0 per cent, reflecting the effect of the purchase price allocation previously discussed and an \$8.2 million decrease in net costs of benefit plans.

Net earnings from continuing operations increased by \$41.5 million during the second quarter of 2008, compared to the second quarter of 2007, as the improvement in operating income was offset slightly by a lower future tax recovery and higher non-controlling interest. Net earnings from discontinued operations decreased by \$262.3 million during the second quarter of 2008, compared to the second quarter of 2007, as the 2007 results include the \$260.5 million earnings and gain on sale of Aliant Directory Services (ADS) effective April 30, 2007. The second quarter 2008 results include a \$0.8 million net loss related to Atlantic Mobility Products (AMP), which is now reported as discontinued operations. The decrease in net earnings of \$245.0 million for the six month period ended June 30, 2008, compared to June 30, 2007, is mainly attributed to these discontinued operations.

Distributable cash

Since our operations ultimately support distributions to unitholders of the Fund, distributable cash combines our cash performance with that of the Fund.

For the period ended June 30 (millions of dollars)	Three months			Six months		
	2008	2007	% change	2008	2007	% change
Distributable cash ⁽¹⁾	\$183.3	\$162.2	13.0	\$390.1	\$354.3	10.1
Cash distributions declared ⁽²⁾	\$165.0	\$163.5	0.9	\$327.8	\$329.7	(0.6)

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

⁽²⁾ Distributions declared includes 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.

Distributable cash grew by \$21.1 million, or 13.0 per cent, in the second quarter of 2008, compared to the second quarter of 2007. The increase is primarily due to \$15.9 million lower capital expenditures in the second quarter of 2008 due to the timing of expenditures and a lower anticipated capital program for 2008 compared to 2007, and the \$5.4 million increase in EBITDA. Lower Fund expenses and interest costs in the second quarter of 2008, compared to the same period last year, also added to distributable cash. Partially offsetting these positive contributions was a reduction in distributable cash received from discontinued operations due to the disposal of ADS in April 2007.

The following table provides a summary reconciliation of cash from operating activities to distributable cash for the second quarters and year to date of 2008 and 2007. The table provides additional information on the relationship between cash from operating activities, net earnings and cash distributions declared for the periods. In addition, we present standardized distributable cash, as defined by the Canadian Institute of Chartered Accountants (CICA).

For the period ended June 30 (millions of dollars)	Three months			Six months		
	2008	2007	% change	2008	2007	% change
Cash from operating activities	\$346.1	\$331.0	4.6	\$580.7	\$581.3	(0.1)
Add (deduct): Cash from operating activities of the Fund and discontinued operations	1.3	2.7	(51.9)	2.8	12.6	(77.8)
Capital expenditures	(127.5)	(143.4)	(11.1)	(222.6)	(258.7)	(14.0)
Standardized distributable cash ⁽¹⁾	\$219.9	\$190.3	15.6	\$360.9	\$335.2	7.7
Add (deduct): Operating items funded through cash reserves or borrowing	(39.7)	(28.7)	38.3	25.6	8.9	187.6
Other adjustments	3.1	0.6	n.m.	3.6	10.2	(64.7)
Distributable cash ⁽¹⁾	\$183.3	\$162.2	13.0	\$390.1	\$354.3	10.1
Net earnings	\$84.4	\$305.2	(72.3)	\$148.7	\$393.7	(62.2)
Cash distributions declared ⁽²⁾	\$165.0	\$163.5	0.9	\$327.8	\$329.7	(0.6)
Excess of cash from operating activities over cash distributions declared ⁽³⁾	\$182.4	\$170.2	7.2	\$255.7	\$264.2	(3.2)
Excess (shortfall) of net earnings over cash distributions declared	(\$80.6)	\$141.7	n.m.	(\$179.1)	\$64.0	n.m.

n.m. not meaningful

⁽¹⁾ Refer to the "Non-GAAP financial measures" section for a definition and detailed reconciliation of cash from operating activities to standardized distributable cash and distributable cash.

⁽²⁾ Distributions declared includes 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 that generated by the Fund and discontinued operations.

Standardized distributable cash for the second quarter of 2008 increased by \$29.6 million, or 15.6 per cent, when compared to the same period in 2007. The increase is mainly due to the higher level of cash from operating

activities, driven by the increased net income from continuing operations and additional cash from working capital changes, combined with the decrease in capital expenditures.

Since working capital cash requirements fluctuate during the year, but should reflect our normal growth over a full year, we do not include these cash flows in our distributable cash calculations. Instead, these amounts are financed throughout the year with cash reserves or short-term borrowing. However, these fluctuations are included in the CICA's standardized distributable cash definition.

Both standardized distributable cash and our calculation of distributable cash include capital spending. Capital expenditures in the second quarter of 2008 were 15.5 per cent of operating revenues, in line with our annual target of 14.5 to 15.5 per cent. We are committed to maintaining and enhancing our network assets in order to support growing demand for high bandwidth Internet protocol (IP) services. Our legacy telephony and related business continues to be our foundation, and notwithstanding recent technological advances and improvements in the useful lives and productive capacity of our telecommunications assets, our maintenance capital expenditures have remained relatively stable over time. Capital expenditures in 2007 included extra spending on our accelerated investment in fibre-to-the-node (FTTN), which are still being made but at a more normal pace during 2008.

Cash distributions declared in the second quarter of 2008 are 90.0 per cent of distributable cash, compared to 100.8 per cent for the comparable period in 2007, which is reflective of our annual 90.0 per cent targeted payout ratio.

Focus and Strategy for 2008

Superior Customer Experience

Delivering a superior customer experience is the cornerstone of our strategy and we believe that a superior experience is created by providing exceptional customer service, providing value through leading products and services, and being known for strong community involvement. The support of our workforce and our commitment to internal process improvements should enable us to deliver on this strategic priority.

Customer service

During the six month ended June 30, 2008, various process improvements have enabled us to improve the percentage of troubles repaired in 48 hours by 5.3% and customer satisfaction with appointment date by 2.9% over the same period in the prior year.

Numerous system and network initiatives were completed to drive customer service improvements, including the introduction of a new customer service agent tool that provides a single view of a customer's products and services, enabling up-selling and cross-selling; the expansion of a new facilities management and assignment system to Nova Scotia and Prince Edward Island allowing us to recover and redeploy thousands of high speed Internet ports and positioning us to more effectively manage facilities for new technologies; and the expansion of network capacity and redundancy between Sault Ste. Marie and Sudbury.

We believe that the dedication and commitment our employees have to our customers is what makes us successful as an organization and defines who we are. During the second quarter of 2008, we were recognized by the Contact Centre World Organization as having the best outbound sales and service program in North America, and four employees were ranked as top performers in the international customer service industry.

Providing value through leading products and services

We are continuing to develop and introduce innovative products and services in bundles that offer value, convenience and ease of use for consumers, and a competitive advantage for businesses.

During the second quarter of 2008, we launched four new services in Atlantic Canada: Voicemail Online, which allows our customers to stay connected to their personal messages whenever they have access to email, and Personal Vault, a secure online product to store, manage, access and share pictures, music, videos and other files anytime and from anywhere. We also introduced Atlantic Deals, an online marketplace designed to help our businesses to promote themselves to thousands of Atlantic Canadian households, and launched the Aliant Learning Centre, an online library of over 2,000 titles on educational, lifestyle and business topics. We enhanced our Aliant TV service by improving stability, digital picture clarity and making the service available on up to three TVs in the subscriber's home. We continued to expand our high-speed Internet footprint in all regions as well as our FTTN build-out, and we now offer IPTV and other enhanced services to approximately 205,000 homes in Atlantic Canada.

In Ontario and Quebec, we launched several new services including Start Surfing Sooner, a program which streamlines Internet account set-up for new users, Kids Mania (kidsmania.com) – an online destination providing games, videos and comic books for children, and Bell Video Store (bellvideostore.ca), offering movie and TV shows for purchase or rental. We also extended our Webmail service, which provides Ontario NorthernTel branded regions and Quebec Cablevision customers access to their emails from any Internet connection.

Community involvement

We believe that the sustained success and growth of our business is directly linked to the well-being of the communities we serve. We continued our community investment program with a focus at the local level. During the second quarter, some highlights of our initiatives include our \$115,000 commitment to Keeping Families Connected in support of children's health in Atlantic Canada through the IWK and Janeway hospitals, our Bell and Aliant Walk for Kids Help Phone, where employees, Aliant Pioneer volunteers and retirees across all six provinces raised more than \$100,000, and our commitment to become the official communications sponsor for Young Adult Cancer Canada.

Operational efficiency

We are aggressively managing our cost structure to grow distributable cash and deliver value to our unitholders and ultimately, unitholders of the Fund. During the second quarter of 2008, we achieved additional productivity savings of \$28.4 million through process, system and technology enhancements, infrastructure replacement, and consolidation of operations. These productivity savings enabled us to grow EBITDA in the second quarter of 2008 compared to the corresponding period in 2007, despite a changing revenue mix.

Results of operations

For the period ended June 30 (millions of dollars)	Three months			Six months		
	2008	2007	% change	2008	2007	% change
Local and access	\$351.8	\$360.3	(2.4)	\$698.3	\$715.2	(2.4)
Long distance	112.8	118.5	(4.8)	225.5	233.7	(3.5)
Data & Internet	197.7	183.9	7.5	391.8	370.7	5.7
IT services and fulfillment	87.1	64.0	36.1	201.4	161.7	24.6
Wireless	19.5	15.5	25.8	37.4	30.1	24.3
Other revenues	54.1	61.8	(12.5)	113.5	126.7	(10.4)
Operating revenues	\$823.0	\$804.0	2.4	\$1,667.9	\$1,638.1	1.8
Operating expenses	461.3	447.7	3.0	952.8	933.8	2.0
EBITDA ⁽¹⁾	\$361.7	\$356.3	1.5	\$715.1	\$704.3	1.5
Net cost of benefit plans	24.8	28.3	(12.4)	49.6	57.8	(14.2)
Depreciation and amortization	174.8	273.0	(36.0)	349.3	420.9	(17.0)
Restructuring and other charges	-	0.9	(100.0)	0.1	1.4	(92.9)
Operating income ⁽¹⁾	\$162.1	\$54.1	199.6	\$316.1	\$224.2	41.0
Other expenses	0.6	0.4	50.0	2.5	2.6	(3.8)
Interest charges	39.7	41.7	(4.8)	79.3	81.0	(2.1)
Income tax expense (recovery)	(5.2)	(47.3)	(89.0)	(3.4)	(52.5)	(93.5)
Non-controlling interest	41.8	15.6	167.9	78.2	67.2	16.4
Net earnings from continuing operations	\$85.2	\$43.7	95.0	\$159.5	\$125.9	26.7
Net earnings from discontinued operations	(0.8)	261.5	n.m.	(10.8)	267.8	n.m.
Net earnings	\$84.4	\$305.2	(72.3)	\$148.7	\$393.7	(62.2)

n.m. not meaningful

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

Operating revenues

Local and access

Our local and access revenue is earned primarily through the provision of network access services (NAS), along with enhanced service features, contribution payments and competitor network access payments. Despite a 3.3 per cent drop in our total NAS customers at June 30, 2008, compared to June 30, 2007, programs to offset this decline have contained the local and access revenue decline to 2.4 per cent for the second quarter of 2008, compared to the same period in 2007.

