



Second quarter report 2010

**Bell**Aliant

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**Bell Aliant Regional Communications Income Fund**

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## News Release

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### Bell Aliant reports second quarter 2010 results

- Operating expense reductions of \$21 million from Q2 2009 mitigate revenue declines of \$31 million
- NAS declines improve 26 per cent over Q2 2009
- *FibreOP*<sup>™</sup> expansion continues on plan with strong IPTV and Internet bundle performance

Halifax, NS – Wednesday, July 28, 2010 – Bell Aliant Regional Communications Income Fund (Bell Aliant or the Fund) (TSX: BA.UN) today announced its second quarter 2010 financial results for the Fund and Bell Aliant Regional Communications Holdings, LP (Bell Aliant Holdings LP).

“We continue to accelerate our strategic objectives and our results are in line with our expectations, including the reduction in operating expenses of over \$20 million from the second quarter of 2009 as we reset our cost structure,” said Karen Sheriff, president and chief executive officer. “While competitive expansion in our territories continued to reduce our local service customer base, our NAS declines in the second quarter improved substantially from both the first quarter of this year and the same quarter a year ago.”

“The rollout of our *FibreOP* services is proceeding well and I am very pleased with the results we are experiencing to date, particularly the take-up of our *FibreOP* Bundles which include TV, Internet and home phone,” continued Sheriff.

“We are making progress on our key strategies and I’m looking forward to making further improvements as we tackle the challenges of our competitive environment.”

### Second quarter 2010 results

#### *Highlights*

Operating revenues were down \$31 million (4.0 per cent) in the second quarter of 2010 compared to the second quarter of 2009. The decline was driven by declines in local and long distance revenues associated with lower network access services (NAS), lower data revenues and lower information technology (IT) service revenues. These decreases were partially offset by increases in Internet revenues.

Operating expense reductions of \$21 million (5.1 per cent) from labour-related cost reductions and other cost containment initiatives mitigated the effects on EBITDA of lower revenues in the second quarter of 2010 compared to the same quarter a year earlier.

EBITDA decreased by 2.8 per cent, or \$10 million in the second quarter of 2010 compared to the same period in 2009. Excluding the effects of a one-time \$3 million adjustment that reduced senior management long-term incentive plan expenses in the second quarter of 2009, EBITDA decreased 1.9 per cent in the second quarter of 2010 compared to the same period in 2009. Because of the improvement in operating expenses, EBITDA margin improved to 47.4 per cent in the second quarter of 2010, up from 46.8 per cent in the same quarter of 2009.

Bell Aliant Holdings LP's second quarter financial highlights are as follows:

(In millions of dollars)	Q2 2010	Q2 2009	Percentage Change	YTD 2010	YTD 2009	Percentage Change
Operating Revenue	753	784	(4.0)%	1,532	1,603	(4.4)%
EBITDA	357	367	(2.8)%	711	726	(2.1)%
Capital Expenditures	125	122	2.7 %	220	229	(4.1)%
Distributable Cash	176	187	(5.6)%	377	383	(1.7)%

### Results

Local service revenue declined \$16 million (4.7 per cent) in the second quarter of 2010 compared to the same quarter in 2009 as a result of NAS declines and a \$6 million decrease in competitor contribution subsidies. Residential and business NAS were 6.1 per cent and 2.6 per cent lower, respectively, than a year earlier primarily as a result of increased competitive activity. Total NAS declines in the quarter improved by approximately 8,000 over the second quarter of 2009 and by 15,000 compared to those experienced in the first quarter of 2010.

Long distance revenue declined \$7 million (6.9 per cent), in the second quarter of 2010 compared to the same quarter in 2009 as a result of NAS declines and migration to flat rate long distance plans.

Internet revenue grew by \$7 million (7.0 per cent) in the second quarter of 2010 compared to the same period in 2009, with the number of high-speed Internet customers 6.0 per cent higher than a year ago and growth in Bell Aliant TV subscribers. Residential High Speed average revenue per customer (ARPC) reached its highest point to date, increasing 4.5 per cent over the same quarter in 2009 as a result of pricing action and customer migration to higher value services.

Other data revenues declined \$8 million (7.4 per cent) compared to the same quarter in 2009 as a result of competitive pressure and migration to alternate technologies.

IT revenues declined \$6 million (9.0 per cent) compared to the same quarter a year ago driven by softness in the IT services sector.

Other revenues declined \$3 million (7.0 per cent) compared to the same quarter in 2009 mainly as a result of lower product sales and rentals.

Capital expenditures in the second quarter of 2010 were \$125 million, up \$3 million from the same quarter a year ago as fibre-to-the-home expansion in 2010 replaced 2009 expenditures for the Bell Mobility backhaul project.

Distributable cash decreased \$10 million (5.6 per cent) in the second quarter of 2010 from the same period in 2009, largely driven by lower EBITDA.

### Conversion and Distributions

On June 16, 2010, Bell Aliant's unitholders approved the proposed conversion from an income trust into a dividend paying public corporation to be named Bell Aliant Inc. The conversion transaction is expected to be effective January 1, 2011. Upon completion of the conversion, Fund unitholders will receive one common share of Bell Aliant Inc. for each Fund unit held.

Bell Aliant has announced that it intends to maintain its current distribution of \$0.2417 per unit per month, or \$2.90 annually, for the balance of 2010 and reported distributions to unitholders of \$92 million or \$0.725 per unit for the quarter ended June 30, 2010. Beginning in 2011, Bell Aliant expects the initial dividend under the corporate structure will be \$0.475 per share paid quarterly, or \$1.90 annually.

### Update to 2010 Guidance

As part of Bell Aliant's strategy to reset its cost structure, Bell Aliant has announced that it does not intend to renew certain pole use agreements with the power utility serving Newfoundland and plans to purchase an interest in poles. Bell Aliant currently pays usage fees to the utility and the purchase transaction is expected to reduce Bell Aliant's overall annual cash outlays, improving EBITDA and free cash flow going forward. This one-time capital expenditure of approximately \$55-\$60 million is expected to occur in either late 2010 or early 2011, subject to regulatory and other approvals. Should the transaction be completed in 2010, Bell Aliant's capital intensity and distributable cash metrics will be affected as shown below:

2010 Guidance	Without Pole Purchase	With Pole Purchase
Operating Revenues	\$3,050 million – \$3,150 million	Unchanged
Capital Intensity	14% – 15%	16% – 17%
Distributable Cash	\$750 million – \$790 million	\$690 million – \$730 million

Other than this adjustment, there are no changes to Bell Aliant's previously announced 2010 Guidance.

### Supplementary financial information

More information on the Fund's and Bell Aliant Holdings LP's second quarter 2010 results can be found in Bell Aliant's second quarter 2010 supplementary information package and the Fund's and Bell Aliant Holdings LP's second quarter 2010 financial statements and management's discussion and analysis ("MD&A"), available at [www.bellaliant.ca/investors](http://www.bellaliant.ca/investors).

### Analyst conference call

A conference call discussing second quarter results with the financial community was held on Wednesday, July 28, 2010. A replay of the call will be available on our website, [www.bellaliant.ca](http://www.bellaliant.ca), for one year.

### Notes

The information contained in this news release is unaudited.

- (1) Bell Aliant derives virtually all of its income from its indirect ownership in 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) Percentage changes quoted in this release related to dollar values are based on amounts rounded to the nearest hundred-thousand, consistent with disclosure in the Fund's supplementary information package and Bell Aliant Holdings LP's MD&A for the second quarter of 2010. Dollar values quoted in this release are rounded to the nearest million unless otherwise stated.
- (3) Bell Aliant Holdings LP defines EBITDA, a non-GAAP measure, as operating revenue less expenses (earnings) before interest, income taxes, depreciation and amortization expense, net benefit plans cost, and restructuring and other charges. For a reconciliation of EBITDA to the most closely comparable GAAP measure, please refer to Bell Aliant Holdings LP's MD&A for the second quarter of 2010.
- (4) Bell Aliant defines EBITDA margin as EBITDA as a percentage of operating revenue.
- (5) Bell Aliant defines capital intensity as capital expenditures as a percentage of operating revenue.
- (6) Bell Aliant defines distributable cash, a non-GAAP measure, as cash from operating activities of continuing and discontinued operations of Bell Aliant Holdings LP and of the Fund, plus operating items funded through cash reserves or borrowings, such as working capital, pension deficit funding, restructuring and other charges and cash capital taxes in excess of normalized levels, plus amounts for current income tax provisions plus other elements of working capital changes that do not affect cash flow, less capital expenditures. For a reconciliation of distributable cash to the most closely comparable GAAP measure, please refer to Bell Aliant Holdings LP's MD&A for the second quarter of 2010.

### **Forward-looking Information**

This news release contains forward-looking statements concerning anticipated future events, results, circumstances or expectations, including, but not limited to statements concerning the anticipated conversion to a corporate structure, Bell Aliant's expected distributions for the remainder of 2010, the expected dividend policy at the time of conversion, and capital expenditures in late 2010 or early 2011 in connection with the purchase of an interest in utility poles in Newfoundland, all as more particularly described in the "Conversion and Distributions" and "Update to 2010 Guidance" sections of this news release. Unless otherwise indicated, such forward-looking statements describe management's expectations at July 28, 2010. 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. Therefore, actual results may differ materially from what is predicted.

Assumptions made and risk factors considered in preparing our forward-looking statements are discussed in detail in Bell Aliant's 2009 earnings results and 2010 guidance news release dated February 3, 2010, as well as in the Fund's and Bell Aliant Holdings LP's 2009 annual MD&As and annual information forms, and 2010 first and second quarter MD&As. Additional risk factors considered and assumptions made in connection with the anticipated conversion transaction, and expected dividend policy beginning in 2011 if the conversion is implemented, are set out in the Fund's Management Information Circular dated May 7, 2010 beginning on page F-9, and in Bell Aliant's 2010 first quarter earnings release dated May 4, 2010 under "Additional Assumptions and Risk Factors," respectively. These documents are available at [www.bellaliant.ca](http://www.bellaliant.ca) or at [www.sedar.com](http://www.sedar.com).

All forward-looking statements in this news release are qualified by these cautionary statements, and there can be no assurance that the results or events predicted will be realized. Except as may be required by Canadian securities laws, Bell Aliant disclaims any intention and assumes 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.

### **About Bell Aliant**

Bell Aliant (TSX: BA.UN) is one of North America's largest regional communications providers and the first company in Canada to cover an entire city with fibre-to-the-home (FTTH) technology with its *FibreOP*<sup>™</sup> services. 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 and advanced technology solutions. Bell Aliant's employees deliver the highest quality of customer service, choice and convenience.



## Bell Aliant Regional Communications Income Fund Management's Discussion and Analysis Second Quarter 2010

*This document provides management's discussion and analysis (MD&A) of our financial condition as at, and results of operations for, the three and six months ended June 30, 2010, compared to the corresponding periods in 2009. This MD&A should be read together with our unaudited interim consolidated financial statements and accompanying notes for the period ended June 30, 2010, our audited consolidated financial statements and accompanying notes for the year ended December 31, 2009, and related MD&A, along with the unaudited interim consolidated financial statements and accompanying notes of Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP) for the period ended June 30, 2010, 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 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 Holdings LP, our significant investee, include 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.bellaliant.ca](http://www.bellaliant.ca). These and other continuous disclosure documents are also available at [www.sedar.com](http://www.sedar.com).*

### *Forward-looking information*

*This MD&A is dated July 28, 2010, and is current to that date unless otherwise stated. It contains forward-looking information related to our future financial condition and results of operations and anticipated future events and circumstances, including in particular under the heading "Conversion transaction" and "Future changes in accounting policies". The purpose of this forward-looking information is to provide the reader with information about our expectations and plans for 2010 or other future periods. Readers are cautioned that such information may not be appropriate for other purposes. This information is based on our current expectations and estimates about the markets in which we and Bell Aliant Holdings LP operate and our beliefs and assumptions regarding these markets. Unless otherwise indicated, forward-looking information in this MD&A describes our expectations at July 28, 2010. In some cases, forward-looking information may be identified by words such as "anticipate", "believe", "could", "expect", "plan", "seek", "may", "intend", "will", "forecast" and similar expressions. This information is subject to important risks and uncertainties, which are difficult to predict, and assumptions, which may prove to be inaccurate. Some of the risk factors which could cause results or events to differ materially from current expectations include but are not limited to: our dependence on Bell Aliant Holdings LP, and therefore all of the risks and uncertainties to which its operations are subject, including increasing competition and ability to achieve strategies and plans; general economic conditions; unpredictability and volatility of our unit price; the nature of Fund units; cash distributions are not guaranteed and will fluctuate with the performance of the business; structural subordination of Fund units; the timing and amount of*

*capital investments made by Bell Aliant Holdings LP; limitation on non-resident ownership; redemption right of unitholders; termination of the Fund; dilution through issuance of additional units; and tax related risks including changing tax rates and taxation rules for income trusts and, with respect to the conversion, the risks referred to under “Risk Factors - Risk Factors Relating to Bell Aliant Inc. and the Arrangement” in Appendix “F” to our information circular dated May 7, 2010, which are incorporated herein by reference. Some of these risk factors are largely beyond our control. Refer to the “Risk management” section of this MD&A and our MD&A for the year ended December 31, 2009, for further discussion of these and other risk factors.*

*Should any risk factor affect us in an unexpected manner, or should assumptions underlying the forward-looking information prove incorrect, the actual results or events may differ materially from the results or events predicted. Unless otherwise indicated, forward-looking information does not take into account the effect that transactions or non-recurring or other special items announced or occurring after this information is provided may have on our business. All of the forward-looking information reflected in this document and the documents referred to within are qualified by these cautionary statements. There can be no assurance that the results or developments anticipated will be realized or, even if substantially realized, that they will have the expected consequences for us. Except as may be required by Canadian securities laws, we disclaim any intention and assume no obligation to update or revise any forward-looking information, even if new information becomes available, as a result of future events or for any other reason. Readers should not place undue reliance on any forward-looking information.*

*See also the “Forward-looking information” section of our news release dated February 3, 2010, relating to our 2009 earnings results and 2010 financial guidance for the Fund and Bell Aliant Holdings LP, which is available at [www.bellaliant.ca](http://www.bellaliant.ca) as well as [www.sedar.com](http://www.sedar.com) and incorporated by reference herein.*

## **Our business**

We are an unincorporated, open-ended, limited purpose trust governed by the laws of the Province of Ontario. We hold investments in subsidiaries that operate one of the largest regional communications service providers in North America.

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, Limited Partnership (Télébec) and NorthernTel, Limited Partnership (NorthernTel). We account for this investment on an equity basis 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 equity interest in Bell Aliant Holdings LP. Bell Canada also owns a 37.9 per cent equity interest in Bell Aliant LP (35.87 per cent on a proportionate cash distribution basis). BCE's and Bell Canada's interests are exchangeable into Fund units, which give BCE an effective 44.07 per cent combined voting interest in us (43.95 per cent on a fully-diluted basis) as at June 30, 2010. Under a securityholders' agreement, BCE has certain governance rights that give it control over Bell Aliant Holdings LP so long as its fully diluted Fund ownership interest is 30.0 per cent or greater and certain commercial agreements are in place with Bell Aliant LP.

We are economically dependent on our significant equity investee, Bell Aliant Holdings LP. As we are affected by the events and transactions, financial and capital management, and risks and uncertainties of Bell Aliant Holdings LP, these factors could materially influence the distributions we receive from it, and in turn, our ability to pay distributions.

## **Summary of results**

The following table shows selected consolidated financial results 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, 2010 (millions of dollars, except per unit amounts)</i>	2010		2009				2008	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Equity income from investments and other revenues	\$73.3	\$63.8	\$80.2	\$80.7	\$76.3	\$66.4	\$66.0	\$76.2
Net earnings from continuing operations	71.9	63.2	79.4	80.0	74.8	65.4	65.5	74.7
Net earnings (loss) from discontinued operations	-	-	(2.1)	(5.7)	(3.4)	0.6	0.1	0.3
Net earnings	\$71.9	\$63.2	\$77.3	\$74.3	\$71.4	\$66.0	\$65.6	\$75.0
Basic earnings per unit from continuing operations	\$0.56	\$0.50	\$0.63	\$0.63	\$0.59	\$0.51	\$0.51	\$0.59
Basic earnings per unit from discontinued operations	-	-	(0.02)	(0.05)	(0.03)	0.01	0.01	-
Basic earnings per unit	\$0.56	\$0.50	\$0.61	\$0.58	\$0.56	\$0.52	\$0.52	\$0.59
Diluted earnings per unit from continuing operations	\$0.53	\$0.48	\$0.55	\$0.58	\$0.55	\$0.51	\$0.41	\$0.58
Diluted earnings per unit from discontinued operations	-	-	(0.01)	(0.05)	(0.03)	-	0.01	-
Diluted earnings per unit	\$0.53	\$0.48	\$0.54	\$0.53	\$0.52	\$0.51	\$0.42	\$0.58
Distributions declared	\$92.3	\$92.3	\$92.3	\$92.3	\$92.3	\$92.1	\$92.1	\$92.1

### *Net earnings*

Net earnings represent equity income from our indirect ownership in the earnings of our investments. This includes 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. Our net earnings also include an immaterial amount of interest income earned on cash and cash equivalents and operating expenses. Our net earnings are substantially dependent upon the results of operations of our subsidiary investments. The financial performance of Bell Aliant Holdings LP for the three and six month periods ended June 30, 2010, compared to the same periods in 2009, is discussed in its second quarter 2010 MD&A.

Net earnings from continuing operations for the second quarter of 2010 decreased \$2.9 million, or 3.9 per cent, from the second quarter of 2009. This is primarily due to a decrease in equity income from our investment in Bell Aliant Holdings LP in the second quarter of 2010 of \$3.0 million, or 3.9 per cent, compared to the corresponding period in 2009. The equity income in the second quarter of 2010 also included an immaterial amount of future income tax expense relating to temporary differences that are expected to reverse after January 1, 2011, compared to a \$0.4 million expense in the second quarter of 2009. On a year-to-date basis, net earnings from continuing operations decreased \$5.1 million, or 3.6 per cent, from the same period in 2009, mainly as a result of a decrease in equity income from net earnings of our investment in Bell Aliant Holdings LP.

