

**BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP**

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(Unaudited)**

**June 30, 2009**

**BellAliant**

**BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP**  
**Consolidated balance sheets**

<b>(Unaudited)</b>		<b>As at</b>	<b>As at</b>
<i>(millions of dollars)</i>	<b>Notes</b>	<b>June 30, 2009</b>	<b>December 31, 2008</b>
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$	15.5	\$ 14.6
Accounts receivable		329.9	348.4
Inventory		12.2	13.3
Prepayments		41.7	16.5
Future income tax asset		48.6	40.8
Income tax receivable		11.4	9.1
Current assets of discontinued operations		-	15.0
		<b>459.3</b>	<b>457.7</b>
Capital investments			
Property, plant and equipment		3,685.5	3,726.1
Finite-life intangibles	3	3,139.9	3,218.3
		<b>6,825.4</b>	<b>6,944.4</b>
Other assets			
Long-term receivables		33.9	34.9
Deferred charges		12.4	15.9
Future income tax asset		6.7	7.1
Accrued benefit asset	4	406.1	398.9
Indefinite-life intangibles		125.2	125.2
Goodwill	5	2,762.7	2,766.6
Non-current assets of discontinued operations		-	2.3
		<b>3,347.0</b>	<b>3,350.9</b>
<b>Total assets</b>	<b>\$</b>	<b>10,631.7</b>	<b>\$ 10,753.0</b>
<b>Liabilities and partners' equity</b>			
Current liabilities			
Notes payable to related party	13	\$ 3.1	\$ 6.2
Payables and accruals	6	376.8	451.2
Distributions payable	13	55.5	55.4
Future income tax liability		0.4	0.5
Short-term debt	7	78.8	208.2
Long-term debt due within one year	8	15.5	114.7
Current liabilities of discontinued operations		-	7.6
		<b>530.1</b>	<b>843.8</b>
Future income tax liability		444.3	453.2
Long-term debt	8	2,750.5	2,454.0
Derivative liabilities	9	-	15.2
Accrued benefit liability	4	411.0	421.9
Deferred credits and other long-term liabilities	6	27.5	19.5
		<b>4,163.4</b>	<b>4,207.6</b>
Non-controlling interest		1,627.8	1,662.5
Partners' equity		4,840.5	4,882.9
<b>Total liabilities and partners' equity</b>	<b>\$</b>	<b>10,631.7</b>	<b>\$ 10,753.0</b>

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)

	Notes	Three months		Six months	
		2009	2008	2009	2008
Operating revenues		\$ 789.7	\$ 813.1	\$ 1,613.5	\$ 1,648.6
Expenses					
Operating expenses		444.1	476.7	934.3	983.5
Depreciation and amortization		177.5	174.7	354.2	349.2
Restructuring and other charges	6	3.2	-	13.5	-
		624.8	651.4	1,302.0	1,332.7
		164.9	161.7	311.5	315.9
Other expenses (income)					
Financial derivatives loss	9, 11	13.3	-	13.3	-
Other expenses (income)		(0.5)	0.6	(0.9)	2.5
		12.8	0.6	12.4	2.5
Interest charges					
Interest on long-term debt		36.4	34.2	70.8	68.5
Other interest expense		2.6	5.5	5.7	10.8
		39.0	39.7	76.5	79.3
Earnings before underlisted items		113.1	121.4	222.6	234.1
Income taxes					
Current tax recovery		(2.0)	-	(2.0)	(3.9)
Future tax expense (recovery)		(12.2)	(5.4)	(21.3)	0.3
		(14.2)	(5.4)	(23.3)	(3.6)
Earnings before non-controlling interest		127.3	126.8	245.9	237.7
Non-controlling interest		33.8	41.8	70.1	78.2
Net earnings from continuing operations		93.5	85.0	175.8	159.5
Net loss from discontinued operations	2	(4.2)	(0.6)	(4.0)	(10.8)
<b>Net earnings</b>		<b>\$ 89.3</b>	<b>\$ 84.4</b>	<b>\$ 171.8</b>	<b>\$ 148.7</b>
Earnings per unit					
Basic from continuing operations		\$ 0.58	\$ 0.53	\$ 1.10	\$ 1.00
Basic from discontinued operations		(0.02)	-	(0.03)	(0.07)
Basic		\$ 0.56	\$ 0.53	\$ 1.07	\$ 0.93