At June 30, 2008, the number of residential NAS customers was 4.2 per cent lower than at June 30, 2007, and the number of business NAS customers was 1.2 per cent lower than at June 30, 2007. This decline reflects competitive

losses driven by an expansion in the competitive footprint and substitution of 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 4.8 per cent in the second quarter of 2008, compared to the second quarter of 2007. Long distance minutes declined by 3.8 per cent in the second quarter of 2008 compared to the second quarter of 2007 due to competitive losses, substitution by cellular calling and IP-based services. Customers have been shifting away from rate-per-minute plans in favour of unlimited or large usage packages for a set monthly price. Contributing to the lower long distance revenue for the second quarter of 2008 is a 21.5 per cent decline in long distance terminating payments from other carriers, caused by lower terminating minutes into our territory and lower rates per minute.

Data and Internet

Data revenue is earned through data access, data circuits, high-speed and dial-up Internet service, managed services, and enhanced services and applications, such as security services, music download service, dial-up accelerator and Aliant TV. Revenue from these services increased 7.5 per cent for the second quarter of 2008, compared to the same period in 2007 as declines in dial-up Internet and legacy data services were more than offset by growth in high-speed Internet, enhanced data solutions and television revenues. At June 30, 2008, our high-speed Internet customer base was 13.1 per cent higher than at June 30, 2007, with growth in both the residential and business markets. Marketing of higher value services to customers, selected price increases and minimizing promotional pricing in the period resulted in residential high-speed Internet average revenue per customer (ARPC) of \$35.71 during the second quarter of 2008, up from \$35.17 during the second quarter of 2007. This represents the third consecutive quarterly increase in residential high-speed Internet ARPC. Revenue from Aliant TV continued to improve when looking at the second quarter of 2008 compared to the same period in 2007, driven by increased penetration of our IPTV service in Atlantic Canada.

IT services and fulfillment revenue

IT services and fulfillment revenue is earned primarily by our xwave division through systems integration, software engineering, IT consulting, hardware and software fulfillment, as well as infrastructure services such as data centre, help desk, security and technical support services. IT services and fulfillment revenue grew 36.1 per cent in the second quarter of 2008, compared to the same period in 2007. IT services revenue grew 23.6 per cent, aided by a major healthcare IT project in Québec. Growth has also been realized in each of the healthcare, defence and aerospace industry verticals when comparing the second quarter of 2008 to the second quarter of 2007. IT fulfillment revenue increased by 45.6 per cent in the second quarter of 2008, driven by significant one-time sales with key customers.

Wireless

Wireless revenue is earned through the provision of cellular, paging and mobile radio services over the analog and digital wireless networks in certain of our territories in Ontario and Québec. Revenue increased by 25.8 per cent in the second quarter of 2008, compared to the second quarter of 2007, which was driven by a 24.6 per cent increase in wireless customers and a 2.9 per cent increase in the total ARPC.

Other revenues

Other revenues consist of knowledge management, terminal rentals and sales, PC sales, and revenue generated by our outsourcing arrangement with Bell Mobility. Other revenues declined by 12.5 per cent in the second quarter of 2008, compared to the same period in 2007. Included in this decline was a 36.0 per cent decrease in outsourcing revenue due to repatriation of work associated with Bell Mobility that was previously performed by us in 2007; a 12.7 per cent decrease in revenue from telephone equipment rentals and a 9.6 per cent decrease in sales of business equipment, reflective of normal fluctuations in this business.

Expenses

Operating expenses

For the period ended June 30 (millions of dollars)	Three months			Six months		
	2008	2007	% change	2008	2007	% change
Cost of sales	\$138.7	\$121.1	14.5	\$290.0	\$277.0	4.7
Salaries, benefits, contract labour and consulting	165.5	163.0	1.5	350.2	330.3	6.0
Selling, general and administrative	154.7	159.4	(2.9)	307.2	317.3	(3.2)
Capital taxes	2.4	4.2	(42.9)	5.4	9.3	(41.9)
Operating expenses	\$461.3	\$447.7	3.0	\$952.8	\$933.9	2.0

Operating expenses, excluding net benefit plan costs, increased 3.0 per cent in the second quarter of 2008, compared to the corresponding period in 2007. Our productivity initiatives continued throughout the quarter and resulted in declines in our selling, general and administrative costs. The reduction in capital taxes is a result of a reduction in statutory provincial capital tax rates, the shifting of our capital tax base to lower capital tax rate provinces and a reduction in our capital tax base compared to the same period in 2007.

Cost of sales and salaries, benefits, contract labour and consulting costs increased 14.5 per cent and 1.5 per cent, respectively, when comparing activity in the second quarter of 2008 to the second quarter of 2007. The significant increase in IT services and fulfillment revenue during the second quarter of 2008 generated a related increase in operating expenses, particularly IT services contract labour costs and costs of sales from fulfillment sales. On a year-to-date basis, the cost of sales increase over the prior year reflects the large one-time IT fulfillment sales in the second quarter of 2008, and salaries, benefits, contract labour and consulting expenses include annual wage increases and an increase in outsourcing activity in the first quarter of 2008.

Net cost of benefit plans

Net cost of benefit plans declined by 12.4 per cent in the second quarter of 2008, mainly due to lower defined benefit (DB) pension current service costs and lower amortization of actuarial losses, both of which resulted from an increase in the average rate used to discount our obligations in our DB pension and other post-employment benefit (OPEB) plans to 5.5 per cent from 5.3 per cent in the prior year.

Depreciation and amortization

Depreciation and amortization decreased \$98.2 million when comparing the second quarter of 2008 to the same period in 2007, which was driven mainly by a \$93.5 million one-time adjustment for the period from July 7, 2006 to March 31, 2007, recorded in the second quarter of 2007 as a result of the finalization of our purchase price allocation related to the acquisition of Bell Canada's wireline operation in Ontario and Québec and of Bell Nordiq Group Inc. As well, in the second quarter of 2008, the age of our depreciable capital base has increased, resulting in lower depreciation and amortization charges.

Interest charges

Interest charges of \$39.7 million for the second quarter of 2008 represents a decrease of approximately 4.8 per cent when compared to the corresponding period in 2007. Debt levels are virtually unchanged year over year, however, lower interest rates on the portion of our debt that remains subject to floating rates have resulted in these savings.

Income tax expense (recovery)

A portion of our income is earned through limited partnerships. The taxable income earned through limited partnerships is not subject to tax at the limited partnership level, but is allocated directly to the respective partners. The tax provision reported relates to our corporate subsidiaries that are subject to tax on their taxable income. Our income tax recovery for the second quarter of 2008 was \$5.2 million, a significant decrease from the income tax recovery of \$47.3 million for the same period in 2007. This decrease is mainly the result of a \$44.1 million higher future tax recovery recorded in 2007 as a result of the finalization of our purchase price allocation and to report the effect of tax rate changes, combined with higher capital investment-related deductions for tax purposes in the second quarter of 2008, compared to 2007.

Non-controlling interest

On January 1, 2008, the Fund's 36.7 per cent indirect interest in Télébec and NorthernTel was transferred to us in exchange for 8,246,429 class 2 limited partnership units. We now directly or indirectly own 100.0 per cent of Télébec and NorthernTel and thus the non-controlling interest recorded by us at December 31, 2007, related to this investment has been eliminated. For more information relating to the transfer of the Fund's indirect interest to us,

refer to note 2 of our unaudited interim consolidated financial statements for the period ended June 30, 2008. Non-controlling interest at June 30, 2008, represents Bell Canada's 36.1 per cent interest in Bell Aliant LP. The per-unit distributions attributable and paid to Bell Canada are equal, to the greatest extent practicable, to per-unit distributions paid by the Fund to holders of Fund units. The non-controlling interest related to Bell Canada's interest in Bell Aliant LP is based on Bell Canada's pro-rata share of cash distributions from Bell Aliant LP each quarter.

During the second quarter of 2008, we recorded non-controlling interest in our earnings of \$41.8 million compared to \$15.6 million for the corresponding period in 2007. This increase in non-controlling interest in our earnings is a result of higher operating income for the second quarter of 2008 compared to the same period in 2007 and the first quarter of 2008, offset by the elimination of the non-controlling interest related to Télébec and NorthernTel. Distributions declared by our subsidiaries to the non-controlling interest in the second quarter of 2008 and the corresponding period in 2007 were \$52.3 million and \$60.5 million, respectively. This decline in distributions is due to \$9.6 million paid to the Fund by Télébec and NorthernTel in the second quarter of 2007, or \$19.5 million on a year-to-date basis for 2007, prior to this interest being transferred to us and resulting in the elimination of that non-controlling interest previously reported.

Net earnings from discontinued operations

Net earnings from discontinued operations in the second quarter of 2008 reflect the results of AMP. AMP had an arrangement with Bell Canada to be the exclusive distributor of mobility products in Atlantic Canada, which Bell Canada has discontinued effective July 4, 2008. The loss of the exclusive arrangement will result in the elimination of our wholesale distribution of mobility hardware and accessories business. As a result, in the second quarter of 2008, we commenced reporting AMP as a discontinued operation. Refer to "Assumptions made in the preparation of forward-looking information" section for further discussion.

Net earnings from discontinued operations in the second quarter of 2007 reflect the results of AMP, Salesbridge Canada Corp. (Salesbridge), which is being wound up, and ADS, which sold its assets and operations in April 2007.

