



FibreOP™
changing everything

Q2

Second quarter report 2011

BellAliant

News release: Second quarter results	3
Bell Aliant Inc.	
Management's discussion and analysis	9
Income statements	15
Statements of comprehensive income (loss)	15
Statements of financial position	16
Statements of cash flows	17
Statements of changes in equity	18
Notes to the financial statements	19
Bell Aliant Regional Communications Inc.	
Management's discussion and analysis	28
Consolidated income statements	51
Consolidated statements of comprehensive income (loss)	52
Consolidated statements of financial position	53
Consolidated statements of cash flows	55
Consolidated statements of changes in equity	56
Notes to the consolidated financial statements	57

News release

Wednesday, July 27, 2011

BELL ALIANT REPORTS SECOND QUARTER 2011 RESULTS

- Revenue trajectory continues on improved track
- Internet and TV revenue growth increasingly offsets legacy declines
- Fibre-to-the-home (FTTH) network passes 294,000 homes and businesses
- Residential high-speed average revenue per customer reaches new high
- 2011 revenue guidance increased

Halifax, NS – Bell Aliant Inc. (TSX: BA) today reported financial results for the second quarter of 2011 for Bell Aliant Inc. (Bell Aliant) and Bell Aliant Regional Communications Inc. (Bell Aliant GP).

“Focused execution of our strategic priorities has resulted in our revenue trajectory continuing on an improved track,” said Karen Sheriff, president and chief executive officer, Bell Aliant. “The growth rates of our Internet and TV revenues have increased while the rates of decline in our traditional voice and data services have slowed. Our significant investment in a world-class fibre-to-the-home network is contributing to this improvement and gives us confidence that we are on the right path to returning to overall revenue growth.”

“We made major progress on our FTTH expansion plan in the second quarter,” continued Ms. Sheriff. “We added more premises to our FTTH coverage area in the second quarter of 2011 than we did in all of 2010 to now pass 294,000 homes and businesses in Atlantic Canada with this leading edge technology. With the launch of *FibreOP™ 2.0* in April, we are now providing the fastest Internet and best-in-market TV product available to customers in these markets.”

“Customer take-up of our *FibreOP* services continues to be strong as we expand the service into new areas. Considering that we still have over one-half of our announced FTTH expansion to come, I am optimistic about our prospects for Internet and TV revenue growth going forward.”

For the second consecutive quarter, Bell Aliant GP’s operating revenue decline was held to approximately 1 per cent compared to the same quarter a year earlier.

“Our revenue performance for the first half of 2011 has exceeded our expectations in a number of areas,” said Glen LeBlanc, executive vice president and chief financial officer. “We expect many of these positive trends to continue for the balance of the year, which has led us to revise our 2011 revenue guidance upward. Our FTTH expansion will be further accelerated, and with strong *FibreOP* customer additions and a high take-rate of *FibreOPTV*, we expect capital expenditures will be at the high end of our 2011 guidance range. We expect to be firmly within our original guidance ranges for EBITDA, free cash flow and adjusted earnings per share.”

SECOND QUARTER 2011 HIGHLIGHTS¹

Bell Aliant Inc. reported net earnings of \$83 million for the second quarter of 2011 with earnings per share and adjusted earnings per share in the quarter of \$0.36 and \$0.43, respectively.²

Second quarter financial highlights of Bell Aliant GP are summarized as follows:

(In millions of dollars) (unaudited)	Q2 2011	Q2 2010	Percentage Change	YTD 2011	YTD 2010	Percentage Change
Operating Revenue	693	700	(1.1)%	1,374	1,389	(1.1)%
EBITDA before pension						
current service costs	349	356	(2.0)%	694	708	(2.0)%
EBITDA	334	343	(2.8)%	663	682	(2.8)%
Capital Expenditures	154	124	23.9 %	274	219	25.1 %
Free Cash Flow	191	181	5.6 %	279*	237	17.5 %

*excludes \$200 million lump sum pension contribution

Operating revenues in the second quarter of 2011 declined \$7 million (1.1 per cent) compared to the same quarter of 2010, primarily as a result of lower local and long distance revenues from lower network access services (NAS), which were partially offset by increases in Internet and TV revenues.

Non-pension operating expenses in the second quarter of 2011 were flat compared to the same quarter of 2010, with the flow through effects of continued productivity gains offset by increased sales and marketing costs associated with the *FibreOP* rollout, other revenue driven expense growth and increases to incentive costs arising from mark to market adjustments for share-based compensation plans.

EBITDA declined \$9 million (2.8 per cent) in the second quarter of 2011 compared to the same quarter in 2010, as a result of lower revenues and a \$2 million increase in pension current service costs. EBITDA before pension current service costs declined \$7 million (2.0 per cent) in the second quarter of 2011 from the same quarter a year ago. EBITDA margin in the second quarter of 2011 was 48.2 per cent, down from 49.0 per cent in the same quarter of 2010, in line with the annual decline expected for 2011.

Capital expenditures in the second quarter of 2011 increased \$30 million (23.9 per cent) from the same quarter a year earlier, driven by the expansion of the FTTH network. Capital expenditures are expected to continue to be higher than 2010 in the coming quarters of 2011 as Bell Aliant executes its plan to pass over 600,000 homes and businesses with *FibreOP* services by the end of 2012.

Free cash flow was \$191 million in the second quarter of 2011, up \$10 million from the same quarter a year earlier. Lower regular pension deficit funding and improvements in non-cash working capital offset reductions in cash flow from higher capital expenditures and lower EBITDA.

Revenue Details

Local service and long distance revenues declined \$13 million (4.0 per cent) and \$3 million (2.7 per cent), respectively, in the second quarter of 2011 compared to the same quarter in 2010, primarily as a result of 5.0 per cent lower NAS than a year earlier. The carryover effects of pricing actions from earlier quarters slightly offset the revenue effects of NAS declines.

¹ See Notes section at the end of this release for definitions of the non-International Financial Reporting Standard (IFRS) financial metrics.

² Bell Aliant converted from an income trust to a corporate structure on January 1, 2011. Prior year net earnings and earnings per share metrics of the trust structure are not meaningful or comparable to 2011 results.

Net NAS declines were 32,000 in the second quarter of 2011, up from 24,000 in the second quarter of 2010. The increase was driven by sharp growth in the cable telephony competitive footprint in the second quarter of 2011 following four quarters of minimal competitive household growth, and competitive activity.

Bell Aliant passed an incremental 116,000 homes and businesses with FTTH in the second quarter of 2011, bringing total premises passed with *FibreOP* services at the end of June 2011 to 294,000.

Internet revenue grew by \$8 million (7.2 per cent) in the second quarter of 2011 compared to the same period in 2010. Growth in residential high-speed average revenue per customer (ARPC) continued to drive the increase in Internet revenues. Customer demand for more bandwidth and premium services, along with selected pricing action, pushed ARPC in the second quarter of 2011 up 5.2 per cent from the same quarter a year earlier, to a new high.

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 4,000 in the second quarter of 2011 were down from 8,000 in the second quarter of 2010, reflecting lower growth in high-speed Internet footprint (DSL) and continued competitive activity. As marketing focus continued to shift to fibre markets, *FibreOP* Internet customers grew by 8,000 in the quarter to reach 22,000 at the end of June 2011. The majority of the *FibreOP* net adds were customers migrating from DSL and fibre-to-the-node networks, which would not have contributed to overall high-speed customer growth, but increasingly contribute to growth in ARPC.

IPTV revenue reached \$10 million in the second quarter of 2011 with total IPTV customers of 59,000 at the end of June 2011. Overall net IPTV customer additions were 5,000 in the second quarter of 2011. *FibreOP* TV customers grew by 6,500 in the quarter to reach 20,000 at the end of June 2011.

Other data revenue declined \$4 million (4.1 per cent) in the second quarter of 2011 from the same quarter a year earlier 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.

Wireless revenues increased \$2 million (9.1 per cent) in the second quarter of 2011 from the same quarter in 2010, driven by subscriber growth of 10.2 per cent compared to the end of June 2010.

Other revenues decreased \$3 million (7.0 per cent) in the second quarter of 2011 compared to the same quarter in 2010 which included a large one-time service contract that did not recur in 2011.

Revised Guidance

Based on the strength of year-to-date results and the latest expectations for the balance of the year, Bell Aliant has increased its financial guidance for 2011 for revenues and maintained its guidance for EBITDA, free cash flow and adjusted earnings per share. In addition, Bell Aliant has indicated that it now expects its 2011 capital expenditures to be at the high end of its original guidance range.

Bell Aliant's revised 2011 financial guidance is as follows:

	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 before pension expense	\$1,360 million – \$1,400 million	unchanged
EBITDA	\$1,300 million – \$1,340 million	unchanged
Capital Expenditures	\$520 million – \$560 million	unchanged
Free Cash Flow	\$525 million – \$575 million*	unchanged
Adjusted earnings per share	\$1.60 – \$1.80	unchanged

*excludes \$200 million lump sum pension contribution

Declared Dividends

Bell Aliant's Board of Directors today declared a quarterly dividend of \$0.4750 per common share, payable on September 30, 2011 to shareholders of record at the close of business on September 15, 2011.

Bell Aliant Preferred Equity Inc. also today declared the second dividend on its Series A Preferred Shares of \$0.303125 per share to be paid on September 30, 2011 to shareholders of record as of September 15, 2011.

Unless otherwise stated, dividends paid by Bell Aliant and Bell Aliant Preferred Equity Inc. to Canadian residents are "eligible dividends" as defined by the Canadian Income Tax Act and corresponding provincial legislation.

SUPPLEMENTARY FINANCIAL INFORMATION

More information on Bell Aliant's and Bell Aliant GP's second quarter 2011 results can be found in Bell Aliant's second quarter 2011 supplementary information package and Bell Aliant's and Bell Aliant GP's second quarter 2011 Management's Discussion and Analysis (MD&A), available at www.bellaliant.ca/investors.

ANALYST CONFERENCE CALL

A conference call discussing second quarter results with the financial community was held on Wednesday, July 27, 2011. A replay of the call will be available on our website, 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 ownership in Bell Aliant GP. Bell Aliant GP's results consolidate the results of Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Télébec, Limited Partnership (Télébec), NorthernTel, Limited Partnership (NorthernTel), and Bell Aliant Preferred Equity Inc (Prefco).
- (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 Bell Aliant's supplementary information package and Bell Aliant and Bell Aliant GP's MD&As for the second quarter of 2011. Dollar values quoted in this release are rounded to the nearest million unless otherwise stated.
- (3) Definitions of non-IFRS measures:
 - a. *EBITDA*: Bell Aliant defines EBITDA as operating revenue less expenses (earnings) before interest, income taxes, depreciation and amortization expense, severance and other charges.
 - b. *EBITDA margin*: Bell Aliant defines EBITDA margin as EBITDA as a percentage of operating revenue.
 - c. *Free Cash Flow*: Bell Aliant defines free cash flow as cash generated from operating activities less capital expenditures. Free cash flow includes the operations of Bell Aliant and Bell Aliant GP on a combined basis.
 - d. *Adjusted earnings per share*: Bell Aliant defines adjusted earnings per share as fully diluted earnings per share adjusted for the after-tax per share impact of amortizing purchase price allocations (PPA) amounts, which represent the adjustments to historical cost of tangible and intangible assets acquired in business combinations.

For a reconciliation of these non-IFRS measures to the most closely comparable IFRS measures, please refer to Bell Aliant GP's MD&A for the second quarter of 2011.

FORWARD-LOOKING INFORMATION

This news release contains forward-looking statements concerning anticipated future events, results, circumstances or expectations, in particular statements concerning the revenue outlook for 2011 fibre-to-the-home expansion plans and dividend payments. Unless otherwise indicated, such forward-looking statements describe management's expectations at July 27, 2011. These statements are based on management's beliefs regarding future events, many of which, by their nature are inherently uncertain and beyond management's control. These statements are not guarantees of future performance and are subject to assumptions which may prove to be inaccurate and numerous risks and uncertainties which are difficult to predict.

Key Assumptions

Several assumptions were made in the preparation of Bell Aliant's revised 2011 financial guidance and in making forward-looking statements in this news release. For 2011, Bell Aliant expects:

Market Assumptions

- a) 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;
- b) 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;
- c) 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 per cent to reach a peak of 75-80 per cent over the next several years;
- d) Wireless substitution for voice services will increase in Bell Aliant territories but will continue to lag other regions of Canada;

Operational Assumptions

- e) Net NAS declines will be similar to those experienced in 2010;
- f) High-speed Internet subscriber net additions will be slightly lower than those experienced in 2010;
- g) Bell Aliant will invest \$350 million in fibre-to-the-home 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;
- h) Cost reductions will continue in 2011 but at a lower rate than that achieved in recent years;

Financial Assumptions

- i) Net benefit plans cost included in operating costs (pension expense) using IFRS in 2011 will be \$60 – 65 million based on a discount rate of 5.3% 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;
- j) Pension current service cost funding will be \$65 – \$75 million, compared to \$69 million in 2010. Required pension deficit funding will be \$105 – \$110 million, compared to \$86 million in 2010. In addition to the \$200 million lump sum pension contribution, Bell Aliant will contribute \$25 – \$50 million of regular cash pension deficit funding, which approximates expected going concern funding requirements for 2011;
- k) 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 – \$145 million. The utilization of accumulated tax-loss carryforwards will result in minimal cash taxes being paid in 2011 and 2012;
- l) Bell Aliant's depreciation and amortization expense for 2011 will be \$625 – \$640 million, including approximately \$145 – \$150 million of amortization of intangibles;
- m) Dividends paid by Bell Aliant 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.

