Management's Discussion and Analysis

This document provides management's discussion and analysis (MD&A) of our financial condition as at, and results of operations for, the three months (Q2) and six months (YTD) ended June 30, 2011, compared to the same periods in 2010. This MD&A should be read together with our unaudited consolidated interim financial statements and accompanying notes for the period ended June 30, 2011 (interim financial statements), and the Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP) audited annual financial statements and MD&A for the year ended December 31, 2010. All amounts in this document are in millions of Canadian dollars, except where noted. Our interim financial statements, along with comparative period presented therein, have been prepared in accordance with International Financial Reporting Standards (IFRS). The annual financial statements of Bell Aliant Holdings LP are prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP).

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

Additional information about us and Bell Aliant Inc., including annual information forms and other recent financial reports, can be found on Bell Aliant Inc.'s website at www.bellaliant.ca. These and other continuous disclosure documents are also available at www.sedar.com.

Forward-looking information

This MD&A is dated July 27, 2011, and contains forward-looking information related to our future financial condition and results of operations, and anticipated future events and circumstances, including in particular under the sections "Cash requirements", "Regulatory developments", "2011 revised guidance" 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 and priorities for fiscal 2011 or other future periods. Readers are cautioned that such information may not be appropriate for other purposes. This information is based on our estimates about the markets in which we operate and our beliefs and assumptions regarding these markets. Unless otherwise indicated, the forward-looking information in this MD&A describes our expectations at July 27, 2011. In some cases, forward-looking information may be identified by words such as "anticipate", "believe", "could", "expect", "plan", "seek", "may", "intend", "will", "forecast" and similar expressions.

This information is subject to important risks and uncertainties, which are difficult to predict, and assumptions, which may prove to be inaccurate. Some of the risk factors which could cause results or events to differ materially from current expectations include but are not limited to: increasing competition; management's ability to achieve strategies and plans, including expansion of fibre-to-the-home and managing the cost structure; general economic conditions; pension valuation and investment risk; reliance on systems; changing technology; required operating and capital expenditures, and demand for our products and services; our business relationship with BCE Inc. (BCE) and Bell Canada, including the allocation of business opportunities; changing regulations; dependence on key suppliers; maintenance of credit ratings; leverage and restrictive covenants; BCE's governance rights; reliance on key personnel and labour relations, including the requirement for effective business continuity planning; legal contingencies and changes in laws, including laws pertaining to privacy and security of customer information; success of acquisitions and dispositions; and tax related risks. Some of these risk factors are largely beyond our control. In addition, a number of assumptions were made by us in

providing forward-looking information in this MD&A, such as certain Canadian economic assumptions, as well as market, financial and operational assumptions. Refer to the "Assumptions made in the preparation of forward-looking information and risks that could affect our business and results" section of this MD&A for further discussion of these and other assumptions and risk factors.

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

See also the "Risk management" section of the Fund's MD&A for the year ended December 31, 2010, and the "Assumptions made in the preparation of forward-looking information" and "Risks that could affect our business and results" sections of our MD&A for the year ended December 31, 2010, which are available at www.bellaliant.ca as well as www.sedar.com.

OUR BUSINESS

We are one of North America's largest regional communications service providers and have been serving customers for over a century. With our *FibreOP*™ services, we are the first company in Canada to cover an entire city with fibre-to-the-home (FTTH) technology. We offer a complete range of innovative information, communication and technology services including voice, data, Internet, TV, video, wireless and value-added business solutions to our customers across six Canadian provinces.

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

CORPORATE CONVERSION

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

The Fund unitholders received one common share of Bell Aliant Inc. for each Fund unit held, therefore their proportionate ownership interests in Bell Aliant Inc. were effectively unchanged by the Conversion. The Conversion transactions were accounted for at carrying values since there was no substantial change in ownership or control. As well, BCE and Bell Canada continue to have the same governance rights and proportionate ownership interest in Bell Aliant Inc. as they had in the Fund (on an as-converted basis) before the Conversion.

Refer to our interim financial statements and MD&A for the three months (Q1) ended March 31, 2011, for additional information.

Q2 IN REVIEW

Focused execution of our strategic priorities has resulted in a positive shift in our revenue trajectory in 2011. Our Internet, TV and wireless revenues have continued to grow while the rates of decline in our traditional voice and data service revenues have slowed from those experienced in recent years. The trajectory of operating revenues for our Atlantic residential market continues to improve after a period of decline. We continued to pro-actively work to reset our cost structure to reduce the effects of revenue declines on EBITDA and to preserve strong EBITDA margins. We also strengthened the focus on working capital management to improve cash flow. In combination, these achievements contributed to our delivery of $190.6 million in free cash flow for Q2 2011. The following table provides a summary of our operating results for Q2 and YTD 2011 compared to the same periods in 2010.

Summary of operating results

For the period ended June 30	Q2			YTD		
(millions of dollars, except as otherwise noted)	**2011**	2010	% change	**2011**	2010	% change
Operating revenues	**$692.6**	$700.1	(1.1)	**$1,374.2**	$1,388.8	(1.1)
EBITDA [(1)]	**$333.5**	$343.0	(2.8)	**$662.8**	$681.7	(2.8)
EBITDA margin [(1)]	**48.2%**	49.0%	(1.7)	**48.2%**	49.1%	(1.7)
Operating income	**$175.6**	$163.8	7.2	**$346.6**	$320.6	8.1
Net earnings from continuing operations	**$87.4**	$71.0	23.1	**$176.2**	$319.0	(44.8)
Net loss from discontinued operations	**(0.8)**	(2.3)	(65.2)	**(4.2)**	(1.7)	n.m.
Net earnings	**$86.6**	$68.7	26.1	**$172.0**	$317.3	(45.8)

n.m. not meaningful

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

Operating revenues decreased by 1.1 per cent, or $7.5 million, in Q2 2011, and by 1.1 per cent, or $14.6 million YTD 2011, compared to the same periods in 2010. The decrease in Q2 was driven by declines in local and access, long distance, and other revenues, which were only partially offset by growth in our data and wireless revenue. Lower voice revenues are primarily attributable to the decline in network access service (NAS) customers due to competitive losses and a reduction in primary lines as customers substitute wireless and Voice over Internet Protocol (VoIP) technologies. Other revenues decreased primarily as a result of sales associated with the G8 Summit in 2010 that did not repeat in the current year. Growth in our high-speed Internet, IPTV and wireless customer bases contributed to higher revenues from these services as well as higher average revenue per customer (ARPC) from migrations to higher value services and select pricing actions.

EBITDA decreased by 2.8 per cent, or $9.5 million, in Q2 2011, and by 2.8 per cent, or $18.9 million YTD 2011, compared to the same periods in 2010. The decline in EBITDA was primarily driven by the operating revenue decline and a change in the mix of operating revenues towards those with lower margins. Savings from ongoing procurement initiatives and operating efficiencies continue to partially offset cost pressures in 2011 related to the growth areas of our business.

EBITDA margin was 48.2 per cent in Q2 2011, a decline of 0.8 percentage points from Q2 2010. For YTD 2011, EBITDA margin decreased by 0.9 percentage points to 48.2 per cent, compared to the same period in 2010.

Operating income increased by 7.2 per cent, or $11.8 million, in Q2 2011 and by 8.1 per cent, or $26.0 million, YTD 2011, compared to the same periods in 2010. The decrease in EBITDA was offset by a reduction in depreciation and amortization, reflecting a lower depreciable asset base primarily due to the impairment charge recorded on certain of our finite-life intangible assets in the fourth quarter (Q4) of 2010, combined with a decrease in severance and other charges due to the timing of productivity initiatives.

Net earnings increased 26.1 per cent, or $17.9 million, in Q2 2011, compared to Q2 2010. This improvement included a $16.4 million increase in net earnings from continuing operations and a $1.5 million reduction in net loss from discontinued operations. For YTD 2011, net earnings decreased by $145.3 million compared to YTD 2010, which reflects a $142.8 million reduction in net earnings from continuing operations and a $2.5 million increase in net loss from discontinued operations.

Q2 and YTD 2011 net earnings from continuing operations are not directly comparable to those in the same periods of 2010 due to the Conversion that occurred January 1, 2011. In 2010, net earnings from continuing operations included gains and losses related to the fair value re-measurement of the class B exchangeable limited partnership units issued by Bell Aliant LP, as well as distributions declared on those exchangeable limited partnership units. The re-measurement and distribution did not recur in 2011, as these units were transferred to us as part of the Conversion and are now eliminated upon consolidation of Bell Aliant LP. Additionally, the Conversion resulted in higher income tax expense in 2011, compared to 2010, combined with higher earnings subject to tax.