Selected quarterly financial information

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

<i>For the eight quarters ended June 30</i>	2006		2007				2008	
<i>(millions of dollars, except per unit / share amounts)</i>	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Operating revenues	\$780.6	\$816.8	\$834.1	\$804.0	\$815.0	\$826.8	\$844.9	\$823.0
EBITDA ⁽¹⁾	\$353.7	\$361.8	\$348.0	\$356.3	\$370.2	\$367.4	\$353.4	\$361.7
Operating income ⁽¹⁾	\$182.5	\$183.9	\$170.1	\$54.1	\$140.2	\$142.9	\$154.0	\$162.1
Net earnings (loss):								
Continuing operations	\$2,928.9	(\$133.8)	\$82.2	\$43.7	\$71.2	\$115.8	\$74.3	\$85.2
Discontinued operations	6.7	6.8	6.3	261.5	2.0	1.6	(10.0)	(0.8)
Net earnings (loss)	\$2,935.6	(\$127.0)	\$88.5	\$305.2	\$73.2	\$117.4	\$64.3	\$84.4
Basic and diluted earnings per unit / share:								
Continuing operations	\$20.06	(\$0.88)	\$0.54	\$0.29	\$0.48	\$0.76	\$0.40	\$0.53
Discontinued operations	0.05	0.05	0.04	1.71	0.00	0.02	0.00	0.00
Basic and diluted earnings per unit / share	\$20.11	(\$0.83)	\$0.58	\$2.00	\$0.48	\$0.78	\$0.40	\$0.53
Distributable cash ⁽¹⁾	\$185.9	\$186.8	\$192.1	\$162.2	\$177.6	\$169.5	\$206.8	\$183.3
Cash distributions declared	\$141.0	\$153.8	\$166.2	\$163.5	\$161.3	\$160.1	\$162.8	\$165.0

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

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

2006

- The third quarter of 2006 represents the first reported results following completion of the Plan of Arrangement that created the Fund's income trust structure on July 7, 2006, and net earnings for the period reflect certain Arrangement transactions including a \$1.95 billion gain on the sale of Aliant's wireless operation and shares of DownEast Ltd., as well as a \$1.0 billion dilution gain that resulted from the Arrangement.

- In the fourth quarter of 2006, net earnings were negatively affected by future tax expense of \$225.1 million related to the third quarter gain on disposal of Aliant's wireless operation.

2007

- We finalized the purchase price allocation related to the Arrangement in the second quarter of 2007, which led to an increase in depreciation and amortization of \$125.3 million, of which \$62.0 million related to the period from July 7, 2006, to December 31, 2006, \$31.5 million related to the period from January 1, 2007, to March 31, 2007, and \$31.8 million related to the period from April 1, 2007 to June 30, 2007.
- We sold the net assets and operations of ADS in the second quarter of 2007, which generated \$258.2 million as our share of the after-tax gain, and was reflected in net earnings from discontinued operations.
- We commenced a restructuring program to advance our productivity initiatives, the total cost of which was \$27.4 million for 2007. The third quarter results included \$20.8 million of restructuring and other charges with another \$5.2 million recorded in the fourth quarter.
- We recorded a pension valuation allowance of \$21.4 million in the fourth quarter of 2007 against an accounting surplus in one of our pension plans.
- We recorded a future tax recovery of \$44.1 million in the second quarter of 2007, mainly due to the effect of tax rate changes as well as the amortization of intangible assets acquired as part of the Arrangement, and a tax recovery of \$60.7 million in the fourth quarter, mainly related to the revaluation of net future tax assets and liabilities as a result of tax rate changes.

2008

- During the first quarter of 2008, we recorded an \$11.2 million write-down of goodwill in AMP, now reflected in net earnings from discontinued operations.

Details regarding our results for the second quarter of 2008 are discussed throughout this document. Further information on our quarterly results can be found in the respective quarterly financial statements and MD&As on our website at www.bell.aliant.ca, and as filed on SEDAR at www.sedar.com.

Financial and capital management

Summary of cash flows

For the period ended June 30 (millions of dollars)	Three months			Six months		
	2008	2007	% change	2008	2007	% change
Cash from (used in):						
Operating activities	\$346.1	\$331.0	4.6	\$580.7	\$581.3	(0.1)
Financing activities	(223.6)	(732.5)	(69.5)	(374.4)	(766.2)	(51.1)
Investing activities	(126.0)	57.5	n.m.	(248.7)	(257.6)	(3.5)
Net decrease in cash from continuing operations	(\$3.5)	(\$344.0)	(99.0)	(\$42.4)	(\$442.5)	(90.4)
Net increase in cash from discontinued operations	1.5	327.2	(99.5)	3.2	333.4	(99.0)
Net decrease in cash for the period	(\$2.0)	(\$16.8)	(88.1)	(\$39.2)	(\$109.1)	(64.1)

n.m. - not meaningful

We used net cash of \$2.0 million in the second quarter of 2008, compared to \$16.8 million in the second quarter of 2007.

Operating activities

Cash generated from operating activities increased by \$15.1 million in the second quarter of 2008, compared to the same period in 2007, mainly due to an increase in cash flow of \$12.7 million from changes in operating assets and liabilities, or working capital, from \$41.3 million in the second quarter of 2007 to \$54.0 million in the current period. The second quarter of the year is typically strong seasonally for cash inflow from working capital changes, and the second quarter of 2008 was comparatively stronger due to continued focus on improving cash flow from operating assets and liabilities. Changes in accounts receivable and payables and accruals during the second quarter of 2008 included offsetting reductions of \$42.6 million as a result of the transfer of Atlantic mobility customer accounts to Bell Canada effective May 1, 2008. Excluding this transfer, which resulted in no net cash flow for us during the quarter, and the additions to working capital allocated from the Kenora Municipal Telephone System (KMTS) acquisition, the

\$54.0 million in cash generated from working capital was due primarily to a net reduction of \$14.9 million in accounts receivable due to improved collections, \$6.0 million in lower inventories mostly related to AMP products and a \$42.9 million increase in payables and accruals related primarily to interest payable and employee incentive accruals. Year to date in 2008, cash generated from operating activities is virtually the same as for the comparable period in 2007 as higher net cash earnings from continuing operations were offset by lower cash from working capital changes in the first quarter of 2008.

Funding of our DB pension and OPEB plans is another significant use of cash from operating activities, and for the second quarter of 2008, contributions were \$27.9 million, compared to \$23.2 million for the same period in 2007. Included in the funding for the second quarter of 2008 is \$13.6 million for DB current service cost funding and \$12.6 million for special deficit-reducing payments, compared to \$13.2 million and \$8.2 million, respectively, in the second quarter of 2007. The increased funding of DB current service costs reflects the natural effects of a maturing workforce and general salary increases, offset slightly by retirements. Our special deficit-reducing payments in 2007 were net of the application of a higher amount of prior years' voluntary contributions.

We have completed the actuarial valuations of our pension plans as of December 31, 2007, and have adjusted our contributions to the plans based on the valuation results, beginning with our July 2008 contributions to the plans.

Financing activities

Cash used in financing activities decreased by \$508.9 million during the second quarter of 2008, compared to the same period in 2007, mainly due to the second quarter of 2007 having a \$460.9 million repayment of partners' capital with no similar activity in 2008. In the second quarter of 2007, we received \$327.2 million in net cash from the discontinued and sold operations of ADS, and effectively transferred these proceeds to the Fund through this return of capital.

In the second quarter of 2008, our net repayment of short-term and long-term debt was \$56.6 million, mostly due to the repayment of short-term debt using cash generated from working capital changes. Also in the quarter, we repaid \$50.0 million of maturing Series Z debentures issued by Télébec and refinanced this with a new \$50.0 million long-term bank facility. In the corresponding period in 2007, financing activities included the receipt of \$90.0 million proceeds from increasing the amount of accounts receivable sold to the securitization trust and the use of these proceeds, combined with \$127.0 million of loans from the Fund, \$98.1 million in proceeds from short-term debt issuance and cash generated from working capital changes and on hand, to repay a total of \$413.7 million in term bank loans and other long-term debt. On a year-to-date basis, the first quarter of 2008 includes the repurchase of \$55.0 million of accounts receivable from the securitization trust, while the first quarter of 2007 included a \$90.0 million sale of additional accounts receivable to the securitization trust. The first quarter of 2007 also included a \$1.0 billion issuance of medium terms notes and the use of these proceeds to repay term bank loans. As well, the first quarter of 2007 included \$30.5 million paid to counterparties on the settlement of interest rate swaps.

Total distributions paid to the Fund and non-controlling interests for the second quarter of 2008, and for the corresponding period in 2007, were \$166.6 million and \$173.0 million, respectively. For the first six months of 2008, and for the corresponding period in 2007, distributions were \$327.6 million and \$339.1 million, respectively. The decrease is due mainly to the reduction in the average number of Fund units outstanding as a result of Fund unit repurchases completed in 2007, which was partially offset by the increase in the Fund's per unit distribution rate effective February 2008. As well, January 2007 includes the final distribution paid by Télébec and NorthernTel to the minority holders in Bell Nordiq Income Fund.

Investing activities

Cash from investing activities decreased by \$183.5 million in the second quarter of 2008, compared to the second quarter of 2007, primarily due to the advance of \$200.9 million in excess cash made to us by the Fund during the second quarter of 2007. This was slightly offset by a \$15.9 million decrease in capital investment when comparing quarter over quarter activity, as discussed in the "Distributable cash" section.

For the six months ended June 30, 2008, compared to the six months ended June 30, 2007, in addition to the reduced capital investment spending, we used net cash of \$27.8 million to purchase the assets and operations of KMTS.

Liquidity

Sources of liquidity

We derive most of our liquidity from our recurring cash from operating activities, as well as bank credit facilities, a medium-term note shelf prospectus, a commercial paper program, and our accounts receivable securitization program. We anticipate generating enough cash from our operating activities to pay for capital investments, distributions, pension plan funding and other commitments. Despite the difficulties experienced in credit markets since the third quarter of 2007, we continue to have access to bank financing and our accounts receivable

securitization program. After experiencing some disruption in the latter part of 2007, we began issuing commercial paper again during the first quarter of 2008, but access to this source of financing continues to be sporadic. Therefore, access to our bank credit facilities has been an important source of back-up liquidity during this time. Among other measures, we mitigate capital market risks by diversifying funding sources, maintaining sufficient capacity on our back-up bank lines of credit and diversifying our pension plan investments. As a result, we have not experienced any material adverse consequences with respect to our liquidity capacity from recent market events.

Our capital structure is as follows:

<i>(millions of dollars, except as otherwise noted)</i>	June 30, 2008		December 31, 2007	
Partners' equity	\$4,951.8	52.4%	\$4,516.4	49.7%
Non-controlling interest	1,714.2	18.1%	1,829.6	20.1%
Net debt	2,794.3	29.5%	2,744.1	30.2%
Total capital	\$9,460.3	100.0%	\$9,090.1	100.0%

Partners' capital

We have an unlimited number authorized of each of the three classes of units and the number of units issued and outstanding at June 30, 2008, is as follows:

- 28,168,803 class 1 exchangeable limited partnership units;
- 132,367,606 class 2 limited partnership units; and
- 54,000 general partnership units.