Bell Aliant encourages investors to review the risk factors section below, and related disclosures, for a discussion of the various factors that could cause actual results to differ from what is currently expected.

Risk Factors

There are many factors that could cause results or events to differ materially from current expectations. The most significant factors that Bell Aliant has identified that may affect Bell Aliant's results or events in 2011 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; demand for our services; the business relationship with BCE and Bell Canada and the allocation of business opportunities; changing regulations; dependence on key suppliers; maintenance of credit rating; 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 related tax risks. For a detailed discussion of these risk factors and how they could impact our results, please refer to the "Risk management" sections of Bell Aliant Regional Communications Income Fund's and Bell Aliant Regional Communications Holdings Limited Partnership's 2010 annual MD&A, as well as the "Risk Factors" sections of Bell Aliant Inc's and Bell Aliant Regional Communication Inc's 2010 Annual Information Forms. These documents are available at www.bellaliant.ca and www.sedar.com.

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

Except as may be required by Canadian securities laws, 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. Forward-looking statements are provided for the purpose of providing information about management's current expectations and plans relating to fiscal 2011. Readers are cautioned that such information may not be appropriate for other purposes.

ABOUT BELL ALIANT

Bell Aliant (TSX: BA) 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* 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. Bell Aliant's employees deliver the highest quality of customer service, choice and convenience.

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 interim financial statements and accompanying notes for the period ended June 30, 2011 (interim financial statements), the unaudited interim consolidated financial statements and accompanying notes and MD&A of Bell Aliant Regional Communications Inc. (Bell Aliant GP) for the period ended June 30, 2011, the audited annual financial statements and MD&A of Bell Aliant Regional Communication Income Fund (the Fund) for the year ended December 31, 2010, and the audited annual financial statements and MD&A of Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP) 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 the comparative period presented therein, have been prepared in accordance with International Financial Reporting Standards (IFRS). The annual financial statements of the Fund are prepared in accordance with Canadian Generally Accepted Accounting Principles (Canadian GAAP).

On January 1, 2011, 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 GP is the successor corporation to Bell Aliant Holdings LP, our significant equity investee. Throughout this document, unless otherwise specified or the context otherwise indicates, "we", "us" and "our" refer to Bell Aliant Inc. for 2011 and to the Fund and its subsidiaries prior to January 1, 2011.

Additional information about us and Bell Aliant GP, 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 section "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 and Bell Aliant GP 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: our economic dependence on Bell Aliant GP, 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 and changing regulations; the unpredictability and volatility of our share price; and the provisions we make in respect of certain taxes which could materially change. Some of these risk factors are largely beyond our control. Refer to the "Risk management" section of this MD&A for further discussion of these and other risk factors.

Should any 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 "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 the MD&A of Bell Aliant Holdings LP for the year ended December 31, 2010, which are available at www.bellaliant.ca as well as www.sedar.com.

OUR BUSINESS

We hold an investment in Bell Aliant GP, which operates one of the largest regional communications service providers in North America.

We own all but one voting common share of Bell Aliant GP, with BCE Inc. (BCE) indirectly owning the remaining voting common share. Bell Aliant GP consolidates the financial results of Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Télébec, Limited Partnership (Télébec), NorthernTel, Limited Partnership (NorthernTel) and Bell Aliant Preferred Equity Inc. We equity account for our investment in Bell Aliant GP as we exercise significant influence over the operating, investing, and financial policies of this entity, but we do not control it. Under a securityholders' agreement, BCE has certain governance rights that give it control over Bell Aliant GP.

We are economically dependent on Bell Aliant GP to provide the cash flow we require to pay dividends to our shareholders. As we are affected by the events and transactions, financial and capital management, and risks and uncertainties of Bell Aliant GP, these factors could materially influence the dividends we receive from it, and in turn, our ability to pay dividends.

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 as there was no substantial change in ownership or control. 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. Our ownership interest in Bell Aliant GP increased from indirectly owning 82.5 per cent of Bell Aliant Holdings LP before the Conversion, to directly owning over 99.9 per cent of Bell Aliant GP upon completion of the Conversion.

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

SUMMARY OF RESULTS

The following table shows selected consolidated financial results for the most recent eight quarters. This quarterly information is unaudited and is prepared under IFRS, except where otherwise noted. The comparability of results between periods before and after January 1, 2011, is significantly affected by the Conversion.

<i>For the eight quarters ended June 30, 2011 (millions of dollars, except per share / unit amounts)</i>	2011		2010				2009 ⁽¹⁾	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Income (loss) from equity investments and other revenues	\$83.9	\$88.2	(\$1,395.3)	(\$0.5)	\$47.9	\$301.9	\$80.2	\$80.7
Net earnings (loss) from continuing operations	83.5	87.5	(1,396.2)	(1.0)	46.5	301.3	79.4	80.0
Net earnings (loss) from discontinued operations	(0.8)	(3.4)	(0.7)	0.6	-	-	(2.1)	(5.7)
Net earnings (loss)	\$82.7	\$84.1	(\$1,396.9)	(\$0.4)	\$46.5	\$301.3	\$77.3	\$74.3
Basic earnings (loss) per share / unit from continuing operations	0.37	0.38	(10.96)	(0.01)	0.37	2.37	0.63	0.63
Basic earnings (loss) per share / unit from discontinued operations	(0.01)	(0.01)	(0.01)	0.01	-	-	(0.02)	(0.05)
Basic earnings (loss) per share / unit	\$0.36	\$0.37	(\$10.97)	-	\$0.37	\$2.37	\$0.61	\$0.58
Diluted earnings (loss) per share / unit from continuing operations	0.37	0.38	(10.96)	(0.01)	0.37	0.49	0.55	0.58
Diluted earnings (loss) per share / unit from discontinued operations	(0.01)	(0.01)	(0.01)	0.01	-	-	(0.01)	(0.05)
Diluted earnings (loss) per share / unit	\$0.36	\$0.37	(\$10.97)	-	\$0.37	\$0.49	\$0.54	\$0.53
Dividends / distributions declared	\$108.2	\$108.2	\$92.4	\$92.4	\$92.3	\$92.3	\$92.3	\$92.3

⁽¹⁾ Financial results for the quarters of 2009 are presented on a Canadian GAAP basis.

Net earnings (loss)

Net earnings (loss) represents equity income from our investment in Bell Aliant GP and includes an immaterial amount of interest income earned on cash and cash equivalents, operating expenses and deferred income tax recovery. Our net earnings are dependent upon the results of operations of Bell Aliant GP. Prior to the Conversion, the Fund's income from equity investments also included the change in fair value net of distributions of the class 1 exchangeable limited partnership units issued by Bell Aliant Holdings LP. The financial performance of Bell Aliant GP for Q2 and YTD 2011 compared to the same periods in 2010, is discussed in its Q2 2011 MD&A.

Current year net earnings are not directly comparable to the same period in 2010 due to the effect of the Conversion. Net earnings from continuing operations increased \$37.0 million, or 79.6 per cent, for Q2 of 2011, compared to the same period in 2010. For YTD 2011, net earnings from continuing operations decreased \$176.8 million, or 50.8 per cent, from the same period in 2010. In 2010, Bell Aliant LP's outstanding class B exchangeable limited partnership units were classified as a financial liability, and were marked-to-market at each reporting date, with any changes in value being recognized directly in net earnings for the period. As a result, in Q2 and YTD 2010, Bell Aliant GP recognized a loss of \$1.5 million and gain of \$187.7 million, respectively. Bell Aliant GP also recognized a \$52.3 million and \$104.7 million expense related to distributions declared on these exchangeable limited partnership units, in Q2 and YTD 2010, respectively. The re-measurement and distributions did not occur in 2011, as these units were transferred to Bell Aliant GP as part of the Conversion, and are now eliminated upon consolidation of Bell Aliant LP. In addition, in Q2 and YTD 2010, the Fund recorded in income from equity investments a loss of \$0.5 million and a gain of \$73.3 million, respectively, on the re-measurement of the class 1 exchangeable limited partnership units issued by Bell Aliant Holdings LP. For the same periods in 2010, the Fund also recorded a \$20.4 million and \$40.9 million expense, respectively, related to distributions declared on these exchangeable limited partnership units. There was no similar transaction in 2011. Bell Aliant GP's higher income tax expense in 2011, resulting from

the Conversion, also reduced the net earnings (loss) from continuing operations, as compared to the same periods in 2010.

Net loss from discontinued operations for Q2 and YTD 2011, was \$0.8 million and \$4.2 million, respectively, and represented our proportionate share of the loss on Bell Aliant GP's sale of the xwave business which was completed on January 1, 2011. There were no discontinued operations in the same periods of 2010.

Dividends /distributions declared

During Q2 2011, we declared dividends of \$108.2 million, or \$0.475 per share, compared to declaring distributions totalling \$92.3 million, or \$0.725 per unit, in Q2 2010. For YTD 2011, we declared dividends of \$216.4 million, or \$0.475 per share, compared to declaring distributions totalling \$184.6 million, or \$1.4502 per unit for YTD 2010. With the Conversion, we have significantly more shares outstanding than the Fund previously had units outstanding, due to the exchange of exchangeable limited partnership units for our shares by BCE and Bell Canada. For comparison purposes, the combined distributions declared by the Fund on its units and by Bell Aliant Holdings LP and Bell Aliant LP on exchangeable limited partnership units were \$165.1 million in Q2 of 2010 and \$330.2 million on a YTD basis.

A further discussion of dividends paid by Bell Aliant GP can be found in its Q2 2011 MD&A.

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.

FINANCIAL AND CAPITAL MANAGEMENT

The following table summarizes our financial position as at June 30, 2011, as compared to December 31, 2010.

<i>(millions of dollars)</i>	As at June 30, 2011	As at December 31, 2010
Total assets	\$3,479.9	\$1,012.6
Total liabilities	0.4	30.9
Shareholders' / unitholders' equity	\$3,479.5	\$981.7

Assets and liabilities

At June 30, 2011, our total assets increased \$2,467.3 million from the balances at December 31, 2010, and mainly consisted of our investment in, and other amounts receivable from, Bell Aliant GP. The carrying value of our investments have increased by \$2,494.1 million since December 31, 2010, primarily as a result of the Conversion as our ownership interest in Bell Aliant GP has increased by 17.4 percentage points to over 99.9 per cent, or \$2,608.5 million, representing the carrying value of BCE and Bell Canada's previous interest in Bell Aliant Holdings LP, Bell Aliant LP, and all but one voting common share of Bell Aliant GP, less \$39.3 million of other Conversion related adjustments.

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 related parties and our cash and cash equivalent balance will fluctuate over time depending on our cash requirements. At June 30, 2011, these assets increased \$1.5 million from the balances at December 31, 2010. As well, distributions receivable from Bell Aliant Holdings LP decreased by \$29.6 million from December 31, 2010, due to a change in the timing of when Bell Aliant GP dividends are declared and paid in 2011.

Our liabilities consist mainly of dividends payable to our shareholders if, as, and when declared by the board of directors. At June 30, 2011, there were no declared dividends payable to our shareholders, compared to distributions payable to unitholders of \$30.8 million as at December 31, 2010, due to a change in the timing of when we declare and pay dividends.

Common shares

At June 30, 2011, there were 227,790,407 common shares outstanding. There were also 1,611,822 deferred shares issued under our deferred share plan. Only 937,088 of the deferred shares are considered dilutive, as the vesting of the remainder is subject to prescribed performance targets being met. Accordingly, there were 228,727,495 common shares outstanding on a fully diluted basis as at June 30, 2011.

At July 21, 2011, there were 227,790,407 common shares outstanding.

RELATED PARTY TRANSACTIONS

During the first six months of 2011, upon completion of the Conversion, the securityholders' agreement with BCE and Bell Canada was amended and restated to reflect the Conversion and the continuation of their governance and other rights in the new corporate structure.

Refer to note 8 of our interim financial statements for information on our related party transactions with Bell Aliant GP.

SIGNIFICANT ACCOUNTING POLICIES

International financial reporting standards (IFRS)

Our interim financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) under IAS 34, *Interim Financial Reporting*, and 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 9 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 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 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 for Q2 2011. 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 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.