There have been no discontinued operations in 2010. Net earnings (loss) from discontinued operations for the second quarter and six months ended June 30, 2009, includes our proportionate share of the results of operations of xwave's professional services operations in New England, conducted through a subsidiary of Bell Aliant Holdings LP, and xwave's defence, security and aerospace (DSA) business. Both of these businesses were sold in the second quarter of 2009, which resulted in recognizing a net after-tax loss on sale of \$1.1 million.

### *Distributions declared*

During the second quarter of 2010, we declared distributions of \$92.3 million, or \$0.725 per unit, consistent with the second quarter of 2009. On a year-to-date basis, in 2010 we declared distributions of \$184.6 million, or \$1.4502 per unit to our unitholders, compared to \$184.4 million, or \$1.4502 per unit, for the same period in 2009. Our monthly distribution rate remained unchanged on a quarter-over-quarter basis; however we had a slight increase in the number of Fund units outstanding for the six months ended June 30, 2010, compared to the same period in 2009.

We are entirely dependent on distributions from Bell Aliant Holdings LP to make our distributions. A further discussion of distributions made by Bell Aliant Holdings LP can be found in its MD&A for the three and six month periods ended June 30, 2010.

## Conversion transaction

As a result of the federal government's previously announced changes to income tax legislation affecting publicly listed or traded income trusts such as us, starting January 1, 2011, we will be taxed as if we were a corporation.

On June 16, 2010, at our annual and special meeting, unitholders approved a plan of arrangement to convert our income trust structure into a public corporation to be named Bell Aliant Inc. As part of the conversion, our unitholders will receive, on a tax-deferred basis, one common share of Bell Aliant Inc. for each unit held. The conversion is subject to certain conditions, including obtaining regulatory and other approvals, and is expected to be completed on January 1, 2011.

The conversion will have no impact on our underlying business model or operating plans, but is expected to reduce administrative costs associated with our existing more complex trust structure, improve comparability of our financial condition and results of operation to our peers, and broaden our potential investor base. Following the conversion, BCE and Bell Canada will have the same governance rights and economic interests in us as immediately before the conversion.

We anticipate that we (or our successor company) will be taxed at a blended federal / provincial rate of 29 per cent of taxable income in 2011, dropping to 27 per cent of taxable income by 2013.

### *Dividend policy*

In considering an appropriate dividend policy for the new corporation for 2011 and onward, our objectives are to seek to ensure dividend sustainability while maintaining a high dividend payout to our shareholders.

Beginning in 2011, the new corporation will target a payout ratio of 75 to 85 percent of free cash flow. Our dividend policy is expected to result in an initial annual dividend of \$1.90 per share, to be paid quarterly at a rate of \$0.475 per share beginning in March 2011. For taxable retail investors resident in Canada, dividends paid by a corporation are taxed at lower rates than the distributions paid by us, prior to January 1, 2011, as an income trust. As such, under a corporate structure, the dividend tax credit mechanism can be expected to mitigate, in large part, the after-tax effect of a lower dividend for those investors.

We expect to continue to declare and pay monthly distributions at the current annual rate of \$2.90 per unit throughout 2010.

## Financial and capital management

The following table summarizes our financial position as at June 30, 2010, as compared to December 31, 2009.

<i>(millions of dollars)</i>	<b>As at June 30, 2010</b>	<b>As at December 31, 2009</b>
Total assets	<b>\$4,103.1</b>	\$4,151.6
Total liabilities	<b>\$30.9</b>	\$30.8
Unitholders' equity	<b>\$4,072.2</b>	\$4,120.8

### *Assets and liabilities*

At June 30, 2010, our assets mainly consisted of our indirect investment in, and distributions and other amounts receivable from, Bell Aliant Holdings LP. The carrying value of our investments has decreased by \$48.3 million since December 31, 2009, as our equity income was less than the distributions declared to us by our equity investee. As well, we generally consolidate our excess cash with that of Bell Aliant LP and invest it together in marketable, short-term money market instruments. As such,

the balance due from (to) related parties and our cash and cash equivalent balance will fluctuate over time depending on our cash requirements. At June 30, 2010, these assets decreased \$0.3 million from the balances at December 31, 2009.

Our liabilities, consisting mainly of distributions payable to our unitholders, were virtually unchanged as at June 30, 2010, compared to December 31, 2009.

#### *Fund units*

At June 30, 2010, there were 127,384,923 Fund units outstanding, 100,373,827 exchangeable limited partnership units and 1,348,556 units notionally issued under our deferred unit plan. Only 649,573 units notionally issued under our deferred unit plan are considered dilutive, as the remainder are subject to prescribed performance targets being met. Accordingly, there were 228,408,323 Fund units outstanding on a fully diluted basis as at June 30, 2010.

At July 20, 2010, there were 127,384,923 Fund units outstanding.

## **Stability ratings**

Our stability rating as at June 30, 2010, was STA-2 (high) from DBRS Limited, which is unchanged from 2009.

On June 30, 2010, Standard & Poor's announced that it had withdrawn its remaining Canadian stability ratings and retired its Canadian stability ratings coverage due to the pending conversion of many income trusts to corporations by January 1, 2011. Prior to this announcement, our rating from Standard and Poor's was SR-2/Stable outlook (Moderate distribution profile), unchanged from 2009.

A stability rating measures an income trust's stability of distributions relative to other rated Canadian income trusts. A rating is not a recommendation to buy, sell or hold Fund units and may be revised or withdrawn at any time. Stability ratings do not take into consideration such factors as pricing or stock market risk.

## **Related party transactions**

As previously discussed in the "Our business" section, we indirectly own an 82.5 per cent equity interest in Bell Aliant Holdings LP. As well, BCE and Bell Canada own 43.95 per cent of our units on a fully-diluted basis. There was no change to the securityholders' agreement with BCE during the second quarter of 2010.

Refer to note 8 of our unaudited interim consolidated financial statements for the period ended June 30, 2010, for further information on our related party transactions with Bell Aliant Holdings LP.

## **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, 2009.

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

The Accounting Standards Board of the Canadian Institute of Chartered Accountants (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 aspects that deal with non-controlling interests. Section 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination. The new standards apply to interim and annual financial statements for fiscal years beginning on or after January 1, 2011, with early adoption permitted. We are currently assessing the effect of the new standards on our consolidated financial statements.

## International financial reporting standards (IFRS)

In April 2008, the CICA's Accounting Standards Board released an exposure draft, Adopting IFRS in Canada, which proposes to fully converge Canadian GAAP with IFRS effective January 1, 2011. The convergence will occur over a transitional period, with certain standards adopted prior to 2011 and other standards at the date of transition. The International Accounting Standards Board is continually mandating projects and making pronouncements to evolve IFRS, and as a result, IFRS at the transition date is expected to differ from its current form.

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

### *IFRS changeover plan and progress towards completion*

Our IFRS changeover plan consists of a four-phase approach, which includes:

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

We have substantially completed the first three phases and are currently focusing our efforts on implementation, the fourth phase. Refer to the Bell Aliant Holdings LP MD&A for the quarter ended June 30, 2010, and the year ended December 31, 2009, and our MD&A for the year ended December 31, 2009, for a detailed description of our changeover plan.

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

## **Risk management**

During the second quarter of 2010, we have not identified any significant changes to the nature of the risks that we are exposed to in our business.

In stating that the expected 2011 dividend rate of our anticipated successor corporation, Bell Aliant Inc., will be \$1.90 per share annually following conversion to a corporate structure, we have made certain tax assumptions, and assumptions regarding the operational and financial performance of ourselves and Bell Aliant Holdings LP (or its successor). Refer to the Bell Aliant Holdings LP MD&A for the period ended June 30, 2010, for further information on these assumptions and risks.

## Controls and procedures

### Internal control over financial reporting

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

There have been no changes in our internal control over financial reporting during the three months ended June 30, 2010, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

<i>(millions of dollars)</i>	Notes	As at	
		June 30, 2010	December 31, 2009
<b>Assets</b>			
Current assets			
Cash and cash equivalents	8	\$ 6.2	\$ 2.6
Distributions receivable	8	31.2	31.1
Due from related parties	8	21.3	25.2
		58.7	58.9
Investments	2	4,044.4	4,092.7
<b>Total assets</b>		\$ 4,103.1	\$ 4,151.6
<b>Liabilities and unitholders' equity</b>			
Current liabilities			
Payables and accruals		\$ 0.1	\$ -
Distributions payable	6	30.8	30.8
		30.9	30.8
Unitholders' equity		4,072.2	4,120.8
<b>Total liabilities and unitholders' equity</b>		\$ 4,103.1	\$ 4,151.6

*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	
		2010	2009	2010	2009
Equity income from investments	2	\$ 73.3	\$ 76.3	\$ 137.1	\$ 142.7
Operating expenses		1.4	1.5	2.0	2.5
Net earnings from continuing operations		71.9	74.8	135.1	140.2
Net loss from discontinued operations	2	-	(3.4)	-	(2.8)
<b>Net earnings</b>		<b>\$ 71.9</b>	<b>\$ 71.4</b>	<b>\$ 135.1</b>	<b>\$ 137.4</b>
<b>Earnings per unit</b>	4				
Basic from continuing operations		\$ 0.56	\$ 0.59	\$ 1.06	\$ 1.10
Basic from discontinued operations		-	(0.03)	-	(0.02)
Basic		\$ 0.56	\$ 0.56	\$ 1.06	\$ 1.08
Diluted from continuing operations		\$ 0.53	\$ 0.55	\$ 1.01	\$ 1.06
Diluted from discontinued operations		-	(0.03)	-	(0.02)
Diluted		\$ 0.53	\$ 0.52	\$ 1.01	\$ 1.04

*See accompanying notes to the consolidated financial statements*

**Consolidated statements of comprehensive earnings**  
**(Unaudited)**

For the period ended June 30

<i>(millions of dollars)</i>	Note	Three months		Six months	
		2010	2009	2010	2009
Net earnings		\$ 71.9	\$ 71.4	\$ 135.1	\$ 137.4
Other comprehensive earnings	2	0.8	10.1	1.6	11.2
<b>Comprehensive earnings</b>		<b>\$ 72.7</b>	<b>\$ 81.5</b>	<b>\$ 136.7</b>	<b>\$ 148.6</b>

*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, 2010

<i>(millions of dollars)</i>	Notes	Stated capital	Contributed surplus	Accumulated deficit	Accumulated other comprehensive loss	Total accumulated deficit and other comprehensive loss	Total unitholders' equity
Balance December 31, 2009		\$ 4,192.2	\$ 45.7	\$ (95.3)	\$ (21.8)	\$ (117.1)	\$ 4,120.8
Net earnings		-	-	135.1	-	135.1	135.1
Distributions declared	6	-	-	(184.6)	-	(184.6)	(184.6)
Redemption of units	3	(0.1)	-	-	-	-	(0.1)
Deferred unit plan	3, 7	3.2	(3.8)	-	-	-	(0.6)
Other comprehensive earnings of equity investee	2	-	-	-	1.6	1.6	1.6
<b>Balance June 30, 2010</b>		<b>\$ 4,195.3</b>	<b>\$ 41.9</b>	<b>\$ (144.8)</b>	<b>\$ (20.2)</b>	<b>\$ (165.0)</b>	<b>\$ 4,072.2</b>

For the period ended June 30, 2009

<i>(millions of dollars)</i>	Notes	Stated capital	Contributed surplus	Accumulated deficit	Accumulated other comprehensive loss	Total accumulated deficit and other comprehensive loss	Total unitholders' equity
Balance December 31, 2008		\$ 4,184.9	\$ 45.7	\$ (15.3)	\$ (34.6)	\$ (49.9)	\$ 4,180.7
Net earnings		-	-	137.4	-	137.4	137.4
Distributions declared	6	-	-	(184.4)	-	(184.4)	(184.4)
Redemption of units	3	(0.1)	-	-	-	-	(0.1)
Deferred unit plan	3, 7	6.7	(4.7)	-	-	-	2.0
Other comprehensive earnings of equity investee	2	-	-	-	11.2	11.2	11.2
<b>Balance June 30, 2009</b>		<b>\$ 4,191.5</b>	<b>\$ 41.0</b>	<b>\$ (62.3)</b>	<b>\$ (23.4)</b>	<b>\$ (85.7)</b>	<b>\$ 4,146.8</b>

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	
		2010	2009	2010	2009
Cash from (used in) operating activities					
Net earnings from continuing operations		\$ 71.9	\$ 74.8	\$ 135.1	\$ 140.2
Adjustments to reconcile net earnings to cash from operating activities					
Income from equity investments	2	(73.3)	(76.3)	(137.1)	(142.7)
Change in operating assets and liabilities	5	(0.4)	1.2	0.2	(9.8)
		(1.8)	(0.3)	(1.8)	(12.3)
Cash from (used in) financing activities					
Issuance of units	3	2.8	0.3	3.2	6.7
Redemption of units	3	-	-	(0.1)	(0.1)
Purchase of units for distribution reinvestment	3	(4.0)	(3.6)	(8.1)	(7.0)
Cash distributions paid to unitholders		(88.3)	(88.6)	(176.5)	(177.3)
		(89.5)	(91.9)	(181.5)	(177.7)
Cash from investing activities					
Cash distributions received from equity investment	2	93.6	93.5	186.9	187.0
		93.6	93.5	186.9	187.0
Net increase (decrease) in cash from continuing operations					
		2.3	1.3	3.6	(3.0)
Cash and cash equivalents, beginning of period					
		3.9	1.9	2.6	6.2
Cash and cash equivalents, end of period					
		\$ 6.2	\$ 3.2	\$ 6.2	\$ 3.2

*See accompanying notes to the consolidated financial statements*

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
**June 30, 2010**

Bell Aliant Regional Communications Income Fund was established in 2006 and is an unincorporated, open-ended, limited purpose trust governed by the laws of Ontario, pursuant to a Declaration of Trust. All references to “we”, “us”, “our” or the “Fund” refer to Bell Aliant Regional Communications Income Fund and its subsidiaries. We hold investments in entities whose operations are primarily focused on the provision of regional telecommunications services in Atlantic Canada, Ontario and Quebec. Our principal investment is an 82.5 per cent equity interest in Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP), which consolidates its operating 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 using the same basis of presentation and accounting policies as our audited consolidated financial statements for the year ended December 31, 2009. These financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2009, along with Bell Aliant Holdings LP’s audited consolidated financial statements for the year ended December 31, 2009, and unaudited interim consolidated financial statements for the six months ended June 30, 2010.

*Future changes in accounting policies*

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

**2. INVESTMENTS**

Equity income and other comprehensive earnings from our investment in Bell Aliant Holdings LP, and distributions declared and received from our equity investments were as follows:

For the period ended June 30 (millions of dollars)	Three months		Six months	
	2010	2009	2010	2009
Equity income - continuing operations	\$ 73.3	\$ 76.3	\$ 137.1	\$ 142.7
Net loss - discontinued operations	-	(3.4)	-	(2.8)
Other comprehensive earnings	0.8	10.1	1.6	11.2
Distributions declared	93.6	93.6	187.0	187.1
Distributions received	93.6	93.5	186.9	187.0

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
**June 30, 2010**

**2. INVESTMENTS (Continued)**

For the three and six months ended June 30, 2010, equity income from continuing operations includes an immaterial amount of future income tax expense (June 30, 2009 - \$0.4 million and \$1.0 million, respectively) relating to our proportionate share of temporary differences between the reported carrying amounts and corresponding tax values of assets and liabilities in certain subsidiaries of Bell Aliant Holdings LP, which are expected to reverse after January 1, 2011.

Other comprehensive earnings relate to our proportionate share of Bell Aliant Holdings LP's reclassification of net losses and amortization of losses on settled cash flow hedges to net earnings. The accumulated other comprehensive loss included in unitholders' equity represents our proportionate share of the unamortized portion of losses on forward fixed-floating interest rate swaps that were settled in 2007 by Bell Aliant Holdings LP.

**3. UNITHOLDERS' CAPITAL**

*Issued and outstanding*

<i>(millions of dollars, except as otherwise noted)</i>	As at June 30, 2010		As at December 31, 2009	
	Number of units	Stated Capital	Number of units	Stated Capital
Units	127,384,923	\$ 4,195.3	127,264,016	\$ 4,192.2
Special voting units	100,373,827	-	100,373,827	-
		\$ 4,195.3		\$ 4,192.2

*Units*

The following table provides details of the change in our issued and outstanding units:

For the six months ended June 30	2010		2009	
<i>(millions of dollars, except as otherwise noted)</i>	Number of units	Stated Capital	Number of units	Stated Capital
Units, beginning of period	127,264,016	\$ 4,192.2	126,983,707	\$ 4,184.9
Deferred unit plan units exercised (note 7)	122,030	3.2	257,251	6.7
Redemption of units	(1,115)	(0.1)	(1,551)	(0.1)
Fractional unit adjustment	(8)	-	(9)	-
Units, end of period	127,384,923	\$ 4,195.3	127,239,398	\$ 4,191.5

*Distribution reinvestment and optional unit purchase plan*

For the three and six months ended June 30, 2010, we bought 169,190 units and 338,090 units, respectively (June 30, 2009 - 153,292 units and 303,923 units, respectively) on the open market for unitholders participating in the distribution reinvestment and optional unit purchase plan. This was in lieu of paying \$4.0 million and \$8.1 million in cash distributions, respectively (June 30, 2009 - \$3.6 million and \$7.0 million, respectively), and in respect of optional unit purchase plans cash payments received of \$0.4 million and \$0.7 million, respectively (June 30, 2009 - \$0.3 million and \$0.6 million, respectively).