See accompanying notes to the consolidated financial statements

### Consolidated statements of comprehensive earnings

(Unaudited)

For the period ended June 30

(millions of dollars)

	Note	Three months		Six months	
		2009	2008	2009	2008
Net earnings		\$ 89.3	\$ 84.4	\$ 171.8	\$ 148.7
Other comprehensive earnings, net of tax	11	12.4	2.4	13.8	-
<b>Comprehensive earnings</b>		<b>\$ 101.7</b>	<b>\$ 86.8</b>	<b>\$ 185.6</b>	<b>\$ 148.7</b>

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, 2009	Notes	Partners' capital	Contributed surplus	Accumulated earnings	Distributions declared to unitholders	Retained earnings	Accumulated other comprehensive earnings (loss)	Total partners' equity
(millions of dollars)								
Balance December 31, 2008		\$ 2,061.5	\$ 0.4	\$ 1,056.2	\$ (1,065.7)	\$ 2,873.2	\$ (42.7)	\$ 4,882.9
Net earnings		-	-	171.8	-	-	-	171.8
Distributions declared on:								
Class 1 exchangeable limited partnership units		-	-	-	(40.9)	-	-	(40.9)
Class 2 limited partnership units	13	-	-	-	(187.1)	-	-	(187.1)
Other comprehensive earnings, net of tax		-	-	-	-	-	13.8	13.8
<b>Balance June 30, 2009</b>		<b>\$ 2,061.5</b>	<b>\$ 0.4</b>	<b>\$ 1,228.0</b>	<b>\$ (1,293.7)</b>	<b>\$ 2,873.2</b>	<b>\$ (28.9)</b>	<b>\$ 4,840.5</b>

For the period ended June 30, 2008	Notes	Partners' capital	Contributed surplus	Accumulated earnings	Distributions declared to unitholders	Retained earnings	Accumulated other comprehensive earnings (loss)	Total partners' equity
(millions of dollars)								
Balance December 31, 2007		\$ 1,548.0	\$ 0.2	\$ 734.0	\$ (611.4)	\$ 2,873.2	\$ (37.2)	\$ 4,506.8
Net earnings		-	-	148.7	-	-	-	148.7
Issuance of class 2 limited partnership units on business combination		513.5	-	-	-	-	-	513.5
Distributions declared on:								
Class 1 exchangeable limited partnership units		-	-	-	(40.7)	-	-	(40.7)
Class 2 limited partnership units	13	-	-	-	(186.1)	-	-	(186.1)
Other comprehensive earnings, net of tax		-	-	-	-	-	-	-
<b>Balance June 30, 2008</b>		<b>\$ 2,061.5</b>	<b>\$ 0.2</b>	<b>\$ 882.7</b>	<b>\$ (838.2)</b>	<b>\$ 2,873.2</b>	<b>\$ (37.2)</b>	<b>\$ 4,942.2</b>