IAS 28 (Revised), Investments in Associates and Joint Ventures

IAS 28 (Revised) supersedes IAS 28, *Investments in Associates*. It sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amendments come into effect for annual periods beginning on or after January 1, 2013.

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

RISK MANAGEMENT

During Q1 and Q2 of 2011, we have not identified any significant changes to the nature of the risks that we are exposed to in our business, as described in our MD&A for the year ended December 31, 2010, and our 2010 Annual Information Form.

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.

Income statements

For the period ended June 30

<i>(in millions of Canadian dollars, except earnings per share / unit) (unaudited)</i>	Notes	Three months		Six months	
		2011	2010	2011	2010
Income from equity investments	3	83.9	47.9	172.1	349.8
Operating expenses		0.6	1.4	1.6	2.0
Earnings before income tax		83.3	46.5	170.5	347.8
Deferred income tax recovery		(0.2)	-	(0.5)	-
Net earnings from continuing operations		83.5	46.5	171.0	347.8
Net loss from discontinued operations of equity investments	3	(0.8)	-	(4.2)	-
Net earnings		82.7	46.5	166.8	347.8
Earnings per share / unit	4				
Basic from continuing operations		0.37	0.37	0.75	2.73
Basic from discontinued operations		(0.01)	-	(0.02)	-
Basic		0.36	0.37	0.73	2.73
Diluted from continuing operations		0.37	0.37	0.75	1.02
Diluted from discontinued operations		(0.01)	-	(0.02)	-
Diluted		0.36	0.37	0.73	1.02

See accompanying notes to the financial statements

Statements of comprehensive income (loss)

For the period ended June 30

<i>(in millions of Canadian dollars) (unaudited)</i>	Note	Three months		Six months	
		2011	2010	2011	2010
Net earnings		82.7	46.5	166.8	347.8
Other comprehensive income (loss)	3				
Actuarial losses on defined benefit pension (DB) and other post-employment benefits (OPEB) plans		(36.4)	(157.8)	(26.2)	(302.4)
Reclassification of losses on derivatives to finance expense		0.9	1.0	1.7	1.9
		(35.5)	(156.8)	(24.5)	(300.5)
Comprehensive income (loss)		47.2	(110.3)	142.3	47.3

See accompanying notes to the financial statements

Statements of financial position

For the period ended

(in millions of Canadian dollars) (unaudited)

	Notes	June 30, 2011	December 31, 2010
Assets			
Current assets			
Cash and cash equivalents	8	5.6	5.3
Distributions receivable	8	-	29.6
Due from related parties	8	28.6	27.4
Prepayments		0.1	-
		34.3	62.3
Non-current assets			
Deferred income tax asset		1.2	-
Investments	3	3,444.4	950.3
		3,445.6	950.3
Total assets		3,479.9	1,012.6
Liabilities and shareholders' / unitholders' equity			
Current liabilities			
Payables and accruals		0.2	0.1
Distributions payable		-	30.8
		0.2	30.9
Non-current liabilities			
Other long-term liabilities		0.2	-
Shareholders' / unitholders' equity		3,479.5	981.7
Total liabilities and shareholders' / unitholders' equity		3,479.9	1,012.6

See accompanying notes to the financial statements

Statements of cash flows

For the period ended June 30

<i>(in millions of Canadian dollars) (unaudited)</i>	Notes	2011	2010
<hr/>			
Cash from (used in) operating activities			
Net earnings from continuing operations		171.0	347.8
Adjustments to reconcile net earnings to cash from operating activities			
Income from equity investments	3	(172.1)	(349.8)
Change in operating assets and liabilities		0.5	0.2
Deferred income tax recovery		(0.5)	-
		(1.1)	(1.8)
<hr/>			
Cash from (used in) financing activities			
Issuance of shares / units on exercise of deferred share/unit plan	5	0.7	3.2
Redemption of shares / units	5	-	(0.1)
Purchase of shares / units for dividend / distribution reinvestment	5	(6.9)	(8.1)
Cash distributions paid to unitholders		(29.4)	(176.5)
Cash dividends paid to shareholders		(210.9)	-
		(246.5)	(181.5)
<hr/>			
Cash from investing activities			
Cash dividends / distributions received from equity investments	3	247.9	186.9
		247.9	186.9
<hr/>			
Net increase in cash from continuing operations		0.3	3.6
Cash and cash equivalents, beginning of period		5.3	2.6
Cash and cash equivalents, end of period		5.6	6.2

See accompanying notes to the financial statements

Statements of changes in equity

For the period ended June 30, 2011

<i>(in millions of Canadian dollars) (unaudited)</i>	Notes	Issued capital	Contributed surplus	Accumulated deficit	Accumulated comprehensive loss	Other comprehensive loss	Total accumulated deficit and other comprehensive loss	Total shareholders' equity
Balance December 31, 2010	5	4,195.6	47.5	(3,238.7)	(22.7)		(3,261.4)	981.7
Conversion to a corporation	5	2,606.7	(23.0)	(16.5)	-		(16.5)	2,567.2
Net earnings		-	-	166.8	-		166.8	166.8
Dividends declared	6	-	-	(216.4)	-		(216.4)	(216.4)
Deferred share plan	5, 7	0.7	4.0	-	-		-	4.7
Other comprehensive income (loss) of equity investments		-	-	(26.2)	1.7		(24.5)	(24.5)
Balance June 30, 2011		6,803.0	28.5	(3,331.0)	(21.0)		(3,352.0)	3,479.5

For the period ended June 30, 2010

<i>(in millions of Canadian dollars) (unaudited)</i>	Notes	Issued capital	Contributed surplus	Accumulated deficit	Accumulated comprehensive loss	Other comprehensive loss	Total accumulated deficit and other comprehensive loss	Total unitholders' equity
Balance January 1, 2010	5, 9	4,192.2	45.7	(1,605.7)	(27.0)		(1,632.7)	2,605.2
Net earnings		-	-	347.8	-		347.8	347.8
Distributions declared	6	-	-	(184.6)	-		(184.6)	(184.6)
Redemption of units	5	(0.1)	-	-	-		-	(0.1)
Deferred unit plan	5, 7	3.2	(3.8)	-	-		-	(0.6)
Other comprehensive income (loss) of equity investments		-	-	(302.4)	1.9		(300.5)	(300.5)
Balance June 30, 2010		4,195.3	41.9	(1,744.9)	(25.1)		(1,770.0)	2,467.2

See accompanying notes to the financial statements

Notes to Financial Statements

These notes are unaudited.

All amounts are in millions of Canadian dollars, except where noted.

1. DESCRIPTION OF BUSINESS

Bell Aliant Inc. (previously 7538502 Canada Inc.) was incorporated on April 30, 2010, under the laws of Canada to facilitate the conversion of Bell Aliant Regional Communications Income Fund (the Fund) from an income trust structure into a corporate structure (the Conversion). As of December 31, 2010, Bell Aliant Inc. had not carried on any active business. The Conversion is described in note 1 to the unaudited interim financial statements of Bell Aliant Inc. for the period ended March 31, 2011.

On January 1, 2011, as a result of the Conversion, BCE Inc. (BCE) and Bell Canada owned 43.88 per cent of the common shares of Bell Aliant Inc. on a fully diluted basis and one common share of Bell Aliant Regional Communications Inc. (Bell Aliant GP), with the remaining common shares of Bell Aliant GP owned by Bell Aliant Inc. Under the terms of the amended securityholders' agreement, BCE and Bell Canada continue to control Bell Aliant GP. Bell Aliant Inc. exercises significant influence over the operating, investing and financial policies of Bell Aliant GP, but does not control it. As a result, Bell Aliant Inc. equity accounts for its investment in Bell Aliant GP. Bell Aliant GP consolidates its operating subsidiaries. These unaudited interim financial statements should be read in conjunction with the unaudited consolidated interim financial statements of Bell Aliant GP as at June 30, 2011.

As the original unitholders of the Fund and Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP) have an interest in essentially the same underlying assets and liabilities, but through different legal structures of Bell Aliant Inc. and Bell Aliant GP, the Conversion has been accounted for on a continuity of interests basis. Accordingly, the financial statements of Bell Aliant Inc. reflect the financial position, results of operations and cash flows as if it had always carried on the business of the Fund. Comparative amounts in these financial statements are those of the Fund and they are presented on a consolidated basis.

All references to "we", "us" or "our" refer to Bell Aliant Inc. for 2011 and to the Fund and its subsidiaries for prior periods.

We hold an investment in entities whose operations are primarily focused on the provision of regional telecommunications services in Atlantic Canada, Ontario and Quebec. We are incorporated and domiciled in Canada. The address of our registered office is 1505 Barrington Street, Halifax, Nova Scotia, B3J 2W3. These interim financial statements were approved and authorized for issue by the board of directors on July 27, 2011. The consolidated financial statements of the Fund for the year ended December 31, 2010, prepared using Canadian generally accepted accounting principles (GAAP), were approved by the board of directors and authorized for issue on March 9, 2011.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These unaudited interim financial statements (interim financial statements) were prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), and interpretations of the IFRS Interpretations Committee, under International Accounting Standard (IAS) 34, *Interim Financial Reporting* and IFRS 1, *First-time Adoption of International Financial Reporting Standards*. They are prepared in accordance with the accounting policies we expect to adopt in our financial statements for the year ending December 31, 2011, which are described in note 1 to our interim financial statements for the three months ended March 31, 2011. They do not include all of the disclosure information required for full annual financial statements. These interim financial statements should be read in conjunction with our unaudited interim financial statements for the three months ended March 31, 2011.

In 2010, our annual and interim financial statements were prepared in accordance with Canadian GAAP. The effect of the transition from Canadian GAAP to IFRS is explained in note 9.

Functional currency

These interim financial statements are presented in our functional currency, Canadian dollars.

New accounting standards not yet adopted

The IASB has issued several new standards, amendments to standards, and interpretations that are not effective for the year ending December 31, 2011, and although early adoption is permitted, they have not been applied in preparing these 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 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.

IAS 28 (Revised), Investments in Associates and Joint Ventures

IAS 28 (Revised) supersedes IAS 28, *Investments in Joint Ventures*. It sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amendments come into effect for annual periods beginning on or after January 1, 2013.

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

3. INVESTMENTS

For the six months ended June 30	2011	2010
Investments, beginning of period	950.3	2,577.1
Income from equity investments	172.1	349.8
Net loss from discontinued operations of equity investments	(4.2)	-
Other comprehensive loss	(24.5)	(300.5)
Dividends / distributions declared	(218.3)	(187.0)
Common shares issued in exchange for class B exchangeable limited partnership units of Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), class 1 exchangeable limited partnership units of Bell Aliant Holdings LP, special voting units of the Fund and all but one of BCE and Bell Canada's voting common shares of Bell Aliant Holdings GP (note 5)	2,608.5	-
Share issue costs recognized by Bell Aliant GP	(1.5)	-
Reduction in deferred income tax assets recorded by Bell Aliant GP in relation to the Conversion	(21.5)	-
De-recognition of the notional deferred tax recovery in relation to the Conversion	(16.5)	-
Investments, end of period	3,444.4	2,439.4

For the six months ended June 30, 2010, income from equity investments comprised the net earnings of Bell Aliant Holdings LP for the same period of \$317.3 million, as well as increase to the income from equity investment of \$73.3 million related to changes in fair value of the class 1 units of Bell Aliant Holdings LP, and decrease to the income from equity investments of \$40.9 million related to distributions to holders of class 1 units issued by Bell Aliant Holdings LP. Refer to note 9 for further details.

Dividends / distributions received for the six months ended June 30, 2011, were \$247.9 million (six months ended June 30, 2010 – \$186.9 million).

Other comprehensive loss relates to Bell Aliant GP's actuarial losses on defined benefit pension and other post-employment employee benefit plans and adjustments in connection with asset limitations, as well as the reclassification to Bell Aliant GP's net earnings of amortization of losses on forward fixed-floating interest rate swaps that were settled in 2007.