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
**June 30, 2010**

**4. EARNINGS PER UNIT**

For the period ended June 30 <i>(millions of dollars, except as otherwise noted)</i>	Three months		Six months	
	2010	2009	2010	2009
<b>Basic:</b>				
Net earnings from continuing operations	\$ 71.9	\$ 74.8	\$ 135.1	\$ 140.2
Net loss from discontinued operations	-	(3.4)	-	(2.8)
<b>Net earnings</b>	<b>\$ 71.9</b>	<b>\$ 71.4</b>	<b>\$ 135.1</b>	<b>\$ 137.4</b>
<b>Weighted average number of units outstanding</b>	<b>127,360,297</b>	<b>127,236,840</b>	<b>127,315,866</b>	<b>127,167,773</b>
Basic earnings per unit from continuing operations	\$ 0.56	\$ 0.59	\$ 1.06	\$ 1.10
Basic earnings per unit from discontinued operations	-	(0.03)	-	(0.02)
<b>Basic earnings per unit</b>	<b>\$ 0.56</b>	<b>\$ 0.56</b>	<b>\$ 1.06</b>	<b>\$ 1.08</b>
<b>Diluted:</b>				
Net earnings from continuing operations	\$ 71.9	\$ 74.8	\$ 135.1	\$ 140.2
Add non-controlling interest of holders of exchangeable units:				
Bell Aliant Holdings LP	16.0	16.8	30.0	31.5
Bell Aliant LP	33.0	33.8	65.7	70.1
	120.9	125.4	230.8	241.8
Net loss from discontinued operations	-	(3.4)	-	(2.8)
Add non-controlling interest of holders of exchangeable units:				
Bell Aliant LP	-	(0.8)	-	(0.7)
	-	(4.2)	-	(3.5)
<b>Diluted net earnings</b>	<b>\$ 120.9</b>	<b>\$ 121.2</b>	<b>\$ 230.8</b>	<b>\$ 238.3</b>
<b>Weighted average number of units outstanding</b>	<b>127,360,297</b>	<b>127,236,840</b>	<b>127,315,866</b>	<b>127,167,773</b>
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	649,573	437,380	649,573	437,380
	228,383,697	228,048,047	228,339,266	227,978,980
Diluted earnings per unit from continuing operations	\$ 0.53	\$ 0.55	\$ 1.01	\$ 1.06
Diluted earnings per unit from discontinued operations	-	(0.03)	-	(0.02)
<b>Diluted earnings per unit</b>	<b>\$ 0.53</b>	<b>\$ 0.52</b>	<b>\$ 1.01</b>	<b>\$ 1.04</b>

The exchangeable limited partnership units are intended to be, to the greatest extent practicable, the economic equivalent of our units. 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. In 2009, the exchangeable limited partnership units were anti-dilutive for discontinued operations. The deferred units under unit-based compensation plans, as discussed in note 7, are dilutive.

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
**June 30, 2010**

**5. CHANGES IN OPERATING ASSETS AND LIABILITIES**

For the period ended June 30 <i>(millions of dollars)</i>	Three Months		Six Months	
	2010	2009	2010	2009
Due from related parties	\$ (0.4)	\$ 1.3	\$ 0.1	\$ (9.6)
Payables and accruals	-	(0.1)	0.1	(0.2)
	\$ (0.4)	\$ 1.2	\$ 0.2	\$ (9.8)

The change in operating assets and liabilities is net of the changes caused by unit issuances under the deferred unit plan (DUP) which are reflected as financing activities in the consolidated statement of cash flows.

**6. DISTRIBUTIONS DECLARED TO UNITHOLDERS**

Distributions declared were as follows:

<i>(millions of dollars, except per unit amounts)</i>	2010		2009	
	Monthly distributions	Distributions per unit	Monthly distributions	Distributions per unit
<b>Record date:</b>			<b>Record date:</b>	
January 29	\$ 30.7	\$ 0.2417	January 30	\$ 30.7 \$ 0.2417
February 26	30.8	0.2417	February 27	30.7 0.2417
March 31	30.8	0.2417	March 31	30.7 0.2417
April 30	30.7	0.2417	April 30	30.7 0.2417
May 31	30.8	0.2417	May 29	30.8 0.2417
June 30	30.8	0.2417	June 30	30.8 0.2417
	\$ 184.6	\$ 1.4502	\$ 184.4	\$ 1.4502

**7. UNIT-BASED COMPENSATION PLANS**

*Employee unit purchase plans*

For the three and six months ended June 30, 2010, we bought 492,728 units and 1,029,938 units, respectively (June 30, 2009 - 532,516 units and 1,109,719 units, respectively), at a total cost of \$12.7 million and \$26.8 million, respectively (June 30, 2009 - \$13.4 million and \$27.6 million, respectively), on the open market for employees of certain subsidiaries of Bell Aliant Holdings LP participating in the employee unit purchase plans. Of these totals, \$2.3 million and \$4.6 million, respectively (June 30, 2009 - \$2.5 million and \$4.8 million, respectively) was recorded as compensation expense in Bell Aliant Holdings LP, and the remainder was contributed by employees through payroll deduction, interest earned or distributions reinvested in employee plan accounts.

*Deferred unit plan*

In February 2010, the Fund trustees approved amendments to the DUP to allow plan members to receive either the cash equivalent of one unit or one unit for each vested deferred unit upon qualifying for payout under the terms of the grant. Previously, plan members were only permitted to receive one unit upon qualification. There is no exercise price paid by the grantee for deferred units. We may issue up to 3,154,120 (December 31, 2009 - 3,276,150) additional units out of treasury to satisfy awards under this DUP. Any deferred units that do not vest due to failure to achieve prescribed performance targets are forfeited. Further, any unvested deferred units of a plan member are forfeited upon their departure.

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
**June 30, 2010**

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

*Deferred unit plan (continued)*

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

For the six months ended June 30	2010	2009
Deferred units outstanding, beginning of period	1,293,699	1,181,958
Granted:		
February 2009 - Service period fiscal 2009 to 2011	-	350,492
June 2010 - Service period fiscal 2010 to 2012	369,784	-
Reinvested distributions	55,490	65,716
	425,274	416,208
Forfeited	(248,387)	(56,924)
Exercised (note 3)	(122,030)	(257,251)
Deferred units outstanding, end of period	1,348,556	1,283,991
Deferred units vested, end of period	649,573	437,380

For the six months ended June 30, 2010, the fair value of the 425,274 deferred units granted or credited on reinvestment of notional distributions (June 30, 2009 - 416,208 deferred units granted or credited) was \$11.0 million, or \$25.87 per deferred unit (June 30, 2009 - \$10.8 million, or \$26.05 per deferred unit).

As the deferred units may be settled with our units when exercised, for the six months ended June 30, 2010, we have recorded in contributed surplus the equivalent of the increase (decrease) in compensation expense that was recorded in Bell Aliant Holdings LP of \$(0.5) million plus \$(0.1) million of other adjustments (June 30, 2009 - \$2.2 million plus \$(0.2) million of other adjustments). We issued 122,030 units (June 30, 2009 - 257,251 units) out of treasury at an average market value of \$25.98 per unit (June 30, 2009 - \$26.08 per unit) related to the deferred units exercised in the period. When exercised, the corresponding value of \$3.2 million (June 30, 2009 - \$6.7 million) was reclassified from contributed surplus to stated capital.

**8. RELATED PARTY TRANSACTIONS**

*Bell Aliant Holdings LP*

We receive distributions from Bell Aliant Holdings LP, as described in note 2, which allow us to make our distributions, as described in note 6. At June 30, 2010, \$31.2 million (December 31, 2009 - \$31.1 million) was included in distributions receivable.

At June 30, 2010, \$21.3 million was due from Bell Aliant Holdings LP and its subsidiaries (December 31, 2009 - \$25.2 million), which relates to the net of operating expenses payable as well as amounts receivable from the deferred unit plan as described in note 7.

We loan our excess cash to Bell Aliant LP through a series of promissory notes. Payments are requested as required for operating purposes. The \$2.6 million promissory note that was receivable from Bell Aliant LP at December 31, 2009, was repaid on January 15, 2010. Subsequently issued promissory notes carried rates of interest from 0.50 per cent to 0.76 per cent per annum, resulting in an immaterial amount of interest revenue being earned during the six months ended June 30, 2010 (June 30, 2009 - immaterial amount). At June 30, 2010, a \$6.2 million promissory note was receivable from Bell Aliant LP, which carries interest at 0.76 per cent per annum and matures on July 15, 2010. This balance is included in cash and cash equivalents.

There is minimal credit risk associated with balances receivable from related parties at June 30, 2010.



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

*This document provides management's discussion and analysis (MD&A) of our financial condition as at, and results of operations for, the three and six months ended June 30, 2010, compared to the corresponding periods in 2009. This MD&A should be read together with our unaudited interim consolidated financial statements and accompanying notes for the period ended June 30, 2010, and our audited consolidated financial statements and accompanying notes for the year ended December 31, 2009, 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 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.*

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

### Forward-looking information

*This MD&A is dated July 28, 2010, and is current to that date unless otherwise stated. It contains forward-looking information related to our future financial condition and results of operations, and anticipated future events and circumstances, including in particular under the sections "Conversion transaction", "Distributable cash" (with respect to our expectations of generating sufficient cash flow to provide stable cash distributions), "Cash requirements", "International financial reporting standards" and "Revised guidance". The purpose of this forward-looking information is to provide the reader with information about our expectations and plans and priorities for fiscal 2010 or other future periods. Readers are cautioned that such information may not be appropriate for other purposes. This information is based on our current expectations and estimates about the markets in which we operate and our beliefs and assumptions regarding these markets. Unless otherwise indicated, forward-looking information in this MD&A describes our expectations at July 28, 2010. In some cases, forward-looking information may be identified by words such as "anticipate", "believe", "could", "expect", "plan", "seek", "may", "intend", "will", "forecast" and similar expressions.*

*This information is subject to important risks and uncertainties, which are difficult to predict, and assumptions, which may prove to be inaccurate. Some of the risk factors which could cause results or events to differ materially from current expectations include but are not limited to: increasing competition; our ability to achieve strategies and plans; general economic conditions; reliance on systems; changing technology; required operating and capital expenditures and demand for our services; our business relationship with Bell Canada; pension plan funding; changing regulations; dependence on key suppliers; maintenance of credit ratings; leverage and*

*restrictive covenants; BCE Inc.'s (BCE) governance rights; reliance on key personnel and labour relations; legal contingencies and changes in laws; the success of acquisitions and dispositions; and certain tax related risks. Some of these risk factors are largely beyond our control. In addition, a number of assumptions were made by us in providing forward-looking information in this MD&A, such as certain Canadian economic assumptions, market assumptions, and financial and operational assumptions. Refer to the "Assumptions made in the preparation of forward-looking information and risks that could affect our business and results" section of this MD&A for further discussion of these and other assumptions and risk factors.*

*Should any risk factor affect us in an unexpected manner, or should assumptions underlying the forward-looking information prove incorrect, the actual results or events may differ materially from the results or events predicted. Unless otherwise indicated, forward-looking information does not take into account the effect that transactions or non-recurring or other special items announced or occurring after this information is provided may have on our business. All of the forward-looking information reflected in this document and the documents referred to within are qualified by these cautionary statements. There can be no assurance that the results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences for us. Except as may be required by Canadian securities laws, we disclaim any intention and assume no obligation to update or revise any forward-looking information, even if new information becomes available, as a result of future events or for any other reason. Readers should not place undue reliance on any forward-looking information.*

*See also the "Forward-looking information" section of our news release dated February 3, 2010, relating to our 2009 earnings results and 2010 financial guidance for the Fund and Bell Aliant Holdings LP, which is available at [www.bellaliant.ca](http://www.bellaliant.ca) as well as [www.sedar.com](http://www.sedar.com).*

## **OUR BUSINESS**

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

Our principal operations are carried on by Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Télébec, Limited Partnership (Télébec) and NorthernTel, Limited Partnership (NorthernTel). We consolidate these and other subsidiary entities in our financial statements. We operate as one reportable segment, which represents the manner in which we are organized and managed for planning, assessing performance and making resource allocation decisions.

## **SECOND QUARTER IN REVIEW**

Our net local network access service (NAS) customer declines in the second quarter and first six months of 2010 were lower than those experienced in the same periods of 2009, despite continued increased competitive coverage in our territories. We also have seen notable growth in our Internet, wireless and TV customer base. We continue to pro-actively manage our operating and capital costs with marked improvement. In combination, these achievements contributed to our successful delivery of strong distributable cash for the second quarter of 2010.

## Summary of results

For the period ended June 30 (millions of dollars)	Three months			Six months		
	2010	2009	% change	2010	2009	% change
Operating revenues	<b>\$753.1</b>	\$784.5	(4.0)	<b>\$1,531.7</b>	\$1,602.8	(4.4)
EBITDA <sup>(1)</sup>	<b>\$357.1</b>	\$367.2	(2.8)	<b>\$710.8</b>	\$725.9	(2.1)
EBITDA margin <sup>(1)</sup>	<b>47.4%</b>	46.8%	1.3	<b>46.4%</b>	45.3%	2.5
Operating income	<b>\$152.3</b>	\$164.5	(7.4)	<b>\$299.4</b>	\$315.0	(5.0)
Net earnings from continuing operations	<b>\$89.3</b>	\$94.7	(5.7)	<b>\$167.1</b>	\$179.1	(6.7)
Net loss from discontinued operations	-	(\$5.4)	n.m.	-	(\$7.3)	n.m.
Net earnings	<b>\$89.3</b>	\$89.3	(0.0)	<b>\$167.1</b>	\$171.8	(2.7)

n.m. not meaningful

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

Operating revenues in the second quarter of 2010 decreased by 4.0 per cent, or \$31.4 million, and by 4.4 per cent, or \$71.1 million, on a year-to-date basis, compared to the same periods in 2009. We are continuing to see revenue declines in local and access, long distance, and other revenues as competitive losses and a decline in contribution subsidies have contributed to lower voice revenues. In addition, lower IT services and fulfillment revenue is persisting in 2010. Partially offsetting these declines are increases in Internet and wireless revenues resulting from growth in our high-speed Internet, wireless and TV customer base. Refer to our "Results of operations" section for additional details.

Although operating revenues declined, we were able to mitigate the effect on EBITDA through labour-related cost reductions and other cost containment initiatives. EBITDA decreased by 2.8 per cent, or \$10.1 million, for the second quarter of 2010, and by 2.1 per cent, or \$15.1 million, on a year-to-date basis compared to the same periods in 2009. Normalizing for a one-time \$3.0 million adjustment that reduced senior management long-term incentive plan expenses in the second quarter of 2009, EBITDA decreased 1.9 per cent in the second quarter of 2010 and 1.7 per cent on a year-to-date basis compared to the same periods in 2009. Despite the decline in EBITDA, EBITDA margin improved by 0.6 percentage points to 47.4 per cent during the second quarter of 2010 and by 1.1 percentage points to 46.4 per cent on a year-to-date basis, compared to the same periods in 2009.

Operating income decreased by 7.4 per cent, or \$12.2 million, in the second quarter of 2010, compared to the second quarter of 2009. The decline was driven by the \$10.1 million decrease in EBITDA, as well as slight increases in both depreciation and amortization expense and restructuring and other charges. On a year-to-date basis, operating income decreased \$15.6 million, or 5.0 per cent, compared to the same period in 2009. The \$15.1 million EBITDA decline along with an increase in restructuring and other charges was only partially offset by reductions in depreciation and amortization expense and in net cost of benefit plans.

Net earnings remained constant for the second quarter of 2010 when compared to the second quarter of 2009, which reflected a \$5.4 million reduction in net earnings from continuing operations and a \$5.4 million reduction in net loss from discontinued operations. On a year-to-date basis, net earnings decreased by \$4.7 million compared to the same period in 2009, which reflected a \$12.0 million reduction in net earnings from continuing operations and a \$7.3 million reduction in net loss from discontinued operations.

Net earnings from continuing operations decreased \$5.4 million in the second quarter of 2010 compared to the second quarter of 2009. This reflects lower operating income combined with a lower income tax recovery and slightly higher interest charges in the second quarter of 2010, compared to

the same period in 2009. These reductions to net earnings were partially offset by lower non-controlling interest in 2010 earnings, compared to 2009, and an \$11.8 million decrease in other expenses. The decline in other expenses relates mainly to the recognition in 2009, which did not occur in 2010, of a net loss arising on the settlement of interest rate derivative contracts terminated when we repaid variable interest debt and issued fixed rate long-term debt in May 2009. On a year-to-date basis, net earnings from continuing operations decreased \$12.0 million, or 6.7 per cent, reflecting similar trends in expenses seen in the second quarter of 2010.

Net loss from discontinued operations decreased \$5.4 million in the second quarter of 2010 and \$7.3 million on a year-to-date basis, compared to the same periods in 2009. Discontinued operations in 2009 include the operating results of Innovatia Inc. (Innovatia), xwave New England Corp (xwave New England) and our Defence, Security and Aerospace (DSA) business. We have no discontinued operations in 2010.

### Distributable cash

The following table provides a summary reconciliation of cash from operating activities to standardized distributable cash and distributable cash for the three and six months ended June 30, 2010, and 2009, and additional information on the relationship between cash from operating activities, net earnings and cash distributions declared. Since our operations ultimately support distributions to Fund unitholders, distributable cash combines our cash performance with that of the Fund.

For the period ended June 30 (millions of dollars)		Three months			Six months		
		2010	2009	% change	2010	2009	% change
Cash from operating activities		\$312.2	\$294.9	5.9	\$457.8	\$505.4	(9.4)
<i>Deduct</i>	Cash from operating activities of the Fund and discontinued operations	(1.8)	(5.1)	(64.7)	(1.8)	(22.0)	(91.8)
	Capital expenditures	(125.0)	(121.7)	2.7	(219.7)	(229.0)	(4.1)
Standardized distributable cash <sup>(1)</sup>		\$185.4	\$168.1	10.3	\$236.3	\$254.4	(7.1)
<i>Add (deduct):</i>	Operating items funded through cash reserves or borrowing	(13.4)	17.5	n.m.	137.4	124.9	10.0
	Other adjustments	4.2	1.0	n.m.	2.8	3.8	(26.3)
Distributable cash <sup>(1)</sup>		\$176.2	\$186.6	(5.6)	\$376.5	\$383.1	(1.7)
Net earnings		\$89.3	\$89.3	-	\$167.1	\$171.8	(2.7)
Cash distributions declared <sup>(2)</sup>		\$165.1	\$165.1	-	\$330.2	\$330.0	0.1
Excess of cash from operating activities over cash distributions declared <sup>(3)</sup>		\$145.3	\$124.7	16.5	\$125.8	\$153.4	(18.0)
Shortfall of net earnings over cash distributions declared		(\$75.8)	(\$75.8)	-	(\$163.1)	(\$158.2)	3.1

n.m. not meaningful

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

<sup>(2)</sup> Distributions declared include amounts declared by the Fund to unitholders and by Bell Aliant Holdings LP and Bell Aliant LP to Bell Canada and BCE on units that are exchangeable into Fund units.