In 2011, net loss from discontinued operations of $0.8 million in Q2 and $4.2 million for YTD mainly represents the after-tax loss on the sale of our xwave business on January 1, 2011. Discontinued operations in 2010 represented the operating results of our xwave business.

Free cash flow

The following table provides a summary reconciliation of cash from operating activities to free cash flow, along with cash dividends declared (distributions declared in 2010), for Q2 and YTD 2011 and the corresponding periods in 2010. Since our operations support cash dividends to Bell Aliant Inc. shareholders, free cash flow combines our cash performance with that of Bell Aliant Inc. We have also included the adjusted earnings per share (EPS) of Bell Aliant Inc. as we believe this to be a meaningful measure when assessing our overall performance.

For the period ended June 30	Q2			YTD		
(millions of dollars, except per share amounts)	**2011**	**2010**	**% change**	**2011**	**2010**	**% change**
Cash from operating activities	**$345.7**	$306.6	12.8	**$353.3**	$457.6	(22.8)
Cash from operating activities of Bell Aliant Inc.	**(1.1)**	(1.8)	(38.9)	**(1.1)**	(1.8)	(38.9)
Total cash from operating activities	**344.6**	304.8	13.1	**352.2**	455.8	(22.7)
Capital expenditures	**(154.0)**	(124.3)	23.9	**(273.5)**	(218.6)	25.1
Free cash flow [1]	**$190.6**	$180.5	5.6	**$78.7**	$237.2	(66.8)
Lump sum pension contribution	**-**	-	n.m.	**200.0**	-	n.m.
Free cash flow [1] before lump sum pension contribution	**$190.6**	$180.5	5.6	**$278.7**	$237.2	17.5
Cash dividends / distributions declared on common shares/units [2]	**$108.2**	$165.1	(34.5)	**$216.4**	$330.2	(34.5)
Dividends declared on preferred shares issued by a subsidiary	**$4.1**	-	n.m.	**$4.1**	-	n.m.
Adjusted earnings per share of Bell Aliant Inc. [1]	**$0.43**	n.m.	n.m.	**$0.87**	n.m.	n.m.

n.m. not meaningful

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

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

For Q2 2011, free cash flow was $190.6 million, an increase of $10.1 million, or 5.6 per cent, from Q2 2010. For YTD 2011, free cash flow was $78.7 million, compared to $237.2 million YTD 2010. The YTD decrease is mainly attributable to the $200.0 million lump sum pension contribution made in Q1 2011.

Adjusting for this amount, free cash flow before the lump sum pension contribution was $278.7 million YTD 2011, an increase of $41.5 million, or 17.5 per cent, compared to YTD 2010. The Q2 and YTD 2011 increases in free cash flow compared to the same periods in 2010, reflect higher cash generated from working capital changes and lower defined benefit (DB) pension plan contributions, which are partially offset by higher capital expenditures. Refer to the "Financial and capital management" section for further details on cash from operating and investing activities.

Bell Aliant Inc. declared cash dividends for YTD 2011 of $0.95 per Bell Aliant Inc. common share. This represented 78.8 per cent of our combined free cash flow available to our common shareholders before the lump sum pension contribution. We target a long-term dividend payout ratio of 75 to 85 per cent of free cash flow, and expect to be within this range in 2011.

Cash distributions declared under the trust structure for YTD 2010 were 139.2 per cent of combined free cash flow. However, distributions made while under an income trust structure were assessed based on distributions declared as a percentage of distributable cash, which differs from our measure of free cash flow.

Adjusted EPS of Bell Aliant Inc. was $0.43 and $0.87 for Q2 and YTD 2011, respectively. In calculating adjusted EPS of Bell Aliant Inc., we have excluded the amortization of certain finite-life intangible customer relationship assets acquired in previous business combinations as it relates to assets that will largely not be replaced through future capital spending. Once these assets were purchased as part of a business combination, further costs incurred in relation to acquiring any new subscribers, in other than a business combination, and retaining existing ones are captured in operating expenses. Therefore, we have excluded this amortization to provide what we believe is a more meaningful measure of EPS. Refer to the "Non-IFRS financial measures" section for more details.

Changes to the board of directors

On June 14, 2011, Kevin Crull's term as a director on our board and the boards of our operating subsidiaries expired, and Martine Turcotte was elected to these boards.

OUR COMPETITIVE LANDSCAPE

We operate in a highly competitive environment, with cable companies remaining our most significant competitive threat. The expansion of cable telephony competitive footprint continues in our regions. At the end of June 2011, the competitive footprint overlap with cable companies was approximately 71 per cent of residential households in our territories, representing a 3 percentage point increase from a year ago. Competitive activity continues to be strong in our markets. Competitors are leveraging promotional discounts, marketing campaigns and distribution channels to compete. We have implemented programs in all of our markets to remain competitive while continuing to deliver the highest quality customer service, choice and convenience to our customers. We will continue to focus on making significant investments in fibre optic technology to expand our FTTH network, promote our competitively priced bundles and provide our customers with the most innovative products and enhanced technology to meet all their needs.

STRATEGY

Highlights of strategic achievements in Q2 2011

Improve the customer experience

Delivering a superior customer experience continues to be our goal. Our service fundamentals are core to achieving our strategy. In Q2 2011, by keeping a determined and consistent focus on making it easy for customers to do business with us, meeting our commitments, and doing things right the first time, we continued to drive performance.

Retain our customers

Bundles are instrumental for retaining customers and owning the whole home as they allow us to remain competitive by offering a complete and integrated communications, Internet and entertainment solution.

In Q2 2011, we continued to promote bundle offers across all our markets, including the launch in our Télébec and NorthernTel territories of a whole home bundle which features Bell TV. Bundles are also the primary sales tool in markets where we offer our *FibreOP* services as customers seek to purchase additional, high-value services such as higher Internet speed, high-definition (HD) TV programming and personal video recorder (PVR) services. In our *FibreOP* service territories, we have seen a significantly lower rate of NAS customer turnover than the rate we typically experience in our non-*FibreOP* services territories.

Grow broadband

The capabilities of our FTTH network have given us a clear competitive advantage in our *FibreOP* markets that our competitors cannot easily match. Expanding our *FibreOP* service area allows us to provide more homes with access to leading edge technology, including the fastest Internet speeds in our markets and an exceptional TV experience.

We have made major progress on our FTTH rollout during Q2 2011 and remain on track to expand *FibreOP* services to pass more than 600,000 homes and businesses by the end of 2012. For YTD 2011, we passed an additional 156,000 homes and businesses with *FibreOP* services, bringing the total homes and businesses passed to 294,000 in Atlantic Canada.

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

Reset our cost structure

In an intensely competitive market, a disciplined approach to cost reduction is critical. We expect our major cost reduction initiatives for 2011 will ensure our business is more efficient through enhanced workforce productivity, controlled discretionary spending and optimizing the benefits of our commercial agreements with Bell Canada.

In Q2 2011, we continued to focus our employee efforts on higher value-add work, including our *FibreOP* services and network build-outs in Central Canada. We are committed to effective utilization of our resources and continued productivity improvement throughout our operations.

We continued to achieve cost savings resulting from the purchase of poles in Newfoundland and by monitoring our discretionary spending, including optimizing our utilization of real estate. Also, we are currently controlling costs and building out our network by co-locating equipment with small incumbent local exchange carriers (ILECs), thereby reducing our expenses and providing more direct service to our customers. With our focus on expanding our own network assets that we consider core to our business, we are replacing old infrastructure that is costly to maintain with a more cost effective network. This also gives us the ability to provide additional services to certain remote areas. Further efficiencies have also been achieved through our commercial agreements with Bell Canada.

Engage employees

We continue to promote a high performance culture, focusing on leadership development and improving communication with our employees by providing clear direction on our strategy and goals through multiple channels. Members of our leadership team visited several regions in Q2 to share our strategy and five strategic objectives with employees. We expect that understanding our business strategy, including its challenges, opportunities and priorities, will ensure our employees are highly motivated to help the business succeed. Feedback from employees confirms that these efforts are working – employees have a better understanding of our five strategic initiatives, are proud to work for Bell Aliant and have increased confidence in its leadership.