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	
		2009	2008	2009	2008
<b>Cash from (used in) operating activities</b>					
Net earnings from continuing operations		\$ 93.5	\$ 85.0	\$ 175.8	\$ 159.5
Adjustments to reconcile net earnings to cash from operating activities					
Depreciation and amortization		177.5	174.7	354.2	349.2
Gain on disposal of assets		(1.0)	(0.2)	(1.0)	(0.2)
Future income tax expense (recovery)		(12.2)	(5.4)	(21.3)	0.3
Net cost of benefit plans	4	20.4	22.9	40.7	45.9
Funding of defined benefit pension and other post-employment benefit plans	4	(29.5)	(27.9)	(58.8)	(55.5)
Non-controlling interest		33.8	41.8	70.1	78.2
Financial derivatives loss	9, 11	13.3	-	13.3	-
Other		(2.7)	0.7	(2.9)	(0.3)
Change in operating assets and liabilities		3.0	56.6	(62.4)	7.3
		<b>296.1</b>	<b>348.2</b>	<b>507.7</b>	<b>584.4</b>
<b>Cash from (used in) financing activities</b>					
Repurchase of accounts receivable		-	-	-	(55.0)
Net proceeds (repayments) of short-term debt		(214.6)	(55.6)	(129.4)	13.1
Net proceeds (repayments) of notes payable to related party		2.0	1.2	(3.0)	0.4
Proceeds of long-term debt		348.6	50.0	348.6	50.0
Repayment of long-term debt		(150.2)	(50.4)	(151.1)	(51.2)
Repayment of capital lease obligations		(1.4)	(1.8)	(3.6)	(3.7)
Net settlement of financial derivatives	9	(15.4)	-	(15.4)	-
Payment to non-controlling interest		-	(0.4)	-	(0.4)
Distributions paid by subsidiaries to non-controlling interest		(52.3)	(52.3)	(104.7)	(108.2)
Distributions paid		(114.0)	(114.3)	(227.9)	(219.4)
		<b>(197.3)</b>	<b>(223.6)</b>	<b>(286.5)</b>	<b>(374.4)</b>
<b>Cash from (used in) investing activities</b>					
Purchase of capital investments		(122.0)	(127.5)	(229.5)	(222.6)
Proceeds on sale of capital investments		1.7	1.7	1.7	1.7
Business acquisition, net of cash received		-	(0.2)	-	(27.8)
		<b>(120.3)</b>	<b>(126.0)</b>	<b>(227.8)</b>	<b>(248.7)</b>
Net decrease in cash from continuing operations		(21.5)	(1.4)	(6.6)	(38.7)
Net increase (decrease) in cash from discontinued operations	2	13.3	(0.6)	7.5	(0.5)
Cash and cash equivalents, beginning of period		23.7	10.9	14.6	48.1
<b>Cash and cash equivalents, end of period</b>		<b>\$ 15.5</b>	<b>\$ 8.9</b>	<b>\$ 15.5</b>	<b>\$ 8.9</b>
<b>Supplementary disclosure</b>					
Cash and cash equivalents, end of period					
Cash				\$ 11.2	\$ 6.2
Cash equivalents				4.3	2.7
				<b>\$ 15.5</b>	<b>\$ 8.9</b>
Interest paid		\$ 7.5	\$ 10.1	\$ 71.3	\$ 74.3
Income taxes paid (recovered), net		\$ 0.6	\$ (1.4)	\$ 0.8	\$ (2.3)

See accompanying notes to the consolidated financial statements

**BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
**June 30, 2009**

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Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP) was established in 2006 under the laws of the Province of Quebec, and holds the principal operating subsidiaries of Bell Aliant Regional Communications Income Fund (the Fund). All references to “we”, “us” or “our” refer to Bell Aliant Holdings LP and its subsidiaries.

Our operations are principally focused on regional telecommunications services in Atlantic Canada, Quebec and Ontario. We provide a wide range of innovative and traditional voice and data communications services as well as information technology (IT) consulting, infrastructure management, product fulfillment and advanced technology solutions. We provide these services through our principal operating subsidiaries which include Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Télébec, Limited Partnership (Télébec), NorthernTel, Limited Partnership (NorthernTel), and Innovatia Inc.

## **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, 2008, with the exception of the adoption of a new accounting policy 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, 2008.

### ***Goodwill and intangible assets***

Commencing January 1, 2009, we adopted Section 3064, Goodwill and intangible assets, issued by the Canadian Institute of Chartered Accountants (CICA), which provides guidance on the measurement, recognition, presentation and disclosure of these items. The adoption of this Section did not have a material effect on our operations or financial reporting.

### ***Future changes in accounting policies***

The Accounting Standards Board of the CICA continually amends certain standards or guidelines contained in the CICA Handbook. We monitor these changes as they are proposed and make changes to our accounting policies and disclosures as necessary.