<sup>(3)</sup> Cash from operating activities includes cash generated by the Fund and discontinued operations.

Standardized distributable cash for the second quarter of 2010 was \$185.4 million, which represents an increase of \$17.3 million, or 10.3 per cent, when compared to the same period in 2009. This is due to an equivalent increase in cash from operating activities of \$17.3 million, as cash flow generated from changes in operating assets and liabilities (working capital) was \$30.2 million higher which more than offset the \$10.1 million reduction in EBITDA for the current quarter. The \$3.3 million increase in capital spending in the second quarter of 2010 was offset by an equivalent decrease in operating cash flow from the Fund and discontinued operations. When comparing the year-to-date results for 2010 with the same period in 2009, standardized distributable cash decreased \$18.1 million, or 7.1 per cent. This is attributed to lower EBITDA of \$15.1 million, higher pension funding of \$3.6 million and lower cash flow generated from changes in working capital of \$21.0 million, offset partially by lower capital spending of \$9.3 million and \$20.2 million more operating cash flow from the Fund and discontinued operations. Refer to our "Summary of cash flows" section for additional information on cash from operating activities and capital spending.

In contrast to standardized distributable cash, our calculation of distributable cash excludes working capital fluctuations, restructuring charges and certain other items we fund through cash reserves or short-term borrowings. On this basis, distributable cash for the second quarter of 2010 was \$176.2 million, which represents a decrease \$10.4 million, or 5.6 per cent, when compared to the same period in 2009. The decrease mainly reflects an EBITDA decline and higher capital expenditures. On a year-to-date basis, distributable cash was \$376.5 million, which represents a decrease of \$6.6 million, or 1.7 per cent, as reduced capital spending was offset by lower EBITDA, which is reflected in the decline in cash from operating activities.

For the three months ended June 30, 2010, cash distributions declared were 93.7 per cent of distributable cash, compared to 88.5 per cent for the comparable period in 2009. Although the amount of distributions is consistent with the second quarter of 2009 at \$165.1 million, distributable cash has decreased in the second quarter of 2010 compared to the same period in 2009, causing an increase in the distributable cash payout ratio. For the six months ended June 30, 2010, cash distributions declared were 87.7 per cent of distributable cash, compared to 86.1 per cent for the comparable period in 2009.

## **CONVERSION TRANSACTION**

As a result of the federal government's previously announced changes to income tax legislation affecting publicly listed or traded income trusts, such as the Fund, starting January 1, 2011, the Fund will be taxed as if it were a corporation.

On June 16, 2010, at the Fund's annual and special meeting, unitholders approved a plan of arrangement to convert the Fund's income trust structure into a public corporation to be named Bell Aliant Inc. As part of the conversion, Fund unitholders will receive, on a tax-deferred basis, one common share of Bell Aliant Inc. for each unit held. The conversion is subject to certain conditions, including obtaining regulatory and other approvals, and is expected to be completed on January 1, 2011.

The conversion will have no impact on our underlying business model or operating plans, but is expected to reduce administrative costs associated with our existing more complex trust structure, improve comparability of our financial condition and results of operations to our peers, and broaden our potential investor base. Following the conversion, BCE and Bell Canada will have the same governance rights and economic interests in us as immediately before the conversion.

We anticipate the Fund (or its successor company) will be taxed at a blended federal / provincial rate of 29 per cent of taxable income in 2011, dropping to 27 per cent of taxable income by 2013.

### **Dividend policy**

In considering an appropriate dividend policy for Bell Aliant Inc. for 2011 and onward, the Fund's objectives are to seek to ensure dividend sustainability while maintaining a high dividend payout to shareholders.

Beginning in 2011, Bell Aliant Inc. will target a payout ratio of 75 to 85 percent of free cash flow. Bell Aliant Inc.'s dividend policy is expected to result in an initial annual dividend rate of \$1.90 per share, to be paid quarterly at a rate of \$0.475 per share beginning in March 2011. For taxable retail investors resident in Canada, dividends paid by a corporation are taxed at lower rates than the distributions paid by the Fund, prior to January 1, 2011, as an income trust. As such, under a corporate structure, the dividend tax credit mechanism can be expected to mitigate, in large part, the after-tax effect of a lower dividend for those investors.

The Fund is expected to continue to declare and pay monthly distributions at the current annual rate of \$2.90 per unit throughout 2010.

## Free cash flow

As we prepare for conversion to a corporate structure and a dividend policy based on free cash flow, we anticipate the distributable cash financial measure will be less meaningful starting in 2011. The main differences between distributable cash and free cash flow are the distributable cash from discontinued operations and the items we state as being funded through cash reserves and short-term borrowing, such as restructuring charges, pension deficit funding and working capital changes. The following table provides a summary reconciliation of cash from operating activities to free cash flow, along with cash distributions declared, for the three and six months ended June 30, 2010 and the corresponding periods in 2009. Since our operations ultimately support distributions to Fund unitholders, free cash flow combines our cash performance with that of the Fund.

For the period ended June 30 (millions of dollars)	Three months			Six months		
	2010	2009	% change	2010	2009	% change
Cash from operating activities	\$312.2	\$294.9	5.9	\$457.8	\$505.4	(9.4)
Cash used in operating activities of the Fund	(1.8)	(0.3)	n.m.	(1.8)	(12.3)	(85.4)
Total cash from operating activities	310.4	294.6	5.4	456.0	493.1	(7.5)
Capital expenditures	(125.0)	(121.7)	2.7	(219.7)	(229.0)	(4.1)
Free cash flow <sup>(1)</sup>	\$185.4	\$172.9	7.2	\$236.3	\$264.1	(10.5)
Add: Changes in operating assets and liabilities (working capital)	(32.8)	(2.6)	n.m.	87.8	66.8	31.4
Change in operating assets and liabilities (working capital) of the Fund	0.4	(1.2)	n.m.	(0.2)	9.8	n.m.
Free cash flow before changes in working capital	\$153.0	\$169.1	(9.5)	\$323.9	\$340.7	(4.9)
Cash distributions declared <sup>(2)</sup>	\$165.1	\$165.1	-	\$330.2	\$330.0	0.1

n.m. not meaningful

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

<sup>(2)</sup> Distributions declared include amounts declared by the Fund to unitholders and by Bell Aliant Holdings LP and Bell Aliant LP to Bell Canada and BCE on units that are exchangeable into Fund units.

Free cash flow for the second quarter of 2010 was \$185.4 million, an increase of \$12.5 million, or 7.2 per cent, from the same period in 2009, mainly due to the cash flow generated from working capital changes in the quarter of \$32.4 million for us and the Fund combined. On a year-to-date basis, free cash flow was \$236.3 million, compared to \$264.1 million during the same period in 2009. Working capital changes are normally a use of cash in the first quarter of the year, as we pay amounts related to annual incentives and interest that were accrued in the fourth quarter of the previous year, as well as large payments for property taxes. The effects of working capital on free cash flow typically reverse in later quarters.

## OUR BUSINESS ENVIRONMENT

### Competitive landscape

Our most significant competitive threat continues to be from cable companies as they expand their local service areas and provide bundled service offerings in our regions. The competitive footprint overlap with cable companies was approximately 68 per cent of households in our territories at the end of June 2010, consistent with the previous quarter but representing a 6 percentage point increase from a year ago. We expect that cable companies will continue to gradually erode our market share in local and long distance voice services, and to a lesser extent Internet services, both with further expansion into our territories and in intensity of competition. In contrast, we anticipate that our market share in TV services will grow against the cable companies as our footprint for offering these services expands.

In response to these competitive pressures, we have maintained our commitment to provide innovative product offerings and the highest quality of service to our customers. We are continually promoting our Bell Aliant Bundles, enhancing our products and services, and investing in fibre to build our network capacity. We draw on our local presence to guide community investment and to support activities that are important to our customers and employees. We remain focused on conducting our

business with a clear and consistent focus on the successful execution of our strategic objectives. Refer to our accomplishments as discussed in the “Strategy” section for further details.

### Regulatory landscape

Our business is affected by decisions made by the Canadian Radio-television and Telecommunications Commission (CRTC or the Commission), pursuant to the Telecommunications Act, the Broadcasting Act and the Radiocommunication Act. The CRTC is an independent agency of the Government of Canada and is responsible for regulating Canada’s telecommunications and broadcasting industries.

The CRTC is expected to rely on market forces to the maximum extent feasible when making policy decisions, and should use regulation that interferes with market forces to the minimum extent necessary. As an interested party, we frequently participate in the public processes leading up to these decisions, submitting evidence, opinions and comments to the CRTC. We also work with other industry and interested parties in pressing for regulatory reform, where we feel necessary and warranted, while similarly opposing those parties seeking to gain unfair competitive advantages or raise the regulatory burdens in our industry.

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

## STRATEGY

### Highlights of strategic achievements in the second quarter of 2010

We remain focused on the five strategic objectives we implemented in 2009 as we believe they continue to be critical to our future success. Despite challenging economic times and a changing competitive environment, our strategy has proven resilient, enabling a critical balance between improving services, increasing productivity and offering advanced solutions to our customers. Our five strategic objectives are as follows:

1. Improve the customer experience;
2. Retain our customers;
3. Grow broadband;
4. Reset our cost structure; and
5. Engage employees.

#### *Improve the customer experience*

Our focus on service fundamentals is positively affecting the overall experience for customers as we continue to make improvements at all customer touch points. As a result, we are making great strides towards keeping our promises, doing it right the first time, and making each and every interaction consistent and exceptional.

#### *Retain our customers*

We believe bundles are instrumental in retaining customers. During the second quarter of 2010, we have continued to place a strong emphasis on promoting our bundles with our messaging and simplification in the market, which we believe will increase awareness and understanding of the value we offer.

For business customers in Ontario and Quebec, we simplified our bundle process as customers now sign one contract and see a single price on their bill. These enhancements improve our customer experience as well as assist in the addition and retention of local, long distance and centrex customers.

Bell Aliant TV, where available, is an important service within our bundles. In the second quarter of 2010, we improved overall usability of the TV service to ensure that it remains both current and competitive. Changes included an updated user interface and guide, improved functionality, and enhancements to our Personal Video Recorder. With the addition of 10 new channels, our high definition portfolio has now expanded to more than 60 channels.

### *Grow broadband*

We accelerated the expansion of *FibreOP™*, our fibre-to-the-home (FTTH) service, in the second quarter of 2010.

We launched *FibreOP* for Business – an Internet service for small and medium-sized businesses in our *FibreOP* serving area in New Brunswick. It provides Internet service through 100 per cent fibre-optic technology that connects directly to businesses. Premium Internet speeds, enhanced productivity and being in the forefront of our industry with leading edge technology are significant benefits of this improved new service.

On May 28, 2010, with the support of the Government of Nova Scotia, we announced our plan to bring our *FibreOP* service to Nova Scotia. This service will bring with it premium Internet speeds of 170 Mbps download and 30 Mbps upload on our new network. Sydney will be the first community in the province to have access to *FibreOP* service. This investment is part of our 2010 capital expansion program, which includes approximately \$65.0 million for FTTH, and will contribute to our commitment to pass 140,000 homes and businesses with FTTH by the end of 2010.

Digital subscriber line expansion also continued in the quarter with an additional 47,000 homes passed, resulting in over 79 per cent of homes in our territory now passed with high-speed Internet service.

### *Reset our cost structure*

Cost structure improvement continues to be imperative to the achievement of our corporate strategy. Productivity achievements, specifically those related to our restructuring initiatives, continue to generate significant reductions in expenses.

We remain focused on managing our labour costs and continue to seek opportunities to optimize our workforce productivity. On June 15, 2010, a ratification vote held by our Atlantic Canadian union resulted in the rejection of a tentative agreement that we believe would have achieved certainty in our labour costs and significant savings that would have enabled us to protect jobs and benefits. We are now pursuing other alternatives to reduce costs within the bounds of our current collective agreement that expires at the end of 2011.

Our efforts to reduce general and administrative expenses have produced significant savings. We have seen company-wide improvement in our collection procedures and contained our discretionary spending.

Finally, further cost reductions have been realized through our commercial agreements with Bell Canada.

### *Engage employees*

We continue to focus on providing clear direction on our strategy and promoting a high performance culture through such initiatives as candid communication about the direction of the business, recognizing top performance, and enhancing our leaders' ability to manage talent.

During the second quarter of 2010, our Chief Executive Officer and other key senior executives embarked on a six-province employee road show, meeting more than 2,300 employees. These sessions provided the opportunity for employees to revisit our strategic objectives and highlighted the need to remain focused on our goals in this challenging environment.

Additionally, we began to rollout tools that simplify the talent management process for our leaders of people. The focus of these tools is to help leaders better identify employee skills, qualifications and experiences in order to respond more effectively to corporate priorities and achieve our vision.

## RESULTS OF OPERATIONS

<i>For the period ended June 30</i> <i>(millions of dollars)</i>	Three months			Six months		
	2010	2009	% change	2010	2009	% change
Local and access	<b>\$325.0</b>	\$340.9	(4.7)	<b>\$647.9</b>	\$679.1	(4.6)
Long distance	<b>99.0</b>	\$106.3	(6.9)	<b>196.1</b>	212.3	(7.6)
Data & Internet	<b>207.1</b>	\$207.2	(0.0)	<b>411.2</b>	407.4	0.9
IT services and fulfillment	<b>58.6</b>	\$64.4	(9.0)	<b>154.1</b>	176.7	(12.8)
Wireless	<b>22.0</b>	\$21.2	3.8	<b>43.0</b>	41.0	4.9
Other revenues	<b>41.4</b>	\$44.5	(7.0)	<b>79.4</b>	86.3	(8.0)
Operating revenues	<b>\$753.1</b>	\$784.5	(4.0)	<b>\$1,531.7</b>	\$1,602.8	(4.4)
Operating expenses	<b>396.0</b>	417.3	(5.1)	<b>820.9</b>	876.9	(6.4)
EBITDA <sup>(1)</sup>	<b>\$357.1</b>	\$367.2	(2.8)	<b>\$710.8</b>	\$725.9	(2.1)
Net cost of benefit plans	<b>22.3</b>	22.5	(0.9)	<b>44.5</b>	44.7	(0.4)
Depreciation and amortization	<b>178.1</b>	177.1	0.6	<b>350.9</b>	353.4	(0.7)
Restructuring and other charges	<b>4.4</b>	3.1	41.9	<b>16.0</b>	12.8	25.0
Operating income	<b>\$152.3</b>	\$164.5	(7.4)	<b>\$299.4</b>	\$315.0	(5.0)
Other expenses	<b>1.0</b>	12.8	n.m.	<b>1.9</b>	13.0	(85.4)
Interest charges	<b>40.0</b>	39.0	2.6	<b>79.5</b>	76.5	3.9
Income tax recovery	<b>(11.0)</b>	(15.8)	(30.4)	<b>(14.8)</b>	(23.7)	(37.6)
Non-controlling interest	<b>33.0</b>	33.8	(2.4)	<b>65.7</b>	70.1	(6.3)
Net earnings from continuing operations	<b>\$89.3</b>	94.7	(5.7)	<b>\$167.1</b>	\$179.1	(6.7)
Net loss from discontinued operations	-	(5.4)	n.m.	-	(7.3)	n.m.
Net earnings	<b>\$89.3</b>	\$89.3	(0.0)	<b>\$167.1</b>	\$171.8	(2.7)

n.m. not meaningful

<sup>(1)</sup> EBITDA is a non-GAAP financial measure. Refer to the "Non-GAAP financial measures" section for more details.

### Operating revenues

#### *Local and access*

Our local and access revenue is earned primarily through the provision of NAS, along with enhanced service features, contribution revenues and competitor network access revenues. Local and access revenue decreased 4.7 per cent, or \$15.9 million, in the second quarter of 2010, and 4.6 per cent, or \$31.2 million, on a year-to-date basis, compared to the same periods in 2009, which was slightly less than the 4.9 per cent NAS customer decline from June 30, 2009, to June 30, 2010. The revenue decrease includes a \$5.8 million and \$10.3 million decline in contribution subsidy revenue for the second quarter and year-to-date of 2010, respectively, compared to the same periods in 2009. This primarily relates to the effect of 2009 inflation, which was negative, in the formula for contribution subsidy calculation purposes. Increases in our late pay rates and improved home phone average rate per customer (ARPC) helped to lessen the impact of customer losses. Revenue losses also continued to be mitigated through programs targeted at retaining our highest value customers, selective pricing increases and increased features penetration.

During the second quarter of 2010, our net NAS customer declines were 23,529. This represents an improvement in net NAS customer declines of approximately 15,000 customers over the level of declines experienced in the first quarter of 2010, and approximately 8,200 customers over the declines experienced in the first quarter of 2009. Our net NAS declines during the first six months of 2010 have improved by 10.8 per cent when compared to the same period in 2009.

At June 30, 2010, the number of residential NAS customers and business NAS customers were 6.1 per cent and 2.6 per cent lower, respectively, than at June 30, 2009. In our residential market, we are continuing to experience customer losses due to increased competitive intensity and the expansion in the competitive footprint overlap with cable companies, as well as substitution of traditional wireline service by other services as customers adopt wireless and voice over Internet protocol (VoIP) technologies. Despite the overall decline in business NAS customers in the second quarter and year-to-date of 2010, it represents a significant improvement in the amount of NAS losses declines noted in the respective comparative periods in 2009. This improvement in the rate of decline is predominantly attributable to business contract loss in Atlantic Canada in the second quarter of 2009, not recurring in 2010, as well as improved retention in our mid-market customer segment.

#### *Long distance*

Long distance revenue, earned through toll and long distance terminating services, decreased by 6.9 per cent, or \$7.3 million, in the second quarter of 2010, and 7.6 per cent, or \$16.2 million, on a year-to-date basis, compared to the same periods in 2009. The revenue decrease was a result of a decline in long distance minutes and in average revenue per minute. The decline in long distance minutes of 5.6 per cent for the quarter and 6.1 per cent year-to-date is due to customer losses and substitution of traditional wireline service by email, cellular calling and VoIP services. The decline in average revenue per minute of 2.1 per cent for the quarter and 2.2 per cent year-to-date is primarily attributable to customers shifting from per-minute to flat-rate and lower yielding plans. It is a competitive necessity to re-price our long distance offerings as we bundle this service with high-speed Internet and TV. Our challenge is to grow new revenue through bundles to offset this long distance re-pricing.