In Q2 2011, we continued to focus on inspiring and recognizing employees who deliver outstanding performance. Creating development opportunities for top talent, ensuring succession plans are in place, as well as attracting and retaining high performing and fully engaged employees is essential to outperforming our competitors and building a strong future.

RESULTS OF OPERATIONS

For the period ended June 30	Q2			YTD		
(millions of dollars)	2011	2010	% change	2011	2010	% change
Local and access	**$312.1**	$325.0	(4.0)	**$622.1**	$647.9	(4.0)
Data	**216.5**	207.1	4.5	**429.2**	411.1	4.4
Long distance	**96.3**	99.0	(2.7)	**190.8**	196.1	(2.7)
Wireless	**24.0**	22.0	9.1	**47.3**	43.0	10.0
Other revenues	**43.7**	47.0	(7.0)	**84.8**	90.7	(6.5)
Operating revenues	**$692.6**	$700.1	(1.1)	**$1,374.2**	$1,388.8	(1.1)
Operating expenses	**359.1**	357.1	0.6	**711.4**	707.1	0.6
EBITDA [1]	**$333.5**	$343.0	(2.8)	**$662.8**	$681.7	(2.8)
Depreciation and amortization	**156.5**	175.8	(11.0)	**310.3**	346.5	(10.4)
Severance and other charges	**1.4**	3.4	(58.8)	**5.9**	14.6	(59.6)
Operating income	**$175.6**	$163.8	7.2	**$346.6**	$320.6	8.1
Net finance expense	**43.1**	47.0	(8.3)	**85.3**	93.8	(9.1)
Distributions to holders of class B exchangeable partnership units issued by Bell Aliant LP	**-**	52.4	n.m.	**-**	104.7	n.m.
Loss (gain) on the re-measurement of the class B exchangeable partnership units issued by Bell Aliant LP	**-**	1.5	n.m.	**-**	(187.7)	n.m.
Other expense	**6.1**	0.8	n.m.	**6.2**	3.4	82.4
Income tax expense (recovery)	**39.0**	(8.9)	n.m.	**78.9**	(12.6)	n.m.
Net earnings from continuing operations	**$87.4**	$71.0	23.1	**$176.2**	$319.0	(44.8)
Net loss from discontinued operations	**(0.8)**	(2.3)	(65.2)	**(4.2)**	(1.7)	n.m.
Net earnings for the period	**$86.6**	$68.7	26.1	**$172.0**	$317.3	(45.8)

n.m. not meaningful

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

Operating revenues

Local and access

Local and access revenue declined 4.0 per cent, or $12.9 million, in Q2 2011, and 4.0 per cent, or $25.8 million, YTD 2011, compared to the same periods in 2010, largely driven by a 5.0 per cent decline in our total NAS customers at June 30, 2011, compared to June 30, 2010. Revenue losses continued to be mitigated through programs targeted at retaining our highest value customers, increasing features penetration of our customers and implementing selected price increases that reflect the higher value provided through our bundled packages.

At June 30, 2011, the number of residential NAS customers was 6.5 per cent lower than at June 30, 2010, and the number of business NAS customers was 2.3 per cent lower than at June 30, 2010. During Q2 2011, our total net NAS declines were approximately 32,500. This level of NAS erosion was similar to that experienced in Q1 2011, however it represents an increase in net NAS customer declines of approximately 8,700 over the level of declines experienced in Q2 2010. Although NAS declines continue to reflect the substitution of wireline services by wireless and VoIP services, the increase in the net NAS declines in Q2 2011 from the same quarter of 2010 is primarily a result of a sharp increase in the competitive footprint, following four quarters of minimal competitive household growth, and competitive activity.

Data

Data revenue increased 4.5 per cent, or $9.4 million, in Q2 2011, compared to the same period in 2010. Internet revenues grew by 7.2 per cent, or $8.1 million, and IPTV revenues grew by 90.7 per cent, or $4.9 million, in Q2 2011, compared to Q2 2010. These increases more than offset the decline in other data revenues of 4.1 per cent, or $3.6 million. YTD 2011 results reflect a similar trend as data revenue increased 4.4 per cent, or $18.1 million, as a $6.9 million decline in other data revenues was more than compensated by growth in Internet and IPTV revenues of $15.9 million and $9.1 million, respectively.

At June 30, 2011, total IPTV subscribers reached approximately 59,000, up 53.3 per cent from the same period in 2010. Overall net IPTV customer additions were approximately 5,000 in Q2 2011. *FibreOP* TV customers grew by approximately 6,500 in Q2 2011 to reach approximately 20,000 at the end of June 2011.

Growth in residential high-speed Internet ARPC continued to drive the increase in Internet revenues. Customer demand for more bandwidth and premium services, along with selected pricing action, pushed ARPC to a new high of $41.68 in Q2 2011. ARPC increased 5.2 per cent, or $2.05, from $39.63 in Q2 2010, and represents an increase of $1.97, or 5.0 per cent, to $41.31 YTD 2011.

High-speed Internet customers reached 855,000 at the end of June 2011, up 3.3 per cent from a year earlier. Overall net high-speed Internet customer additions of approximately 4,000 in Q2 2011 were down from approximately 8,000 in Q2 2010, reflecting lower growth in our high-speed Internet footprint (DSL) and continued competitive activity. As marketing focus continued to shift to fibre markets, *FibreOP* Internet customers grew by approximately 8,000 during the current quarter to reach approximately 22,000 at the end of June 2011. The majority of the *FibreOP* net additions were customers migrating from DSL and fibre-to-the-node networks which would not have contributed to overall high-speed Internet customer growth, but increasingly contribute to growth in ARPC.

Other data revenue declined as a result of competitive pressures and migration to alternate technologies. The decline in data revenues this year has improved from trends experienced in 2010 as a result of data demand growth in Atlantic Canada.

Long distance

Long distance revenue declined by 2.7 per cent, or $2.7 million, in Q2 2011, and 2.7 per cent, or $5.3 million, for YTD 2011, compared to the same periods in 2010. The decline is primarily the result of lower NAS, substitution of traditional wireline service with email, cellular calling and VoIP services and migration from legacy long distance per-minute plans to flat rate plans. The effects of these declines were partially mitigated by selective price increases.

Wireless

Wireless revenue increased by 9.1 per cent, or $2.0 million, in Q2 2011, and by 10.0 per cent, or $4.3 million, for YTD 2011, compared to the same periods in 2010. This was mainly due to a 10.2 per cent increase in the number of wireless customers at June 30, 2011. For Q2 2011, wireless ARPC decreased 1.9 per cent, or $1.08, and YTD 2011 by 0.7 per cent, or $0.42, compared to the same periods in 2010, due to our use of promotional pricing to acquire and retain customers in the face of aggressive competitive offers.

Other revenues

Other revenues declined 7.0 per cent, or $3.3 million, in Q2 2011, and by 6.5 per cent, or $5.9 million YTD 2011, compared to the same periods in 2010. Although pole attachment revenue rose due to price increases in late 2010, the overall decline was largely driven by revenues generated from the G8 Summit in 2010, which did not recur in 2011, as well as decreases in telecommunications equipment sales, other rental revenue and outsourcing revenues.

Expenses

Operating expenses

For the period ended June 30 *(millions of dollars)*	Q2 2011	Q2 2010	Q2 % change	YTD 2011	YTD 2010	YTD % change
Labour costs						
Wages, salaries and related taxes and benefits	**$133.9**	$135.5	(1.2)	**$264.4**	$271.8	(2.7)
Current service costs of post-employment benefit plans	**15.6**	13.2	18.2	**31.1**	26.3	18.3
Share-based compensation plan expense	**6.5**	4.2	54.8	**10.7**	3.9	n.m.
Contractor, outsourcing and other labour costs	**14.6**	11.1	31.5	**31.1**	23.6	31.8
Capitalized labour	**(40.6)**	(36.2)	12.2	**(75.0)**	(69.2)	8.4
Total labour costs	**130.0**	127.8	1.7	**262.3**	256.4	2.3
Cost of sales, content costs and payments to other carriers	**171.2**	174.6	(1.9)	**337.8**	340.4	(0.8)
Real estate expenses	**9.1**	10.3	(11.7)	**19.5**	20.7	(5.8)
Operating taxes	**9.3**	10.8	(13.9)	**19.2**	21.7	(11.5)
Bad debt expense	**6.0**	5.7	5.3	**12.3**	12.4	(0.8)
Other operating expenses	**33.5**	27.9	20.1	**60.3**	55.5	8.6
Operating expenses	**$359.1**	$357.1	0.6	**$711.4**	$707.1	0.6

n.m. not meaningful

Operating expenses were relatively consistent in Q2 and YTD 2011, compared to the same periods in 2010, increasing by 0.6 per cent, or $2.0 million, and 0.6 per cent, or $4.3 million, respectively.