### ***Business combinations, Consolidated financial statements, and Non-controlling interests***

The CICA issued Section 1582, Business combinations, concurrently with Sections 1601, Consolidated financial statements, and 1602, Non-controlling interests. Section 1582, which replaced Section 1581, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. Section 1601, which replaced Section 1600, carries forward the existing guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition, except for those dealing with non-controlling interests. Section 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination. The new standards apply to interim and annual financial statements for fiscal years beginning on or after January 1, 2011, with early adoption permitted. We are currently assessing the effect of the new standards on our consolidated financial statements.

### ***Comparative figures***

Certain comparative financial information has been reclassified to be consistent with the presentation adopted for 2009, including the discontinued operations as discussed in note 2.

**BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
**June 30, 2009**

**2. DISCONTINUED OPERATIONS**

*xwave New England Corp. (xwave NE)*

On June 1, 2009, Bell Aliant Holdings LP and Abilis Solutions Inc. (Abilis) concluded a share purchase agreement for Abilis to acquire 100 per cent of the outstanding shares of xwave NE. The proceeds on closing were \$5.1 million, resulting in a \$2.6 million loss recognized in net earnings (loss) from discontinued operations. Accordingly, during the second quarter of 2009, we reclassified the results of the xwave NE operations as discontinued operations and restated prior period consolidated statements of earnings and cash flows to reflect this change.

*Defence, Security and Aerospace (DSA) business*

In 2008, Bell Aliant Holdings LP and CAE Professional Services (Canada) Inc. (CAE) entered into an asset purchase agreement for CAE to acquire our DSA business, which operated under the xwave brand. The transaction closed on May 1, 2009. The proceeds on closing were \$16.3 million in cash and \$7.6 million in a receivable from CAE related to post-closing balance sheet adjustments. An additional \$8.5 million of proceeds is contingent upon the occurrence of certain future events, including the award of or resumption of work related to certain contracts, for potential total proceeds of \$32.4 million. A gain on sale of \$2.0 million, which is net of \$3.9 million allocated goodwill (note 5), has been recorded in net earnings from discontinued operations.

*Atlantic Mobility Products Limited Partnership (AMP)*

Effective July 4, 2008, Bell Canada discontinued using AMP as their exclusive distributor of mobility products in Atlantic Canada, which resulted in the elimination of our mobility hardware and accessories wholesale distribution business.

*Presentation of discontinued operations*

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

For the three months ended June 30 <i>(millions of dollars)</i>	2009			2008			
	DSA	xwave NE	Total	DSA	xwave NE	AMP	Total
Operating revenues	\$ 1.8	\$ 1.4	\$ 3.2	\$ 7.4	\$ 2.5	\$ 22.6	\$ 32.5
Expenses	3.2	3.1	6.3	6.8	2.7	21.1	30.6
Gain (loss) on sale	2.0	(2.6)	(0.6)	-	-	-	-
Income tax expense	0.5	-	0.5	0.2	-	2.3	2.5
Net earnings (loss) from discontinued operations	\$ 0.1	\$ (4.3)	\$ (4.2)	\$ 0.4	\$ (0.2)	\$ (0.8)	\$ (0.6)

For the six months ended June 30 <i>(millions of dollars)</i>	2009			2008			
	DSA	xwave NE	Total	DSA	xwave NE	AMP	Total
Operating revenues	\$ 9.0	\$ 5.6	\$ 14.6	\$ 14.4	\$ 4.9	\$ 43.1	\$ 62.4
Expenses	9.5	7.9	17.4	13.7	5.4	39.9	59.0
Write-down of goodwill	-	-	-	-	-	11.2	11.2
Gain (loss) on sale	2.0	(2.6)	(0.6)	-	-	-	-
Income tax expense	0.6	-	0.6	0.2	-	2.8	3.0
Net earnings (loss) from discontinued operations	\$ 0.9	\$ (4.9)	\$ (4.0)	\$ 0.5	\$ (0.5)	\$ (10.8)	\$ (10.8)

**BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
**June 30, 2009**

**2. DISCONTINUED OPERATIONS (Continued)**

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

For the three months ended June 30 (millions of dollars)	2009			2008			
	DSA	xwave	NE Total	DSA	xwave	NE AMP	Total
Cash from (used in) operating activities	\$ (2.7)	\$ (3.3)	\$ (6.0)	\$ (2.4)	\$ 0.3	\$ 1.5	\$ (0.6)
Cash from (used in) investing activities	16.4	2.9	19.3	-	-	-	-
Net increase (decrease) in cash from discontinued operations	\$ 13.7	\$ (0.4)	\$ 13.3	\$ (2.4)	\$ 0.3	\$ 1.5	\$ (0.6)

  

For the six months ended June 30 (millions of dollars)	2009			2008			
	DSA	xwave	NE Total	DSA	xwave	NE AMP	Total
Cash from (used in) operating activities	\$ (7.1)	\$ (4.7)	\$ (11.8)	\$ (3.9)	\$ 0.2	\$ 3.2	\$ (0.5)
Cash from (used in) investing activities	16.4	2.9	19.3	-	-	-	-
Net increase (decrease) in cash from discontinued operations	\$ 9.3	\$ (1.8)	\$ 7.5	\$ (3.9)	\$ 0.2	\$ 3.2	\$ (0.5)

**3. FINITE-LIFE INTANGIBLES**

During the six months ended June 30, 2009, the cost of acquired finite-life intangibles was \$9.0 million (June 30, 2008 – \$10.2 million), and the cost of internally developed finite-life intangibles was \$20.7 million (June 30, 2008 – \$21.9 million). In the first half of 2008, we also acquired \$181.9 million in finite-life intangibles related to the transfer by the Fund of their 36.7 per cent interest in Télébec and NorthernTel to us.

**4. POST-EMPLOYMENT BENEFITS**

*Accrued benefit asset (liability)*

The following table shows the status of the defined benefit (DB) pension and other post employment benefit (OPEB) plans and changes during the period.

(millions of dollars)	DB pension		OPEB	Total
	plans	plans	plans	
Accrued benefit asset (liability) as at December 31, 2008	\$ 199.5	\$ (222.5)	\$ (23.0)	
Net cost of benefit plans	(37.7)	(3.0)	(40.7)	
Contributions	55.0	3.8	58.8	
Accrued benefit asset (liability) as at June 30, 2009	\$ 216.8	\$ (221.7)	\$ (4.9)	
Accrued benefit asset	\$ 406.1	\$ -	\$ 406.1	
Accrued benefit liability	(189.3)	(221.7)	(411.0)	
	\$ 216.8	\$ (221.7)	\$ (4.9)	

**BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
**June 30, 2009**

**4. POST-EMPLOYMENT BENEFITS (Continued)**

*Net cost of benefit plans*

The following table shows the net cost of DB pension and OPEB plans.

For the period ended June 30 <i>(millions of dollars)</i>	Three months		Six months	
	<b>2009</b>	2008	<b>2009</b>	2008
<i>DB pension plans</i>				
Current service cost	\$ 11.7	\$ 15.5	\$ 23.4	\$ 31.0
Interest on the accrued benefit obligation	40.0	40.2	79.9	80.5
Expected return on plan assets	(38.6)	(39.9)	(77.2)	(79.7)
Amortization of deferred amounts:				
Past service costs	1.4	1.4	2.8	2.8
Net actuarial losses	4.4	3.9	8.8	7.8
	\$ 18.9	\$ 21.1	\$ 37.7	\$ 42.4
<i>OPEB plans</i>				
Current service cost	\$ 0.4	\$ 0.6	\$ 0.8	\$ 1.1
Interest on the accrued benefit obligation	2.7	2.8	5.4	5.6
Amortization of deferred amounts:				
Past service costs	(2.0)	(2.0)	(4.0)	(4.0)
Net actuarial losses	0.4	0.4	0.8	0.8
	\$ 1.5	\$ 1.8	\$ 3.0	\$ 3.5
Total net cost of DB pension and OPEB plans	\$ 20.4	\$ 22.9	\$ 40.7	\$ 45.9