Our units are not publicly traded. On January 1, 2008, we issued 8,246,429 class 2 limited partnership units to the Fund in exchange for its 36.7 per cent indirect interest in Télébec and NorthernTel. For further details on the terms and conditions associated with our units, refer to note 16 of our audited consolidated financial statements for the year ended December 31, 2007, and to note 13 of our unaudited consolidated financial statements for the quarter ended June 30, 2008.

Debt

We have a \$3.0 billion medium-term note shelf prospectus that expires in October 2008, under which we have issued \$2.25 billion in medium-term notes. We have \$100.0 million drawn under our non-revolving term bank facility, which expires in July 2009. In June 2008, we entered into a new \$50.0 million non-revolving term bank facility which expires in June 2010 and was drawn by Télébec to refinance its Series Z debenture which matured in June 2008.

We maintain a \$400.0 million commercial paper program, supported by unused capacity on our revolving bank facilities. As at June 30, 2008, we had \$229.5 million issued under our commercial paper program and have used the proceeds to reduce bank borrowing and repurchase a portion of our securitized accounts receivable. We also have \$754.0 million available for use in various short-term operating and letter of credit facilities, under which no amounts were drawn on our revolving bank credit facility, and \$169.6 million was issued in letters of credit and guarantees (off balance-sheet) as at June 30, 2008. Our operating bank facilities have various terms, but the majority expire in July 2011. As market conditions permit, we still anticipate being able to refinance the majority of our short-term borrowings with either bank financing or capital market issuances within the next year.

We also have a \$450.0 million non-revolving pension reserve bank facility that may be used to finance pension deficit funding. At June 30, 2008, there were no amounts drawn on this facility, but we have reduced its capacity by \$42.4 million with the issuance of letters of credit to support our application of federal 10-year solvency funding relief regulations.

Our credit facilities contain customary covenants and provisions that could trigger an event of default. Continued access to our credit facilities under normal operating conditions is not contingent on the maintenance of a specific credit rating. However, the applicability of certain covenants is tied to maintaining investment grade credit ratings. For example, we would have a new financial ratio covenant to comply with and could be forced to restrict distributions if we were downgraded below an 'investment grade' rating (generally below the 'BBB' level). Also, there may be a 'change of control' event of default if someone other than BCE or Bell Canada obtains control of us and our credit ratings are downgraded to below investment grade.

Further details of our long-term debt can be found in note 13 to our audited consolidated financial statements for the year ended December 31, 2007, or in note 10 to our unaudited consolidated financial statements for the period ended June 30, 2008.

Cash requirements

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

- The annual rate of distributions to holders of Fund units is \$2.90 per unit. Fund distributions are approved monthly at the discretion of the Fund trustees. The Fund is entirely dependent upon distributions from us to make its distributions. The annual cash requirement to make distributions to Fund unitholders and pro-rata distributions to BCE and Bell Canada on exchangeable limited partnership units is estimated to be in the range of \$655 to \$660 million for 2008.
- Capital expenditures in the range of 14.5 to 15.5 per cent of operating revenues will be made as required to support our existing infrastructure and to advance our initiatives.
- Funding of our DB pension plans' deficits in 2008 was estimated to be in the range of \$50 to \$60 million, net of application of prior years' voluntary contributions and after application of 10-year solvency funding schedules for eligible plans. In the second quarter of 2008, we completed our year-end 2007 actuarial reviews for our DB pension plans and these reviews confirmed required 2008 deficit funding near the lower end of this range.
- We are required to repay short and long-term debt according to its terms. We intend to refinance much of this debt as it comes due, as discussed in the "Liquidity" section.

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 note 15 to our unaudited interim consolidated financial statements for the period ended June 30, 2008.

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 June 30, 2008.

Further details of this arrangement is described in notes 1 and 3 to our audited consolidated financial statements for the year ended December 31, 2007, and in note 3 to our unaudited interim consolidated financial statements for the period ended June 30, 2008.

Use of derivative financial instruments

We use derivative financial instruments periodically in the management of interest rate and foreign currency exposures associated with our long-term debt and specific firm commitments. The significant assumptions made in determining the fair value of our financial instruments remains unchanged from December 31, 2007. Details of our use of derivative financial instruments and the accounting policies we follow are provided in notes 1 and 14 to our audited consolidated financial statements for the year ended December 31, 2007, and in note 11 to our unaudited interim consolidated financial statements for the period ended June 30, 2008. At June 30, 2008, we had outstanding fixed-floating interest rate swap contracts with notional values totalling \$250.0 million, including a new swap contract related to the \$50.0 million long-term debt issuance of Télébec entered into in June 2008. These swap contracts are being accounted for as hedges of a portion of our floating-rate debt.

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 23 to our audited consolidated financial statements for the year ended December 31, 2007, and to note 18 of our unaudited interim consolidated financial statements for the period ended June 30, 2008.

Significant accounting policies

Our accounting policies and methods and critical accounting estimates and assumptions are consistent with those as described in note 1 to our audited consolidated financial statements for the year ended December 31, 2007, with the

exception of the adoption on January 1, 2008, of new accounting policies under CICA Handbook Section 1535, Capital Disclosures, and Section 3031, Inventories.

Capital disclosures

Commencing January 1, 2008, we adopted Section 1535, Capital Disclosures, which establishes standards for disclosing qualitative and quantitative information about an entity's capital and how it is managed.

Inventories

Commencing January 1, 2008, we adopted Section 3031, Inventories, which establishes new standards for the measurement, recognition and disclosure of inventories. There were no material effects as a result of this change.

The Accounting Standards Board of the CICA continually amends and improves 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.

Transition to IFRS

Effective January 1, 2011, International Financial Reporting Standards (IFRS) will replace Canadian GAAP. The Accounting Standards Board has released an exposure draft that outlines IFRS. We have developed a four phase approach to transitioning to IFRS as follows:

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

The first two phases involve the development of an initial project plan and structure, training and educating, and performing impact assessments on the various aspects of our operations and financial reporting. In the third phase, we will begin to make accounting policy decisions based on the assessments and design any related implementation plans. The final phase is the actual implementation of the conversion. Our preliminary timeline is to complete the first two phases in 2008 and the final two phases by December 31, 2009, with minor changes in 2010.

At June 30, 2008, the majority of the first phase was completed and we are currently in the second phase, assessing the effect that this transition will have on our operations and financial reporting.

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, 2007, 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, 2007, 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 2008. These assumptions include economic, market, financial and operational assumptions, and except as outlined below, and in our MD&A for the first quarter of 2008, have not changed significantly during the first two quarters of 2008, or up to August 5, 2008.

AMP

As mentioned in the "Other expenses" section, AMP had an arrangement with Bell Canada to be their exclusive distributor of mobility products in Atlantic Canada, which Bell Canada has discontinued effective July 4, 2008. We have determined that as a result of the loss of this arrangement, it is necessary to treat AMP as a discontinued operation for accounting purposes. Accounting standards require that the operating revenues and expenses contributed by AMP to our consolidated results be combined and classified in our financial statements as net earnings from discontinued operations. This affects our previously issued 2008 Guidance as the anticipated operating revenues stated in that guidance are based on AMP's operating revenue being included in our consolidated operating revenues, which is no longer the case. All prior and future operating revenues and expenses generated by AMP have been and will be reclassified as net earnings from discontinued operations.

Defence, Security and Aerospace business

On August 5, 2008, we announced with CAE that we have entered into an asset purchase agreement for CAE to acquire our Defence, Security and Aerospace information technology business, which currently operates under the xwave brand. The purchase price paid on closing will be \$15.1 million with an additional \$11.0 million to be paid

contingent upon the occurrence of certain events for a potential total purchase price of \$26.1 million. This transaction is subject to the satisfaction of certain conditions and is anticipated to close before the end of the calendar year.

These above changes will only affect our revenue predictions for the remainder of 2008, and have resulted in a modification of our previously issued revenue guidance as follows:

2008 Guidance	Original February 2008	Revised August 2008
Operating revenue	\$3,370 million to \$3,440 million	\$3,240 million to \$3,310 million
Capital intensity ⁽¹⁾	14.5 to 15.5 percent	unchanged
Distributable cash ⁽²⁾	\$720 million to \$740 million	unchanged

(1) Capital intensity equals capital expenditures per the statement of cash flows divided by operating revenues.

(2) Distributable cash is a non-GAAP financial measure. Refer to "Non-GAAP financial measures" section for further details.

We have also considered whether recent economic trends, pointing to lower economic growth and higher inflation in Canada for 2008, would have a material impact on our stated financial guidance. While the higher inflation rates will have a negative impact on certain of our operating costs such as fuel prices and travel costs, we expect the impact will be small enough to be contemplated within our contingency plans and stated guidance ranges. Somewhat lower anticipated economic growth for 2008 is expected to be temporary, and to recover in 2009, and as such, should not materially impact our customers' anticipated spending patterns or our 2008 revenue guidance range.

Risk management

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

We 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, 2007, and our 2007 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 presently consider immaterial to our consolidated operations.

During the first two quarters of 2008, 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, 2007, and our 2007 Annual Information Form. We have provided updates to our regulatory and competitive environments in the "Our business environment" section.

Internal controls over financial reporting

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

There have been no changes in our internal controls over financial reporting during the six months ended June 30, 2008, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Non-GAAP financial measures

The terms operating income, EBITDA, standardized distributable cash and distributable cash do not have any standardized meanings prescribed by Canadian GAAP. They are therefore unlikely to be comparable to similar measures presented by other reporting issuers. Operating income, EBITDA, standardized distributable cash and distributable cash are presented on a consistent basis from period to period.

Operating income

Operating income represents operating revenues less expenses. We use operating income, among other measures, to assess the operating performance of our ongoing business.

The following table provides a reconciliation of operating revenues and expenses to operating income on a consolidated basis.

<i>For the period ended June 30</i> <i>(millions of dollars)</i>	Three months		Six months	
	2008	2007	2008	2007
Operating revenues	\$823.0	\$804.0	\$1,667.9	\$1,638.1
Expenses	660.9	749.9	1,351.8	1,413.9
Operating income	\$162.1	\$54.1	\$316.1	\$224.2

Operating income allows us to compare our operating performance on a consistent basis. We believe that certain investors and analysts use operating income to measure our ability to grow, or as a common valuation measurement in the telecommunications industry.