Total labour costs increased by 1.7 per cent, or $2.2 million, in Q2 2011, and by 2.3 per cent, or $5.9 million, YTD 2011, compared to the same periods in 2010. Wages, salaries and related taxes and benefits expense declined due to the continued efficiencies achieved as a result of our productivity initiatives. The increase in current service costs of our post-employment benefit plans was driven by a lower discount rate used in 2011 compared to 2010 for our DB pension and other post employment benefit (OPEB) plans, offset to a degree by the effect of having fewer active members in these plans. The costs of our defined contribution (DC) plans were consistent with the prior year. Share-based compensation plan expense is higher due to increased mark-to-market adjustments of the liability under our share-based compensation plan reflecting the recent rise in Bell Aliant Inc.'s share price. As well, there were a larger number of deferred unit forfeitures in Q1 2010, compared to Q1 2011, which reduced share-based compensation expense in YTD 2010, compared to YTD 2011. Contractor, outsourcing and other labour costs in Q2 2011 reflected escalating resource needs for our *FibreOP* service expansion and TV demand, including increased contractor costs related to third party arrangements. Capitalized labour increased reflecting our accelerated rollout of our FTTH network.

Cost of sales, content costs and payments to other carriers decreased by 1.9 per cent, or $3.4 million, in Q2 2011, and 0.8 per cent, or $2.6 million, YTD 2011, compared to the same periods in 2010. This was mainly attributable to productivity savings we achieved through our commercial agreements with Bell Canada, as well as the elimination of pole attachment fees due to our repurchase of an interest in poles in Newfoundland. These decreases were partially offset by higher product cost of goods sold, higher hardware subsidies driven by increased wireless activations and renewals, and higher IPTV content costs resulting from growth in our IPTV subscribers. For YTD, cost of sales also reflects lower network service cost of goods sold as the first half of 2010 included costs related to the G8 Summit that did not recur in 2011.

Real estate expenses decreased 11.7 per cent, or $1.2 million, in Q2 2011, and by 5.8 per cent, or $1.2 million YTD 2011, compared to the same periods in 2010, as we reduced our office space requirements due to the streamlining of our workforce.

Operating taxes decreased 13.9 per cent, or $1.5 million, in Q2 2011, and by 11.5 per cent, or $2.5 million YTD 2011, compared to the same periods in 2010. This is primarily due to lower provincial capital taxes and, to a lesser extent, lower property and municipal revenue tax expense.

Bad debt expense increased 5.3 per cent, or $0.3 million, in Q2 2011, compared to the same period in 2010, which mainly reflects higher customer recoveries in Q2 2010, which did not recur in Q2 2011. For YTD 2011, bad debt expense decreased by 0.8 per cent, or $0.1 million, compared to the same period in 2010, which reflects our strong focus on accounts receivable management as well as lower revenues.

Other operating expenses increased 20.1 per cent, or $5.6 million, in Q2 2011, and by 8.6 per cent, or $4.8 million YTD 2011, compared to the same periods in 2010. This is mainly attributable to the recognition of higher scientific research and experimental development credits in 2010 which were not repeated in 2011, increased advertising and sponsorship costs to support our *FibreOP* rollout, and higher professional consulting costs. Mitigating the effect of these increases in 2011 was a reduction in discretionary spending on general and administrative expenses.

Depreciation and amortization

Depreciation and amortization decreased 11.0 per cent, or $19.3 million, in Q2 2011, and 10.4 per cent, or $36.2 million YTD 2011, compared to the same periods in 2010. This is primarily the result of recording the impairment charge on certain of our finite-life intangible assets in Q4 2010, which resulted in a significantly lower intangible asset base, offset slightly by shorter estimated useful lives of these intangible assets.

Severance and other charges

Severance and other charges decreased by 58.8 per cent, or $2.0 million, in Q2 2011, and by 59.6 per cent, or $8.7 million YTD 2011, compared to the same periods in 2010. The charges in 2010 mainly related to voluntary retirement incentives offered to a limited number of unionized employees in Ontario and Quebec and to the streamlining of our management workforces. During 2011, productivity initiatives continued, although to a lesser degree than those undertaken in the prior year, and resulted in YTD 2011 reflecting a $2.1 million severance and benefit charge and a $3.8 million real estate rationalization charge.

Net finance expense

Net finance expense decreased $3.9 million, or 8.3 per cent, in Q2 2011, and $8.5 million, or 9.1 per cent, YTD 2011, compared to 2010.

Finance expense increased $1.1 million in Q2 2011 and $1.7 million YTD 2011, compared to the same periods in 2010, primarily reflecting the interest charged on a higher pension obligation at June 30, 2011, as well as higher bank credit facility fees.

Finance income includes both interest earned and the expected returns on pension plan assets. Finance income increased $5.0 million in Q2 2011 and $10.2 million YTD 2011, compared to the same periods in 2010, driven by higher expected returns on DB pension plan assets as a result of a higher pension asset base.

Class B exchangeable partnership units issued by Bell Aliant LP

We expensed distributions to holders of class B exchangeable partnership units issued by Bell Aliant LP of $52.4 million and $104.7 million in Q2 and YTD 2010, respectively, due to financial liability classification of the units under IFRS. There was no similar distribution expense recognized in 2011, as these units were transferred to us as part of the Conversion and thus are now eliminated upon consolidation of Bell Aliant LP.

In 2010, these units were also marked-to-market at each reporting date, with any changes in value recognized directly in net earnings for the period. In Q2 and YTD 2010, we recognized a loss of $1.5 million and a gain of $187.7 million, respectively, with no similar amount recognized in 2011, due to their elimination upon consolidation.

Other expense

Other expense increased $5.3 million in Q2 2011, and $2.8 million YTD 2011, compared to the same periods in 2010. This increase related primarily to a $4.4 million loss on the early redemption of medium-term notes in May 2011, as well as a $0.2 million loss on the fair value adjustment related to foreign currency derivatives that we entered into during Q2 2011, with no similar transactions occurring in 2010.

Income tax expense (recovery)

The income tax expense in Q2 2011 was $39.0 million, compared to a recovery of $8.9 million in Q2 2010. This increase was a result of various factors, including:

- A higher deferred income tax expense of $2.5 million due to higher earnings before tax in Q2 2011, compared to the same period in 2010, after eliminating from 2010 earnings the effect of distributions and gain on re-measurement of the class B exchangeable partnership units issued by Bell Aliant LP;
- An increase of $43.3 million in deferred tax expense stemming from: (i) the inclusion in our taxable earnings of income that in prior periods had been attributed to the class B exchangeable partnership units issued by Bell Aliant LP and the partnership units issued by Télébec and NorthernTel held indirectly by the Fund; and (ii) the loss of the tax effectiveness of our income trust structure due to the January 1, 2011, application of the revised tax rules affecting income trusts; and
- A higher deferred tax expense of $2.1 million as a result of an increase in our blended weighted average federal and provincial effective tax rate and a change in our temporary differences reversal pattern as compared to the same period in 2010.

For YTD 2011, the income tax expense was $78.9 million, representing an increase of $91.5 million, from a recovery of $12.6 million in the same period of 2010, reflecting similar trends as those experienced in Q2 2011.

Net loss from discontinued operations

Net loss from discontinued operations of $0.8 million in Q2 2011 and $4.2 million YTD 2011 represents the after-tax loss on the sale of our xwave business on January 1, 2011. Discontinued operations in 2010 reflected the operating results of our xwave business which had a net loss of $2.3 million in Q2 2010 and $1.7 million YTD 2010.

Selected quarterly financial information

The following table shows selected consolidated financial results by quarter for the most recent eight quarters. This quarterly information is unaudited but has been prepared on an IFRS basis, unless otherwise noted.