4. EARNINGS PER SHARE / UNIT

For the period ended June 30	Three months		Six months	
	2011	2010	2011	2010
Basic:				
Net earnings from continuing operations	83.5	46.5	171.0	347.8
Net loss from discontinued operations	(0.8)	-	(4.2)	-
Net earnings	82.7	46.5	166.8	347.8
Weighted average number of shares / units outstanding	227,789,063	127,360,297	227,782,442	127,315,866
Basic earnings per share / unit from continuing operations	0.37	0.37	0.75	2.73
Basic earnings per share / unit from discontinued operations	(0.01)	-	(0.02)	-
Basic earnings per share / unit	0.36	0.37	0.73	2.73
Diluted:				
Net earnings from continuing operations	83.5	46.5	171.0	347.8
Distributions declared to holders of class 1 exchangeable partnership units issued by Bell Aliant Holdings LP	-	20.4	-	40.9
Increase (decrease) in value of class 1 exchangeable partnership units issued by Bell Aliant Holdings LP	-	0.5	-	(73.3)
Distributions declared to holders of class B exchangeable partnership units issued by Bell Aliant LP	-	52.4	-	104.7
Increase (decrease) in value of class B exchangeable partnership units issued by Bell Aliant LP	-	1.5	-	(187.7)
	83.5	121.3	171.0	232.4
Net loss from discontinued operations	(0.8)	-	(4.2)	-
Diluted net earnings	82.7	121.3	166.8	232.4
Weighted average number of shares / units outstanding	227,789,063	127,360,297	227,782,442	127,315,866
Add exchangeable limited partnership units:				
Class 1 exchangeable limited partnership units of Bell Aliant Holdings LP	-	28,168,803	-	28,168,803
Class B exchangeable limited partnership units of Bell Aliant LP	-	72,205,024	-	72,205,024
Deferred shares / units under share-based compensation plan (note 7)	937,088	649,573	937,088	649,573
	228,726,151	228,383,697	228,719,530	228,339,266
Diluted earnings per share / unit from continuing operations	0.37	0.37	0.75	1.02
Diluted earnings per share / unit from discontinued operations	(0.01)	-	(0.02)	-
Diluted earnings per share / unit	0.36	0.37	0.73	1.02

For the three months ended June 30, 2010, the exchangeable limited partnership units were anti-dilutive.

5. SHAREHOLDERS' CAPITAL

Authorized

Our shareholders' capital is authorized to include an unlimited number of common shares and preferred shares, which are issuable in series.

Issued and outstanding

	As at June 30, 2011		As at December 31, 2010	
	Number of shares	Issued capital	Number of units	Issued capital
Common shares	227,790,407	6,803.0	-	-
Units	-	-	127,394,907	4,195.6
Special voting units	-	-	100,373,827	-
	227,790,407	6,803.0		4,195.6

There were no preferred shares issued and outstanding at June 30, 2011.

Conversion to a corporation

On January 1, 2011, as part of the Conversion, BCE and Bell Canada exchanged 100 per cent, or 72,205,024, class B exchangeable limited partnership units issued by Bell Aliant LP, 100 per cent, or 28,168,803, class 1 exchangeable limited partnership units issued by Bell Aliant Holdings LP, 100 per cent, or 100,373,827, special voting units issued by the Fund, and all but one of the voting common shares of Bell Aliant Regional Communications Holdings Inc. (Bell Aliant Holdings GP) that they held for 100,373,827 Bell Aliant Inc. common shares. Fund unitholders exchanged 100 per cent, or 127,394,907 units, for Bell Aliant Inc. common shares. Bell Aliant Inc. became the successor company of the Fund. The Conversion is further described in note 5 to our unaudited interim financial statements for the period ended March 31, 2011.

Common shares

	Number of shares	Issued capital
Effect of the Conversion:		
Common shares issued in exchange for class B exchangeable limited partnership units of Bell Aliant LP, class 1 exchangeable limited partnership units of Bell Aliant Holdings LP, special voting units of the Fund and all but one of BCE and Bell Canada's voting common shares of Bell Aliant Holdings GP (note 3)	100,373,827	2,608.5
Common shares issued in exchange for issued and outstanding Fund units	127,394,907	4,195.6
Share issue costs related to the Conversion, net of tax	-	(1.8)
Shares issued on exercise under deferred share plan, net of withholding tax (note 7)	21,686	0.7
Fractional share adjustments	(13)	-
Common shares outstanding as at June 30, 2011	227,790,407	6,803.0

Units

On January 1, 2011, 127,394,907 Fund units, representing 100 per cent of the Fund units outstanding at December 31, 2010, were exchanged for our common shares at their carrying value of \$4,195.6 million, and then cancelled.

	Number of units	Issued capital
Units outstanding, December 31, 2009	127,264,016	4,192.2
Deferred unit plan units exercised (note 7)	122,030	3.2
Redemption of units	(1,115)	(0.1)
Fractional unit adjustment	(8)	-
Units outstanding, June 30, 2010	127,384,923	4,195.3

Dividend reinvestment and optional share purchase plan

For the six months ended June 30, 2011, we bought 269,031 common shares (six months ended June 30, 2010 – 338,090 Fund units) on the open market for shareholders participating in the dividend reinvestment and optional share purchase plan. This was in lieu of paying \$5.5 million in cash dividends and \$1.4 million in cash distributions (six months ended June 30, 2010 – \$8.1 million in cash distributions) and, in respect of the optional share purchase plan, cash payments received of \$0.5 million (six months ended June 30, 2010 – \$0.7 million).

6. DIVIDENDS / DISTRIBUTIONS DECLARED

Subject to Board approval, we pay quarterly dividends based on dividends received from Bell Aliant GP, less normal operating expenses, in respect of the relevant period. Shareholders can elect to receive additional shares in lieu of receiving cash dividends, as discussed in note 5. For the six months ended June 30, 2011, we declared and paid two quarterly dividends of \$0.475 per share, for a total of \$0.95 per share, or \$216.4 million.

For the six months ended June 30, 2010, we declared six monthly distributions to unitholders of \$0.2417 per unit each, for a total of \$1.4502 per unit, or \$184.6 million.

7. SHARE-BASED COMPENSATION PLANS

Employee stock savings plans

The total number of our common shares bought on the open market for our employee stock savings plans for the three and six months ended June 30, 2011, was 407,642 and 941,297, respectively (Fund units bought for the three and six months ended June 30, 2010, was 492,728 and 1,029,938, respectively). Compensation expense related to the employee stock savings plans of \$2.4 million and \$4.8 million was recorded by Bell Aliant GP for the three and six months ended June 30, 2011, respectively (three and six months ended June 30, 2010 – \$2.3 million and \$4.5 million, respectively).

Deferred share plan

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

For the period ended June 30	2011	2010
Deferred shares / units outstanding, beginning of period	1,380,568	1,293,699
Granted:		
June 2010 – Service period fiscal 2010 to 2012	-	369,784
January 2011 – Service period fiscal 2011 to 2013	321,949	-
Reinvested dividends / distributions during the period	64,113	55,490
	386,062	425,274
Forfeited	(85,695)	(248,387)
Exercised	(69,113)	(122,030)
Deferred shares / units outstanding, end of period	1,611,822	1,348,556
Deferred shares / units vested, end of period	937,088	649,573

The fair value of the 386,062 deferred shares granted or credited on reinvestment of notional distributions and dividends for the six months ended June 30, 2011 (six months ended June 30, 2010 – 425,274 deferred units granted or credited) was \$10.3 million, or \$26.63 per deferred share (six months ended June 30, 2010 – \$11.0 million, or \$25.87 per deferred unit).

As the deferred shares may be settled with our common shares when exercised, for the six months ended June 30, 2011, we have recorded in contributed surplus the equivalent of the compensation expense increase (reduction) that was recorded by Bell Aliant GP of \$5.9 million (six months ended June 30, 2010 – \$(0.6) million). This amount reflects the grant value of the deferred shares/ units, recognized over the vesting

period, and the change in the quoted market price of our common shares / units between the grant date and the reporting period date.

Of the 69,113 deferred shares exercised during the six months ended June 30, 2011, we issued 21,686 common shares from treasury, as discussed in note 5, and the remainder were settled in cash by Bell Aliant GP, net of amounts withheld for income taxes (six months ended June 30, 2010, - 122,030 Fund units issued from treasury and none cash settled). The 21,686 common shares (six months ended June 30, 2010 - 122,030 units) we issued out of treasury had an average market value of \$26.67 per share (six months ended June 30, 2010 - \$25.98 per unit). When exercised, the corresponding value of \$1.0 million (six months ended June 30, 2010 - \$3.2 million) was reclassified from contributed surplus to issued capital (note 5).

Directors' Deferred Share Unit Plan

On January 1, 2011, we adopted a Directors' Deferred Share Unit Plan (DDSUP). The DDSUP is a cash-settled plan for our eligible directors who are not employees of Bell Aliant Inc., its subsidiaries, BCE or Bell Canada, under which a portion of annual directors' fees will be credited in notional share units. The directors may elect to receive 25 per cent, 50 per cent, 75 per cent or 100 per cent of their annual directors' fees in the form of deferred share units under the DDSUP. There are no vesting criteria for the grants and the deferred share units vest immediately. Directors are only eligible to redeem the deferred share units upon termination of their duties as directors of Bell Aliant Inc. The redemption payment amount is equal to the value of the deferred share units calculated as the average closing price of our common shares traded on the TSX for the last five days preceding the redemption date.

For the six months ended June 30, 2011, we granted 7,532 deferred share units and 61 deferred share units were credited on reinvestment of notional dividends. The fair value of the 7,593 deferred share units granted and credited for the six months ended June 30, 2011, was \$0.2 million, or \$27.53 per deferred share unit. There were no deferred share units redeemed for the period ended June 30, 2011.

We recognized an immaterial amount of expense related to the DDSUP for the three and six months ended June 30, 2011.

8. RELATED PARTY TRANSACTIONS

Bell Aliant GP

We receive dividends from Bell Aliant GP, as discussed in note 3, which allow us to make our dividend payments, as discussed in note 6. There were no dividends receivable at June 30, 2011 (December 31, 2010 - \$29.6 million distributions receivable).

At June 30, 2011, \$28.6 million was due from Bell Aliant LP and its subsidiaries (December 31, 2010 - \$27.4 million), which relates to the net of our operating expenses payable as well as amounts receivable from the deferred share plan, as discussed in note 7.

We loan our excess cash to Bell Aliant LP through a series of promissory notes, and request repayments as required for operating purposes. The \$5.3 million promissory note that was receivable from Bell Aliant LP at December 31, 2010, was repaid on January 31, 2011. Subsequently issued promissory notes carried a rate of interest of 1.30 per cent per annum, resulting in an immaterial amount of interest revenue being earned during the three and six months ended June 30, 2011 and 2010. At June 30, 2011, a \$5.6 million promissory note was receivable from Bell Aliant LP, bearing interest at 1.30 per cent per annum and maturing on July 29, 2011.

There is minimal credit risk associated with balances receivable from related parties at June 30, 2011.

9. TRANSITION TO IFRS

Impact of transition to IFRS

First time adoption of IFRS

The significant optional exemptions and mandatory exceptions we applied upon adoption are summarized in note 11 to our unaudited interim financial statements for the period ended March 31, 2011.

Reconciliation of Canadian GAAP to IFRS

The reconciliations below highlight the key accounting differences between Canadian GAAP and IFRS and their effect on our financial results for the three and six months ended June 30, 2010. The key accounting differences at the date of transition, January 1, 2010, are presented in the reconciliations in note 11 to our unaudited interim financial statements for the period ended March 31, 2011.

Reconciliation of equity

	Note	At June 30, 2010
Total equity under Canadian GAAP		4,072.2
Investments	A	(1,605.0)
Total equity under IFRS		2,467.2

Reconciliation of net earnings (loss) and comprehensive income (loss)

For the period ended June 30, 2010	Note	Three months	Six months
Net earnings (loss) under Canadian GAAP		71.9	135.1
Income from equity investments	A	(25.4)	212.7
Net earnings (loss) under IFRS		46.5	347.8

For the period ended June 30, 2010	Note	Three months	Six months
Comprehensive income (loss) under Canadian GAAP		72.7	136.7
Change in net earnings (loss)		(25.4)	212.7
Other comprehensive loss	A	(157.6)	(302.1)
Comprehensive income (loss) under IFRS		(110.3)	47.3

(A) Income from equity investments

Under Canadian GAAP, the class 1 units of Bell Aliant Holdings LP, held by BCE and Bell Canada, were considered to be equity instruments and included in non-controlling interest of Bell Aliant Holdings LP. As such, we equity accounted for our 82.46 per cent investment in Bell Aliant Holdings LP. The original terms and conditions of the exchange and liquidity rights issued in connection with the class 1 units allowed for the class 1 units to be exchanged for Fund units or cash at the option of the holder, and are therefore considered to be our financial liability under IFRS for 2010 and prior periods. As a result of this change in presentation, we equity accounted for 100 per cent of the net assets and net earnings (loss) of Bell Aliant Holdings LP.

Income from equity investments was reduced by \$4.5 million and increased by \$180.3 million for the three and six months ended June 30, 2010, respectively. As well, other comprehensive loss of \$157.6 million and \$302.1 million for the three and six months ended June 30, 2010, respectively, was recorded. The adjustments reflect the increase in the per cent equity investment as well as the IFRS adjustments to net earnings and other comprehensive loss of Bell Aliant Holdings LP in the period. For a complete description of the differences and adjustments to the net assets and net earnings (loss) recognized by Bell Aliant GP for the three and six months ended June 30, 2010, refer to note 22 of Bell Aliant GP's unaudited interim consolidated financial statements for the period ended June 30, 2011.