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

EBITDA

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

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

<i>For the period ended June 30</i> <i>(millions of dollars)</i>	Three months		Six months	
	2008	2007	2008	2007
Operating income	\$162.1	\$54.1	\$316.1	\$224.2
Add: Net cost of benefit plans	24.8	28.3	49.6	57.8
Depreciation and amortization	174.8	273.0	349.3	420.9
Restructuring and other charges	0.0	0.9	0.1	1.4
EBITDA	\$361.7	\$356.3	\$715.1	\$704.3

We use EBITDA, among other measures, to assess the operating performance of our ongoing business without the effects of interest, taxes, depreciation and amortization expense, net cost of benefit plans, and restructuring 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 should not be confused with operating revenues or expenses, which are the most comparable Canadian GAAP measures.

Standardized distributable cash and distributable cash

Standardized distributable cash and distributable cash are both measures of cash generated from operating activities that may be available for distribution. We calculate standardized distributable cash from a cash flow perspective following CICA guidance, which uses cash from operating activities and adds or deducts the following items that affect cash flow:

- (i) Cash from operating activities of discontinued operations and the Fund, as this represents operating cash from activities, other than our continuing operations, which is available for distribution; and
- (ii) Capital expenditures.

CICA guidance on the calculation of standardized distributable cash measures would also include deductions related to any restrictions imposed on the amount of cash distributions as a result of compliance with financial covenants restrictions at the date of calculation. Our credit agreements only impose a restriction that distributions cannot

exceed distributable cash over the last year if our credit ratings fall below investment grade. Since our ratings are within the investment grade categories, we are under no such restrictions.

We further adjust standardized distributable cash by the following items to determine our distributable cash:

- (i) Operating items funded through cash reserves or borrowings, such as changes in operating assets and liabilities (working capital), pension deficit funding, restructuring and other 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, Québec, New Brunswick and Nova Scotia. At this point, all of these provinces have announced phased elimination of capital taxes in prior budgets; therefore beginning with the third quarter of 2007, 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 period ended June 30</i> <i>(millions of dollars)</i>	Three months		Six months	
	2008	2007	2008	2007
Cash from operating activities	\$346.1	\$331.0	\$580.7	\$581.3
Add (deduct):				
Cash from operating activities of discontinued operations	1.5	5.1	3.2	15.5
Cash from operating activities of the Fund	(0.2)	(2.4)	(0.4)	(2.9)
Capital expenditures	(127.5)	(143.4)	(222.6)	(258.7)
Standardized distributable cash	219.9	190.3	360.9	335.2
Add (deduct):				
Operating items funded through cash reserves or borrowing:				
Change in operating assets and liabilities (working capital)	(54.0)	(41.3)	(3.3)	(14.6)
Change in operating assets and liabilities (working capital) of the Fund	(0.7)	1.1	(1.6)	(0.4)
Pension deficit funding	12.6	8.2	25.0	16.7
Restructuring and other charges	-	0.9	0.1	1.4
Cash capital taxes in excess of normalized levels	2.4	2.4	5.4	5.8
Other adjustments:				
Current income tax (expense) recovery	-	(3.2)	(3.9)	2.4
Other non-cash items provided for in working capital changes	3.1	3.8	7.5	7.8
Distributable cash	\$183.3	\$162.2	\$390.1	\$354.3

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 new 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.

BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP

Consolidated balance sheets

(Unaudited)

(millions of dollars)

	Notes	As at June 30, 2008	As at December 31, 2007
Assets			
Current assets			
Cash and cash equivalents		\$ 8.9	\$ 48.1
Accounts receivable	3	372.5	371.5
Inventory	4	15.8	25.7
Prepayments		45.6	17.3
Future income tax asset		26.3	27.7
Income tax receivable		11.9	13.4
		481.0	503.7
Capital investments			
Property, plant and equipment	2	3,717.7	3,730.1
Finite-life intangibles		3,265.9	3,154.5
		6,983.6	6,884.6
Other assets			
Long-term receivable		47.8	48.8
Deferred charges		17.9	27.5
Future income tax asset		7.1	7.1
Accrued benefit asset	6	369.7	363.9
Indefinite-life intangibles	2	123.3	82.8
Goodwill	7	2,753.1	2,554.5
		3,318.9	3,084.6
Total assets		\$ 10,783.5	\$ 10,472.9
Liabilities and partners' equity			
Current liabilities			
Notes payable to related party	17	\$ 2.3	\$ 1.9
Payables and accruals	8	350.9	394.5
Distributions payable		55.4	52.0
Future income tax liability		0.4	0.3
Short-term debt	9	229.7	216.7
Long-term debt due within one year		9.4	59.8
		648.1	725.2
Future income tax liability		455.4	455.6
Long-term debt		2,561.8	2,513.8
Derivative liabilities	11	5.9	3.7
Accrued benefit liability	6	424.3	410.5
Deferred credits		22.0	18.1
		4,117.5	4,126.9
Non-controlling interest	12	1,714.2	1,829.6
Partners' equity		4,951.8	4,516.4
Total liabilities and partners' equity		\$ 10,783.5	\$ 10,472.9

See accompanying notes to the consolidated financial statements

BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP

Consolidated statements of earnings

(Unaudited)

For the period ended June 30

(millions of dollars, except earnings per unit)

	Note	Three months		Six months	
		2008	2007	2008	2007
Operating revenues		\$ 823.0	\$ 804.0	\$ 1,667.9	\$ 1,638.1
Expenses					
Operating expenses		486.1	476.0	1,002.4	991.6
Depreciation and amortization		174.8	273.0	349.3	420.9
Restructuring and other charges		-	0.9	0.1	1.4
		660.9	749.9	1,351.8	1,413.9
		162.1	54.1	316.1	224.2
Other expenses		0.6	0.4	2.5	2.6
Interest charges					
Interest on long-term debt		34.2	37.8	68.5	74.0
Other interest expense		5.5	3.9	10.8	7.0
		39.7	41.7	79.3	81.0
Earnings before underlisted items		121.8	12.0	234.3	140.6
Income taxes					
Current tax expense (recovery)		-	(3.2)	(3.9)	2.4
Future tax expense (recovery)		(5.2)	(44.1)	0.5	(54.9)
		(5.2)	(47.3)	(3.4)	(52.5)
Earnings before non-controlling interest		127.0	59.3	237.7	193.1
Non-controlling interest		41.8	15.6	78.2	67.2
Net earnings from continuing operations		85.2	43.7	159.5	125.9
Net earnings (loss) from discontinued operations	5	(0.8)	261.5	(10.8)	267.8
Net earnings		\$ 84.4	\$ 305.2	\$ 148.7	\$ 393.7
Earnings per unit					
Basic and diluted from continuing operations		\$ 0.53	\$ 0.29	\$ 1.00	\$ 0.83
Basic and diluted from discontinued operations		-	1.71	(0.07)	1.76
Basic and diluted		\$ 0.53	\$ 2.00	\$ 0.93	\$ 2.59

Consolidated statements of comprehensive earnings

(Unaudited)

For the period ended June 30

(millions of dollars)

	Note	Three months		Six months	
		2008	2007	2008	2007
Net earnings		\$ 84.4	\$ 305.2	\$ 148.7	\$ 393.7
Other comprehensive earnings, net of tax	14	2.4	6.1	-	9.6
Comprehensive earnings		\$ 86.8	\$ 311.3	\$ 148.7	\$ 403.3

See accompanying notes to the consolidated financial statements

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

For the period ended June 30, 2008		Partners'	Contributed	Accumulated	Distributions	Retained	Accumulated	Total
<i>(millions of dollars)</i>		capital	surplus	earnings	declared to	earnings	other	partners'
	Notes				unitholders		comprehensive	equity
							earnings (losses)	
Balance December 31, 2007		\$ 1,548.0	\$ 0.2	\$ 743.6	\$ (611.4)	\$ 2,873.2	\$ (37.2)	\$ 4,516.4
Net earnings for the period		-	-	148.7	-	-	-	148.7
Issuance of class 2 limited partnership units on business combination	2, 13	513.5	-	-	-	-	-	513.5
Distributions declared on:								
Class 1 exchangeable limited partnership units		-	-	-	(40.7)	-	-	(40.7)
Class 2 limited partnership units		-	-	-	(186.1)	-	-	(186.1)
Balance June 30, 2008		\$ 2,061.5	\$ 0.2	\$ 892.3	\$ (838.2)	\$ 2,873.2	\$ (37.2)	\$ 4,951.8

For the period ended June 30, 2007		Partners'	Contributed	Accumulated	Distributions	Retained	Accumulated	Total
<i>(millions of dollars)</i>		capital	surplus	earnings	declared to	earnings	other	partners'
	Note				unitholders		comprehensive	equity
							earnings (losses)	
Balance December 31, 2006		\$ 2,008.9	\$ -	\$ 158.5	\$ (201.1)	\$ 2,870.3	\$ -	\$ 4,836.6
Net earnings for the period		-	-	393.7	-	-	-	393.7
Distributions declared on:								
Class 1 exchangeable limited partnership units		-	-	-	(39.5)	-	-	(39.5)
Class 2 limited partnership units		-	-	-	(181.1)	-	-	(181.1)
Stock options expense		-	0.2	-	-	2.9	-	3.1
Repayment of partners' capital		(460.9)	-	-	-	-	-	(460.9)
Reclassification adjustment for gains (losses) on derivatives designated as cash flow hedges		-	-	0.8	-	-	(40.2)	(39.4)
Other comprehensive earnings, net of tax	14	-	-	-	-	-	9.6	9.6
Balance June 30, 2007		\$ 1,548.0	\$ 0.2	\$ 553.0	\$ (421.7)	\$ 2,873.2	\$ (30.6)	\$ 4,522.1

See accompanying notes to the consolidated financial statements

BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP
Consolidated statements of cash flows
(Unaudited)