For the eight quarters ended June 30 (millions of dollars, except per share / unit amounts)	2011 Q2	2011 Q1	2010 Q4	2010 Q3	2010 Q2	2010 Q1	2009 [2] Q4	2009 [2] Q3
Operating revenues	$692.6	$681.6	$714.9	$703.7	$700.1	$688.7	$719.0	$724.7
EBITDA [1]	$333.5	$329.3	$345.1	$349.3	$343.0	$338.7	$364.8	$372.7
Operating income (loss)	$175.6	$171.0	($1,569.6)	$175.5	$163.8	$156.8	$145.8	$163.7
Net earnings (loss):								
Continuing operations	$87.4	$88.8	($1,388.5)	$32.5	$71.0	$248.0	$96.5	$98.5
Discontinued operations	(0.8)	(3.4)	(0.7)	0.6	(2.3)	0.6	(3.9)	(6.7)
Net earnings (loss)	$86.6	$85.4	($1,389.2)	$33.1	$68.7	$248.6	$92.6	$91.8
Basic earnings (loss) per share / unit:								
Continuing operations	$0.83	$0.87	($8.65)	$0.20	$0.44	$1.54	$0.60	$0.61
Discontinued operations	(0.01)	(0.03)	-	0.01	(0.01)	0.01	(0.02)	(0.04)
Basic earnings (loss) per share / unit	$0.82	$0.84	($8.65)	$0.21	$0.43	$1.55	$0.58	$0.57
Diluted earnings (loss) per share / unit:								
Continuing operations	$0.83	$0.87	($8.65)	$0.20	$0.44	$0.48	$0.60	$0.61
Discontinued operations	(0.01)	(0.03)	(0.01)	-	(0.01)	-	(0.02)	(0.04)
Diluted earnings (loss) per share / unit	$0.82	$0.84	($8.66)	$0.20	$0.43	$0.48	$0.58	$0.57

[1] EBITDA is a non-IFRS measure. Refer to the "Non-IFRS financial measures" section for more details.
[2] Financial results for the quarters of 2009 are presented on a Canadian GAAP basis.

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

- In general, the consolidated operating revenue trend reflects year-over-year growth in Internet, TV and wireless revenues generated from increasing customer bases, which has been more than offset by declines in local, long distance and data service revenues.
- In 2009, as part of our organizational productivity initiatives to create a more efficient cost structure as well as improve our service to customers, we offered limited voluntary retirement incentives to our unionized employees in Atlantic Canada, Ontario and Quebec. We also announced an operational consolidation of certain contact centres in Atlantic Canada and streamlined our management workforce. We recognized severance charges related to these initiatives of $12.1 million and $13.7 million in Q3 and Q4 of 2009, respectively. In 2010, we continued our productivity initiatives which included a further limited voluntary retirement incentive to a number of our unionized employees in Ontario and Quebec, streamlining of our management workforce and real estate rationalization, which resulted in recognizing related severance and other charges of $10.7 million, $3.3 million, $0.5 million and $12.5 million in Q1, Q2, Q3, and Q4, respectively. In 2011, we continued to streamline our management workforce and rationalize our real estate, recognizing related severance and other charges of $4.5 million and $1.4 million in Q1 and Q2, respectively.
- On November 1, 2009, we concluded a share purchase agreement under which the senior leaders of Innovatia Inc. acquired all of its outstanding shares. In anticipation of the disposal, we recorded a write-down of net assets in Q3 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 Q4 2009.
- In Q4 2010, as part of our annual balance sheet reviews and in preparation for our conversion to a corporate structure and transition to IFRS, we revisited the original estimates used in valuing assets, such as finite-life intangibles related to customer relationships which we acquired from Bell Canada in 2006 and in 2007 on the privatization of Télébec and NorthernTel. Using revised estimates in 2010, an impairment in the carrying value of certain finite-life intangibles related to customer relationships was identified and we recorded a non-cash write-down of $1,727.9 million.

- On October 26, 2010, we announced that we signed an asset purchase agreement, under which Bell Canada would acquire our xwave business. As a result, we reclassified the results of our xwave business operations as discontinued operations. The transaction closed on January 1, 2011, with proceeds on sale of $38.4 million in cash and $33.7 million in a receivable from Bell Canada related to post-closing balance sheet adjustments. During YTD 2011, we collected $10.7 million of this receivable and paid $4.5 million to settle liabilities that we retained in connection with expenses incurred by xwave in 2010. An after-tax loss on sale of $3.4 million and $0.8 million, which is net of $8.9 million allocated to goodwill, has been recorded in net loss from discontinued operations in Q1 and Q2 2011, respectively.

Additional details regarding our results for Q2 2011 are discussed throughout this document. Further information on our prior quarterly results, as previously reported under IFRS or Canadian GAAP, as applicable, can be found in the respective quarterly or annual financial statements and related MD&As.

FINANCIAL AND CAPITAL MANAGEMENT

Summary of cash flows

For the six month period ended June 30 *(millions of dollars)*	2011	2010	% change
Cash from (used in):			
Operating activities	**$353.3**	$457.6	(22.8)
Financing activities	**(180.2)**	(253.1)	(28.8)
Investing activities	**(270.5)**	(218.6)	23.7
Net decrease in cash from continuing operations	**($97.4)**	($14.1)	n.m.
Net increase (decrease) in cash from discontinued operations	**44.6**	(0.9)	n.m.
Net decrease in cash for the period	**($52.8)**	($15.0)	n.m.

n.m. - not meaningful

For YTD 2011, we used net cash of $52.8 million, compared to using net cash of $15.0 million for the same period in 2010. This decrease of $37.8 million is the result of lower cash from continuing operations of $83.3 million, partially offset by higher cash flow from discontinued operations of $45.5 million. The higher cash flow from discontinued operations reflects the cash proceeds realized in YTD 2011 from the sale of our xwave business.

Operating activities

Cash generated from operating activities decreased 22.8 per cent, or $104.3 million, during YTD 2011, compared to the same period in 2010. Contributing to this decline was a $186.8 million increase in funding of DB pension and OPEB plans, reflecting the $200.0 million lump sum pension contribution, offset by an $83.8 million increase in cash flow from changes in operating assets and liabilities, or working capital.

Cash flow generated from working capital changes was $0.7 million YTD 2011, compared to using cash of $83.1 million YTD 2010. Payables and accruals generated $84.1 million more cash YTD 2011, compared the same period in 2010. While a decrease is typical for the first half of the year as we make large cash payments related to our short-term incentive plan and previously accrued severance and other charges, these outlays decreased by $27.0 million in 2011, compared to 2010, reflecting a reduction in management headcount and lower incentive payouts. Capital expenditures increased by $54.9 million YTD 2011, driven by the ramp-up of our FTTH expansion, which also increased our funding of working capital through accounts payable. Cash flow from working capital changes also generated $17.4 million more cash from a reduction in inventory purchases YTD 2011, compared to the same period in 2010. Cash flow used to fund working capital changes was negatively affected by accounts receivable YTD 2011, compared to the same period in 2010. We estimate that the Canada Post labour disruption in June 2011 delayed receipt of approximately $20 to $30 million in customer payments in Q2 2011, contributing to an accounts receivable increase of $8.2 million YTD 2011, compared to generating $16.4 million in cash flows YTD 2010.

Funding of our post-employment benefit plans is included in the use of cash from operating activities. For YTD 2011, funding was $253.0 million, compared to $66.2 million for the same period in 2010. Cash funding for our DB pension plans was $244.9 million, compared to $63.9 million for the same period in 2010. In 2011, these amounts included $25.3 million of current service contributions and $219.6 million of special deficit funding, compared to $26.0 million and $37.9 million in 2010, respectively. The $0.7 million decline in current service contributions is due to fewer active participants in the plans in 2011, compared to the prior year. On March 15, 2011, we made a $200.0 million lump sum cash contribution to our DB pension plans, included in the YTD cash funding amounts for 2011. We plan to apply a portion of our lump sum pension contribution against our required special deficit funding throughout 2011.

Actuarial valuations of all our DB pension plans as of December 31, 2010, were completed during Q2 2011 and filed on June 30, 2011.

For YTD 2011, contributions to our OPEB plans to fund benefits were $4.3 million, compared to $4.1 million in the prior year. DC pension plan contributions were $3.8 million year-to-date, unchanged from contributions for continuing operations during the same period in 2010.

Financing activities

For YTD 2011, cash used in financing activities was $180.2 million, compared to using cash of $253.1 million in the same period in 2010, with the decline primarily attributable to lower cash dividends/distributions to our equity holders in 2011 in addition to receiving proceeds on the preferred share issue, which were partially offset by higher net debt repayments in 2011.