#### *Data and Internet*

Data and Internet revenue is earned through the provision of data access, data circuits, high-speed and dial-up Internet services, managed network services, Internet protocol television (IPTV) and enhanced services and applications, such as security services and music download service. Revenue from these services remained stable for the second quarter of 2010, decreasing only \$0.1 million, compared to the same period in 2009. Growth in Internet revenue of 7.0 per cent, or \$7.4 million, in the second quarter of 2010 compared to the second quarter of 2009, due to continued migration of our customers to higher-speed and value-added services was offset by declines in other data revenues of 7.4 per cent, or \$7.5 million, over the same period. The weakening of other data revenue was mainly a result of customer losses and transitions from a legacy network to a more competitively priced IP-based framework. Year-to-date results reflected a similar trend. Data and Internet revenue increased \$3.8 million, or 0.9 per cent, as a \$12.0 million decline in other data revenues was more than offset by \$15.8 million of growth in Internet revenue.

At June 30, 2010, our high-speed Internet customer base was 6.0 per cent higher than at June 30, 2009, with growth in both our residential and business markets. As well, selected price increases and growth in value-added services to customers have contributed to our highest residential high-speed Internet average monthly revenue per customer (ARPC) to date of \$39.60 in the second quarter of 2010. ARPC is up 4.5 per cent, or \$1.70, from \$37.90 in the second quarter of 2009, and represents an increase of \$1.89, or 5.1 per cent, to \$39.31 on a year-to-date basis.

#### *IT services and fulfillment*

IT services and fulfillment revenue is earned primarily by our xwave division through systems integration, IT consulting, and hardware and software fulfillment. Overall IT services and fulfillment revenue declined in the second quarter of 2010 by 9.0 per cent, or \$5.8 million, and 12.8 per cent, or \$22.6 million, on a year-to-date basis, compared to the same periods in 2009. This is partially due to a decrease in low margin IT fulfillment revenue of \$0.4 million and \$16.0 million, in the second quarter of 2010 and year to date, respectively, reflecting significant product sales to a large customer in the first quarter of 2009 that were not repeated to the same extent in 2010. IT service revenue has also declined \$5.4 million and \$6.6 million, in the second quarter of 2010 and year to date, respectively, driven by softness in the IT services sector.

## Wireless

Wireless revenue is earned through providing cellular, paging and mobile radio services over digital wireless networks in our Télébec, NorthernTel and Kenora Municipal Telephone Services (KMTS)-branded territories in Quebec and Ontario. Wireless revenue increased by 3.8 per cent, or \$0.8 million, in the second quarter of 2010, and \$2.0 million, or 4.9 per cent, on a year-to-date basis, compared to the same periods in 2009. This was mainly due to strong data roaming results and a 7.4 per cent increase in wireless customers at June 30, 2010, compared to June 30, 2009, despite a decline in wireless ARPC. For the quarter ended June 30, 2010, wireless ARPC declined 2.8 per cent and on a year-to-date basis, 1.6 per cent, due to promotional pricing used to acquire and retain customers in the face of aggressive competitive offers.

## Other revenues

Other revenues consist mainly of terminal rentals and sales, personal computer sales, telecommunication equipment sales, custom work completed for large customers, and revenue generated by our outsourcing arrangement with Bell Mobility. Other revenues declined 7.0 per cent, or \$3.1 million, in the second quarter of 2010, compared to the same period in 2009. This overall decline is predominantly driven by a decrease in product sales of \$3.4 million, or 21.5 per cent, and a decline in rental revenue of \$1.2 million, or 18.4 per cent. On a year-to-date basis, other revenues declined by 8.0 per cent, or \$6.9 million, mainly reflecting a \$4.0 million decline in product sales attributable to a weaker economy, and offset slightly by revenues generated from the G8 Summit.

## Expenses

### Operating expenses

For the period ended June 30 (millions of dollars)	Three months			Six months		
	2010	2009	% change	2010	2009	% change
Cost of sales	<b>\$136.7</b>	\$131.2	4.2	<b>\$294.2</b>	\$300.8	(2.2)
Salaries, benefits, contract labour and consulting	<b>130.9</b>	141.1	(7.2)	<b>267.2</b>	289.9	(7.8)
Selling, general and administrative	<b>127.3</b>	142.8	(10.9)	<b>257.4</b>	281.9	(8.7)
Capital taxes	<b>1.1</b>	2.2	(50.0)	<b>2.1</b>	4.3	(51.2)
<b>Operating expenses</b>	<b>\$396.0</b>	\$417.3	(5.1)	<b>\$820.9</b>	\$876.9	(6.4)

Operating expenses decreased by 5.1 per cent, or \$21.3 million, in the second quarter of 2010, and 6.4 per cent, or \$56.0 million, on a year-to-date basis, compared to the same periods in 2009, reflecting a decline in most operating expense categories.

Cost of sales increased 4.2 per cent, or \$5.5 million, in the second quarter of 2010, compared to the same period in 2009. This is primarily due to increased content costs, driven by a higher number of TV subscribers, and increased network services cost of goods sold related to the G8 summit, hosted in our Ontario region during June 2010. On a year-to-date basis, cost of sales decreased 2.2 per cent, or \$6.6 million, compared to the same period in 2009, primarily due to lower product cost of goods sold, caused by lower overall product sales.

Salaries, benefits, contract labour and consulting expenses decreased 7.2 per cent, or \$10.2 million, in the second quarter of 2010, and 7.8 per cent, or \$22.7 million, on a year-to-date basis, compared to the same periods in 2009, due to the continuance of productivity efficiencies related to our restructuring initiatives and lower costs related to our short-term incentive plan. The second quarter of 2009 also included a one-time \$3.0 million adjustment which reduced equity-based incentive plan expenses, without which labour costs were down \$13.2 million from the second quarter of 2009.

Selling, general and administrative expenses decreased 10.9 per cent, or \$15.5 million, in the second quarter of 2010, and 8.7 per cent, or \$24.5 million, on a year-to-date basis, compared to the same periods in 2009. Perseverance in streamlining our operations through various cost containment

measures resulted in lower real estate expenses, property and municipal taxes, bad debt expense and other discretionary expenses.

#### *Net cost of benefit plans*

Net cost of defined benefit (DB) and other post employment benefit (OPEB) plans was \$20.3 million in the second quarter of 2010, and \$40.6 million on a year-to-date basis, consistent with the same periods in 2009. The size of the DB and OPEB obligations has increased in 2010, compared to the prior year, due to higher amortization and interest costs. In contrast, increases in these costs were offset by lower current service costs, resulting from fewer active employees in these plans than a year earlier, as well as a higher expected return on DB plan assets, as our asset base increased with strong returns in 2009.

Defined contribution (DC) pension costs were \$2.0 million in the second quarter of 2010, and \$3.9 million on a year-to-date basis, consistent with the prior year.

#### *Depreciation and amortization*

Depreciation and amortization increased 0.6 per cent, or \$1.0 million, in the second quarter of 2010, compared to the second quarter of 2009, resulting from an alignment of the estimated useful lives of certain intangible assets. On a year-to-date basis, depreciation and amortization expense decreased 0.7 per cent, or \$2.5 million, which is generally a result of a declining and aging depreciable asset base when comparing year over year.

#### *Restructuring and other charges*

Restructuring and other charges for the second quarter of 2010 and on a year-to-date basis were \$4.4 million and \$16.0 million, respectively, compared to \$3.1 million and \$12.8 million in the corresponding periods of 2009. The charges in 2010 mainly relate to employee severance and related costs incurred for voluntary retirement incentive offers to certain unionized staff in Ontario and Quebec, and the streamlining of our management workforces, as well as to a change in estimate in the accrual related to the 2009 restructuring initiative to reflect its final costs.

#### *Other expenses*

Other expenses decreased \$11.8 million in the second quarter of 2010, and \$11.1 million on a year-to-date basis, compared to the same periods in 2009. This decrease relates primarily to \$13.3 million reclassified from other comprehensive earnings in the second quarter of 2009 related to the previously unrecognized portion of net losses on interest rate hedges that were settled in May 2009, with no similar transaction recorded in 2010.

#### *Interest charges*

Interest charges increased 2.6 per cent, or \$1.0 million, in the second quarter of 2010, and 3.9 per cent, or \$3.0 million, on a year-to-date basis, compared to the same periods in 2009. Total debt levels are slightly higher year over year primarily due to new capital lease agreements entered into during 2009 and 2010. The increased interest expense reflects this higher debt level as well as the higher interest rate on long-term debt issued in May 2009, the proceeds of which were used to repay lower rate short-term debt. Approximately 90 per cent of our debt is effectively subject to fixed rates of interest.

#### *Income tax recovery*

The income tax recovery in the second quarter of 2010 decreased 30.4 per cent, or \$4.8 million, to \$11.0 million, compared to a recovery of \$15.8 million for the second quarter of 2009. This is mainly due to the recognition in the second quarter of 2009 of higher income tax recoveries as compared to the same period in 2010, including a \$5.2 million income tax recovery related to blended federal and provincial tax rate reductions and changes to temporary difference reversal patterns and a \$2.0 million recovery related to a settlement of prior period audit issues with Canada Revenue Agency (CRA). This

was partially offset by a \$3.5 million tax recovery booked in the second quarter of 2010 related to the introduction of a cash settlement option in an equity-based incentive plan.

On a year-to-date basis, income tax recovery decreased by \$8.9 million, compared to the same period in 2009, reflecting similar trends seen in the second quarter of 2010 further offset by a \$1.0 million higher income tax recovery in 2010 due to lower earnings before tax, net of non-controlling interest on a year-to-date basis.

#### *Non-controlling interest*

Non-controlling interest at June 30, 2010, represents Bell Canada's 37.9 per cent ownership interest in our subsidiary, Bell Aliant LP (35.9 per cent on a proportionate cash distribution basis).

Non-controlling interest in our earnings decreased by 2.4 per cent, or \$0.8 million, in the second quarter of 2010, and 6.3 per cent, or \$4.4 million on a year-to-date basis, compared to the same periods in 2009, which reflects Bell Canada's proportionate share of the decrease in net income of Bell Aliant LP for the period.

#### *Net loss from discontinued operations*

In 2010, we had no discontinued operations. Discontinued operations in 2009 include the operating results of Innovatia, xwave New England and our former DSA business, which had a combined net loss of \$5.4 million in the second quarter, and \$7.3 million year to date.

#### Selected quarterly financial information

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

<i>For the eight quarters ended June 30</i> <i>(millions of dollars, except per unit amounts)</i>	2010		2009				2008	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Operating revenues	\$753.1	\$778.6	\$785.6	\$785.8	\$784.5	\$818.3	\$803.2	\$806.6
EBITDA <sup>(1)</sup>	\$357.1	\$353.7	\$365.6	\$374.9	\$367.2	\$358.7	\$365.6	\$371.0
Operating income	\$152.3	\$147.1	\$142.9	\$163.7	\$164.5	\$150.5	\$112.7	\$171.3
Net earnings (loss):								
Continuing operations	\$89.3	\$77.8	\$95.1	\$98.8	\$94.7	\$84.4	\$81.0	\$95.1
Discontinued operations	-	-	(2.5)	(7.0)	(5.4)	(1.9)	(1.0)	(1.6)
<b>Net earnings</b>	<b>\$89.3</b>	<b>\$77.8</b>	<b>\$92.6</b>	<b>\$91.8</b>	<b>\$89.3</b>	<b>\$82.5</b>	<b>\$80.0</b>	<b>\$93.5</b>
Basic and diluted earnings (loss) per unit:								
Continuing operations	\$0.56	\$0.48	\$0.59	\$0.62	\$0.59	\$0.53	\$0.50	\$0.59
Discontinued operations	-	-	(0.01)	(0.05)	(0.03)	(0.02)	-	(0.01)
<b>Basic and diluted earnings per unit</b>	<b>\$0.56</b>	<b>\$0.48</b>	<b>\$0.58</b>	<b>\$0.57</b>	<b>\$0.56</b>	<b>\$0.51</b>	<b>\$0.50</b>	<b>\$0.58</b>
Distributable cash <sup>(1)</sup>	\$176.2	\$200.3	\$182.5	\$207.8	\$186.6	\$196.5	\$146.2	\$179.3
Cash distributions declared <sup>(2)</sup>	\$165.1	\$165.1	\$165.1	\$165.1	\$165.1	\$164.9	\$164.8	\$164.9

<sup>(1)</sup> EBITDA and distributable cash are non-GAAP measures. Refer to the "Non-GAAP financial measures" section for more details.

<sup>(2)</sup> Cash distributions declared include amounts declared by the Fund to unitholders and by Bell Aliant Holdings LP and Bell Aliant LP to Bell Canada and BCE on units that are exchangeable into Fund units.

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

- In general, we have seen a decline in revenues from local and access, long distance, IT services and other revenues over the past eight quarters, while revenues earned from data and Internet and wireless have increased. IT fulfillment revenue can fluctuate from quarter to quarter, with the first quarter of the year typically experiencing stronger revenue from customers in the government sector.

- A restructuring initiative was launched in 2008 with a \$60.3 million charge recorded in the fourth quarter to facilitate a new organizational structure. As part of our productivity initiatives in 2009 to create a more efficient cost structure as well as improve our service to customers, we offered a voluntary retirement incentive to a limited number of our unionized employees in Atlantic Canada, Ontario and Quebec. We also announced an operational consolidation of certain contact centres in Atlantic Canada. We recognized restructuring charges related to these initiatives of \$9.3 million, \$2.6 million, \$13.0 million and \$16.0 million in the first, second, third and fourth quarters of 2009, respectively. In 2010, we continued our organizational restructuring initiatives which resulted in recognizing related restructuring charges of \$11.1 million and \$4.3 million in the first and second quarters, respectively.
- Cost containment and other expense reduction initiatives implemented during 2009 in response to our strategic objectives reduced our selling, general and administrative expenses by \$47.9 million, or 7.9 per cent, in 2009 compared to 2008. In the first and second quarters of 2010, this trend continued, as selling, general and administrative expenses declined \$9.0 million and \$15.5 million, respectively, compared to the same periods in 2009.
- On May 1, 2009, we concluded an asset purchase agreement whereby CAE Professional Services (Canada) Inc. (CAE) acquired our DSA business, which operated under the xwave brand. The proceeds on closing were \$16.3 million in cash and \$7.6 million in receivables from CAE related to post-closing balance sheet adjustments, with an additional \$8.5 million of proceeds contingent upon the occurrence of certain future events, for potential total proceeds of \$32.4 million. A pre-tax gain on sale of \$1.7 million was recorded in the second quarter of 2009, which was reflected in the net loss from discontinued operations.
- On June 1, 2009, we concluded a share purchase agreement whereby Abilis Solutions Inc. acquired all of the outstanding shares of xwave New England. The proceeds on closing were \$4.9 million, resulting in a pre-tax loss on sale of \$3.5 million being recognized during the second quarter of 2009.
- On November 1, 2009, we concluded a share purchase agreement under which the senior leaders of Innovatia acquired all of its outstanding shares. In anticipation of the disposal, we recorded a write-down of net assets in the third quarter of 2009 of \$6.1 million. The proceeds on closing were \$1.5 million, resulting in a pre-tax loss on sale of \$1.5 million being recognized in the fourth quarter of 2009.

Additional details regarding our results for the second quarter of 2010 are discussed throughout this document. Further information on our prior quarterly results can be found in the respective quarterly financial statements and related MD&A on our website at [www.bellaliant.ca](http://www.bellaliant.ca), and filed on SEDAR at [www.sedar.com](http://www.sedar.com).

## FINANCIAL AND CAPITAL MANAGEMENT

### Summary of cash flows

For the period ended June 30 (millions of dollars)	Three months			Six months		
	2010	2009	%change	2010	2009	%change
Cash from (used in):						
Operating activities	\$312.2	\$294.9	5.9	\$457.8	\$505.4	(9.4)
Financing activities	(193.1)	(197.3)	(2.1)	(253.1)	(286.5)	(11.7)
Investing activities	(125.0)	(120.0)	4.2	(219.7)	(227.3)	(3.3)
Net decrease in cash from continuing operations	(\$5.9)	(\$22.4)	(73.7)	(\$15.0)	(\$8.4)	78.6
Net increase in cash from discontinued operations	-	14.2	n.m.	-	9.3	n.m.
Net increase (decrease) in cash for the period	(\$5.9)	(\$8.2)	(28.0)	(\$15.0)	\$0.9	n.m.

n.m. - not meaningful

We used net cash of \$5.9 million in the second quarter of 2010, compared to using cash of \$8.2 million in the second quarter of 2009. On a year-to-date basis, we used cash of \$15.0 million compared to generating cash of \$0.9 million for the same period in 2009.

#### *Operating activities*

Cash generated from operating activities increased 5.9 per cent, or \$17.3 million, in the second quarter of 2010, compared to the same period in 2009. Net earnings from continuing operations, net of non-cash adjustments, decreased \$13.5 million but was more than offset by an increase of \$30.2 million in cash flow from changes in operating assets and liabilities, or working capital, and \$0.6 million lower funding of DB pension and OPEB plans.

Cash flow generated from working capital changes was \$32.8 million in the second quarter of 2010, compared to \$2.6 million of cash flow generated in the second quarter of 2009. Our management of accounts receivable contributed \$32.3 million to our cash flows in the second quarter of 2010, compared to contributing \$21.9 million in the second quarter of 2009. Cash flow used to fund working capital changes was negatively affected quarter over quarter by a \$4.7 million increase in inventory purchases to support our Bell Aliant TV and high-speed Internet services and a \$7.8 million increase in prepayments related to new hardware and software maintenance contracts that we entered into during the second quarter. During the second quarter of 2010, we increased accounts payable and accruals by \$17.2 million, while the second quarter of 2009 included large cash payments which reduced our accounts payable and accruals by \$25.4 million. The quarter-over-quarter increase of \$42.6 million in accounts payable and accruals was in large part due to significant payments of restructuring charges of \$31.1 million during the second quarter of 2009 from the 2008 restructuring initiatives, compared to \$11.1 million in the same period in 2010.