Changes in the fair value of the class 1 units were recorded in income from equity investments and amounted to \$(0.5) million and \$73.3 million for the three and six months ended June 30, 2010, respectively. As the class 1 units were intended to be, to the greatest extent practicable, the economic equivalents of the

Fund units, the fair value of the class 1 units was established based on the quoted market price of the Fund units at the reporting period date.

Distributions declared by Bell Aliant Holdings LP on the class 1 units in the amount of \$20.4 million and \$40.9 million for the three and six months ended June 30, 2010, respectively, were recognized as a decrease to income from equity investments.

As a result of the net effect of the transition to IFRS at January 1, 2010, the key accounting differences between IFRS and Canadian GAAP during the six months ended June 30, 2010, and the increase in the per cent equity investment, the total equity reported at June 30, 2010, related to investments decreased by \$1,605.0 million, compared to equity reported under Canadian GAAP.

10. SUBSEQUENT EVENTS

On July 27, 2011, we declared a quarterly dividend of \$0.4750 per common share, totaling \$108.2 million, which is payable on September 30, 2011.

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

<i>For the period ended June 30</i> <i>(millions of dollars, except as otherwise noted)</i>	Q2			YTD		
	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.

<i>For the period ended June 30</i> <i>(millions of dollars, except per share amounts)</i>	Q2			YTD		
	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 Québec 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

<i>For the period ended June 30</i> <i>(millions of dollars)</i>	Q2			YTD		
	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			YTD		
	2011	2010	% change	2011	2010	% 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		2010				2009 ⁽²⁾	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	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

<i>For the six month period ended June 30</i> <i>(millions of dollars)</i>	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:

<i>(millions of dollars, except as otherwise noted)</i>	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.

<i>For the period ended June 30</i> <i>(millions of dollars)</i>	Q2		YTD	
	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	-	1.5	-	(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	1.7
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	\$681.7

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

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

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

Free cash flow

We define free cash flow as cash from operating activities less capital expenditures. Since our operations ultimately support dividends to Bell Aliant Inc. shareholders, free cash flow combines our cash performance with that of Bell Aliant Inc. We present free cash flow both including and excluding the lump sum pension contribution made in 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.

<i>For the period ended June 30</i> <i>(millions of dollars)</i>	Q2		YTD	
	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.

<i>For the period ended June 30, 2011</i> <i>(millions of dollars, except per share amounts)</i>	Q2		YTD	
	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.

Consolidated income statements

For the period ended June 30

(in millions of Canadian dollars, per share / unit amounts)
(unaudited)

	Notes	Three months		Six months	
		2011	2010	2011	2010
Operating revenues	3	692.6	700.1	1,374.2	1,388.8
Expenses					
Operating expenses	4	359.1	357.1	711.4	707.1
Depreciation and amortization		156.5	175.8	310.3	346.5
Severance and other charges	6	1.4	3.4	5.9	14.6
Operating income		175.6	163.8	346.6	320.6
Finance expense	7	88.2	87.1	175.5	173.8
Finance income	7	(45.1)	(40.1)	(90.2)	(80.0)
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	22	-	52.4	-	104.7
Increase (decrease) in value of class B exchangeable partnership units issued by Bell Aliant LP	22	-	1.5	-	(187.7)
Other expense	8	6.1	0.8	6.2	3.4
Earnings before income tax		126.4	62.1	255.1	306.4
Current income tax expense (recovery)		0.3	-	(1.1)	-
Deferred income tax expense (recovery)		38.7	(8.9)	80.0	(12.6)
Income tax expense (recovery)		39.0	(8.9)	78.9	(12.6)
Net earnings from continuing operations		87.4	71.0	176.2	319.0
Net loss from discontinued operations	9	(0.8)	(2.3)	(4.2)	(1.7)
Net earnings		86.6	68.7	172.0	317.3
Net earnings attributable to:					
Common shareholders/unitholders		83.1	68.7	167.9	317.3
Non-controlling interest	15	3.5	-	4.1	-
Preferred shares issued by a subsidiary					
		86.6	68.7	172.0	317.3
Earnings per share / unit:	10				
Basic from continuing operations		0.83	0.44	1.70	1.99
Basic from discontinued operations		(0.01)	(0.01)	(0.04)	(0.01)
Basic		0.82	0.43	1.66	1.98
Diluted from continuing operations		0.83	0.44	1.70	1.01
Diluted from discontinued operations		(0.01)	(0.01)	(0.04)	(0.01)
Diluted		0.82	0.43	1.66	1.00

See accompanying notes to the financial statements

Consolidated statements of comprehensive income (loss)

For the period ended June 30		Three months		Six months	
<i>(in millions of Canadian dollars) (unaudited)</i>		2011	2010	2011	2010
	Notes				
Net earnings		86.6	68.7	172.0	317.3
Other comprehensive loss, net of income taxes	11	(35.5)	(156.8)	(24.5)	(300.5)
Comprehensive income (loss)		51.1	(88.1)	147.5	16.8
Comprehensive income (loss) attributable to:					
Common shareholders/unitholders		47.6	(88.1)	143.4	16.8
Non-controlling interest					
Preferred shares issued by a subsidiary		3.5	-	4.1	-
		51.1	(88.1)	147.5	16.8

See accompanying notes to the financial statements

Consolidated statements of financial position

For the period ended			June 30, 2011	December 31, 2010
<i>(in millions of Canadian dollars) (unaudited)</i>		Notes		
Current assets				
Cash and cash equivalents			12.6	65.4
Trade and other receivables			413.9	383.8
Notes receivable from related parties	21		-	145.6
Inventory			14.4	18.0
Prepayments			34.7	16.0
Income tax receivable			22.6	25.0
			498.2	653.8
Assets classified as held for sale			-	107.1
			498.2	760.9
Non-current assets				
Long-term receivables			18.8	20.4
Deferred charges			13.6	14.4
Deferred income tax assets	22		51.3	145.4
Property, plant and equipment			3,381.1	3,359.5
Finite-life intangible assets			1,148.2	1,185.0
Goodwill and indefinite-life intangible assets	13		2,885.2	2,894.1
			7,498.2	7,618.8
Total assets			7,996.4	8,379.7

See accompanying notes to the financial statements

Consolidated statements of financial position

For the period ended

(in millions of Canadian dollars) (unaudited)

	Notes	June 30, 2011	December 31, 2010
Current liabilities			
Notes payable to related parties	21	5.6	48.7
Trade and other payables		355.8	333.5
Severance and other charges liability	6	5.9	14.1
Distributions payable	21	-	199.4
Short-term debt	16	261.0	377.2
Long-term debt due within one year	16	135.6	427.4
		763.9	1,400.3
Liabilities directly associated with assets classified as held for sale		-	44.2
		763.9	1,444.5
Non-current liabilities			
Long-term debt	16	2,658.2	2,360.9
Class B exchangeable partnership units issued by Bell Aliant LP	14, 22	-	1,876.6
Post-employment benefits	5	813.1	998.7
Deferred credits and other long-term liabilities		36.9	33.0
		3,508.2	5,269.2
Total liabilities		4,272.1	6,713.7
Equity attributable to shareholders/unitholders			
Share capital/partners' capital	14	3,651.6	2,061.5
Contributed surplus		263.9	0.4
Accumulated total comprehensive loss		(471.7)	(395.9)
Total equity attributable to shareholders/unitholders		3,443.8	1,666.0
Non-controlling interest			
Preferred shares issued by a subsidiary	15	280.5	-
Total equity		3,724.3	1,666.0
Total equity and liabilities		7,996.4	8,379.7

See accompanying notes to the financial statements

Consolidated statements of cash flows

For the period ended June 30

(in millions of Canadian dollars) (unaudited)

	Notes	2011	2010
Cash from (used in) operating activities			
Net earnings from continuing operations		176.2	319.0
Adjustments to reconcile net earnings to cash from operating activities:			
Depreciation and amortization		310.3	346.5
Deferred income tax expense (recovery)		80.0	(12.6)
Current service costs of post-employment benefit plans	4, 5	31.1	26.3
Net finance expense	7	85.3	93.8
Funding of post-employment benefit plans	5	(253.0)	(66.2)
Distributions to class B exchangeable partnership unit holders	22	-	104.7
Decrease in value of class B exchangeable partnership units	22	-	(187.7)
Loss on disposal of property, plant and equipment	8	1.7	2.7
Interest paid		(80.2)	(76.5)
Interest received		0.8	0.8
Income taxes paid, net		(0.6)	(4.1)
Other		1.0	(6.0)
Operating cash flows before change in operating assets and liabilities		352.6	540.7
Change in operating assets and liabilities	19	0.7	(83.1)
		353.3	457.6
Cash from (used in) investing activities			
Purchase of property, plant and equipment and finite-life intangible assets		(273.5)	(218.6)
Other investing activities		3.0	-
		(270.5)	(218.6)
Cash from (used in) financing activities			
Net proceeds (repayments) on notes payable to related parties	21	(43.1)	3.6
Net proceeds (repayments) on short-term debt	16	(116.2)	85.6
Repayment of long-term debt	16	(307.5)	(1.3)
Proceeds on long-term debt	16	300.0	-
Debt issue costs	16	(3.8)	-
Repayment of capital lease obligations		(11.1)	(8.6)
Issuance of preferred shares by a subsidiary	15	287.5	-
Commissions and preferred share issue costs, before taxes	15	(9.7)	-
Dividends paid to shareholders	14	(218.3)	-
Dividends paid to preferred shareholders	15	(4.1)	-
Distributions paid to unitholders		(36.5)	(227.7)
Distributions paid to class B exchangeable partnership unit holders		(17.4)	(104.7)
		(180.2)	(253.1)
Decrease in cash from continuing operations		(97.4)	(14.1)
Increase (decrease) in cash from discontinued operations	9	44.6	(0.9)
Cash and cash equivalents, beginning of period		65.4	27.1
Cash and cash equivalents, end of period		12.6	12.1
Supplementary disclosure			
Cash		11.9	6.1
Cash equivalents		0.7	6.0
		12.6	12.1

See accompanying notes to the financial statements

Consolidated statements of changes in equity

For the period ended June 30, 2011

(in millions of Canadian dollars) (unaudited)

	Attributable to shareholders/unitholders				Non-controlling interest			
	Notes	Share capital	Partners' capital	Contributed surplus	Accumulated other comprehensive loss	Accumulated total comprehensive loss	Preferred shares issued by a subsidiary	Total equity
Balance December 31, 2010		-	2,061.5	0.4	(395.9)	1,666.0	-	1,666.0
Conversion to corporation	14	3,651.6	(2,061.5)	263.5	(0.9)	1,852.7	-	1,852.7
Net earnings		-	-	167.9	-	167.9	4.1	172.0
Issuance of preferred shares by a subsidiary	15	-	-	-	-	-	280.5	280.5
Dividends declared on:								
Common shares	14, 21	-	-	-	(218.3)	(218.3)	-	(218.3)
Preferred shares	15	-	-	-	-	-	(4.1)	(4.1)
Other comprehensive income (loss)	11	-	-	(26.2)	1.7	(24.5)	-	(24.5)
Balance June 30, 2011		3,651.6	-	263.9	(471.7)	3,443.8	280.5	3,724.3

For the period ended June 30, 2010

(in millions of Canadian dollars) (unaudited)

	Attributable to unitholders				Total equity		
	Notes	Partners' capital	Contributed surplus	Accumulated earnings	Accumulated other comprehensive loss	Accumulated total comprehensive income	Total equity
Balance January 1, 2010		2,061.5	0.4	1,332.3	(27.0)	1,305.3	3,367.2
Net earnings		-	-	317.3	-	317.3	317.3
Distributions declared on:							
Class 1 exchangeable limited partnership units	14	-	-	(40.9)	-	(40.9)	(40.9)
Class 2 limited partnership units	14, 21	-	-	(187.0)	-	(187.0)	(187.0)
Other comprehensive income (loss)	11	-	-	(302.4)	1.9	(300.5)	(300.5)
Balance June 30, 2010		2,061.5	0.4	1,119.3	(25.1)	1,094.2	3,156.1

See accompanying notes to the financial statements

Notes to Consolidated Financial Statements

These notes are unaudited.

All amounts are in millions of Canadian dollars, except where noted.

1. DESCRIPTION OF BUSINESS

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). The Conversion is described in note 1 to the unaudited interim consolidated financial statements of Bell Aliant Regional Communications Inc. (Bell Aliant GP) for the three months ended March 31, 2011.

On January 1, 2011, as a result of the Conversion, BCE Inc. (BCE) and Bell Canada owned 43.88 per cent of Bell Aliant Inc.'s common shares on a fully diluted basis and one common share of Bell Aliant GP, with the remaining common shares of Bell Aliant GP owned by Bell Aliant Inc. Under the terms of the amended securityholders' agreement, BCE and Bell Canada continue to control Bell Aliant GP. Bell Aliant Inc. exercises significant influence over operating, investing and financial policies of Bell Aliant GP, but does not control it.