We had net repayments of debt (including short and long-term debt, capital leases and notes payable to related parties) of $181.7 million for YTD 2011, compared to net proceeds of $79.3 million in the same period of 2010. In 2011, we repaid a net $43.1 million in notes payable to related parties, of which $43.3 million represented final distributions under the income trust structure paid early in the Q1. We had net repayments of short-term promissory notes under our commercial paper program of $66.2 million for YTD 2011, while for the same period in 2010 we had net proceeds of $85.6 million from short-term debt facilities. In Q2 2011 we also repaid $40.0 million under a term bank facility and reduced proceeds from the accounts receivable securitization by $10.0 million. The repayments in 2011 were facilitated in part by the proceeds from disposition received on our sale of the xwave business and in part from proceeds of the preferred share issue, described below. In 2010, net proceeds were required to fund higher working capital requirements. We had net repayments of long-term debt of $7.5 million related to scheduled repayments on mortgages and debentures and the penalty on early redemption of medium-term notes during Q2 2011. We had no long-term debt issuance or redemption in the same period of 2010. Refer to our “Debt” section below for additional details.

We had total gross proceeds on the preferred share issuance by Bell Aliant Preferred Equity Inc. (Prefco) of $287.5 million in Q1 2011, with no similar transaction in 2010. Share issue costs of $9.7 million were incurred, resulting in net proceeds of $277.8 million. These proceeds were used to make the $200.0 million lump sum pension contribution previously referred to, as well as to repay short-term debt as discussed above.

Financing activities for YTD 2011 also included dividends paid to Bell Aliant Inc. of $218.3 million, dividends paid to preferred shareholders of $4.1 million and distributions of $53.9 million, which represented the final disbursements required for distributions under the income fund structure. For the comparable period in 2010, total distributions paid to the Fund and to holders of class B exchangeable partnership units issued by Bell Aliant LP were $332.4 million.

Investing activities

Cash used in investing activities increased by 23.7 per cent, or $51.9 million for YTD 2011, compared to the same period in 2010.

Purchases of capital investments were $273.5 million YTD 2011, compared to $218.6 million in the same period in 2010, representing an increase of 25.1 per cent, or $54.9 million. Consistent with our strategic priority to grow broadband, specifically related to FTTH, we continue to accelerate the rollout of our FTTH network. Additionally, total cash from investing activities includes $1.7 million in proceeds on sale of investments. We collected receivables from CAE Professional Services (Canada) Inc. related to post-closing balance sheet adjustments for the sale of our DSA business, with no similar proceeds received in 2010.

Financing and liquidity

Sources of liquidity

We derive most of our liquidity from cash from operating activities, as well as bank credit facilities, a commercial paper program, and our accounts receivable securitization program. We anticipate generating enough cash from our operating activities to pay for property, plant and equipment, dividends to shareholders, and other commitments as they arise.

Our capital structure is as follows:

(millions of dollars, except as otherwise noted)	**June 30, 2011**		**December 31, 2010**	
Shareholders' / partners' capital	**$3,443.8**	50.9%	$1,666.0	34.6%
Preferred shares issued by a subsidiary	**280.5**	4.1%	-	-
Net debt	**3,047.8**	45.0%	3,148.8	65.4%
Total capital	**$6,772.1**	100.0%	$4,814.8	100.0%

Shareholders'/partners' capital

Common shares

As at June 30, 2011, our authorized capital consists of an unlimited number of two classes of shares, voting common shares and non-voting common shares, neither of which are publicly traded. Non-voting common shares have not been issued.

The number of common shares issued and outstanding at June 30, 2011, was 101,373,833 voting common shares, with Bell Aliant Inc. owning all but 1 voting common share which is held indirectly by BCE.

Partnership units

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

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

On January 1, 2011, all outstanding partnership units were cancelled as part of the dissolution of Bell Aliant Holdings LP during the Conversion, as described in our Q1 interim financial statements and MD&A.

Non-controlling interest

Non-controlling interests at June 30, 2011, represents the preferred shareholders' ownership interest in Prefco, our wholly-owned subsidiary. In March 2011, Prefco issued preferred shares of $287.5

million. Prefco recognized $9.7 million in commissions and share issue costs, less the associated income tax of $2.7 million, as a deduction from proceeds of the share issuance. For further details concerning the offering of these preferred shares, refer to note 15 of our interim financial statements and Bell Aliant Inc.'s press release dated February 22, 2011.

Debt

We have a total of $3,060.4 million in debt issued at June 30, 2011, including $2,605.0 million in unsecured and unsubordinated medium-term notes outstanding under Bell Aliant LP's trust indenture dated September 14, 2006.

On April 26, 2011, we issued $300.0 million of 7-year unsecured medium-term notes, bearing interest at 4.88 per cent per annum and maturing on April 26, 2018. The notes were issued at a discount and issue costs incurred were $1.5 million, resulting in net proceeds of $298.5 million.

Using the proceeds from this note issue, on May 6, 2011, we made a partial redemption of the Bell Aliant LP medium-term notes due to mature on September 26, 2011. We redeemed $300.0 million principal amount and recognized a $4.4 million loss on redemption, as a result of paying a $4.0 million early redemption penalty and recognizing $0.4 million in previously unamortized issuance costs.

Also during Q2 2011, we amended and restated our syndicated bank credit facilities, resulting in a single $750.0 million revolving operating facility, the elimination of the non-revolving pension reserve facility and a new term to expiry of June 6, 2015. The total amount available under our short-term operating credit facilities is $997.7 million at June 30, 2011, compared to $1,255.3 million at December 31, 2010. We continue to maintain a $400.0 million commercial paper program, supported by unused capacity on this revolving operating facility.

Amounts drawn under our short-term credit facilities decreased to $261.0 million at June 30, 2011, compared to $377.2 million at December 31, 2010. We repaid $66.2 million of short-term promissory notes under our commercial paper program, resulting in a total amount issued of $143.0 million at June 30, 2011, compared to $209.2 million at December 31, 2010. In connection with the amendment and restatement of our syndicated bank credit facilities, we repaid $40.0 million under our non-revolving pension reserve facility during Q2 2011. We also repurchased $10.0 million under the revolving accounts receivable securitization program. In addition, the amount of issued letters of credit decreased by $11.3 million, to a total of $274.8 million. Included in the letters of credit at December 31, 2010, is $11.1 million for discontinued operations, with no such amount at June 30, 2011.

In the amended and restated bank credit facility, certain financial covenants were amended, including the total leverage ratio (as defined in the agreement) increasing from 3.0 times to 3.25 times. A copy of the amended and restated credit facility is available on www.sedar.com as a material document. There have been no other changes to the covenants and provisions contained in our credit facilities as disclosed in our MD&A for the year ended December 31, 2010, except for amendments required relating to the Conversion.

Ratings

There were no changes to our debt ratings in Q2 2011, however, at our request in April 2011, the debt ratings for Télébec and NorthernTel have been withdrawn by S&P and DBRS as these entities will not be issuing public debt in the future.

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

Cash requirements

We require a significant amount of cash to execute our business strategy. Our cash requirements for Q2 2011 consisted of dividends to shareholders, purchases of capital, pension plan funding, repayment of short and long-term debt, and payments of other commitments. It is anticipated that cash requirements for the remainder of 2011 will result in the use of cash as follows:

- The annual cash requirement to pay dividends to Bell Aliant Inc. shareholders (subject to their declaration in the discretion of the directors) is estimated to be in the range of $432 to $435 million for 2011. For YTD 2011, we paid $218.3 million in dividends to enable Bell Aliant Inc. to fund its dividends and expenses.
- For YTD 2011, capital expenditures were $273.5 million. We anticipate 2011 capital expenditures to be at the upper end of our annual guidance range of $520 to $560 million, as we expand our FTTH network and connect new customers.
- 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 $105.0 million outstanding principal amount of medium-term notes due to mature on September 26, 2011. We anticipate we will repay the remaining balance of the September 2011 notes outstanding with cash flow or short-term borrowing.
- Our DB pension plans have funding deficits. In 2010, the pension plans achieved a return on assets that exceeded our expected rate of return. However, the discount rates utilized to calculate our solvency funding liabilities for active employees at December 31, 2010, were lower than those used at December 31, 2009. In addition, 2011 funding requirements reflect increased liabilities resulting from early retirements in 2010. Based on the results of our 2010 actuarial valuations, required funding of our DB pension deficits for 2011 will be in the range of $105 to $110 million, compared to $86.3 million for 2010. As part of our 2011 financing plans, on March 15, 2011, we used a portion of the proceeds from the issuance of preferred shares to make a $200.0 million lump sum cash contribution to our DB pension plans. We will apply a portion of this lump sum amount against our required 2011 deficit funding. We believe that taking this step now lessens the future volatility that solvency valuations have on our cash flows, strengthens our credit profile, improves our cash flow generation, represents an attractive return on investment, and enhances the security of pension benefits for retirees and employees in our DB pension plans. In addition, we estimate that a further $25 to $50 million in cash deficit funding payments, which approximates our going concern funding requirements, will be contributed to the pension plans in 2011.
- Productivity initiatives, announced periodically since 2008, are expected to result in the use of cash for severance, benefits and real estate rationalization costs of approximately $15 to $20 million in 2011. For YTD 2011, we paid $14.1 million in accrued severance charges and real estate rationalization costs.
- We will also use cash for other commitments, such as operating leases and purchase commitments for equipment and other network infrastructure.