On a year-to-date basis, cash generated from operating activities was \$47.6 million, or 9.4 per cent lower than the same period in 2009, as net earnings from continuing operations, net of non-cash adjustments, decreased \$23.0 million, funding of DB pension and OPEB increased \$3.6 million, and cash flows from changes in working capital decreased \$21.0 million. The year-to-date reduction in cash flow from working capital changes compared to 2009 was mainly due to continued improvement in accounts receivable management, although not to the same extent realized in the comparative period, higher inventory purchases, and lower cash flow from deferred charges and liabilities. We also realized an increase in income tax receivable as we made a payment resulting from an audit of our scientific research and experimental development tax credits, which remains under appeal. These were partially offset by lower payments on previously accrued restructuring charges.

Funding for our DB pension plans for the second quarter and year-to-date 2010 was \$26.7 million and \$58.3 million, respectively, compared to \$27.5 million and \$55.0 million for the same periods in 2009.

We have recently completed the process of updating the actuarial valuations of our DB pension plans as of December 31, 2009. These are expected to be filed by the end of the third quarter of 2010, and we will then adjust our 2010 contributions to the plans based on the valuation results.

Contributions to our OPEB plans to fund benefit payments were \$2.2 million in the second quarter of 2010, a slight increase from \$2.0 million paid in the second quarter of 2009, which reflects a naturally rising trend in retiree health care costs. Year-to-date contributions were \$4.1 million, compared to \$3.8 million in the prior year.

#### *Financing activities*

Cash used in financing activities decreased 2.1 per cent, or \$4.2 million, for the second quarter of 2010, compared to the same period in 2009. On a year-to-date basis, we used cash of \$253.1 million in our financing activities compared to using cash of \$286.5 million for the same period in 2009.

In the second quarter of 2010, we had net repayments of debt (including short and long-term debt, capital leases and notes payable to related parties) of \$11.8 million, compared to net repayments of \$15.6 million in same period in 2009. On a year-to-date basis, we had net proceeds of \$94.3 million in 2010 compared to net proceeds of \$61.5 million in 2009. We had no long-term debt issuance in the

second quarter of 2010, compared to net proceeds of long-term debt issuance of \$348.6 million during the same period of 2009. Those proceeds were used to repay \$250.0 million of Banker's Acceptance advances that were outstanding under our revolving operating facilities and a \$100.0 million non-revolving term loan. Associated with the repayment of these floating-rate obligations in 2009, we also paid cash of \$15.4 million to settle our outstanding fixed-floating interest rate swaps and repaid the \$50.0 million long-term bank facility that was put in place during 2008. Financing activities in 2010 mainly related to obtaining short-term debt to fund changes in operating assets and liabilities.

Refer to the "Financing and liquidity" section for further discussion on our short-term and long-term debt.

During the second quarter of 2010, we also used cash of \$15.0 million to repurchase accounts receivable from the securitization trust, with no similar activity occurring under the program in the same period of 2009. We increase or decrease the amount of accounts receivable we sell to the securitization trust based on the amount of our eligible accounts receivable and our determination of the cost effectiveness of this program.

Financing activities also include total distributions paid to the Fund and non-controlling interests, which were \$166.3 million in both the second quarter of 2010 and 2009. On a year-to-date basis, total distributions were \$332.4 million, compared to \$332.6 million in the same period in 2009.

#### *Investing activities*

Cash used in investing activities increased by \$5.0 million in the second quarter of 2010, and decreased \$7.6 million on a year-to-date basis, compared to the same periods in 2009.

Capital investments were \$125.0 million in the second quarter of 2010, compared to \$121.7 million in the same period in 2009, representing an increase of \$3.3 million, or 2.7 per cent, attributed to accelerated spending on FTTH during the quarter. On a year-to-date basis capital investments decreased \$9.3 million compared to the same period of 2009. The first quarter of 2009 included incremental spending for the Bell Mobility backhaul project which was not incurred in the comparative period of 2010.

Capital expenditures were 16.6 per cent of operating revenues in the second quarter of 2010, and 14.3 per cent on a year-to-date basis. The second quarter typically has a higher outlay of expenditures compared to the first quarter as conditions are more favourable for outside construction activity on our network assets.

### Financing and liquidity

#### *Sources of liquidity*

We derive most of our liquidity from cash from operating activities, as well as bank credit facilities, a commercial paper program, and our accounts receivable securitization program. We normally anticipate generating enough cash from our operating activities to pay for capital investments, distributions and other commitments as they arise.

Our capital structure is as follows:

<i>(millions of dollars, except as otherwise noted)</i>	<b>June 30, 2010</b>		<b>December 31, 2009</b>	
Partners' equity	<b>\$4,740.5</b>	51.5%	\$4,799.4	52.3%
Non-controlling interest	<b>1,548.9</b>	16.8%	1,587.9	17.3%
Net debt	<b>2,914.7</b>	31.7%	2,792.6	30.4%
Total capital	<b>\$9,204.1</b>	100.0%	\$9,179.9	100.0%

### *Partners' capital*

We have an unlimited number authorized of each of the three classes of units. Our units are not publicly traded. The number of units issued and outstanding at June 30, 2010, which is unchanged from December 31, 2009, is as follows:

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

### *Debt*

We have a total of \$2.6 billion in unsecured and unsubordinated medium-term notes outstanding under Bell Aliant LP's trust indenture dated September 14, 2006. In April of 2009, we filed a new medium-term note shelf prospectus that is available to cover future medium-term note issuances for a 25-month period. Our long-term debt has not significantly changed during the second quarter of 2010 and primarily reflects scheduled debt repayments and new capital leases.

Our available short-term credit facilities have not changed significantly since December 31, 2009. We continue to maintain a \$400.0 million commercial paper program, supported by unused capacity on our revolving operating facilities. Amounts drawn under our short-term credit facilities are \$140.6 million at June 30, 2010, compared to \$40.0 million at December 31, 2009. There was \$100.6 million issued under our commercial paper program at June 30, 2010, with no amounts issued at December 31, 2009. Refer to our "Summary of cash flows" section for additional details.

As of June 30, 2010, there have been no changes to the covenants and provisions contained in our credit facilities as disclosed in our MD&A for the year ended December 31, 2009.

### *Ratings*

In the second quarter of 2010, Standard and Poor's changed its outlook on our senior unsecured debt from negative to stable outlook. We are not aware of any other changes to our ratings.

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

### *Cash requirements*

We require a significant amount of cash to execute our business strategy. Our cash requirements for the second quarter of 2010 consisted of distributions to unitholders, investments in capital, pension plan funding, repayment of short and long-term debt, and payments of other commitments. Cash requirements in 2010 are expected to be similar to 2009. Specifically, it is anticipated that these requirements will result in the use of cash as follows:

- The annual cash requirement to make distributions to Fund unitholders and pro-rata distributions to BCE and Bell Canada on exchangeable limited partnership units is estimated to be in the range of \$660 million to \$665 million for 2010. For the six months ended June 30, 2010, we paid \$332.4 million in distributions.
- We anticipate our revised 2010 capital expenditures to be in the range of 16.0 to 17.0 per cent of operating revenues. For the six months ended June 30, 2010, capital expenditures were \$219.7 million, or 14.3 per cent of operating revenues. Refer to the "Revised guidance" section for further discussion on capital intensity.

- We are required to repay short-term and long-term debt according to its terms. We ensure at all times that sufficient undrawn capacity exists on our revolving operating facilities to support the issuance of commercial paper. We have no significant long-term debt maturities in 2010.
- All of our DB pension plans have funding deficits. In 2009, the pension plans achieved a return on assets that was well above our expected rate of return. However, the discount rates utilized to calculate our solvency funding liabilities at December 31, 2009, were lower than those used at December 31, 2008. In addition, our December 31, 2009 funding requirements reflect the application of new pension regulations that were released on June 25, 2010, and which result in a new method for calculating solvency deficits and amortization payments. We estimate that our deficit funding for 2010 will be approximately \$85.0 million, compared to \$73.8 million for the full year of 2009. As more information becomes available or regulations are released, we will continue to assess the effects of new legislation to our plans, such as possible use of letters of credit in solvency funding.
- Restructuring initiatives, announced during 2010, 2009 and 2008, are expected to result in the use of cash of approximately \$50.0 million in 2010. For the six months ended June 30, 2010, we paid \$34.1 million in previously accrued restructuring charges.
- We also expect to use cash for other commitments, such as operating leases and purchase commitments for equipment and other network infrastructure.

## Other financial arrangements

### *Contractual obligations*

We have various operating leases for equipment and other network infrastructure, and purchase commitments under various service and commercial agreements, including our commercial agreements with Bell Canada. In the second quarter of 2010, we gave notice of our intention to terminate certain pole use agreements we have with the power utility serving Newfoundland and Labrador, which triggered an obligation to repurchase an interest in the poles previously sold to the utility. Refer to our "Revised guidance" section for further details of this transaction.

Further details of our commitments are described in notes 22 and 25 to our audited consolidated financial statements for the year ended December 31, 2009, and in note 12 to our unaudited interim consolidated financial statements for the period ended June 30, 2010.

### *Accounts receivable securitization*

Under a revolving purchase and sale agreement, we sell certain accounts receivable to a securitization trust. In May 2010, the net cash proceeds under this agreement were reduced by \$15.0 million. As at June 30, 2010, our net cash proceeds were \$150.0 million, compared to \$165.0 million as at December 31, 2009. Further details of these agreements are described in notes 1 and 2 to our annual consolidated financial statements for the year ended December 31, 2009, and in note 2 to our unaudited interim consolidated financial statements for the period ended June 30, 2010.

### *Use of derivative financial instruments*

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

At June 30, 2010, we had no derivative financial instruments outstanding, unchanged from December 31, 2009. Further details of our use of derivative financial instruments and the accounting policies we follow are provided in notes 1 and 13 to our audited consolidated financial statements for the year ended December 31, 2009.

## RELATED PARTY TRANSACTIONS

Our significant related parties continue to be BCE, Bell Canada and the Fund. For greater detail on our related party transactions and our relationship with BCE and Bell Canada, refer to note 25 to our audited consolidated financial statements for the year ended December 31, 2009, and to note 14 of our unaudited interim consolidated financial statements for the period ended June 30, 2010.

## SIGNIFICANT ACCOUNTING POLICIES

Our unaudited interim consolidated financial statements as at and for the three and six months ended June 30, 2010, have been prepared in accordance with Canadian GAAP. Our accounting policies and methods and critical accounting estimates and assumptions are consistent with those as described in note 1 to our consolidated financial statements for the year ended December 31, 2009.

### *Future changes in accounting policies*

The Accounting Standards Board of the Canadian Institute of Chartered Accountants (CICA) continually updates certain standards and guidelines contained in the CICA Handbook. We monitor these changes as they are proposed and will make changes to our accounting policies and disclosures as necessary.

### Business Combinations, Consolidated Financial Statements, and Non-Controlling Interests

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

### International financial reporting standards (IFRS)

In April 2008, the Accounting Standards Board released an exposure draft, Adopting IFRSs in Canada, which proposes to fully converge Canadian GAAP with IFRS effective January 1, 2011. The convergence will occur over a transitional period, with certain standards adopted prior to 2011 and other standards at the date of transition. The International Accounting Standards Board is continually mandating projects and making pronouncements to evolve IFRS, and as a result, IFRS at the transition date is expected to differ from its current form.

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

### *IFRS changeover plan and progress towards completion*

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

*Phase 1 - Raise awareness and initial assessment*

*Phase 2 - Detailed assessment*

*Phase 3 - Design*

*Phase 4 - Implementation*

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

#### *Phase 4 - Implementation*

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

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

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

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

#### **REGULATORY DEVELOPMENTS**

Regulatory developments in the second quarter of 2010, up to and including July 28, 2010, which are, or may be significant to our business, include the following:

##### *Foreign ownership rules*

Following through on a commitment which the Federal Government made in its March 2010 Speech from the Throne, in June 2010, Industry Canada issued a consultation paper entitled "Opening Canada's Doors to Foreign Investment in Telecommunications: Options for Reform". The consultation paper seeks public comments on proposals to reform Canada's foreign ownership and control restrictions that currently apply to facilities-based telecommunications service providers providing telecommunications services in Canada, known as "telecommunications common carriers" (TCCs), including Bell Aliant and many of their competitors. The Industry Canada consultation paper sets out three different foreign ownership reform options for comment. Option 1 would raise the allowable non-Canadian voting share limits up to 49 per cent for both TCC and broadcasting licensees (including broadcast distribution undertakings) while retaining the current requirement for control in fact by Canadians. Option 2 would repeal the foreign ownership and control restrictions for TCCs which account for 10 per cent or less of the annual Canadian telecommunications revenues (the existing rules for broadcasting licensees, including broadcast distribution undertakings, would be unchanged). Option 3 would repeal the above rules for all TCCs, regardless of their share of annual Canadian telecommunications revenues, but retain the existing rules for broadcasting licensees, including broadcast distribution undertakings. The Industry Canada consultation closes on July 30, 2010. It is not possible to predict at this time which, if any, of the three reform options may be implemented.

Removing or easing the limits on foreign ownership for TCCs could result in more foreign companies entering the Canadian market. This could result in greater access to capital for our competitors or the arrival of new competitors with global scale, which would increase competitive pressure. Furthermore, the adoption of any rule that disadvantages incumbent carriers or carriers that are both broadcasting licensees (including broadcast distribution undertakings) and TCCs (as Options 2 and 3 do), could place us at a disadvantage relative to some of our competitors, including as it relates to access to, and cost of, capital.

#### *New media*

In 2009, the CRTC conducted a hearing to consider issues pertaining to Canadian broadcasting in new media, including whether incentives or regulatory measures would be necessary for the creation and promotion of Canadian broadcasting content in new media. One proposal under consideration was the requirement for direct financial contribution from internet service providers (ISPs). Although the CRTC, in Broadcasting Regulatory Policy CRTC 2009-329, dated June 4, 2009, ruled against imposing measures to fund the creation and promotion of Canadian new media broadcasting content, it also referred to the Federal Court of Appeal the legal question of whether ISPs are subject to the Broadcasting Act and therefore subject to broadcasting regulation.

The Federal Court of Appeal issued its decision on July 7, 2010, in which it concluded that ISPs “do not carry on, in whole or in part, ‘broadcasting undertakings’ subject to the Broadcasting Act when, in their role as ISPs, they provide access through the internet to ‘broadcasting’ requested by end-users.” This decision, subject to a potential appeal to the Supreme Court of Canada by broadcasters makes it clear that the CRTC does not have the jurisdiction to impose a levy on the revenues of ISPs in order to fund the creation and promotion of Canadian new media content.

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

### **Assumptions made in the preparation of forward-looking information**

Forward-looking statements made in our MD&A for the year ended December 31, 2009, and in this MD&A are based on a number of assumptions that we believe were reasonable on the day we made the forward-looking statements. In our MD&A for the year ended December 31, 2009, we outlined the principal assumptions that we made in the preparation of our forward-looking statements relating to our expected financial and operational performance in 2010. These assumptions include economic, market, financial and operational and transaction assumptions, and have not changed significantly up to July 28, 2010, except as described below under our “Revised guidance” section.

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

## Revised guidance

In the second quarter of 2010, we gave notice of our intention not to renew certain pole use agreements we have with the power utility serving Newfoundland, which triggered an obligation to repurchase an interest in the poles previously sold to the utility. It is expected to reduce our overall annual cash outlays for pole attachment fees, improving our EBITDA and free cash flow going forward. This is anticipated to result in capital expenditure of approximately \$55 to \$60 million in late 2010 or early 2011, and is subject to regulatory and other approvals. This transaction is also described in note 12 to our unaudited interim consolidated financial statements for the period ended June 30, 2010.

Should this transaction be completed in 2010, our capital intensity and distributable cash metrics will be affected as shown below:

2010 Guidance	Original	Revised, assuming pole purchase
Operating Revenue	\$3,050 - \$3,150 million	unchanged
Capital Intensity <sup>(1)</sup>	14.0 to 15.0 percent	16.0 to 17.0 percent
Distributable Cash <sup>(2)</sup>	\$750 - \$790 million	\$690 - \$730 million

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

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

## Risk management

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

We recognize that we are exposed to a number of risks in the normal course of business that could have a negative effect on our financial condition or results of operations. Refer to our MD&A for the year ended December 31, 2009, and our 2009 Annual Information Form, for a list of significant risks to which we believe we are exposed. The risks noted may not be exhaustive as there may be other risks that we are currently unaware of or that we do not presently consider material to our consolidated operations.

During the first two quarters of 2010, we have not identified significant changes to the nature of the risks that we are exposed to in our current business, as described in our MD&A for the year ended December 31, 2009, and our 2009 Annual Information Form. We have provided updates on our regulatory and competitive environments in the "Regulatory developments" and "Our business environment" sections.

## Proposed conversion

Below is a discussion of certain risks relating to the proposed conversion of the Fund from an income trust to a corporate structure.

### *Assessment of fair market value of Fund units and Bell Aliant Inc. common shares*

While management of the Fund has advised that it expects that the fair market value of a Fund unit at the time of the disposition will be equal to the fair market value of a Bell Aliant Inc. common share immediately after the disposition, no assurance can be given that CRA will accept this conclusion.

### *Conditions precedent and consents, exemptions and approvals*

The completion of the arrangement in the form contemplated by the arrangement agreement is subject to a number of conditions precedent, some of which are outside the control of the Fund and Bell Aliant Inc., including, without limitation, certain regulatory and third party consents, exemptions and approvals, approval of the TSX for the listing of the Bell Aliant Inc. common shares to be issued pursuant to the arrangement and the granting of the final order by the Court. While the Fund has obtained the final Court order approving the arrangement and conditional listing approval from the TSX, there can be no certainty, nor can the Fund provide any assurance, that other conditions will be satisfied or, if satisfied, when they will be satisfied. Any change to the final order on terms not acceptable to the Fund trustees and the directors of Bell Aliant Holdings Inc. would likely result in the decision being made not to proceed with the arrangement. If any consents, exemptions or approvals cannot be obtained on terms satisfactory to the Fund trustees and the directors of Bell Aliant Holdings Inc. or at all, the plan of arrangement may have to be amended in order to mitigate against the negative consequence of the failure to obtain any such consent, exemption or approval, and accordingly, the benefits available to Fund unitholders resulting from the arrangement may be reduced. Alternatively, in the event that the plan of arrangement cannot be amended so as to mitigate against the negative consequences of the failure to obtain a consent, exemption or approval, the arrangement may not proceed at all. If the arrangement is not completed, the market price of the Fund units may be adversely affected.