As the original unitholders of the Fund and Bell Aliant Holdings LP have an interest in essentially the same underlying assets and liabilities, but through different legal structures of Bell Aliant Inc. and Bell Aliant GP, the Conversion has been accounted for on a continuity of interest basis. Accordingly, the consolidated financial statements of Bell Aliant GP reflect the financial position, results of operations and cash flows as if it had always carried on the business of Bell Aliant Holdings LP. Comparative amounts in these financial statements are those of Bell Aliant Holdings LP.

All references to "we", "us" or "our" refer to Bell Aliant GP and its subsidiaries for 2011 and to Bell Aliant Holdings LP and its subsidiaries for prior periods.

Bell Aliant GP is incorporated under the provisions of the Canada Business Corporations Act. Our operations are principally focused on regional telecommunications services in Atlantic Canada, Ontario and Quebec. We are incorporated and domiciled in Canada. The address of our registered office is 1505 Barrington Street, Halifax, Nova Scotia, B3J 2W3. These unaudited consolidated interim financial statements were approved and authorized for issue by the board of directors on July 27, 2011. The consolidated financial statements of Bell Aliant Holdings LP for the year ended December 31, 2010, prepared using Canadian generally accepted accounting principles (GAAP), were approved by the board of directors and authorized for issue on March 9, 2011.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These unaudited consolidated interim financial statements (interim financial statements) were prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), and interpretations of the IFRS Interpretations Committee, under International Accounting Standard (IAS) 34, *Interim Financial Reporting* and IFRS 1, *First-time Adoption of International Financial Reporting Standards*. They are prepared in accordance with the accounting policies we expect to adopt in our consolidated financial statements for the year ending December 31, 2011, which are described in note 1 to our interim financial statements for the three months ended March 31, 2011. They do not include all of the disclosure information required for full annual financial statements. These interim financial statements should be read in conjunction with our unaudited consolidated interim financial statements for the three months ended March 31, 2011.

In 2010, our annual and interim consolidated financial statements were prepared in accordance with Canadian GAAP. The effect of the transition from Canadian GAAP to IFRS is explained in note 22.

Functional currency

These interim financial statements are presented in our functional currency, Canadian dollars.

Financial instruments

Financial assets and financial liabilities, including derivatives, are recognized when we enter into the contractual provisions of a financial instrument or derivative contract. All financial instruments are measured at fair value on initial recognition.

Derivative financial instruments

We may use derivative financial instruments in the management of financial exposures relating to our use of foreign currencies, to mitigate the effect of changes in the market price of Bell Aliant Inc. common shares on the value of our share-based compensation plans, and to manage our interest rate exposure. We do not use derivative financial instruments for trading or speculative purposes. For each derivative instrument, a determination is made whether hedge accounting can apply. Derivatives that are economic hedges but do not qualify for hedge accounting are classified as financial assets or financial liabilities held for trading in accordance with IAS 39, Financial Instruments: Recognition and Measurement (IAS 39). The financial asset or liability is recorded at fair value, with subsequent changes in their fair value recorded through net earnings or loss in the income statement.

New accounting standards not yet adopted

The IASB has issued several new standards, amendments to standards, and interpretations that are not effective for the year ending December 31, 2011, and although early adoption is permitted, they have not been applied in preparing these 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. 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 and amendments will have on our financial results.

3. OPERATING REVENUES

For the period ended June 30	Three months		Six months	
	2011	2010	2011	2010
Local and access	312.1	325.0	622.1	647.9
Data	216.5	207.1	429.2	411.1
Long distance	96.3	99.0	190.8	196.1
Wireless	24.0	22.0	47.3	43.0
Other revenues	43.7	47.0	84.8	90.7
Total operating revenues	692.6	700.1	1,374.2	1,388.8

Other revenues for the three and six months ended June 30, 2011, includes \$6.1 million and \$12.2 million, respectively, (three and six months ended June 30, 2010 - \$5.6 million and \$11.2 million, respectively) of non-monetary revenues earned in relation to our joint use pole agreements with various utility companies throughout our operating territory.

4. OPERATING EXPENSES

For the period ended June 30	Three months		Six months	
	2011	2010	2011	2010
Labour costs				
Wages, salaries and related taxes and benefits	133.9	135.5	264.4	271.8
Current service costs of post-employment benefit plans (note 5)	15.6	13.2	31.1	26.3
Share-based compensation plan expense	6.5	4.2	10.7	3.9
Contractor, outsourcing and other labour costs	14.6	11.1	31.1	23.6
Capitalized labour	(40.6)	(36.2)	(75.0)	(69.2)
Total labour costs	130.0	127.8	262.3	256.4
Cost of sales, content costs and payments to other carriers	171.2	174.6	337.8	340.4
Real estate expenses	9.1	10.3	19.5	20.7
Operating taxes	9.3	10.8	19.2	21.7
Bad debt expense	6.0	5.7	12.3	12.4
Other operating expenses	33.5	27.9	60.3	55.5
Total operating expenses	359.1	357.1	711.4	707.1

5. POST-EMPLOYMENT BENEFITS

Net cost of defined benefit (DB) and defined contribution (DC) pension and other-post employment benefit (OPEB) plans

For the three months ended June 30, 2011	DB plans	OPEB plans	DC plans	Total
Recognized in operating expenses (note 4)				
Current service costs	13.1	0.5	2.0	15.6
Recognized in net finance expense (note 7)				
Expected return on plan assets	(44.6)	-	-	(44.6)
Interest expense on plan liabilities	43.8	3.2	-	47.0
	(0.8)	3.2	-	2.4
Net cost of benefit plans	12.3	3.7	2.0	18.0
For the six months ended June 30, 2011	DB plans	OPEB plans	DC plans	Total
Recognized in operating expenses (note 4)				
Current service costs	26.3	1.0	3.8	31.1
Recognized in net finance expense (note 7)				
Expected return on plan assets	(89.2)	-	-	(89.2)
Interest expense on plan liabilities	87.6	6.4	-	94.0
	(1.6)	6.4	-	4.8
Net cost of benefit plans	24.7	7.4	3.8	35.9

For the three months ended June 30, 2010	DB plans	OPEB plans	DC plans	Total
Recognized in operating expenses (note 4)				
Current service costs	10.9	0.4	1.9	13.2
Recognized in net finance expense (note 7)				
Expected return on plan assets	(39.6)	-	-	(39.6)
Interest expense on plan liabilities	43.5	3.2	-	46.7
Net cost of benefit plans	14.8	3.6	1.9	20.3

For the six months ended June 30, 2010	DB plans	OPEB plans	DC plans	Total
Recognized in operating expenses (note 4)				
Current service costs	21.7	0.8	3.8	26.3
Recognized in net finance expense (note 7)				
Expected return on plan assets	(79.2)	-	-	(79.2)
Interest expense on plan liabilities	87.1	6.4	-	93.5
Net cost of benefit plans	29.6	7.2	3.8	40.6

Benefit plan funding

For the six months ended June 30	2011	2010
DB plans contributions	244.9	63.9
OPEB plans contributions	4.3	4.1
Funding of DB and OPEB plans	249.2	68.0
DC plans contributions for continuing operations	3.8	3.8
DC plans contributions for discontinued operations	-	0.1
Funding of post-employment benefit plans	253.0	71.9

On March 15, 2011, we made a \$200.0 million lump-sum contribution to our DB plans. This contribution will be used to offset future required deficit funding contributions.

Included in DB pension plan contributions for the three months ended June 30, 2010, is an accrual for \$5.6 million which was paid in July 2010.

Net benefit obligation

	DB plans	OPEB plans	Total
Net benefit obligation as at December 31, 2010	746.3	252.4	998.7
Net cost of benefit plans	24.7	7.4	32.1
Contributions	(244.9)	(4.3)	(249.2)
Actuarial losses (note 11)	31.5	-	31.5
Net benefit obligation as at June 30, 2011	557.6	255.5	813.1

	DB plans	OPEB plans	Total
Net benefit obligation as at January 1, 2010	584.7	215.4	800.1
Net cost of benefit plans	29.6	7.2	36.8
Contributions	(63.9)	(4.1)	(68.0)
Actuarial losses (note 11)	363.5	24.9	388.4
Net benefit obligation as at June 30, 2010	913.9	243.4	1,157.3

6. SEVERANCE AND OTHER CHARGES

Severance charges

As part of our organizational productivity initiatives in 2011, we continued to streamline our management workforce. As a result, we estimated and recorded severance charges of \$1.4 million and \$5.9 million, respectively, for the three and six months ended June 30, 2011, which includes employee severance and benefit costs as well as real estate rationalization costs.

During the three and six months ended June 30, 2010, severance charges of \$3.0 million and \$11.5 million, respectively, included employee severance and benefit costs as well as real estate rationalization costs. In addition, we increased the estimated costs of the 2009 restructuring initiative by \$0.3 million and \$2.5 million to reflect the final costs, respectively, for the three and six months ended June 30, 2010. The final cost of the initiatives could be materially different from our estimate as departing employees will have options that could affect their severance.

Liability for severance and other charges

	2011
Liability as at December 31, 2010	16.9
Employee severance and benefit costs	2.1
Real estate rationalization costs	3.8
	5.9
Cash payments	(14.1)
Liability as at June 30, 2011	8.7

As at June 30, 2011, the severance and other charges liability included \$5.3 million in real estate rationalization costs (at December 31, 2010 - \$3.7 million), of which \$2.8 million are included in non-current liabilities (at December 31, 2010 - \$2.8 million) as they are expected to be drawn down after June 30, 2012. The liability for employee severance and benefit costs will be paid as employees retire or depart the organization.

7. NET FINANCE EXPENSE

For the period ended June 30	Three months		Six months	
	2011	2010	2011	2010
Finance expense				
Interest expense on post-employment benefit plan liabilities (note 5)	47.0	46.7	94.0	93.5
Interest on long-term debt	37.9	37.5	74.9	74.7
Amortization of long-term debt issue costs	1.4	1.7	2.9	3.5
Other interest expense	1.9	1.2	3.7	2.1
	88.2	87.1	175.5	173.8
Finance income				
Expected return on post-employment benefit plan assets (note 5)	(44.6)	(39.6)	(89.2)	(79.2)
Interest earned	(0.5)	(0.5)	(1.0)	(0.8)
	(45.1)	(40.1)	(90.2)	(80.0)
Net finance expense	43.1	47.0	85.3	93.8

8. OTHER EXPENSE

For the period ended June 30	Three months		Six months	
	2011	2010	2011	2010
Loss on long-term debt redemption (note 16)	4.4	-	4.4	-
Loss on disposal of property, plant and equipment	1.5	0.6	1.7	2.7
Foreign exchange loss (gain)	(0.2)	0.2	(0.4)	0.8
Miscellaneous expense (income)	0.4	-	0.5	(0.1)
Other expense	6.1	0.8	6.2	3.4

9. DISCONTINUED OPERATIONS

xwave business

On October 26, 2010, we announced that we had signed an asset purchase agreement under which Bell Canada would acquire our xwave business. As a result, we reclassified the results of our xwave business operations as discontinued operations.

The transaction closed on January 1, 2011, with proceeds on sale of \$38.4 million in cash and \$33.7 million in a receivable from Bell Canada related to post-closing statement of financial position adjustments. During the six months ended June 30, 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.

A loss on sale of \$0.8 million and \$4.2 million for the three and six months ended June 30, 2011, respectively, which is net of \$8.9 million allocated to goodwill (note 13), has been recorded in net loss from discontinued operations.