Other financial arrangements

Contractual obligations

Our contractual obligations remain substantially unchanged from those described in our 2010 annual MD&A.

RELATED PARTY TRANSACTIONS

Our significant related parties continue to be BCE, Bell Canada and Bell Aliant Inc. For greater detail on our related party transactions and our relationship with BCE and Bell Canada, refer to note 25 to our audited consolidated financial statements for the year ended December 31, 2010, and to note 21 of our interim financial statements.

SIGNIFICANT ACCOUNTING POLICIES

International financial reporting standards (IFRS)

Our interim financial statements are prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) under IAS 34, *Interim Financial Reporting*, and with IFRS 1, *First-time Adoption of IFRS*, and in accordance with the accounting policies we expect to apply in our financial statements for the year ending December 31, 2011. They do not include all of the information required for full annual financial statements. Previous to Q1 2011, our consolidated annual and interim financial statements were prepared in accordance with Canadian GAAP. The adoption of IFRS has not affected our overall performance, strategic decisions or underlying trends of our operations.

Impact of transition to IFRS

Refer to note 22 of our interim financial statements for more detail on the significant IFRS 1 exemptions we have taken and reconciliations between our 2010 results previously prepared under Canadian GAAP and to those under IFRS. The reconciliations include the Total equity as at June 30, 2010, and Net earnings (loss) and Comprehensive income (loss), for the three and six months ended June 30, 2010. Our IFRS accounting policies are provided in note 2 to our financial statements for Q1 2011.

Future changes in accounting policies

The IASB has issued several new standards, amendments to standards, and interpretations that are not yet effective for the year ending December 31, 2011, and although early adoption is permitted, they have not been applied in preparing our interim financial statements. They are as follows:

Disclosures - Transfers of Financial Assets (Amendments to IFRS 7, Financial Instruments: Disclosures)

The amendments to IFRS 7 require increased disclosure for the transfer of financial assets, particularly where there is a disproportionate amount of transactions that take place at the end of a reporting period. The amendments to IFRS 7 come into effect for annual periods beginning on or after July 1, 2011.

IFRS 9, Financial Instruments

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

IFRS 10, Consolidated Financial Statements

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor whether an entity should be included within the consolidated financial statements of the parent company. It provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 comes into effect for annual periods beginning on or after January 1, 2013.

IFRS 12, Disclosure of Interests in Other Entities

IFRS 12 requires disclosure on all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles, and other off-balance-sheet vehicles. IFRS 12 comes into effect for annual periods beginning on or after January 1, 2013.

IFRS 13, Fair Value Measurement

IFRS 13 sets out a single framework for measuring fair value and required disclosures. It is applicable when another IFRS requires or permits fair value measurements or related disclosures, except for share-based payment transactions within the scope of IFRS 2, *Share-based Payment*¸ leasing transactions within the scope of IAS 17, *Leases,* and measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2, *Inventories,* or value in use in IAS 36, *Impairment of Assets*. IFRS 13 comes into effect for annual periods beginning on or after January 1, 2013.

Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12, Income Taxes)

The amendments to IAS 12 set out presumptions for the recovery of certain assets, and are relevant in those cases where different tax consequences can arise depending on how the carrying amounts are recovered. The amendments to IAS 12 come into effect for annual periods beginning on or after January 1, 2012.

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

REGULATORY DEVELOPMENTS

Our business is affected by decisions made by the Canadian Radio-television and Telecommunications Commission (CRTC or the Commission), pursuant to the Telecommunications Act, the Broadcasting Act and the Radiocommunication Act.

Regulatory developments in Q2 2011, up to and including July 27, 2011, which are, or may be significant to our business, include the following:

Review of usage-based billing (UBB) for wholesale Internet service

On March 28, 2011, we and Bell Canada jointly withdrew our wholesale UBB proposal and proposed instead Aggregated Volume Pricing (AVP). AVP would apply to wholesale Internet service provided in parts of Ontario and Quebec and is composed of a monthly access fee and a volume rate applied to all wholesale traffic of an Internet service provider (ISP) on an aggregate basis. AVP offers wholesale ISPs the flexibility to develop their own Internet pricing approaches, while supporting the fundamental principle that those who use less network capacity should not subsidize those that use the most. Acknowledging that we and Bell Canada withdrew our wholesale UBB proposal, Vaxination Informatique withdrew its petition to the Governor-in-Council on March 28, 2011. An oral proceeding took place during July 2011 to examine the AVP proposal, as well as alternative pricing proposals put forth by other parties. The CRTC's decision is not expected before Q4 2011.

Review of local, wireless, and toll interconnection regimes

On March 23, 2011, the CRTC initiated a broad policy review of network interconnection matters aimed at determining to what extent existing interconnection regimes can be simplified and consolidated.

On June 2, 2011, we and Bell Canada jointly submitted comments to the CRTC. We largely supported the status quo with respect to existing regimes. We also proposed that IP-to-IP interconnection be allowed to develop on the basis of commercial agreements. The CRTC will hold a public hearing on October 24, 2011, and expects to publish a decision on the issues raised in this notice within four months of the close of record on November 14, 2011. The decision could affect revenues and/or expenditures associated with network interconnection components at issue in this proceeding. However, it is not known at this time what affect the review of interconnection regimes will have on us.

Support structure rates

As discussed in our MD&A for the year ended December 31, 2010, on December 2, 2010, the CRTC approved revised attachment rates for ILECs poles to which third parties attach. In that same decision, the Commission also initiated a follow-up proceeding in which it sought comments on its preliminary view that the rate for attachments to service poles (i.e. an ILEC pole supporting a drop wire to the customer's premises) which had been provided for free, should be the same as that applicable to the ILEC's main pole. On July 4, 2011, the CRTC approved a service pole rate that is equal to our main pole rate.

On March 30, 2011, a consortium of cable companies filed a review and variance application seeking to reduce the rates established in the December decision. A ruling on this application is still outstanding.

Télébec toll interconnection rates

On February 14, 2011, MTS Allstream Inc. filed an application with the Commission seeking reductions in the toll interconnection rates charged by Télébec and TELUS Communications Company in the province of Quebec. Télébec filed its response on March 16, 2011, and provided additional information requested by the Commission on May 26, 2011. The outcome of this proceeding is not known at this time.

Updated costs for subsidy calculation purposes

On June 2, 2011, we filed an application with the Commission asking for approval of increased costs for use in determining the subsidy per residential NAS in regulated high cost serving areas across certain of our serving territories. Approval of increases to such costs would provide increased subsidy revenues and further flexibility to increase local service prices in some regulated high cost serving areas, in accordance with Telecom Regulatory Policy 2011-291, described in our MD&A for the year ended December 31, 2010.

Over–the-top (OTT) programming services

On May 25, 2011, the Commission initiated a proceeding aimed at better understanding the effect OTT programming (programming delivered via the internet) will have on the Canadian broadcasting system (Broadcasting and Telecom Notice of Consultation 2011-344). Online broadcasters, both foreign and domestic, are currently exempt from broadcasting regulation pursuant to the Commission's new media exemption order while conventional programmers and distributors continue to have regulatory obligations under the Broadcasting Act and regulations.

On July 5, 2011, we and Bell Canada jointly filed comments with the Commission, urging the Commission to initiate a proceeding to establish a more symmetrical regulatory system.

Forbearance

On June 28, 2011, we filed applications with the CRTC requesting forbearance of business local exchange service in 138 exchanges in Atlantic Canada.

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 this MD&A are based on a number of assumptions that we believe were reasonable on the day we made the forward-looking statements. A number of factors or assumptions were applied or made by us in preparing our revised 2011 guidance, as presented in the "2011 revised guidance" section, and in providing the forward-looking information referred to throughout this MD&A. The material market, operational and financial assumptions are outlined below.