*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	
	<b>2009</b>	2008	<b>2009</b>	2008
DB pension plans contributions	\$ 27.5	\$ 26.2	\$ 55.0	\$ 52.1
OPEB plans contributions	2.0	1.7	3.8	3.4
Funding of DB pension and OPEB plans	\$ 29.5	\$ 27.9	\$ 58.8	\$ 55.5
DC pension plans contributions	2.1	1.9	4.0	3.7
Total contributions	\$ 31.6	\$ 29.8	\$ 62.8	\$ 59.2

**5. GOODWILL**

<i>(millions of dollars)</i>	
Goodwill as at December 31, 2008	\$ 2,766.6
Disposal of DSA business (note 2)	(3.9)
Goodwill as at June 30, 2009	\$ 2,762.7

**BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
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**6. RESTRUCTURING AND OTHER CHARGES**

In March 2009, we offered a voluntary retirement incentive to a limited number of our unionized employees in Atlantic Canada. In May 2009, we extended the offer to a limited number of our unionized employees in Ontario and Quebec. The offer supports our productivity initiatives and will create a more efficient cost structure. As a result, we estimated and recorded a pre-tax restructuring charge of \$11.2 million in employee severance and related costs, which will be paid as employees retire in 2009.

During 2008, we recorded pre-tax restructuring and other charges of \$60.7 million related to our continued organizational productivity initiatives and the departure of senior executives. The charge included \$59.8 million of severance and benefit costs, \$6.5 million of real estate rationalization costs, and a \$5.6 million reduction to the estimated cost of the 2007 restructuring liability to reflect its final costs.

The liability included in payables and accruals for restructuring and other charges is as follows:

<i>(millions of dollars)</i>		
Restructuring charge liability as at December 31, 2008	<b>\$</b>	<b>65.1</b>
Restructuring charges:		
Employee severance and related costs		<b>11.2</b>
Real estate rationalization costs		<b>0.9</b>
		<b>12.1</b>
Cash payments		<b>(50.5)</b>
Restructuring charge liability as at June 30, 2009	<b>\$</b>	<b>26.7</b>

As at June 30, 2009, the restructuring charge liability included \$5.2 million in real estate rationalization costs, which are included in other long-term liabilities as they will be drawn down after 2009.

During the three and six months ended June 30, 2009, we incurred \$0.5 million and \$1.4 million, respectively, of other charges, which mainly related to rebranding for our operations.

**7. SHORT-TERM DEBT**

We have decreased the amounts available for use under operating credit facilities by \$47.9 million to \$1,137.2 million during the six months ended June 30, 2009, as follows:

- Dedicated letter of credit facilities supporting contracts that were transferred as part of the sale of the DSA business (note 2), were decreased by \$45.5 million; and
- The non-revolving pension reserve facility was decreased by \$2.4 million when letters of credit supporting the 10-year solvency funding schedule of certain of our pension plans were reduced.

Amounts drawn under operating facilities are as follows:

<i>(millions of dollars)</i>	<b>As at June 30, 2009</b>	<b>As at December 31, 2008</b>
Drawn amounts:		
Non-revolving pension reserve facility	<b>\$ 40.0</b>	\$ 15.0
Commercial paper program	<b>38.8</b>	-
Revolving operating facilities	-	193.0
Other	-	0.2
	<b>\$ 78.8</b>	<b>\$ 208.2</b>

In May 2009, we repaid \$250.0 million of Bankers' Acceptance advances that were outstanding under our revolving operating facilities through proceeds from the issuance of medium-term notes (note 8).

**BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
**June 30, 2009**

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**7. SHORT-TERM DEBT (Continued)**

Bankers' Acceptance advances of \$40.0 million outstanding under our non-revolving pension reserve facility bear interest at rates of 0.91 per cent per annum and mature on July 31, 2009.