For the period ended June 30	Three months		Six months	
	2011	2010	2011	2010
Operating revenues	-	58.6	-	154.1
Operating expenses	-	58.4	-	152.0
Other expenses	0.8	2.5	0.5	4.7
Income tax expense (recovery)	-	-	3.7	(0.9)
Net loss from discontinued operations	(0.8)	(2.3)	(4.2)	(1.7)

For the period ended June 30	2011	2010
Cash from (used in):		
Operating activities	(4.5)	0.2
Investing activities	49.1	(1.1)
Increase (decrease) in cash from discontinued operations	44.6	(0.9)

10. EARNINGS PER SHARE/UNIT

For the period ended June 30	Three months		Six Months	
	2011	2010	2011	2010
Basic:				
Net earnings from continuing operations attributable to common shareholders/unitholders	83.9	71.0	172.1	319.0
Net loss from discontinued operations attributable to common shareholder/unitholders	(0.8)	(2.3)	(4.2)	(1.7)
Net earnings	83.1	68.7	167.9	317.3
Basic:				
Weighted average number of common shares/units outstanding	101,373,833	160,536,409	101,373,833	160,536,409
Basic earnings per share/unit from continuing operations	0.83	0.44	1.70	1.99
Basic earnings per share/unit from discontinued operations	(0.01)	(0.01)	(0.04)	(0.01)
Basic earnings per share / unit	0.82	0.43	1.66	1.98
Diluted:				
Net earnings from continuing operations attributable to common shareholders/ unit holders	83.9	71.0	172.1	319.0
Distributions declared to holders of class B exchangeable partnership units issued by Bell Aliant LP	-	52.4	-	104.7
Increase (decrease) in value of class B exchangeable partnership units issued by Bell Aliant LP	-	1.5	-	(187.7)
Net earnings from continuing operations attributable to common shareholders/unit holders	83.9	124.9	172.1	236.0
Net earnings (loss) from discontinued operations attributable to common shareholder/unitholders	(0.8)	(2.3)	(4.2)	(1.7)
Diluted net earnings	83.1	122.6	167.9	234.3
Weighted average number of shares/units outstanding	101,373,833	160,536,409	101,373,833	160,536,409
Add exchangeable limited partnership units:				
Class B exchangeable limited partnership units of Bell Aliant LP	-	72,205,024	-	72,205,024
	101,373,833	232,741,433	101,373,833	232,741,433
Diluted earnings per share/unit from continuing operations	0.83	0.44	1.70	1.01
Diluted earnings per share/unit from discontinued operations	(0.01)	(0.01)	(0.04)	(0.01)
Diluted earnings per share/unit	0.82	0.43	1.66	1.00

For the three months ended June 30, 2010, the class B exchangeable partnership units of Bell Aliant LP are anti-dilutive.

There are no potentially dilutive common shares in 2011.

11. OTHER COMPREHENSIVE INCOME (LOSS)

For the three months ended June 30	2011			2010		
	Amount arising	Income tax	Net	Amount arising	Income tax	Net
Actuarial losses on DB pension and OPEB plans	(53.5)	14.8	(38.7)	(198.7)	44.5	(154.2)
Effect of enacted future tax rates on temporary differences	-	2.3	2.3	-	(3.6)	(3.6)
	(53.5)	17.1	(36.4)	(198.7)	40.9	(157.8)
Reclassification of losses on derivatives to finance expense	1.3	(0.4)	0.9	1.2	(0.2)	1.0
Other comprehensive loss	(52.2)	16.7	(35.5)	(197.5)	40.7	(156.8)

For the six months ended June 30	2011			2010		
	Amount arising	Income tax	Net	Amount arising	Income tax	Net
Actuarial losses on DB pension and OPEB plans (note 5)	(31.5)	8.3	(23.2)	(388.4)	89.6	(298.8)
Effect of enacted future tax rates on temporary differences	-	(3.0)	(3.0)	-	(3.6)	(3.6)
	(31.5)	5.3	(26.2)	(388.4)	86.0	(302.4)
Reclassification of losses on derivatives to finance expense	2.4	(0.7)	1.7	2.4	(0.5)	1.9
Other comprehensive loss	(29.1)	4.6	(24.5)	(386.0)	85.5	(300.5)

Actuarial gains (losses) on DB and OPEB plans and adjustments in connection with asset limitation are reported net of tax in the statement of comprehensive income without affecting the net earnings.

12. GOVERNMENT ASSISTANCE

For the three and six months ended June 30, 2011, we recognized \$5.8 million and \$11.7 million, respectively, in government assistance (three and six months ended June 30, 2010 - \$1.0 million) as a deduction from the cost of related property, plant and equipment in connection with certain projects for broadband network construction in Ontario and Nova Scotia.

13. GOODWILL AND INDEFINITE-LIFE INTANGIBLES

	As at June 30, 2011	As at December 31, 2010
Goodwill	2,760.0	2,768.9
Indefinite-life intangibles		
Télébec and NothernTel brands	72.8	72.8
KMTS brand	1.2	1.2
Telecommunications licenses	35.5	35.5
Cable licenses	15.7	15.7
	125.2	125.2
Total goodwill and indefinite-life intangibles	2,885.2	2,894.1

An impairment test conducted effective January 1, 2010, our date of transition to IFRS, indicated no impairment.

Goodwill was reduced by \$8.9 million during the six months ended June 30, 2011, which represents the amount allocated to the sale of our xwave business on January 1, 2011 (note 9).

14. SHAREHOLDERS' CAPITAL

As at June 30	2011		2010	
	Number of shares	Issued capital	Number of units	Issued capital
Voting common shares	101,373,833	3,651.6	-	-
Class 1 exchangeable limited partnership units	-	-	28,168,803	1,017.1
Class 2 limited partnership units	-	-	132,367,606	1,044.4
General partnership units	-	-	54,000	-
		3,651.6		2,061.5

Conversion to a corporation

As part of the Conversion, BCE and Bell Canada exchanged 100 per cent, or 72,205,024, class B exchangeable limited partnership units issued by Bell Aliant LP, 100 per cent, or 28,168,803, class 1 exchangeable limited partnership units issued by Bell Aliant Holdings LP, 100 per cent, or 100,373,827, special voting units issued by the Fund, and all but one of their voting common shares of Bell Aliant Holdings GP for 100,373,827 Bell Aliant Inc. common shares. Fund unitholders exchanged 100 per cent, or 127,394,907, units for Bell Aliant Inc. common shares. Bell Aliant Inc. became the successor company of the Fund. The Conversion is further described in note 14 to our unaudited interim financial statements for the period ended March 31, 2011.

Common shares

	Number of shares	Issued capital
Effect of the Conversion:		
Common shares established through share consolidation of Bell Aliant Holdings GP	6	-
Common shares issued in exchange for class 1 exchangeable limited partnership units	28,168,803	732.1
Common shares issued in exchange for class B exchangeable limited partnership units	72,205,024	1,876.6
Common shares issued in exchange for one unit in each of Télébec and NorthernTel and transfer of Bell Aliant Holdings LP's assets and liabilities	1,000,000	1,044.4
Conversion costs related to common share issue, net of tax	-	(1.5)
Common shares outstanding as at June 30, 2011	101,373,833	3,651.6

Partnership units

	Class 1 exchangeable limited partnership units		Class 2 limited partnership units		General partnership units		Total issued capital
	Number of units	Issued capital	Number of units	Issued capital	Number of units	Issued capital	
Units, as at December 31, 2010	28,168,803	1,017.1	132,367,606	1,044.4	54,000	-	2,061.5
Units cancelled during the Conversion	(28,168,803)	(1,017.1)	(132,367,606)	(1,044.4)	(54,000)	-	(2,061.5)
Units, as at June 30, 2011	-	-	-	-	-	-	-

There was no change in the partnership units during the period ended June 30, 2010.

Contributed surplus

The difference in carrying value between the class 1 exchangeable limited partnership units and the common shares that were exchanged for the units was \$285.0 million, which was recorded in contributed surplus.

Dividends/distributions declared

For the three and six months ended June 30, 2011, we declared and paid dividends on our common shares of \$109.3 million and \$218.3 million, respectively. For the three and six months ended June 30, 2010, we declared monthly distributions of \$0.2417 per unit on our class 1 exchangeable limited partnership units, totaling \$20.4 million and \$40.9 million, respectively, and distributions on our class 2 limited partnership units, totaling \$93.6 million and \$187.0 million, respectively.

15. NON-CONTROLLING INTERESTS

Preferred shares

On January 31, 2011, Bell Aliant Preferred Equity Inc. (Prefco) was incorporated under the Canadian Business Corporations Act for the sole purpose of being the issuer of preferred shares. We own 100 per cent of Prefco's common shares.

In March of 2011, Prefco issued 11,500,000 Cumulative Rate Reset Preferred Shares, Series A (Series A Preferred Shares) for total gross proceeds 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.

At Prefco's discretion, the Series A Preferred Shares will pay cumulative dividends of \$1.2125 per share per annum, payable quarterly (with the first quarterly dividend paid on June 30, 2011), for an initial five year period ending March 31, 2016.

On April 27, 2011, we declared a dividend of \$0.355 per preferred share which amounted to \$4.1 million and was paid on June 30, 2011.

16. DEBT

Short-term debt

We have the following operating facilities available to us:

	As at June 30, 2011	As at December 31, 2010
Committed lines of credit:		
Revolving operating facility	750.0	550.0
Non-revolving pension reserve facility	-	447.6
Revolving accounts receivable securitization program	118.0	128.0
Dedicated letter of credit facilities	116.7	116.7
Uncommitted operating lines of credit:		
Demand operating facilities	13.0	13.0
Total operating facilities	997.7	1,255.3

During the second quarter, 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. Our committed revolving operating facility continues to provide back-up liquidity for our \$400.0 million commercial paper program, supports letters of credit issued for pension solvency funding and provides funding for general corporate purposes. We incurred debt issue costs of \$2.3 million in relation to this amendment and restatement.

The status of our operating facilities is as follows:

	As at June 30, 2011	As at December 31, 2010
Letters of credit issued	274.8	286.1
Drawn amounts:		
Commercial paper issued	143.0	209.2
Securitization of accounts receivable	118.0	128.0
Non-revolving pension reserve facilities	-	40.0
Short-term debt	261.0	377.2
Unused available credit facilities	461.9	592.0
Total operating facilities	997.7	1,255.3

Letters of credit

There were no significant changes in the status of letters of credit issued for the quarter ended June 30, 2011.

Commercial paper

We ensure at all times that sufficient undrawn capacity exists on our committed revolving operating facility to support issuances of commercial paper. Short-term promissory notes totaling \$143.0 million, issued under our commercial paper program to fund changes in operating assets and liabilities, carry interest at 1.2 per cent per annum and have maturity dates from July 4, 2011, to August 2, 2011.

Securitization of accounts receivable

At June 30, 2011, \$144.3 million of accounts receivable had been sold to a securitization trust for net cash proceeds of \$118.0 million (\$128.0 million in net cash proceeds at December 31, 2010) under a revolving sales agreement that expires on July 29, 2011, and will be renewed in the third quarter of 2011. As we retain certain risks related to securitized accounts receivable, and particularly the credit risk, the conditions for recognition as an asset sale are not met. Accordingly, liabilities of the securitization trust are included in short-term debt and the related accounts receivable are included in our assets.

Non-revolving pension reserve facility

In connection with the amendment and restatement of our syndicated bank credit facilities, the outstanding bankers' acceptance advances of \$40.0 million under the non-revolving pension reserve facility were repaid during the three months ended June 30, 2011.

Long-term debt

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

On May 6, 2011, we made a partial redemption of the 4.72 per cent medium-term notes maturing on September 26, 2011 (2011 notes). We redeemed \$300.0 million principal amount, or 74 per cent of the total remaining outstanding principal amount, of the 2011 notes on a *pro rata* basis at the price and under the conditions specified in the 2011 notes. We recognized a \$4.4 million loss on redemption (note 8), as a result of paying \$304.0 million for principal redemption and recognizing \$0.4 million in previously unamortized issuance costs. The remaining \$105.0 million outstanding principal portion of the 2011 notes is classified as long-term debt due within one year.

17. FINANCIAL INSTRUMENTS

In June 2011, we entered into a series of foreign currency call and put options with terms of up to six months. These options provide an economic hedge for a portion of our exposure to foreign currency risk originating from our anticipated future purchases of property, plant and equipment and finite-life intangible assets denominated in US dollars.

For the three and six months ended June 30, 2011, we recognized a \$0.2 million loss on these financial instruments in other expense. The fair value of these options as at June 30, 2011, was based on inputs based on observable market data.

The total nominal amount of these financial instruments as at June 30, 2011, was \$40.0 million.

18. SHARE-BASED COMPENSATION PLANS

Employee stock savings plans

The total number of Bell Aliant Inc. common shares bought on the open market for our employee stock savings plans for the three and six months ended June 30, 2011, was 407,642 and 941,297 respectively (Fund units bought for the three and six months ended June 30, 2010, was 492,728 and 1,029,938, respectively). We recorded compensation expense related to the employee stock savings plans of \$2.4 million and \$4.8 million for the three and six months ended June 30, 2011, respectively (three and six months ended June 30, 2010 - \$2.3 million and \$4.5 million, respectively).

Deferred share plan

A summary of the status of the deferred shares/units and changes during the period is as follows:

For the period ended June 30	2011	2010
Deferred shares/units outstanding, December 31	1,380,568	1,293,699
Granted:		
June 2010 – Service period fiscal 2010 to 2012	-	369,784
January 2011 – Service period fiscal 2011 to 2013	321,949	-
Reinvested dividends/distributions during the period	64,113	55,490
	386,062	425,274
Forfeited	(85,695)	(248,387)
Exercised	(69,113)	(122,030)
Deferred shares/units outstanding, June 30	1,611,822	1,348,556
Deferred shares/units vested, June 30	937,088	649,573

The fair value of the 386,062 deferred shares granted or credited on reinvestment of notional dividends for the six months ended June 30, 2011 (six months ended June 30, 2010 – 425,274 deferred units granted or credited) was \$10.3 million (six months ended June 30, 2010 – \$11.0 million). For the three and six months ended June 30, 2011, we recorded compensation expense of \$4.1 million and \$5.9 million, respectively (three and six months ended June 30, 2010 – \$2.0 million and \$(0.6) million increase (reduction) in compensation expense, respectively), related to the deferred shares' grant value, recognized over the vesting period, and the change in the quoted market price of Bell Aliant Inc.'s common shares (2010 – Fund units) between the grant date and the reporting period date.