### *Realization of anticipated benefits*

Management and the Fund trustees believe that the arrangement will result in a number of benefits. However, there is a risk that some or all of the anticipated benefits of the arrangement may fail to materialize, or may not occur within the time or to the extent anticipated. The realization of such benefits may be affected by a number of factors, including the activities of corporate peers, perceptions of participants and analysts in Canadian capital markets and future trading activity in Bell Aliant Inc. common shares, many of which are beyond the control of the Fund or Bell Aliant Inc.

## **NON-GAAP FINANCIAL MEASURES**

The terms EBITDA (earnings before interest, taxes, depreciation and amortization), standardized distributable cash, distributable cash and free cash flow do not have any standardized meanings prescribed by Canadian GAAP. They are therefore unlikely to be comparable to similar measures presented by other reporting issuers. We present EBITDA, standardized distributable cash, distributable cash and free cash flow on a consistent basis from period to period.

### **EBITDA**

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

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

<i>For the period ended June 30</i> <i>(millions of dollars)</i>	<b>Three months</b>		<b>Six months</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net earnings	<b>\$89.3</b>	\$89.3	<b>\$167.1</b>	\$171.8
Add: Other expenses	<b>1.0</b>	12.8	<b>1.9</b>	13.0
Interest charges	<b>40.0</b>	39.0	<b>79.5</b>	76.5
Future income tax recovery	<b>(11.0)</b>	(15.8)	<b>(14.8)</b>	(23.7)
Non-controlling interest	<b>33.0</b>	33.8	<b>65.7</b>	70.1
Net loss from discontinued operations	-	5.4	-	7.3
<b>Operating income</b>	<b>\$152.3</b>	\$164.5	<b>\$299.4</b>	\$315.0
Add: Depreciation and amortization	<b>178.1</b>	177.1	<b>350.9</b>	353.4
Restructuring and other charges	<b>4.4</b>	3.1	<b>16.0</b>	12.8
Net cost of benefit plans	<b>22.3</b>	22.5	<b>44.5</b>	44.7
<b>EBITDA</b>	<b>\$357.1</b>	\$367.2	<b>\$710.8</b>	\$725.9

We use EBITDA, among other measures, to assess the operating performance of our ongoing business without the effects of interest, taxes, depreciation and amortization expense, net cost of benefit plans, and restructuring and other charges. We exclude depreciation and amortization expense and net cost of benefit plans because they largely depend on the accounting methods and assumptions a company uses, as well as non-operating factors, such as the historical cost of capital investments and the performance of a company's pension plan assets. We exclude these items because they affect the comparability of our financial results and could potentially distort the analysis of trends in business performance.

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

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

EBITDA should not be confused with net earnings or operating income, which are the most comparable Canadian GAAP measures.

Standardized distributable cash and distributable cash

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

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

CICA guidance on the calculation of standardized distributable cash measures would also include deductions related to any restrictions imposed on the amount of cash distributions as a result of compliance with financial covenants restrictions at the date of calculation. Our credit agreements only impose a restriction that distributions cannot exceed distributable cash over the last year if our credit ratings fall below investment grade. Since our ratings are within the investment grade categories, we are under no such restrictions.

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

- (i) Operating items funded through cash reserves or borrowings, such as changes in operating assets and liabilities (working capital), pension deficit funding, restructuring charges, and cash capital taxes in excess of normalized levels;
- (ii) Current income tax provisions (recoveries) are added back (deducted) as we have tax strategies in place to ensure that they are not payable (receivable) in cash; and
- (iii) Other elements of working capital changes that should not result in actual current or future cash flows.

All of these adjustments to determine standardized distributable cash and distributable cash can be found in our consolidated financial statements or records or the Fund's consolidated financial statements or records, with the exception of the normalization of cash capital taxes. This adjustment is a calculation where some management judgment is exercised in estimating the level of capital taxes that we will pay when future tax rate changes come into effect. We have assumed a stable capital base and the future enactment of all previously announced provincial capital tax rate reductions or eliminations by the provinces of Ontario, Quebec, New Brunswick and Nova Scotia. At this point, all of these provinces have announced phased elimination of capital taxes in prior budgets; therefore, our determination of distributable cash includes no cash capital taxes. The actual tax rates may differ materially as they are subject to future enacted tax laws.

The following table provides a reconciliation of cash from operating activities to standardized distributable cash and distributable cash.

<i>For the period ended June 30</i> <i>(millions of dollars)</i>	<b>Three months</b>		<b>Six months</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Cash from operating activities	<b>\$312.2</b>	\$294.9	<b>\$457.8</b>	\$505.4
Deduct:				
Standardized distributable cash of discontinued operations	-	(4.8)	-	(9.7)
Cash from operating activities of the Fund	<b>(1.8)</b>	(0.3)	<b>(1.8)</b>	(12.3)
Capital expenditures	<b>(125.0)</b>	(121.7)	<b>(219.7)</b>	(229.0)
<b>Standardized distributable cash</b>	<b>\$185.4</b>	\$168.1	<b>\$236.3</b>	\$254.4
Add (deduct):				
Operating items funded through cash reserves or borrowing:				
Change in operating assets and liabilities (working capital)	<b>(32.8)</b>	(2.6)	<b>87.8</b>	66.8
Change in operating assets and liabilities (working capital) of the Fund	<b>0.4</b>	(1.2)	<b>(0.2)</b>	9.8
Change in operating assets and liabilities (working capital) and other non-cash items of the discontinued operations	-	3.6	-	5.5
Pension deficit funding	<b>13.6</b>	12.9	<b>32.3</b>	26.6
Restructuring charges	<b>4.3</b>	2.6	<b>15.4</b>	11.9
Cash capital taxes in excess of normalized levels	<b>1.1</b>	2.2	<b>2.1</b>	4.3
Other adjustments:				
Current income tax recovery	-	(2.0)	-	(2.0)
Other non-cash items provided for in working capital changes	<b>4.2</b>	3.0	<b>2.8</b>	5.8
<b>Distributable cash</b>	<b>\$176.2</b>	\$186.6	<b>\$376.5</b>	\$383.1

The calculation of standardized distributable cash and distributable cash has been prepared using reasonable and supportable assumptions, all of which reflect our planned courses of action given management's judgement about the most probable set of economic conditions. Actual results may vary, perhaps materially, from the forward-looking assumptions used.

One of the primary metrics of our financial performance is distributable cash generated in a period. We use distributable cash, among other measures, to assess the financial performance of our ongoing business. We report standardized distributable cash to meet compliance with the CICA guidance for income trusts and other flow-through entities. These measures should not be seen as measures of liquidity or as substitutes for comparable metrics prepared in accordance with Canadian GAAP. We believe that certain investors and analysts use distributable cash to assess our ability and that of the Fund to generate a sustainable return for unitholders. Standardized distributable cash and

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

#### Free cash flow

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

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

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

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

For the period ended June 30 (millions of dollars)	Three months		Six months	
	2010	2009	2010	2009
Cash from operating activities	\$312.2	\$294.9	\$457.8	\$505.4
Add:				
Cash from operating activities of the Fund	(1.8)	(0.3)	(1.8)	(12.3)
Capital expenditures	(125.0)	(121.7)	(219.7)	(229.0)
Free cash flow	\$185.4	\$172.9	\$236.3	\$264.1

## CONTROLS AND PROCEDURES

### Internal control over financial reporting

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

There have been no changes in our internal control over financial reporting during the three months ended June 30, 2010, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

<i>(millions of dollars)</i>	Notes	As at June 30, 2010	As at December 31, 2009
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$	12.1	\$ 27.1
Accounts receivable		296.0	304.0
Inventory		28.0	14.4
Prepayments		38.2	14.8
Future income tax asset		71.6	57.6
Income tax receivable		27.5	14.4
		<b>473.4</b>	<b>432.3</b>
Capital investments			
Property, plant and equipment		3,631.7	3,662.8
Finite-life intangibles		2,986.6	3,069.8
		<b>6,618.3</b>	<b>6,732.6</b>
Other assets			
Long-term receivables		21.8	23.8
Deferred charges		18.7	13.4
Future income tax asset		4.2	4.2
Accrued benefit asset	3	441.3	418.0
Indefinite-life intangibles		125.2	125.2
Goodwill		2,768.9	2,768.3
		<b>3,380.1</b>	<b>3,352.9</b>
<b>Total assets</b>	<b>\$</b>	<b>10,471.8</b>	<b>\$ 10,517.8</b>
<b>Liabilities and partners' equity</b>			
Current liabilities			
Notes payable to related parties	14	\$ 6.2	\$ 2.6
Payables and accruals	4	361.3	416.2
Distributions payable	14	55.5	55.3
Short-term debt	5	140.6	40.0
Long-term debt due within one year	6	19.0	17.2
		<b>582.6</b>	<b>531.3</b>
Future income tax liability		422.5	421.6
Long-term debt	6	2,761.0	2,759.9
Accrued benefit liability	3	378.8	382.9
Deferred credits and other long-term liabilities	4	37.5	34.8
<b>Total liabilities</b>		<b>4,182.4</b>	<b>4,130.5</b>
Non-controlling interest		1,548.9	1,587.9
Partners' equity		4,740.5	4,799.4
<b>Total liabilities and partners' equity</b>	<b>\$</b>	<b>10,471.8</b>	<b>\$ 10,517.8</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

<i>(millions of dollars, except earnings per unit)</i>	Notes	Three months		Six months	
		2010	2009	2010	2009
Operating revenues		\$ 753.1	\$ 784.5	\$ 1,531.7	\$ 1,602.8
Expenses					
Operating expenses		418.3	439.8	865.4	921.6
Depreciation and amortization		178.1	177.1	350.9	353.4
Restructuring and other charges	4	4.4	3.1	16.0	12.8
		600.8	620.0	1,232.3	1,287.8
Operating income		152.3	164.5	299.4	315.0
Other expenses					
Financial derivatives loss	10	-	13.3	-	13.3
Other expenses (income)		1.0	(0.5)	1.9	(0.3)
		1.0	12.8	1.9	13.0
Interest charges					
Interest on long-term debt		37.5	36.4	74.7	70.8
Other interest expense		2.5	2.6	4.8	5.7
		40.0	39.0	79.5	76.5
Earnings before underlisted items		111.3	112.7	218.0	225.5
Income taxes					
Current tax recovery		-	(2.0)	-	(2.0)
Future tax recovery		(11.0)	(13.8)	(14.8)	(21.7)
		(11.0)	(15.8)	(14.8)	(23.7)
Earnings before non-controlling interest		122.3	128.5	232.8	249.2
Non-controlling interest		33.0	33.8	65.7	70.1
Net earnings from continuing operations		89.3	94.7	167.1	179.1
Net loss from discontinued operations	8	-	(5.4)	-	(7.3)
<b>Net earnings</b>		<b>\$ 89.3</b>	<b>\$ 89.3</b>	<b>\$ 167.1</b>	<b>\$ 171.8</b>
Earnings per unit	9				
Basic from continuing operations		\$ 0.56	\$ 0.59	\$ 1.04	1.12
Basic from discontinued operations		-	(0.03)	-	(0.05)
Basic		\$ 0.56	\$ 0.56	\$ 1.04	1.07

*See accompanying notes to the consolidated financial statements*

**Consolidated statements of comprehensive earnings**  
(Unaudited)

For the period ended June 30

<i>(millions of dollars)</i>	Note	Three months		Six months	
		2010	2009	2010	2009
Net earnings		\$ 89.3	\$ 89.3	\$ 167.1	\$ 171.8
Other comprehensive earnings, net of tax	10	1.0	12.4	1.9	13.8
<b>Comprehensive earnings</b>		<b>\$ 90.3</b>	<b>\$ 101.7</b>	<b>\$ 169.0</b>	<b>\$ 185.6</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, 2010

<i>(millions of dollars)</i>	Notes	Partners' capital	Contributed surplus	Accumulated earnings	Accumulated other comprehensive loss	Total accumulated earnings and other comprehensive loss	Total partners' equity
Balance December 31, 2009		\$ 2,061.5	\$ 0.4	\$ 2,764.5	\$ (27.0)	\$ 2,737.5	\$ 4,799.4
Net earnings		-	-	167.1	-	167.1	167.1
Distributions declared on:							
Class 1 exchangeable limited partnership units		-	-	(40.9)	-	(40.9)	(40.9)
Class 2 limited partnership units	14	-	-	(187.0)	-	(187.0)	(187.0)
Other comprehensive earnings, net of tax	10	-	-	-	1.9	1.9	1.9
<b>Balance June 30, 2010</b>		<b>\$ 2,061.5</b>	<b>\$ 0.4</b>	<b>\$ 2,703.7</b>	<b>\$ (25.1)</b>	<b>\$ 2,678.6</b>	<b>\$ 4,740.5</b>

For the period ended June 30, 2009

<i>(millions of dollars)</i>	Notes	Partners' capital	Contributed surplus	Accumulated earnings	Accumulated other comprehensive loss	Total accumulated earnings and other comprehensive loss	Total partners' equity
Balance December 31, 2008		\$ 2,061.5	\$ 0.4	\$ 2,863.7	\$ (42.7)	\$ 2,821.0	\$ 4,882.9
Net earnings		-	-	171.8	-	171.8	171.8
Distributions declared on:							
Class 1 exchangeable limited partnership units		-	-	(40.9)	-	(40.9)	(40.9)
Class 2 limited partnership units	14	-	-	(187.1)	-	(187.1)	(187.1)
Other comprehensive earnings, net of tax	10	-	-	-	13.8	13.8	13.8
<b>Balance June 30, 2009</b>		<b>\$ 2,061.5</b>	<b>\$ 0.4</b>	<b>\$ 2,807.5</b>	<b>\$ (28.9)</b>	<b>\$ 2,778.6</b>	<b>\$ 4,840.5</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

<i>(millions of dollars)</i>	Notes	Three months		Six months	
		2010	2009	2010	2009
<b>Cash from (used in) operating activities</b>					
Net earnings from continuing operations		\$ 89.3	\$ 94.7	\$ 167.1	\$ 179.1
Adjustments to reconcile net earnings to cash from operating activities					
Depreciation and amortization		178.1	177.1	350.9	353.4
Gain on disposal of assets		-	(1.0)	-	(1.0)
Future income tax recovery		(11.0)	(13.8)	(14.8)	(21.7)
Net cost of benefit plans	3	20.3	20.4	40.6	40.7
Funding of defined benefit pension and other post-employment benefit plans	3	(28.9)	(29.5)	(62.4)	(58.8)
Non-controlling interest		33.0	33.8	65.7	70.1
Financial derivatives loss	10	-	13.3	-	13.3
Change in operating assets and liabilities	11	32.8	2.6	(87.8)	(66.8)
Other		(1.4)	(2.7)	(1.5)	(2.9)
		<b>312.2</b>	<b>294.9</b>	<b>457.8</b>	<b>505.4</b>
<b>Cash from (used in) financing activities</b>					
Repurchase of accounts receivable	2	(15.0)	-	(15.0)	-
Net proceeds (repayments) of short-term debt	5	(9.5)	(214.6)	100.6	(129.4)
Net proceeds (repayments) of notes payable to related party		2.4	2.0	3.6	(3.0)
Proceeds of long-term debt		-	348.6	-	348.6
Repayment of long-term debt		(0.2)	(150.2)	(1.3)	(151.1)
Repayment of capital lease obligations		(4.5)	(1.4)	(8.6)	(3.6)
Net settlement of financial derivatives	10	-	(15.4)	-	(15.4)
Distributions paid by subsidiaries to non-controlling interest		(52.3)	(52.3)	(104.7)	(104.7)
Distributions paid		(114.0)	(114.0)	(227.7)	(227.9)
		<b>(193.1)</b>	<b>(197.3)</b>	<b>(253.1)</b>	<b>(286.5)</b>
<b>Cash from (used in) investing activities</b>					
Purchase of capital investments		(125.0)	(121.7)	(219.7)	(229.0)
Proceeds on sale of capital investments		-	1.7	-	1.7
		<b>(125.0)</b>	<b>(120.0)</b>	<b>(219.7)</b>	<b>(227.3)</b>
Net decrease in cash from continuing operations		(5.9)	(22.4)	(15.0)	(8.4)
Net increase in cash from discontinued operations	8	-	14.2	-	9.3
Cash and cash equivalents, beginning of period		18.0	23.7	27.1	14.6
<b>Cash and cash equivalents, end of period</b>		<b>\$ 12.1</b>	<b>\$ 15.5</b>	<b>\$ 12.1</b>	<b>\$ 15.5</b>
<b>Supplementary disclosure</b>					
Cash and cash equivalents, end of period					
Cash				\$ 6.1	\$ 11.2
Cash equivalents				6.0	4.3
				<b>\$ 12.1</b>	<b>\$ 15.5</b>
Interest paid		\$ 4.9	\$ 7.5	\$ 76.5	\$ 71.3
Income taxes paid, net		\$ 0.4	\$ 0.6	\$ 4.1	\$ 0.8

See accompanying notes to the consolidated financial statements

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 operations 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.

## 1. SIGNIFICANT ACCOUNTING POLICIES

### *Consolidated financial statements*

We have prepared these unaudited interim consolidated financial statements in accordance with Canadian generally accepted accounting principles using the same basis of presentation and accounting policies as our audited consolidated financial statements for the year ended December 31, 2009. These unaudited interim consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2009.

### *Future changes in accounting policies*

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

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

The CICA issued Section 1582, Business combinations, concurrently with Sections 1601, Consolidated financial statements, and 1602, Non-controlling interests. Section 1582, which replaced Section 1581, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. Section 1601, which replaced Section 1600, carries forward the existing 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.

## 2. TRANSFER OF RECEIVABLES

In May 2010, we reduced the net cash proceeds under our revolving accounts receivable purchase and sale agreement with a securitization trust by \$15.0 million. At June 30, 2010, our net cash proceeds under the agreement were \$150.0 million. The security required under the agreement recorded as retained interest was \$39.1 million at June 30, 2010 (December 31, 2009 - \$43.0 million).

BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP  
Notes to the consolidated financial statements  
(Unaudited)  
June 30, 2010

3. 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.