Market, operational and financial assumptions

Year over year operating revenue changes across most major revenue categories will be better than those experienced in 2010 primarily due to customer migration to higher-value services and pricing actions. The revenue effects of CRTC decisions in late 2010 and early 2011 related to contribution revenues and pole attachment fees will contribute to a lower rate of revenue decline in 2011 than originally anticipated.

Competition in both business and consumer markets will continue to be intense with the cable telephony competitive footprint growing from its current level of 71 percent to reach a peak of 75 to 80 per cent over the next several years. Net NAS declines will be similar to those experienced in 2010. High-speed Internet subscriber net additions will be slightly lower than those experienced in 2010.

Wireless substitution for voice services will increase in our territories but will continue to lag other regions of Canada.

We will invest $350 million in FTTH between 2011 and 2012 to pass over 600,000 homes and businesses by the end of 2012, which should result in higher total residential ARPC and significant TV subscriber and revenue growth. Cost reductions will continue in 2011 but at a lower rate than that achieved in recent years.

Pension expense under IFRS in 2011 will be $60 to $65 million based on a discount rate of 5.3 per cent and a long-term rate of return on plan assets of 6.1 per cent, up from a comparable 2010 IFRS restated pension expense of $53 million. Pension current service cost funding will be $65 to $75 million, compared to $69 million in 2010. Required pension deficit funding will be $105 to $110 million, compared to $86 million in 2010. In addition to the $200 million lump sum pension contribution, we will contribute $25 to $50 million of regular cash pension deficit funding, which approximates expected going concern funding requirements for 2011.

Taxable income is expected to be subject to blended federal and provincial corporate income tax rates of 29 per cent in 2011, dropping to 27 per cent by 2013 with a 2011 income tax provision of approximately $135 to $145 million. The utilization of accumulated tax-loss carryforwards will result in minimal cash taxes being paid in 2011 and 2012.

Our depreciation and amortization expense for 2011 will be $625 to $640 million, including approximately $145 to $150 million of amortization of intangibles.

Dividends paid by us are expected to qualify as eligible dividends entitling Canadian resident individuals who receive them to the enhanced dividend gross-up and tax credit mechanism that will reduce the income tax otherwise payable.

2011 revised guidance

Based on the strength of YTD results and the latest expectations for the balance of the year, we have increased our financial guidance for 2011 for revenues and maintained our guidance for EBITDA, free cash flow and adjusted EPS. In addition, we have indicated that we now expect our 2011 capital expenditures to be at the high end of our original guidance range.

	2011 Guidance Issued February 2011	2011 Revised Guidance Issued July 2011
Operating revenues	$2,650 million - $2,750 million	$2,720 million - $2,780 million
EBITDA(2) before pension expense	$1,360 million - $1,400 million	unchanged
EBITDA(2) after pension expense	$1,300 million - $1,340 million	unchanged
Capital expenditures	$520 million - $560 million	unchanged
Free cash flow(2)	$525 million - $575 million(1)	unchanged
Earnings per share before purchase price allocation amortization(3)	$1.60 - $1.80	unchanged

(1) Excludes $200 million lump sum pension contribution.

(2) EBITDA and free cash flow are non-IFRS measures. Refer to the "Non-IFRS financial measures" section for more details.

(3) We estimate the purchase price allocation amortization in 2011 to approximate $90 million - $95 million, before tax, and earnings per share including the after tax effect of this amount for 2011 to approximate $1.30 - $1.50.

Risk management

We recognize that we are exposed to a number of risks in the normal course of business that could have a negative effect on our financial condition or results of operations. Refer to our MD&A for the year ended December 31, 2010, and our 2010 Annual Information Form for a list of significant risks to which we believe we are exposed. The risks noted may not be exhaustive as there may be other risks that we are currently unaware of or that we do not currently consider material to our consolidated operations.

During Q1 and Q2 2011, we have not identified significant changes to the nature of the risks that we are exposed to in our current business, as described in our MD&A for the year ended December 31, 2010, and our 2010 Annual Information Form. We have provided updates on our regulatory and competitive environments in the "Regulatory developments" and "Our competitive landscape" sections.

NON-IFRS FINANCIAL MEASURES

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

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

The above terms do not have any standardized meanings prescribed by IFRS. They are therefore unlikely to be comparable to similar measures presented by other reporting issuers. EBITDA, EBITDA margin, free cash flow and adjusted EPS of Bell Aliant Inc. are presented on a consistent basis from period to period.

EBITDA

We define EBITDA as operating revenues less operating expenses, which means it represents operating income before depreciation and amortization expense, and severance and other charges. Operating income is calculated before net finance expense and taxes are deducted.

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

For the period ended June 30	Q2		YTD	
(millions of dollars)	2011	2010	2011	2010
Net earnings	**$86.6**	$68.7	**$172.0**	$317.3
Add: Net finance expense	**43.1**	47.0	**85.3**	93.8
Distributions to holders of class B exchangeable partnership units issued by Bell Aliant LP	**-**	52.4	**-**	104.7
Loss (gain) on the re-measurement of the class B exchangeable partnership units issued by Bell Aliant LP	**-**	15	**-**	(187.7)
Other expense	**6.1**	0.8	**6.2**	3.4
Income tax expense (recovery)	**39.0**	(8.9)	**78.9**	(12.6)
Net loss from discontinued operations	**0.8**	2.3	**4.2**	17
Operating income	**$175.6**	$163.8	**$346.6**	$320.6
Add: Depreciation and amortization	**156.5**	175.8	**310.3**	346.5
Severance and other charges	**1.4**	3.4	**5.9**	14.6
EBITDA	**$333.5**	$343.0	**$662.8**	$6817

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

EBITDA allows us to compare our operating performance on a consistent basis. We believe that certain investors and analysts use this measure to assess our ability to service debt, pay dividends to shareholders and to meet other payment obligations, and as a common valuation measurement in the telecommunications industry. EBITDA should not be confused with net earnings or operating income, which are the most comparable IFRS measures.

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

Free cash flow

We define free cash flow as cash from operating activities less capital expenditures. Since our operations ultimately support dividends to Bell Aliant Inc. shareholders, free cash flow combines our cash performance with that of Bell Aliant Inc. We present free cash flow both including and excluding the lump sum pension contribution made in Q1 2011 as the contribution was exceptional and funded from proceeds of a preferred share issue of a subsidiary and not cash from operating activities.

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

For the period ended June 30	Q2		YTD	
(millions of dollars)	2011	2010	2011	2010
Cash from operating activities	**$345.7**	$306.6	**$353.3**	$457.6
Cash used in operating activities of Bell Aliant Inc.	**(1.1)**	(1.8)	**(1.1)**	(1.8)
Total cash from operating activities	**$344.6**	$304.8	**$352.2**	$455.8
Capital expenditures	**(154.0)**	(124.3)	**(273.5)**	(218.6)
Free cash flow	**$190.6**	$180.5	**$78.7**	$237.2
Lump sum pension contribution	**-**	-	**200.0**	-
Free cash flow before lump sum pension contribution	**$190.6**	$180.5	**$278.7**	$237.2

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

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

Adjusted EPS of Bell Aliant Inc.

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

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

For the period ended June 30, 2011	Q2		YTD	
(millions of dollars, except per share amounts)	amount	per share	amount	per share
Diluted earnings per share of Bell Aliant Inc.		**$0.36**		**$0.73**
Purchase price allocation amortization, net of income taxes	**$16.6**	**0.07**	**$33.3**	**0.14**
Adjusted earnings per share of Bell Aliant Inc.		**$0.43**		**$0.87**

We use adjusted EPS of Bell Aliant Inc., among other measures, to assess the contribution of our operating performance on the earnings attributable to Bell Aliant Inc. common shareholders without the after-tax effect of the purchase price allocation amortization. We exclude this item as the amortization of certain finite-life intangible assets related to customer relationships acquired in previous business combinations will largely not be replaced through future capital spending. Future costs incurred in relation to acquiring any new subscribers or retaining existing ones are captured in ongoing operating expenses. We exclude this item because it can affect the comparability of our financial results and those of Bell Aliant Inc. and could potentially distort the analysis of trends in business performance. Excluding this item does not imply it is non-recurring.

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

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

CONTROLS AND PROCEDURES

Internal control over financial reporting

No changes were made in our internal control over financial reporting during Q2 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.