Directors' Deferred Share Unit Plan

On January 1, 2011, we adopted a Directors' Deferred Share Unit Plan (DDSUP). The DDSUP is a cash-settled plan for our eligible directors who are not employees of Bell Aliant Inc., its subsidiaries, BCE or Bell Canada, under which a portion of annual directors' fees will be credited in notional share units. The directors may elect to receive 25 per cent, 50 per cent, 75 per cent or 100 per cent of their annual directors' fees in the form of deferred share units under the DDSUP. There are no vesting criteria for the grants and the deferred share units vest immediately. Directors are only eligible to redeem the deferred share units upon termination of their duties as directors of Bell Aliant Inc. The redemption payment amount is equal to the value of the deferred share units calculated as the average closing price of our common shares traded on the TSX for the last five days preceding the redemption date.

For the six months ended June 30, 2011, we granted 7,532 deferred share units and 61 deferred share units were credited on reinvestment of notional dividends. The fair value of the 7,593 deferred share units granted and credited for the six months ended June 30, 2011, was \$0.2 million, or \$27.53 per deferred share unit. There were no deferred share units redeemed for the period ended June 30, 2011.

We recognized an immaterial amount of expense related to the DDSUP for the three and six months ended June 30, 2011.

19. CHANGES IN OPERATING ASSETS AND LIABILITIES

For the six months ended June 30	2011	2010
Trade and other receivables	(8.2)	16.4
Inventory	3.6	(13.8)
Prepayments	(20.1)	(23.0)
Long-term receivables	1.7	2.1
Deferred charges	(1.4)	(6.3)
Trade and other payables	21.2	(62.9)
Deferred credits	3.9	4.4
	0.7	(83.1)

20. COMMITMENTS

Operating leases and purchase commitments

The estimated future minimum lease payments under our contractual obligations are as follows:

	Remainder of						
	2011	2012	2013	2014	2015	Thereafter	Total
Operating leases	13.5	23.5	23.1	22.5	21.4	67.6	171.6
Operating purchase commitments	185.3	332.6	319.8	304.2	276.9	1,390.5	2,809.3
Capital purchase commitments	33.0	35.1	23.0	18.2	-	-	109.3
	231.8	391.2	365.9	344.9	298.3	1,458.1	3,090.2

Operating purchase commitments primarily relate to various information systems and technology agreements and obligations under service agreements, including a series of long-term commercial agreements with Bell Canada.

Capital purchase commitments primarily relate to certain projects for broadband network construction in Ontario. As well, included in the capital purchases for 2011 is a \$2.4 million commitment related to finalization of the purchase price in the 2010 agreements with Newfoundland Power Inc. and Fortis Inc. to repurchase an interest in poles previously sold to them.

21. RELATED PARTY TRANSACTIONS

Bell Aliant Inc.

Bell Aliant Inc. is entirely dependent on the dividends we pay to them to make their dividend payments. For the six months ended June 30, 2011, we declared dividends to them totaling \$218.3 million (six months ended June 30, 2010 – totaling \$187.0 million). At June 30, 2011, there were no dividends payable (December 31, 2010 – \$29.6 million distributions payable).

Bell Aliant Inc. loans us their excess cash through a series of promissory notes, and requests repayments as required for operating purposes. The \$5.3 million promissory note that was payable to the Fund at December 31, 2010, was repaid on January 31, 2011. Subsequently issued promissory notes carried a rate of interest of 1.30 per cent per annum, resulting in an immaterial amount of interest expense being incurred during the three and six months ended June 30, 2011 (three and six months ended June 30, 2010 – immaterial amount). At June 30, 2011, \$5.6 million in promissory notes were payable to Bell Aliant Inc., carrying interest at 1.30 per cent per annum and maturing on July 29, 2011.

Bell Aliant Holdings GP

Bell Aliant Holdings GP loaned \$43.3 million through a demand non-interest bearing note to Bell Aliant LP on December 31, 2010. During the Conversion, Bell Aliant GP acquired the note and on January 14, 2011, Bell Aliant LP repaid the note.

BCE and Bell Canada

At December 31, 2010, there was \$145.6 million included in notes receivable from related parties which represented amounts that BCE and Bell Canada elected to be loaned related to deferred distributions on their exchangeable limited partnership units. The notes receivable, as well as the deferred distributions of \$169.8 million, were settled on January 1, 2011.

22. TRANSITION TO IFRS

Impact of transition to IFRS

First time adoption of IFRS

The significant optional exemptions and mandatory exceptions we applied upon adoption are summarized in note 22 to our unaudited consolidated interim financial statements for the period ended March 31, 2011.

Reconciliation of Canadian GAAP to IFRS

The reconciliations below highlight the key accounting differences between Canadian GAAP and IFRS and their effect on our financial results for the three and six months ended June 30, 2010. The key accounting differences at the date of transition, January 1, 2010, are presented in the reconciliations in note 22 to our unaudited consolidated interim financial statements for the period ended March 31, 2011.

Reconciliation of equity

	Note	At June 30, 2010
Total equity under Canadian GAAP		4,740.5
Employee benefits	A	(1,219.6)
Property, plant and equipment	B	(290.6)
Class B exchangeable units	C	
Non-controlling interest		1,548.9
Fair value of class B exchangeable units		(1,836.2)
Income tax effect of above adjustments		213.1
Total equity under IFRS		3,156.1

Reconciliation of net earnings and comprehensive income (loss)

For the period ended June 30, 2010			
	Note	Three months	Six months
Net earnings under Canadian GAAP		89.3	167.1
Employee benefits	A	2.0	3.9
Property, plant and equipment	B	0.8	(0.8)
Non-controlling interests	C	33.0	65.7
Class B exchangeable units	C		
Distributions to holders		(52.4)	(104.7)
Decrease (increase) in value		(1.5)	187.7
Other		(0.3)	(0.3)
Income tax affect of above adjustments		(2.2)	(1.3)
Net earnings under IFRS		68.7	317.3

For the period ended June 30, 2010			
	Note	Three months	Six months
Comprehensive income under Canadian GAAP		90.3	169.0
Change in net earnings		(20.6)	150.2
Actuarial losses on employee benefit obligation, net of tax	A	(157.8)	(302.4)
Comprehensive income (loss) under IFRS		(88.1)	16.8

Explanation of differences and adjustments

(A) Employee benefits

Under Canadian GAAP, actuarial gains and losses that arise due to changes in the present value of the defined benefit obligation and the fair value of plan assets are recognized on a systematic and consistent basis, subject to a minimum required amortization based on a "corridor" approach. The "corridor" is 10 per cent of the greater of the accrued benefit obligation at the beginning of the year and the market-related value of plan assets at the beginning of the year. Actuarial gains and losses are deferred, and those in excess of the 10 per cent "corridor" are amortized as a component of pension expense on a straight-line basis over the expected average remaining service life of active employees, or the average remaining lifetime of retired employees. Actuarial gains and losses below the 10 per cent corridor are deferred. Past service costs under Canadian GAAP are also amortized on a straight-line basis over the expected average remaining service life of active employees, or the average remaining lifetime of retired employees.

Under IFRS, we have elected to recognize all actuarial gains and losses immediately in comprehensive income (loss) without recognizing them in net earnings in subsequent periods. As a result, actuarial gains and losses, and any required adjustments to the minimum liability, will be recorded directly to other comprehensive income (loss) at the end of each period. Vested past service costs are recognized immediately in operating expenses. Our net

cost of benefit plans will also be affected by this policy choice, as under IFRS there will no longer be an amortization component to our net cost of benefit plans.

IFRS also requires that plan assets be measured using market values instead of market-related values which were used under Canadian GAAP.

Under Canadian GAAP, total net benefit costs of \$22.3 million and \$44.5 million were included in operating expenses for the three and six months ended June 30, 2010, respectively. Under IFRS, total net benefit costs are \$20.3 million and \$40.6 million for the same periods, which include \$13.2 million and \$26.3 million in current service costs, presented in operating expenses, \$46.7 million and \$93.5 million in interest expense on plan liabilities, presented in finance expense, and \$39.6 million and \$79.2 million expected return on our plan assets, presented in finance income.

Actuarial gains and losses and adjustments to our minimum pension liability recorded in 2010 resulted in an increase of \$388.4 million to our accrued benefit liability reported under IFRS at June 30, 2010. As a result, for the three and six months ended June 30, 2010, other comprehensive income (loss) decreased by \$157.8 million and \$302.4 million, respectively, and deferred income tax liability decreased by \$40.9 million and \$86.0 million for the same periods. There were no similar entries under Canadian GAAP.

As a result of the net effect of the transition to IFRS at January 1, 2010, and key accounting differences between IFRS and Canadian GAAP during the six months ended June 30, 2010, the total equity reported at June 30, 2010, related to employee benefits decreased by \$1,219.6 million compared to equity reported under Canadian GAAP.

(B) Property, plant and equipment

Under Canadian GAAP, we used the group depreciation method to depreciate our property, plant and equipment, where gains and losses on sale or retirement of property, plant and equipment are not separately recognized. As this approach is not acceptable under IFRS, we have retrospectively adopted a change in policy to the straight-line method of depreciation.

This change from group to straight-line depreciation resulted in a decrease in depreciation expense of \$1.4 million and \$1.9 million for the three and six months ended June 30, 2010. As well, gains and losses on sale or retirement of property, plant and equipment have been separately calculated and recognized, resulting in other expenses increasing by \$0.6 million and \$2.7 million for the three and six months ended June 30, 2010, respectively.

As a result of the net effect of the transition to IFRS at January 1, 2010, and key accounting differences between IFRS and Canadian GAAP during the six months ended June 30, 2010, the total equity reported at June 30, 2010, related to property, plant and equipment decreased by \$290.6 million, compared to equity reported under Canadian GAAP.

(C) Classification of Bell Aliant LP class B units

Under Canadian GAAP, the class B units of Bell Aliant LP held by BCE and Bell Canada were considered to be equity instruments and represented a non-controlling interest in Bell Aliant LP. Non-controlling interest is classified on the statement of financial position as a separate component between liabilities and equity and as a component of net earnings within the income statement. As such, distributions declared on these units were recognized as a reduction to non-controlling interest on our statement of financial position, and income attributable to the non-controlling interest was deducted from net earnings for the period.

Under IFRS, non-controlling interest is classified as a component of equity separate from the equity of the shareholders, and earnings attributable to non-controlling interest are not deducted from net earnings for the period. Also, the original terms and conditions of the exchange and liquidity rights issued in connection with the class B units allowed for the class B units to be exchanged for Fund units or cash at the option of the holder, and under IFRS were, for 2010 and prior periods, therefore considered to be our financial liability, eliminating any non-controlling interest effects the units would have previously had on our financial results. We re-measured the financial liability at fair value at each reporting date, with any changes being recognized directly in net earnings for the period. Distributions declared on the class B units were recognized as an expense in the period in which they are declared.

For the three and six months ended June 30, 2010, net earnings under IFRS increased \$33.0 million and \$65.7 million, respectively, compared to net earnings under Canadian GAAP for the same periods, reflecting the elimination of any non-controlling interests in our net earnings.

As a result of the reclassification of the class B units, discussed above, our equity balance at June 30, 2010, decreased \$287.3 million, due to non-controlling interest of \$1,548.9 million being classified as a component of equity, offset by the recognition of the fair value of the liability of the class B units of \$1,836.2 million.

For the three and six months ended June 30, 2010, Bell Aliant LP declared distributions of \$52.4 million and \$104.7 million, respectively, on its class B units, decreasing our net earnings reported under IFRS. Offsetting these decreases were gains (losses) recognized on the re-measurement of the fair value of the liability of (\$1.5) million and \$187.7 million, for the same periods.

23. SUBSEQUENT EVENTS

On July 27, 2011, we declared a quarterly dividend of \$1.075 per common share, totaling \$108.9 million, which is payable on September 30, 2011.

Also on July 27, 2011, Prefco declared a quarterly dividend of \$0.303 per Series A preferred share, which amounts to \$3.5 million, payable on September 30, 2011.

This page intentionally left blank.

This page intentionally left blank.

This page intentionally left blank.

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

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

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

BellAliant



Our first quarter report is printed on Forest Stewardship Council® (FSC®) certified paper containing 50 per cent post-consumer fibres. Our printer, Lowe-Martin, is FSC certified and a recognized leader for environmental practices.

Please recycle.