For the period ended June 30

(millions of dollars)	Notes	Three months		Six months	
		2008	2007	2008	2007
Cash from (used in) operating activities					
Net earnings from continuing operations		\$ 85.2	\$ 43.7	\$ 159.5	\$ 125.9
Adjustments to reconcile net earnings to cash from operating activities					
Depreciation and amortization		174.8	273.0	349.3	420.9
Gain (loss) on disposal of assets		(0.2)	0.1	(0.2)	0.1
Future income tax expense (recovery)		(5.2)	(44.1)	0.5	(54.9)
Net cost of benefit plans	6	22.9	26.4	45.9	54.1
Funding of defined benefit pension and other post-employment benefit plans	6	(27.9)	(23.2)	(55.5)	(46.3)
Non-controlling interest		41.8	15.6	78.2	67.2
Other		0.7	(1.8)	(0.3)	(0.3)
Change in operating assets and liabilities		54.0	41.3	3.3	14.6
		346.1	331.0	580.7	581.3
Cash from (used in) financing activities					
Repurchase of accounts receivable	3	-	-	(55.0)	-
Net proceeds on sale of accounts receivable		-	90.0	-	90.0
Net proceeds (repayments) of short-term debt		(55.6)	98.1	13.1	95.2
Proceeds of notes payable to related party		1.2	127.0	1.2	127.0
Repayment of notes payable to related party		-	-	(0.8)	-
Proceeds of long-term debt	10	50.0	-	50.0	994.5
Repayment of long-term debt	10	(50.4)	(412.7)	(51.2)	(1,235.8)
Repayment of capital lease obligations		(1.8)	(1.0)	(3.7)	(3.0)
Payment to non-controlling interest		(0.4)	-	(0.4)	(3.6)
Net settlement of financial derivatives		-	-	-	(30.5)
Repayment of partners' capital		-	(460.9)	-	(460.9)
Distributions paid by subsidiaries to non-controlling interest	12	(52.3)	(60.5)	(108.2)	(120.3)
Distributions paid		(114.3)	(112.5)	(219.4)	(218.8)
		(223.6)	(732.5)	(374.4)	(766.2)
Cash from (used in) investing activities					
Issuance of notes receivable from related party		-	200.9	-	-
Purchase of capital investments		(127.5)	(143.4)	(222.6)	(258.7)
Proceeds on sale of capital investments		1.7	-	1.7	1.1
Business acquisition, net of cash received	2	(0.2)	-	(27.8)	-
		(126.0)	57.5	(248.7)	(257.6)
Net decrease in cash from continuing operations		(3.5)	(344.0)	(42.4)	(442.5)
Net increase in cash from discontinued operations		1.5	327.2	3.2	333.4
Cash and cash equivalents, beginning of period		10.9	47.1	48.1	139.4
Cash and cash equivalents, end of period		\$ 8.9	\$ 30.3	\$ 8.9	\$ 30.3
Supplementary disclosure					
Interest paid		\$ 10.1	\$ 26.3	\$ 74.3	\$ 89.3
Income taxes recovered, net		\$ (1.4)	\$ (1.4)	\$ (2.3)	\$ (3.4)

See accompanying notes to the consolidated financial statements

BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP
Notes to the consolidated financial statements
(Unaudited)
June 30, 2008

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

1. SIGNIFICANT ACCOUNTING POLICIES

Consolidated financial statements

We have prepared these unaudited interim consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP) using the same basis of presentation and accounting policies as our audited consolidated financial statements for the year ended December 31, 2007, with the exception of the adoption of new accounting policies discussed below. These unaudited interim consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2007.

Capital disclosures

Commencing January 1, 2008, we adopted Section 1535, Capital Disclosures, which was issued by the Canadian Institute of Chartered Accountants (CICA) and establishes standards for disclosing qualitative and quantitative information about an entity's capital and how it is managed. Refer to note 16 for our capital management discussion.

Inventories

Commencing January 1, 2008, we adopted Section 3031, Inventories, which was issued by the CICA, and establishes new standards for the measurement, recognition and disclosure of inventories. There were no material effects as a result of this change. Refer to note 4 for further information on inventory.

Inventory represents products or equipment purchased for resale. We value inventory at the lower of cost and net realizable value, with cost being the weighted average cost using the first-in, first-out method. Net realizable value represents the estimated selling price for inventories less all estimated costs to sell.

Future changes in accounting policies

The Accounting Standards Board of the CICA continually amends and improves 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.

Effective January 1, 2011, International Financial Reporting Standards will replace Canadian GAAP. The Accounting Standards Board has released an exposure draft that outlines the standards. We are currently assessing the effect that this transition will have on our operations and financial reporting.

Comparative figures

Certain comparative financial information has been reclassified to conform to the presentation adopted for 2008, including the reclassification of discontinued operations as discussed in note 5.

2. BUSINESS COMBINATION AND ACQUISITION

Télébec, Limited Partnership (Télébec) and NorthernTel, Limited Partnership (NorthernTel)

On January 1, 2008, the Fund transferred their 36.7 per cent interest in Télébec and NorthernTel to us, in exchange for 8,246,429 class 2 limited partnership units (note 13), resulting in eliminating the non-controlling interest previously reported. The value of our units issued was determined using a combination of discounted cash flow methodology and comparable public company earnings multiple analysis.

As there was no substantive change in ownership of the 36.7 per cent interest in Télébec and NorthernTel, the transfer was accounted for at its carrying value on January 1, 2008. As the Fund had equity accounted for its investment in Télébec and NorthernTel, the carrying value of the net assets transferred was determined based on their respective estimated fair values on January 30, 2007, the date that the Fund acquired the remaining 36.7 per

BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP
Notes to the consolidated financial statements
(Unaudited)
June 30, 2008

2. BUSINESS COMBINATION AND ACQUISITION (Continued)

Télébec, Limited Partnership (Télébec) and NorthernTel, Limited Partnership (NorthernTel) (continued)

cent interest in Télébec and NorthernTel from Bell Nordiq Income Fund, and adjusted for the depreciation and amortization of such assets for the period February 1, 2007, to December 31, 2007. The remainder of consideration paid has been allocated to goodwill. This resulted in an adjustment to the carrying values of the assets and liabilities as follows:

(millions of dollars)

Assets acquired and liabilities assumed		
Property, plant and equipment	\$	30.2
Finite-life intangibles		181.9
Indefinite-life intangibles		40.6
Goodwill (note 7)		191.8
Non-controlling interest (note 12)		89.0
Long-term liabilities		(20.0)
Net assets acquired	\$	513.5

Property, plant and equipment mainly represent telecommunications facilities and equipment, and buildings. Finite-life intangibles relate to customer relationships and roaming agreements. These assets will be depreciated and amortized using the same methods and over the same useful lives as our existing capital investments. Indefinite-life intangibles relate to the Télébec and NorthernTel brands and telecommunications licenses.

Goodwill recognized in this business combination is not deductible for tax purposes.

Kenora Municipal Telephone System

On February 1, 2008, we purchased the assets and operations of Kenora Municipal Telephone System for total cash consideration of \$27.1 million in addition to direct acquisition costs of \$0.7 million. The results of operations have been included in our consolidated financial statements since that date.

The total consideration paid will be allocated to the assets acquired and liabilities assumed based on their respective fair values on February 1, 2008. The allocation process requires an analysis of the value of customer relationships, acquired contractual rights, assumed contractual commitments and legal contingencies to identify and record the fair value of all assets acquired and liabilities assumed. In valuing acquired assets and assumed liabilities, fair values are based on, but are not limited to: quoted market prices, where available; expected future cash flows; current replacement cost for similar capacity for certain capital assets; market rate assumptions for contractual obligations; and appropriate discount rates and growth rates. The purchase price allocation also requires the calculation of future income tax assets or liabilities associated with the assets acquired and liabilities assumed. Any excess purchase price over the fair value of the identifiable assets and liabilities will be allocated to goodwill.

As at June 30, 2008, the purchase price allocation was not finalized, but initial allocations were made as follows:

(millions of dollars)

Assets acquired and liabilities assumed		
Current assets	\$	1.3
Property, plant and equipment		9.3
Goodwill (note 7)		18.0
Current liabilities		(0.7)
Long-term liabilities		(0.1)
Net assets acquired	\$	27.8

BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP
Notes to the consolidated financial statements
(Unaudited)
June 30, 2008

2. BUSINESS COMBINATION AND ACQUISITION (Continued)

Kenora Municipal Telephone System (continued)

These values are based on preliminary valuations and are subject to adjustment as additional information is obtained.

We are in the process of conducting internal studies of assets including property, plant and equipment, intangible assets and certain liabilities. Finalization of valuations and completion of our purchase price allocation may result in material adjustments to the goodwill. As well, net earnings may be affected by a material amount due to the calculation of amortization on the fair values of property, plant and equipment and other finite-life intangible assets subject to amortization as well as the final determination of future income taxes.

3. TRANSFER OF RECEIVABLES

In March 2008, we reduced the net cash proceeds under our revolving accounts receivable purchase and sale agreement with a securitization trust by \$55.0 million. At June 30, 2008, our net cash proceeds under the agreement were \$165.0 million. The security required under the agreement recorded as retained interest was \$45.3 million at June 30, 2008 (December 31, 2007 - \$61.0 million).

4. INVENTORY

For the three and six months ended June 30, 2008, the cost of inventories recognized as an operating expense, in respect of continuing operations, was \$6.3 million and \$12.3 million respectively (June 30, 2007 - \$7.8 million and \$14.1 million, respectively). This includes an immaterial amount of inventory write downs (June 30, 2007 – immaterial amount). There were no reversals of inventory write-downs in the period. A portion of the inventory of our discontinued operations is pledged as security for certain uncommitted lines of credit, which had an outstanding balance of nil at June 30, 2008 (December 31, 2007 - \$5.7 million) (note 9).

5. DISCONTINUED OPERATIONS

Atlantic Mobility Products Limited Partnership (AMP)

AMP had an arrangement with Bell Canada to be their exclusive distributor of mobility products in Atlantic Canada, which Bell Canada has discontinued effective July 4, 2008. The loss of the exclusive arrangement will result in the elimination of our wholesale distribution of mobility hardware and accessories business. As a result, in the second quarter of 2008 we have reclassified the results of AMP's operations as discontinued operations. Accordingly, prior period financial statements have been reclassified to reflect this change.

Salesbridge Canada Corp. (Salesbridge) and Aliant Directory Services (ADS)

In 2007, the results of operations of Salesbridge and ADS were reported as discontinued operations. Salesbridge is being wound up and has not operated in 2008 and ADS was sold in April 2007.