We ensure at all times that sufficient undrawn capacity exists on our revolving operating facilities to support issuances of commercial paper. Short-term promissory notes issued under our commercial paper program bear interest at rates from 0.35 to 0.60 per cent per annum and mature on dates from July 6 to July 28, 2009.

**8. LONG-TERM DEBT**

In May 2009, we issued \$350.0 million of unsecured medium-term notes, bearing interest at 6.29 per cent per annum and maturing on February 17, 2015. Debt issue costs of \$1.2 million were incurred and the notes were issued at a discount to provide net proceeds of \$348.6 million. Proceeds were used to repay \$250.0 million outstanding under the revolving operating facilities (note 7) and a \$100.0 million non-revolving term loan that was scheduled to mature in July 2009.

Also in the second quarter of 2009, we repaid a \$50.0 million non-revolving term bank loan facility established in the second quarter of 2008.

During the six months ended June 30, 2009, we entered into capital lease obligations totalling \$3.4 million for telecommunications and other equipment and bearing interest at rates ranging from 4.41 per cent to 5.73 per cent per annum.

**9. FINANCIAL INSTRUMENTS**

*Derivative financial instruments*

In May 2009, we settled our outstanding fixed-floating interest rate swaps with notional principal values totalling \$250.0 million when the hedged variable interest debt was repaid upon the issuance of fixed-rate medium-term notes, as further detailed in notes 7 and 8. We paid \$15.4 million to the counterparties on the settlement of the swaps, which included \$2.1 million in accrued interest. As the hedged variable interest debt was repaid, hedge accounting was discontinued and net losses of \$13.3 million that were previously recognized in other comprehensive earnings (losses) were reclassified to other expenses in the statement of earnings (note 11).

*Fair value of financial instruments*

The carrying value of all financial instruments approximate fair value with the exception of long-term debt and the amount due within one year, which at June 30, 2009, has a carrying value of \$2,766.0 million and a fair value of \$2,715.8 million (December 31, 2008 – \$2,568.7 million and \$2,318.3 million, respectively).

**10. UNIT-BASED COMPENSATION PLANS**

*Employee 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, 2009, was 532,516 and 1,109,719, respectively (June 30, 2008 – 429,088 and 919,037, respectively). Compensation expense related to the employee unit purchase plans of \$2.5 million and \$4.8 million, respectively, was recorded for the three and six months ended June 30, 2009 (June 30, 2008 – \$2.3 million and \$4.6 million, respectively).

**BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
**June 30, 2009**

**10. UNIT-BASED COMPENSATION PLANS (Continued)**

*Deferred unit plan*

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

For the period ended June 30	2009	2008
Deferred units outstanding, beginning of period	1,181,958	794,980
Granted:		
Service period fiscal 2008 to 2010	-	411,768
Service period fiscal 2009 to 2011	350,492	-
Reinvested distributions	65,716	42,247
	416,208	454,015
Forfeited	(56,924)	(16,585)
Exercised	(257,251)	(4,397)
Deferred units outstanding, end of period	1,283,991	1,228,013
Deferred units vested, end of period	437,380	369,496

The grant-date fair value of the 416,208 deferred units granted in the six months ended June 30, 2009, totals \$10.8 million (June 30, 2008 – 454,015 deferred units granted totals \$13.6 million). For the three and six months ended June 30, 2009, we recorded a decrease in compensation expense of \$0.7 million and an increase in compensation expense of \$2.2 million, respectively (June 30, 2008 – increase in compensation expense of \$2.9 million and \$6.6 million, respectively), related to the deferred units costs recognized over the vesting period and the change in the quoted market price of the Fund units between the grant date and the reporting period date.