<i>(millions of dollars)</i>	DB pension plans	OPEB plans	Total
Accrued benefit asset (liability) as at December 31, 2009	\$ 255.7	\$ (220.6)	\$ 35.1
Net cost of benefit plans	(36.5)	(4.1)	(40.6)
Contributions	63.9	4.1	68.0
Accrued benefit asset (liability) as at June 30, 2010	\$ 283.1	\$ (220.6)	\$ 62.5
Accrued benefit asset	\$ 441.3	\$ -	\$ 441.3
Accrued benefit liability	(158.2)	(220.6)	(378.8)
	\$ 283.1	\$ (220.6)	\$ 62.5

*Net cost of benefit plans*

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

<i>(millions of dollars)</i>	Three months		Six months	
For the period ended June 30	2010	2009	2010	2009
<i>DB pension plans</i>				
Current service cost	\$ 10.8	\$ 11.7	\$ 21.7	\$ 23.4
Interest on the accrued benefit obligation	41.8	40.0	83.6	79.9
Expected return on plan assets	(41.1)	(38.6)	(82.1)	(77.2)
Amortization of deferred amounts:				
Past service costs	1.4	1.4	2.8	2.8
Net actuarial losses	5.3	4.4	10.5	8.8
	\$ 18.2	\$ 18.9	\$ 36.5	\$ 37.7
<i>OPEB plans</i>				
Current service cost	\$ 0.4	\$ 0.4	\$ 0.8	\$ 0.8
Interest on the accrued benefit obligation	3.1	2.7	6.1	5.4
Amortization of deferred amounts:				
Past service costs	(2.0)	(2.0)	(4.0)	(4.0)
Net actuarial losses	0.6	0.4	1.2	0.8
	\$ 2.1	\$ 1.5	\$ 4.1	\$ 3.0
Total net cost of DB pension and OPEB plans	\$ 20.3	\$ 20.4	\$ 40.6	\$ 40.7

### 3. POST-EMPLOYMENT BENEFITS (Continued)

#### *Benefit plan contributions*

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

For the period ended June 30 (millions of dollars)	Three months		Six months	
	2010	2009	2010	2009
DB pension plans contributions	\$ 32.3	\$ 27.5	\$ 63.9	\$ 55.0
OPEB plans contributions	2.2	2.0	4.1	3.8
Funding of DB pension and OPEB plans	\$ 34.5	\$ 29.5	\$ 68.0	\$ 58.8
DC pension plans contributions	2.0	2.1	3.9	4.0
Total contributions	\$ 36.5	\$ 31.6	\$ 71.9	\$ 62.8

Included in the DB pension plans contributions for the three and six months ended June 30, 2010, is an accrual of \$5.6 million, which will be paid in July 2010.

### 4. RESTRUCTURING AND OTHER CHARGES

#### *Restructuring charges*

As part of our organizational productivity initiatives, during the first six months of 2010, we offered a voluntary retirement incentive to a limited number of our unionized employees in Ontario and Quebec, and continued to streamline our management workforce. As a result, during the three and six months ended June 30, 2010, we estimated and recorded a restructuring charge of \$4.0 million and \$12.9 million, respectively, in employee severance and benefit costs as well as real estate rationalization costs, which will be paid as employees retire or leave the organization.

In addition, for the three and six months ended June 30, 2010, we increased the estimated costs of the 2009 restructuring initiative by \$0.3 million and \$2.5 million, respectively, to reflect the final costs, as departing employees had options that affected the amount of their severance.

During the six months ended June 30, 2009, restructuring charges of \$11.9 million included employee severance and benefit costs related to a voluntary retirement incentive offered to certain unionized employees in Atlantic Canada and Ontario and Quebec and real estate rationalization costs.

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

<i>(millions of dollars)</i>	
Liability as at December 31, 2009	\$ 41.2
Restructuring charges:	
Employee severance and benefit costs	12.1
Real estate rationalization costs	0.8
Change in the 2009 restructuring charge estimate	2.5
	15.4
Cash payments	34.1
Liability as at June 30, 2010	\$ 22.5

#### 4. RESTRUCTURING AND OTHER CHARGES (Continued)

##### *Restructuring charges (continued)*

As at June 30, 2010, the restructuring charge liability included \$7.3 million in real estate rationalization costs, of which \$4.7 million are included in other long-term liabilities as they will be drawn down after June 30, 2011.

##### *Other charges*

During the three and six months ended June 30, 2010, we incurred \$0.1 million and \$0.6 million, respectively, of other charges (June 30, 2009 - \$0.5 million and \$0.9 million, respectively), which mainly relate to rebranding for our operations.

#### 5. SHORT-TERM DEBT

As at June 30, 2010, we had amounts available for use under operating facilities of \$1,121.3 million (December 31, 2009 - \$1,121.9 million). The amount of issued letters of credit at June 30, 2010, was \$268.2 million (December 31, 2009 - \$269.6 million).

Amounts drawn under operating facilities are as follows:

<i>(millions of dollars)</i>	As at June 30, 2010	As at December 31, 2009
Drawn amounts:		
Commercial paper program	\$ 100.6	\$ -
Non-revolving pension reserve facility	40.0	40.0
	<b>\$ 140.6</b>	<b>\$ 40.0</b>

We ensure at all times that sufficient undrawn capacity exists on our committed revolving operating facilities to support issuances of commercial paper. Short-term promissory notes totalling \$100.6 million, issued under our commercial paper program to fund changes in operating assets and liabilities, carry interest at 0.6 percent per annum and have maturity dates from July 15, 2010, to July 29, 2010.

Bankers' acceptance advances of \$40.0 million outstanding under our non-revolving pension reserve facility carry interest at rates of 0.97 percent per annum and mature on July 30, 2010.

#### 6. FINANCIAL INSTRUMENTS

##### *Fair value*

For cash and cash equivalents, trade receivables, trade payables and short-term loans and borrowings, the carrying value approximates their fair value due to the short-term maturity of these instruments.

The fair value of our long-term debt has been estimated based on calculations of the present value of future cash flows, using the appropriate discount rates in effect at the balance sheet dates for our long-term debt that is not actively traded, and quoted prices for our long-term debt that is actively traded.

The fair value of our long-term debt is estimated as follows:

<i>(millions of dollars)</i>	As at June 30, 2010		As at December 31, 2009	
	Fair value	Carrying value	Fair value	Carrying value
Long-term debt	\$ 2,882.8	\$ 2,780.0	\$ 2,844.1	\$ 2,777.1

## 7. UNIT-BASED COMPENSATION PLANS

### *Employee unit purchase plans*

The total number of Fund units bought on the open market for our employee unit purchase plans for the three and six months ended June 30, 2010, was 492,728 and 1,029,938 respectively (June 30, 2009 - 532,516 and 1,109,719 respectively). Compensation expense related to the employee unit purchase plans of \$2.3 million and \$4.6 million, respectively, was recorded for the three and six months ended June 30, 2010 (June 30, 2009 - \$2.5 million and \$4.8 million, respectively).

### *Deferred unit plan*

In February 2010, the Fund trustees approved amendments to the deferred unit plan (DUP) to allow plan members to receive either the cash equivalent of one Fund unit or one Fund unit for each vested deferred unit upon qualifying for payout under the terms of the grant. Previously, plan members were only permitted to receive one Fund unit upon qualification. There is no exercise price paid by the grantee for deferred units. The Fund may issue up to 3,154,120 (December 31, 2009 - 3,276,150) additional Fund units out of treasury to satisfy awards under this DUP. Any deferred units that do not vest due to failure to achieve prescribed performance targets are forfeited. Further, any unvested deferred units of a plan member are forfeited upon their departure.

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

For the six months ended June 30	2010	2009
Deferred units outstanding, beginning of period	1,293,699	1,181,958
Granted:		
February 2009 - Service period fiscal 2009 to 2011	-	350,492
June 2010 - Service period fiscal 2010 to 2012	369,784	-
Reinvested distributions during the period	55,490	65,716
	425,274	416,208
Forfeited	(248,387)	(56,924)
Exercised	(122,030)	(257,251)
Deferred units outstanding, end of period	1,348,556	1,283,991
Deferred units vested, end of period	649,573	437,380

The fair value of the 425,274 deferred units granted or credited on reinvestment of notional distributions in the six months ended June 30, 2010, was \$11.0 million (June 30, 2009 - 416,208 deferred units granted or credited was \$10.8 million). For the three and six months ended June 30, 2010, we recorded an increase (decrease) in compensation expense of \$2.1 million and \$(0.5) million, respectively (June 30, 2009 - \$(0.7) million and \$2.2 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.

## 8. DISCONTINUED OPERATIONS

### *Innovatia Inc. (Innovatia)*

On November 1, 2009, Bell Aliant Holdings LP concluded a share purchase agreement under which the senior leaders of Innovatia acquired 100 per cent of the outstanding shares of Innovatia.

### *xwave New England Corp. (xwave NE)*

On June 1, 2009, Bell Aliant Holdings LP and Abilis Solutions Inc. (Abilis) concluded a share purchase agreement under which Abilis acquired 100 per cent of the outstanding shares of xwave NE.

### *Defence, Security and Aerospace (DSA) business*

On May 1, 2009, Bell Aliant Holdings LP and CAE Professional Services (Canada) Inc. (CAE) concluded an asset purchase agreement under which CAE acquired our DSA business, which operated under the xwave brand.

### *Presentation of discontinued operations*

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

For the three months ended June 30, 2009 (millions of dollars)	Innovatia	xwave NE	DSA	Total
Operating revenues	\$ 5.2	\$ 1.4	\$ 1.8	\$ 8.4
Expenses	4.8	3.1	3.2	11.1
Gain (loss) on sale	-	(2.6)	2.0	(0.6)
Income tax expense	1.6	-	0.5	2.1
Net earnings (loss) from discontinued operations	\$ (1.2)	\$ (4.3)	\$ 0.1	\$ (5.4)
For the six months ended June 30, 2009 (millions of dollars)	Innovatia	xwave NE	DSA	Total
Operating revenues	\$ 10.7	\$ 5.6	\$ 9.0	\$ 25.3
Expenses	13.6	7.9	9.5	31.0
Gain (loss) on sale	-	(2.6)	2.0	(0.6)
Income tax expense	0.4	-	0.6	1.0
Net earnings (loss) from discontinued operations	\$ (3.3)	\$ (4.9)	\$ 0.9	\$ (7.3)

**BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP**  
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**8. DISCONTINUED OPERATIONS (Continued)**

*Presentation of discontinued operations (continued)*

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

For the three months ended June 30, 2009 (millions of dollars)	Innovatia	xwave NE	DSA	Total
Cash from (used in):				
Operating activities	\$ 1.2	\$ (3.3)	\$ (2.7)	\$ (4.8)
Investing activities	(0.3)	2.9	16.4	19.0
Net increase (decrease) in cash from discontinued operations	\$ 0.9	\$ (0.4)	\$ 13.7	\$ 14.2

For the six months ended June 30, 2009 (millions of dollars)	Innovatia	xwave NE	DSA	Total
Cash from (used in):				
Operating activities	\$ 2.3	\$ (4.7)	\$ (7.1)	\$ (9.5)
Investing activities	(0.5)	2.9	16.4	18.8
Net increase (decrease) in cash from discontinued operations	\$ 1.8	\$ (1.8)	\$ 9.3	\$ 9.3

**9. EARNINGS PER UNIT**

For the period ended June 30 (millions of dollars, except as otherwise noted)	Three months		Six months	
	2010	2009	2010	2009
Net earnings from continuing operations	\$ 89.3	\$ 94.7	\$ 167.1	\$ 179.1
Net loss from discontinued operations	-	(5.4)	-	(7.3)
Net earnings	\$ 89.3	\$ 89.3	\$ 167.1	\$ 171.8

**Basic:**

Weighted average number of units outstanding	160,536,409	160,536,409	160,536,409	160,536,409
Basic from continuing operations	\$ 0.56	\$ 0.59	\$ 1.04	\$ 1.12
Basic from discontinued operations	-	(0.03)	-	(0.05)
Basic earnings per unit	\$ 0.56	\$ 0.56	\$ 1.04	\$ 1.07

BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP  
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10. OTHER COMPREHENSIVE EARNINGS

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

For the three months ended June 30	2010			2009		
(millions of dollars)	Amount arising	Income taxes	Net	Amount arising	Income taxes	Net
Losses on derivatives designated as cash flow hedges	\$ -	\$ -	\$ -	(0.7)	(0.2)	(0.5)
Reclassification to other expense	-	-	-	13.3	2.9	10.4
Reclassification to interest charges	1.2	0.2	1.0	3.3	0.8	2.5
Other comprehensive earnings	\$ 1.2	\$ 0.2	\$ 1.0	\$ 15.9	\$ 3.5	\$ 12.4

For the six months ended June 30	2010			2009		
(millions of dollars)	Amount arising	Income taxes	Net	Amount arising	Income taxes	Net
Losses on derivatives designated as cash flow hedges	\$ -	\$ -	\$ -	(0.1)	(0.1)	-
Reclassification to other expense	-	-	-	13.3	2.9	10.4
Reclassification to interest charges	2.4	0.5	1.9	4.5	1.1	3.4
Other comprehensive earnings	\$ 2.4	\$ 0.5	\$ 1.9	\$ 17.7	\$ 3.9	\$ 13.8

We reclassify to net earnings the amortization of losses on forward fixed-floating interest rate swaps that were settled in 2007. These interest rate swaps were designated to hedge the coupon payments of anticipated long-term debt issuances, and the interest rate swaps were settled as the anticipated long-term debt issuances occurred. As such, the losses are being amortized as interest charges in conjunction with the long-term debt coupon payments in the year, in accordance with the application of hedge accounting.

In May 2009, we reclassified to net earnings \$15.4 million in net losses related to cash flow hedges that were settled, composed of \$13.3 million loss on settlement and \$2.1 million interest charges. Hedge accounting no longer applies to these hedges.

As at June 30, 2010, the accumulated other comprehensive loss of \$25.1 million (December 31, 2009 - \$27.0 million) represents the unamortized portion of losses on these forward fixed-floating interest rate swaps that were settled in 2007.

11. CHANGES IN OPERATING ASSETS AND LIABILITIES

For the period ended June 30	Three months		Six months	
(millions of dollars)	2010	2009	2010	2009
Accounts receivable	\$ 32.3	\$ 21.9	\$ 17.7	\$ 26.7
Inventory	(3.2)	1.5	(13.6)	0.9
Prepayments	(9.0)	(1.2)	(23.5)	(22.4)
Income tax receivable	-	2.4	(11.9)	(2.3)
Long-term receivables	0.4	0.7	1.5	1.0
Deferred charges	(1.6)	1.8	(6.0)	1.8
Payables and accruals	17.2	(25.4)	(56.2)	(82.2)
Deferred credits and other long-term liabilities	(3.3)	0.9	4.2	9.7
	\$ 32.8	\$ 2.6	\$ (87.8)	\$ (66.8)

## 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 2010	2011	2012	2013	2014	Thereafter	Total
Operating leases	\$ 18.8	\$ 29.0	\$ 23.5	\$ 23.3	\$ 32.8	\$ 110.7	\$ 238.1
Purchase commitments	199.6	359.5	338.6	315.0	298.9	1,636.0	3,147.6
	\$ 218.4	\$ 388.5	\$ 362.1	\$ 338.3	\$ 331.7	\$ 1,746.7	\$ 3,385.7

Purchase commitments primarily relate to various information systems and technology agreements and obligations under service agreements.

In the second quarter of 2010, we gave notice of our intention not to renew certain existing pole use agreements we have with the power utility serving Newfoundland, which triggered an obligation to repurchase an interest in the poles previously sold to the utility. The purchase is subject to the satisfaction of certain conditions and we anticipate the transaction to close by late 2010 or early 2011 with an estimated \$55.0-60.0 million in capital investments, not included in the balance of the future minimum purchase commitments reported above.

As a result, we decreased the previously reported commitment for operating leases by \$241.6 million in total.

## 13. CONTINGENCIES

### *System Access Fee Class Action*

As discussed in note 23 of our audited consolidated financial statements for the year ended December 31, 2009, on August 9, 2004, a lawsuit was filed in the Saskatchewan Court of Queen's Bench against several Canadian wireless and cellular service providers, including one of our predecessor companies, Aliant Telecom Inc., by several alleged customers or former customers of the defendants. In the claim, the plaintiffs alleged, among other things, breach of contract, misrepresentation, negligence, collusion and breach of statutory obligations under the Competition Act (Canada) in relation to the system access fees that the defendants charge to their customers, and sought unspecified damages. On September 17, 2007, the court granted class action certification. We, as well as the other parties, sought leave to appeal the certification order. The court also denied our motion seeking dismissal of the action against us on the basis that the Saskatchewan court does not have jurisdiction over disputes between us and our customers. We also sought leave to appeal this decision.

The applications for leave to appeal the certification order and the jurisdictional issue were heard on February 24, 2010. On March 15, 2010, the Court of Appeal granted all parties leave to appeal the certification order. We also obtained leave to appeal the jurisdiction issue. The plaintiffs also obtained leave to appeal an earlier decision which denied their motion to convert the certified class into a national "opt-out" class. All appeals are tentatively scheduled for hearing beginning on October 12, 2010.

We have defences to these claims, but the outcome of these matters is not determinable at this time.

#### 14. 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, 2010, we declared distributions to them totaling \$93.6 million and \$187.0 million, respectively (June 30, 2009 - \$93.6 million and \$187.1 million, respectively). At June 30, 2010, \$31.2 million was included in distributions payable (December 31, 2009 - \$31.1 million).

The Fund loans us their excess cash through a series of promissory notes, and requests repayments as required for operating purposes. The \$2.6 million promissory note that was payable to the Fund at December 31, 2009, was repaid on January 15, 2010. Subsequently issued promissory notes carried rates of interest from 0.50 per cent to 0.76 per cent per annum, resulting in an immaterial amount of interest expense being incurred during the three and six months ended June 30, 2010 (June 30, 2009 - immaterial amount). At June 30, 2010, a \$6.2 million promissory note was payable to the Fund, which carries interest at 0.76 per cent per annum and matures on July 15, 2010.

For income-oriented investors,  
we aim to provide regular,  
sustainable distributions through  
strong cash flow generation.

Bell Aliant units trade on the Toronto Stock Exchange under the symbol BA.UN.

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**BellAliant**



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