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

For the three months ended June 30 <i>(millions of dollars)</i>	2008				2007
	AMP	AMP	SalesBridge	ADS	Total
Operating revenues	\$ 22.6	\$ 21.4	\$ -	\$ 5.1	\$ 26.5
Expenses	21.1	19.7	0.5	1.7	21.9
Gain on sale	-	-	-	315.2	315.2
Income taxes (recovery)	2.3	0.5	(0.1)	58.1	58.5
Non-controlling interest	-	-	(0.2)	-	(0.2)
Net earnings (loss) from discontinued operations	\$ (0.8)	\$ 1.2	\$ (0.2)	\$ 260.5	\$ 261.5

BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP
Notes to the consolidated financial statements
(Unaudited)
June 30, 2008

5. DISCONTINUED OPERATIONS (Continued)

For the six months ended June 30 <i>(millions of dollars)</i>	2008				2007
	AMP	AMP	SalesBridge	ADS	Total
Operating revenues	\$ 43.1	\$ 38.7	\$ -	\$ 19.8	\$ 58.5
Expenses	39.9	35.6	0.8	7.7	44.1
Write down of goodwill (note 7)	11.2	-	-	-	-
Gain on sale	-	-	-	315.2	315.2
Income taxes (recovery)	2.8	1.1	(0.2)	61.2	62.1
Non-controlling interest	-	-	(0.3)	-	(0.3)
Net earnings (loss) from discontinued operations	\$ (10.8)	\$ 2.0	\$ (0.3)	\$ 266.1	\$ 267.8

6. POST-EMPLOYMENT BENEFITS

Accrued benefit asset (liability)

<i>(millions of dollars)</i>	DB pension plans		OPEB plans	Total
Accrued benefit asset (liability) December 31, 2007	\$ 174.1	\$ (220.7)	\$ (46.6)	\$ (46.6)
Net cost of benefit plans	(42.4)	(3.5)	(45.9)	(45.9)
Contributions	52.1	3.4	55.5	55.5
Adjustment on finalization of the purchase price allocation of Telebec and NorthernTe	(15.4)	(2.2)	(17.6)	(17.6)
Accrued benefit asset (liability) June 30, 2008	\$ 168.4	\$ (223.0)	\$ (54.6)	\$ (54.6)
Accrued benefit asset	\$ 369.7	\$ -	\$ 369.7	\$ 369.7
Accrued benefit liability	(201.3)	(223.0)	(424.3)	(424.3)
	\$ 168.4	\$ (223.0)	\$ (54.6)	\$ (54.6)

BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP
Notes to the consolidated financial statements
(Unaudited)
June 30, 2008

6. POST-EMPLOYMENT BENEFITS (Continued)

Net cost of benefit plans

The following table shows the net cost of defined benefit (DB) pension and other post employment benefit (OPEB) plans.

For the period ended June 30 <i>(millions of dollars)</i>	Three months		Six months	
	2008	2007	2008	2007
<i>DB pension plans</i>				
Current service cost	\$ 15.5	\$ 16.7	\$ 31.0	\$ 33.4
Interest on the accrued benefit obligation	40.2	38.6	80.5	77.2
Expected return on plan assets	(39.9)	(38.7)	(79.7)	(77.4)
Amortization of deferred amounts:				
Past service costs	1.4	1.4	2.8	2.8
Net actuarial losses	3.9	6.9	7.8	13.9
Transitional obligation	-	(0.2)	-	(0.3)
	\$ 21.1	\$ 24.7	\$ 42.4	\$ 49.6
<i>OPEB plans</i>				
Current service cost	\$ 0.6	\$ 0.6	\$ 1.1	\$ 1.3
Interest on the accrued benefit obligation	2.8	2.6	5.6	5.5
Amortization of deferred amounts:				
Past service costs	(2.0)	(2.1)	(4.0)	(3.6)
Net actuarial losses	0.4	0.6	0.8	1.2
Transitional asset	-	-	-	0.1
	\$ 1.8	\$ 1.7	\$ 3.5	\$ 4.5
Total net cost of DB pension and OPEB plans	\$ 22.9	\$ 26.4	\$ 45.9	\$ 54.1

Benefit plan contributions

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

For the period ended June 30 <i>(millions of dollars)</i>	Three months		Six months	
	2008	2007	2008	2007
DB pension plans contributions	\$ 26.2	\$ 21.4	\$ 52.1	\$ 42.6
OPEB plans contributions	1.7	1.8	3.4	3.7
Funding of DB pension and OPEB plans	\$ 27.9	\$ 23.2	\$ 55.5	\$ 46.3
DC pension plans contributions	1.9	1.9	3.7	3.6
Total contributions	\$ 29.8	\$ 25.1	\$ 59.2	\$ 49.9

BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP
Notes to the consolidated financial statements
(Unaudited)
June 30, 2008

7. GOODWILL

(millions of dollars)

Goodwill, as at December 31, 2006	\$	5,446.2
Allocations to assets and liabilities as a result of the finalization of purchase price allocation on the acquisition of Bell Canada's wireline operation in Ontario and Quebec and Bell Nordiq Group		(2,891.7)
Goodwill, as at December 31, 2007	\$	2,554.5
Acquisition of interest in Télébec and NorthernTel (note 2)		191.8
Acquisition of assets and operations of Kenora Municipal Telephone Systems (note 2)		27.8
Allocations to assets and liabilities as a result of the estimated purchase price allocation on the acquisition of Kenora Municipal Telephone Systems (note 2)		(9.8)
Write down related to Atlantic Mobility Products Limited Partnership (AMP) goodwill		(11.2)
Goodwill, as at June 30, 2008	\$	2,753.1

During the first quarter of 2008, as a result of Bell Canada notifying us of their intent to discontinue using AMP as its exclusive distributor of mobility products in Atlantic Canada, we assessed the carrying value of goodwill related to AMP. An impairment charge of \$11.2 million was recorded, which reduced the carrying value of the goodwill related to AMP to zero. AMP has been reclassified as discontinued operations as discussed in note 5.

8. RESTRUCTURING AND OTHER CHARGES

In 2007, we estimated and recorded a pre-tax restructuring charge of \$27.4 million related to costs to continue advancing the organization's productivity initiatives leading into 2008. The charge includes \$23.1 million of severance and benefit costs, and \$4.3 million of real estate rationalization costs. The final cost of the initiatives could be materially different from our estimate as departing employees will have options that could affect their severance. The restructuring charge liability will be drawn down as employees leave the organization or as lease vacancy and other real estate costs are incurred.

At June 30, 2008, payables and accruals included a restructuring and other charge balance of \$15.6 million (December 31, 2007 - \$22.8 million), composed of \$4.1 million of real estate rationalization costs and \$11.5 million in severance and benefits (December 31, 2007 - composed of \$4.3 million of real estate rationalization costs and \$18.5 million in severance and benefits).

BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP
Notes to the consolidated financial statements
(Unaudited)
June 30, 2008

9. SHORT-TERM DEBT

Available operating facilities

We have increased the amounts available for use under operating credit facilities by \$23.0 million to \$1,204.0 million during the six months ended June 30, 2008, as follows:

- Dedicated letter of credit facilities were increased by \$25.0 million to a total of \$163.0 million; and
- Demand operating facilities were decreased by a net \$2.0 million to \$15.0 million.

Included in these amounts available under operating credit facilities is \$5.0 million (December 31, 2007 - \$12.0 million) for discontinued operations.

Amounts drawn under operating facilities

<i>(millions of dollars)</i>	As at		As at	
	June 30, 2008		December 31, 2007	
Drawn amounts:				
Revolving operating facilities	\$	229.5	\$	210.0
Uncommitted lines of credit (note 4)		-		5.7
Other		0.2		1.0
	\$	229.7	\$	216.7

Short-term promissory notes of \$229.5 million (December 31, 2007 – NIL) under our commercial paper program, which is supported by our revolving operating facilities, bear interest at an average of 3.28 per cent and mature at various dates between July 2, 2008, and October 1, 2008.

At June 30, 2008, there were no banker's acceptance advances outstanding under our revolving operating facilities (December 31, 2007 - \$210.0 million).

10. LONG-TERM DEBT

In June 2008, we established a new term bank facility for \$50.0 million that expires in June 2010. Advances under the facility are through banker's acceptance with terms less than 180 days and bear interest at the banker's acceptance rate plus 0.85 per cent per annum. On June 23, 2008, we drew \$50.0 million on this facility to repay, at maturity, Télébec's 5.85 per cent Series Z debentures at their principal amount. At June 30, 2008, the \$50 million in advances outstanding carried an interest rate of 4.11 per cent. Related to this debt, we also entered into an interest rate swap with similar terms in order to manage our exposure to future interest rate changes. Refer to note 11 for further information.

11. FINANCIAL INSTRUMENTS

Derivative financial instruments

We have the following fixed-floating interest rate swaps outstanding to hedge the variability in cash flows related to a portion of our floating rate debt.

<i>(millions of dollars, except as otherwise noted)</i>	Termination date	Fixed interest rate	As at June 30, 2008		As at December 31, 2007	
			Fair value	Notional principal	Fair value	Notional principal
Short-term debt	August 20, 2010	4.98%	\$ 2.9	\$ 100.0	\$ 1.9	\$ 100.0
Long-term debt	August 23, 2010	4.98%	2.9	100.0	1.8	100.0
Long-term debt	June 23, 2010	3.75%	0.1	50.0	-	-
			\$ 5.9	\$ 250.0	\$ 3.7	\$ 200.0

BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP
Notes to the consolidated financial statements
(Unaudited)
June 30, 2008

11. FINANCIAL INSTRUMENTS (Continued)

Derivative financial instruments (continued)

Under these swaps, which are being accounted for as cash flow hedges, we pay a fixed rate of interest and receive the floating bankers' acceptance rate, reset quarterly. The fair values at June 30, 2008, and December 31, 2007, are in favour of the counterparty and are recorded as derivative liabilities. At June 30, 2008, a one per cent increase (decrease) in the interest rates used to value our interest rate swaps would cause the derivative liability to decrease (increase) by approximately \$5 million.

Fair value of financial instruments

The carrying value of all financial instruments approximate fair value with the exception of long-term debt, which at June 30, 2008, has a carrying value of \$2,571.2 million and a fair value of \$2,361.4 million (December 31, 2007 – \$2,573.6 million and \$2,422.8 million, respectively).

12. NON-CONTROLLING INTEREST

<i>(millions of dollars)</i>		As at June 30, 2008		As at December 31, 2007
Bell Aliant LP	\$	1,714.2	\$	1,740.2
Télébec and NorthernTel (note 2)		-		89.0
SalesBridge		-		0.4
	\$	1,714.2	\$	1,829.6

Distributions declared and paid by subsidiaries to non-controlling interest were as follows:

<i>(millions of dollars)</i>	For the period ended June 30				For the period ended June 30			
	Three months		Three months		Six months		Six months	
	Declared	2008 Paid	Declared	2007 Paid	Declared	2008 Paid	Declared	2007 Paid
Bell Aliant LP	\$ 52.3	\$ 52.3	\$ 50.9	\$ 50.9	\$ 104.2	\$ 103.7	\$ 101.3	\$ 100.8
Télébec and NorthernTel	-	-	9.6	9.6	-	4.5	19.1	19.5
	\$ 52.3	\$ 52.3	\$ 60.5	\$ 60.5	\$ 104.2	\$ 108.2	\$ 120.4	\$ 120.3

13. PARTNERS' CAPITAL

Limited partnership units

<i>(millions of dollars, except as otherwise noted)</i>	Class 1 units		Class 2 units		GP units		Total
	Number	Stated capital	Number	Stated capital	Number	Stated capital	Stated capital
Units, as at December 31, 2007	28,168,803	\$ 1,017.1	124,121,177	\$ 530.9	54,000	\$ -	\$ 1,548.0
Business combination (note 2)	-	-	8,246,429	513.5	-	-	513.5
Units, as at June 30, 2008	28,168,803	\$ 1,017.1	132,367,606	\$ 1,044.4	54,000	\$ -	\$ 2,061.5

Employees' unit purchase plans

The total number of Fund units bought on the open market for our employees during the three and six months ended June 30, 2008, was 429,088 and 919,037, respectively (June 30, 2007 – 394,224 and 961,040, respectively). Compensation expense related to the employees' unit purchase plans of \$2.3 million and \$4.6 million, respectively was recorded for the three and six months ended June 30, 2008 (June 30, 2007 – \$2.7 million and \$5.1 million, respectively).

BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP
Notes to the consolidated financial statements
(Unaudited)
June 30, 2008

13. PARTNERS' CAPITAL (Continued)

Deferred unit plan (DUP)

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

For the period ended June 30	2008	2007
Deferred units outstanding, beginning of period	794,980	-
Granted:		
Service period fiscal 2006 to 2008	-	316,717
Service period March 2007 to March 2010	-	453,742
Service period fiscal 2008 to 2010	411,768	-
Reinvested distributions	42,247	17,377
	1,248,995	787,836
Forfeited	(16,585)	(6,512)
Exercised	(4,397)	-
Deferred units outstanding, end of period	1,228,013	781,324
Deferred units vested, end of period	369,496	106,971

The weighted average grant-date fair value of the 454,015 deferred units granted in the six months ended June 30, 2008, totals \$13.6 million (June 30, 2007 - 787,836 deferred units granted totals \$23.0 million). For the three and six months ended June 30, 2008, compensation expense of \$2.9 million and \$6.6 million, respectively (June 30, 2007 - \$2.0 million and \$3.5 million, respectively) was recorded related to the deferred units outstanding.

14. OTHER COMPREHENSIVE EARNINGS (LOSSES)

Components of other comprehensive earnings (losses) and the related income tax effects are as follows:

For the three months ended June 30	2008			2007		
	Amount	Income		Amount	Income	
<i>(millions of dollars)</i>	arising	taxes	Net	arising	taxes	Net
Gains on derivatives designated as cash flow hedges	\$ 2.1	\$ 0.5	\$ 1.6	\$ 6.9	\$ 1.6	\$ 5.3
Reclassification to earnings	1.0	0.2	0.8	1.1	0.3	0.8
Other comprehensive earnings	\$ 3.1	\$ 0.7	\$ 2.4	\$ 8.0	\$ 1.9	\$ 6.1
For the six months ended June 30	2008			2007		
	Amount	Income		Amount	Income	
<i>(millions of dollars)</i>	arising	taxes	Net	arising	taxes	Net
Gains (losses) on derivatives designated as cash flow hedges	\$ (2.2)	\$ (0.4)	\$ (1.8)	\$ 9.3	\$ 1.6	\$ 7.7
Reclassification to earnings	2.2	0.4	1.8	2.4	0.5	1.9
Other comprehensive earnings (losses)	\$ -	\$ -	\$ -	\$ 11.7	\$ 2.1	\$ 9.6

The reclassification to earnings represents the portion of gains or losses on derivatives designated as cash flow hedges in prior periods that were transferred to interest charges in the current period.

BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP
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15. COMMITMENTS

Operating leases and purchase commitments

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

<i>(millions of dollars)</i>	<i>Remainder of</i>					
	2008	2009	2010	2011	2012	Thereafter
Operating leases	\$ 19.2	\$ 34.2	\$ 30.4	\$ 27.5	\$ 26.8	\$ 307.9
Purchase commitments	206.6	356.2	321.0	310.3	312.0	2,531.3
	\$ 225.8	\$ 390.4	\$ 351.4	\$ 337.8	\$ 338.8	\$ 2,839.2

Deferral account

Bell Canada's deferral account includes amounts that arose from customers located in what is now our territory in Ontario and Quebec. Bell Canada's accumulated deferral account commitment at June 30, 2008, was estimated to be \$152.0 million, with an estimated future annualized commitment of \$1.3 million. The accumulated deferral account commitment takes into account the estimated deferral account drawdown during the first quarter of 2008 associated with the CRTC approved broadband expansion program and the initiatives associated with improving access to communications services for persons with disabilities. On March 3, 2008, along with Bell Canada, we filed proposed reductions to rates for stand-alone local residential telephone access services in regulated exchanges within the non-high cost serving area (non-HCSA) portions of the Ontario and Québec serving areas which, if approved, would eliminate Bell Canada's future annualized commitment.

The CRTC has approved a total of 102 communities within the Ontario and Québec portions of the servicing areas of Bell Canada and Bell Aliant in which Bell Canada and Bell Aliant can deploy broadband using the funds in Bell Canada's deferral account. In January 2008, the CRTC also approved Bell Canada's proposed initiatives to improve access to telecommunication services for persons with disabilities. Finally, the CRTC directed Bell Canada to rebate any balance remaining in its deferral account to residential subscribers in urban, non-HCSAs within the Ontario and Quebec portions of the servicing areas of Bell Canada and Bell Aliant.

Subject to the outcome of CRTC decisions and court proceedings, we will be affected by these and further proposals of Bell Canada to satisfy their deferral account obligations, as we have agreed to contribute to the economic spending portion of the broadband project. We are unable to estimate the effect on our financial results at this time.

16. CONTINGENCIES

On June 26, 2008 a proposed class action was filed in the Saskatchewan Court of Queen's Bench against various Canadian telephone companies, including Bell Aliant Regional Communications, Limited Partnership, in relation to the charging of 911 fees. The suit alleges, among other things, breach of contract, negligence, collusion, and breach of fiduciary duty, and generally claims that the defendants have misrepresented the nature of 911 fees, and that the charges levied on customers are excessive. The plaintiffs claim unspecified damages. We have defences to this claim, but the outcome of the matter is not determinable at this time.

17. CAPITAL MANAGEMENT

Our capital structure includes all components of partner's equity, the non-controlling interest in the equity of our controlled subsidiaries, long-term and short-term debt, net of cash and cash equivalents.

Our objectives in managing our capital structure are to:

- maintain financial flexibility to preserve our ability to meet existing commitments and invest as necessary in the future development of the business;
- provide access to sufficient cash flow to operate the business;
- mitigate the impact of volatility in financing costs on the cash flows of the business; and
- optimize the return to unitholders by utilizing an appropriate mix of debt and equity in the capital structure given our level of business risk.

BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP
Notes to the consolidated financial statements
(Unaudited)
June 30, 2008

17. CAPITAL MANAGEMENT (Continued)

When managing our capital structure we consider changes in economic conditions or the level of business risk and, from time to time, we consider and may adjust our distribution policy, enter into hedging transactions, issue or redeem debt, issue or repurchase partnership units or raise cash through our accounts receivable securitization program.

The non-GAAP financial metric we use to monitor our capital structure is the net debt to earnings before interest, taxes, depreciation and amortization (EBITDA) ratio. This financial ratio is calculated using a trailing twelve-month period for EBITDA. We define net debt as short-term and long-term debt less cash and cash equivalents. We define EBITDA as operating revenues less operating expenses, less the amount included in operating expenses for net benefit plans costs as a significant component of these costs reflect the amortization of past costs. Our capital management objective, which is unchanged from the prior year, is to maintain this ratio at approximately 2.0: 1.

Our net debt to EBITDA ratio at June 30, 2008, and December 31, 2007, were as follows:

<i>(millions of dollars, except as otherwise noted)</i>	As at		As at	
	June 30, 2008		December 31, 2007	
Short-term debt (including notes payable)	\$	232.0	\$	218.6
Long-term debt, including current portion		2,571.2		2,573.6
Less: Cash and cash equivalents		(8.9)		(48.1)
Net debt	\$	2,794.3	\$	2,744.1
Operating revenues	\$	3,309.7	\$	3,279.9
Less: Operating expenses		(1,980.4)		(1,969.6)
Add: Net cost of benefit plans included in operating expenses		123.4		131.6
EBITDA	\$	1,452.7	\$	1,441.9
Net debt to EBITDA ratio		1.9:1		1.9:1

We are subject to certain covenants on our bank credit facilities, including maintenance of a ratio of total debt to EBITDA (as defined in our credit facilities) of no more than 3.0:1. Under a securityholders' agreement with BCE and Bell Canada, we would need to seek their prior approval if we were to increase our debt to EBITDA ratio (as defined in the securityholders' agreement) above 2.5:1. In addition, we are subject to a new issuance test under our note trust indenture whereby new long-term debt can only be issued if it would result in a ratio of long-term debt to total capital (as defined in the trust indenture) of 75 per cent or less. We are in compliance with all these debt covenants and are not subject to any other externally imposed capital requirements.

18. RELATED PARTY TRANSACTIONS

On January 1, 2008, the Fund transferred its 36.7 per cent ownership interest in Télébec and NorthernTel to us in return for 8,246,429 class 2 limited partnership units of Bell Aliant Holdings LP (note 2). The transfer was accounted for at its carrying value.

Throughout the first six months of 2008, the Fund loaned us their excess cash through a series of promissory notes. The Fund requests repayments as required for operating purposes. The \$1.9 million promissory note that was payable to the Fund at December 31, 2007, was repaid on January 15, 2008. Subsequently issued promissory notes carried rates of interest from 3.21 per cent to 4.68 per cent per annum, resulting in an immaterial amount of interest expense being incurred. At June 30, 2008, a \$2.3 million promissory note was payable to the Fund, which bears interest at 3.25 per cent per annum.

19. SUBSEQUENT EVENT

Defence, Security and Aerospace business

On August 5, 2008, we announced with CAE that we have entered into an asset purchase agreement for CAE to acquire our Defence, Security and Aerospace information technology business, which currently operates under the xwave brand. The purchase price paid on closing will be \$15.1 million with an additional \$11.0 million to be paid contingent upon the occurrence of certain events for a potential total purchase price of \$26.1 million. This transaction is subject to the satisfaction of certain conditions and is anticipated to close before the end of the calendar year.

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We are building long-term
value for our unitholders
through customer relationships
that last a lifetime.

Bell Aliant
1 877 248-3113
investors@bell.aliant.ca
www.bell.aliant.ca