**11. OTHER COMPREHENSIVE EARNINGS**

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

For the three months ended June 30	2009			2008		
	Amount arising	Income taxes	Net	Amount arising	Income taxes	Net
<i>(millions of dollars)</i>						
Gains (losses) on derivatives designated as cash flow hedges	\$ (0.7)	\$ (0.2)	\$ (0.5)	\$ 2.1	\$ 0.5	\$ 1.6
Reclassification to net earnings related to the cash flow hedges settled	15.4	3.4	12.0	-	-	-
Reclassification to interest charges	1.2	0.3	0.9	1.0	0.2	0.8
Other comprehensive earnings	\$ 15.9	\$ 3.5	\$ 12.4	\$ 3.1	\$ 0.7	\$ 2.4

For the six months ended June 30	2009			2008		
	Amount arising	Income taxes	Net	Amount arising	Income taxes	Net
<i>(millions of dollars)</i>						
Gains (losses) on derivatives designated as cash flow hedges	\$ (0.1)	\$ (0.1)	\$ -	\$ (2.2)	\$ (0.4)	\$ (1.8)
Reclassification to net earnings related to the cash flow hedges settled	15.4	3.4	12.0	-	-	-
Reclassification to interest charges	2.4	0.6	1.8	2.2	0.4	1.8
Other comprehensive earnings	\$ 17.7	\$ 3.9	\$ 13.8	\$ -	\$ -	\$ -

**BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP**  
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**11. OTHER COMPREHENSIVE EARNINGS (Continued)**

In May 2009, we reclassified to net earnings \$15.4 million in net losses related to the cash flow hedges that were settled in the quarter, comprised of \$13.3 million loss on settlement and \$2.1 million interest charges. Hedge accounting no longer applies to these hedges, as discussed in note 9. Also included in reclassification to net earnings is the portion of gains or losses on derivatives designated as cash flow hedges in prior periods that were transferred to interest charges in the year, in accordance with the application of hedge accounting.

**12. 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>	Remainder of					
	2009	2010	2011	2012	2013	Thereafter
Operating leases	\$ 21.0	\$ 37.1	\$ 34.7	\$ 32.7	\$ 32.5	\$ 323.8
Purchase commitments	188.3	325.2	310.1	309.0	296.5	2,180.0
	\$ 209.3	\$ 362.3	\$ 344.8	\$ 341.7	\$ 329.0	\$ 2,503.8

*Deferral account*

Bell Canada's deferral account includes amounts that arose in relation to customers located in what is now our territory in Ontario and Quebec. Bell Canada's accumulated deferral account commitment at June 30, 2009, was estimated to be \$152.0 million, which is unchanged from December 31, 2008. The annualized recurring amount in Bell Canada's deferral account was estimated at \$16.3 million at December 31, 2008. Pursuant to Telecom Decision 2009-213, Bell Canada and Bell Aliant implemented rate reductions for residential local service in their Ontario and Quebec serving areas, effective June 1, 2009, which cleared the annualized recurring amount in Bell Canada's deferral account. As a result, as of June 30, 2009, Bell Canada does not have a future annualized commitment.

At June 30, 2009, Télébec's cumulative deferral account shortfall is estimated at \$1.7 million (December 31, 2008 - \$2.2 million) and the annualized recurring amount is estimated at \$0.8 million (December 31, 2008 - \$1.8 million), considering the rate increase approved by the CRTC on June 1, 2009.

**13. RELATED PARTY TRANSACTIONS**

The Fund is entirely dependent on the distributions we pay to them to make their distributions. For the three and six months ended June 30, 2009, we declared distributions to them of \$93.6 million and \$187.1 million, respectively (June 30, 2008 - \$93.9 million and \$186.1 million, respectively). At June 30, 2009, \$31.3 million was included in distributions payable (December 31, 2008 - \$31.2 million).

The Fund loans us their excess cash through a series of promissory notes. The Fund requests repayments as required for operating purposes. The \$6.2 million promissory note that was payable to the Fund at December 31, 2008, was repaid on January 15, 2009. Subsequently issued promissory notes carried rates of interest from 0.49 per cent to 1.81 per cent per annum, resulting in an immaterial amount of interest expense being incurred during the three and six months ended June 30, 2009 (June 30, 2008 - immaterial amount). At June 30, 2009, \$3.1 million in promissory notes were payable to the Fund, bearing interest at 0.49 per cent per annum and maturing on dates up to July 15, 2009.