

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND**

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
(Unaudited)

**March 31, 2007**



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

<i>(millions of dollars)</i>	<b>Notes</b>	<b>As at March 31, 2007</b>	<b>As at December 31, 2006</b>
<b>Assets</b>			
Current assets			
Cash		\$ 0.2	\$ 0.7
Distributions receivable		34.5	28.5
Due from related parties	7	4.5	-
		<u>39.2</u>	<u>29.2</u>
Investments	2	4,638.7	4,141.0
<b>Total assets</b>		<b>\$ 4,677.9</b>	<b>\$ 4,170.2</b>
<b>Liabilities and unitholders' equity</b>			
Current liabilities			
Payables and accruals		\$ 0.1	\$ 0.2
Distributions payable	5	32.3	28.3
Due to related parties	7	208.0	0.9
		<u>240.4</u>	<u>29.4</u>
Unitholders' equity	3	4,437.5	4,140.8
<b>Total liabilities and unitholders' equity</b>		<b>\$ 4,677.9</b>	<b>\$ 4,170.2</b>

*See accompanying notes to the consolidated financial statements*

## BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND

### Consolidated statement of earnings

(Unaudited)

For the three months ended March 31, 2007

(millions of dollars, except earnings per unit)

	<b>Notes</b>		
Operating revenues		\$	96.7
Operating expenses			0.9
			95.8
Interest charges	7		1.1
<b>Net earnings</b>		<b>\$</b>	<b>94.7</b>
<b>Earnings per unit</b>			
Basic and diluted earnings per unit	4	\$	0.71

### Consolidated statement of comprehensive earnings

(Unaudited)

For the three months ended March 31, 2007

(millions of dollars)

	<b>Note</b>		
Net earnings		\$	94.7
Other comprehensive earnings			2.9
<b>Comprehensive earnings</b>		<b>\$</b>	<b>97.6</b>

See accompanying notes to the consolidated financial statements

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND**

**Consolidated statement of unitholders' equity**

(Unaudited)

For the period ended March 31, 2007

<i>(millions of dollars)</i>	Notes	Stated capital	Contributed surplus	Accumulated earnings	Distributions declared	Accumulated other comprehensive earnings (loss)	Unitholders' equity
Balance December 31, 2006		\$ 4,140.7	\$ -	\$ 163.1	\$ (163.0)	\$ -	\$ 4,140.8
Net earnings		-	-	94.7	-	-	94.7
Distributions declared	5	-	-	-	(96.0)	-	(96.0)
Issuance of units	3	394.0	-	-	-	-	394.0
Redemption of units	3	(0.1)	-	-	-	-	(0.1)
Units purchased for cancellation	3	(78.6)	-	-	-	-	(78.6)
Excess of stated value over repurchase of units	3	-	7.7	-	-	-	7.7
Deferred unit plan	6	-	4.3	-	-	-	4.3
Reclassification adjustment of equity investee	1	-	-	0.6	-	(32.8)	(32.2)
Other comprehensive earnings of equity investee		-	-	-	-	2.9	2.9
<b>Balance, March 31, 2007</b>		<b>\$ 4,456.0</b>	<b>\$ 12.0</b>	<b>\$ 258.4</b>	<b>\$ (259.0)</b>	<b>\$ (29.9)</b>	<b>\$ 4,437.5</b>

See accompanying notes to the consolidated financial statements

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND****Consolidated statement of cash flows****(Unaudited)****For the three months ended March 31, 2007***(millions of dollars)*

	<b>Notes</b>	
Cash from (used in) operating activities		
Net earnings		\$ 94.7
Adjustments to reconcile net earnings to cash from operating activities		
Income from equity investments		(96.7)
Change in operating assets and liabilities		1.5
		<u>(0.5)</u>
Cash from (used in) financing activities		
Proceeds of loan from related party	7	69.9
Repurchase of units	3	(70.9)
Redemption of units	3	(0.1)
Purchase of units for distribution reinvestment and optional unit purchase plan	3	(3.2)
Cash distributions paid to unitholders		(88.8)
		<u>(93.1)</u>
Cash from (used in) investing activities		
Cash distributions received from equity investments		93.1
		<u>93.1</u>
Net decrease in cash		(0.5)
Cash, beginning of period		0.7
<b>Cash, end of period</b>		<b>\$ 0.2</b>

*See accompanying notes to the consolidated financial statements*

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
**March 31, 2007**

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**1. SIGNIFICANT ACCOUNTING POLICIES**

Bell Aliant Regional Communications Income Fund is an unincorporated, open-ended trust established on March 30, 2006. All references to “we”, “us”, “our” or the “Fund” refer to Bell Aliant Regional Communications Income Fund.

On July 7, 2007, the Plan of Arrangement (the Arrangement) to combine Aliant Inc.’s (Aliant) wireline telecommunications operation in Atlantic Canada, information technology operation and other related operations with Bell Canada’s wireline telecommunications operation in certain of its regional territories in Ontario and Quebec (the Combined Business) and Bell Canada’s then 63.4 per cent indirect interest in NorthernTel, Limited Partnership (NorthernTel) and Télébec, Limited Partnership (Télébec), was completed as described in Aliant’s management information circular dated April 14, 2006. As a result of the Arrangement, the Fund holds an indirect interest in the Combined Business and NorthernTel and Télébec.

On January 30, 2007, we acquired the remaining 36.7 per cent indirect interest in NorthernTel and Télébec through privatizing Bell Nordiq Income Fund. The transaction involved Bell Nordiq Income Fund paying its unitholders of record at close of business on January 26, 2007, a special distribution of \$4.00 per unit in cash on January 29, 2007. On January 30, 2007, we acquired the assets and liabilities of Bell Nordiq Income Fund, in exchange for 13,467,791 Fund units. On January 30, 2007, the Bell Nordiq Income Fund redeemed its units, exchanging 0.4113 Fund units for each outstanding Bell Nordiq Income Fund unit. The Bell Nordiq Income Fund units were subsequently de-listed from the Toronto Stock Exchange (TSX).

*Basis of presentation*

We have prepared these unaudited interim consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP) using the same basis of presentation and accounting policies as our audited consolidated financial statements for the year ended December 31, 2006, with the exception of the adoption of new accounting policies discussed below. These unaudited interim consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2006.

We consolidate the subsidiaries we control, Bell Aliant Holdings Trust and Bell Nordiq Trust, and equity account for investments over which we exercise significant influence.

- Through Bell Aliant Holdings Trust, we have an 81.5 per cent equity interest in Bell Aliant Regional Communications Holdings Inc. (Bell Aliant Holdings GP) and Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP), which consolidates the subsidiaries which operate the Combined Business and which hold a 63.3 per cent interest in NorthernTel and Télébec. These financial statements should be read in conjunction with the unaudited interim consolidated financial statements as at March 31, 2007, of Bell Aliant Holdings LP.
- Through Bell Nordiq Trust we have a 36.7 per cent equity interest in NorthernTel and Télébec.

All significant intercompany transactions have been eliminated on consolidation.

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
**March 31, 2007**

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**1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Basis of presentation (continued)*

Comparative figures are presented for the consolidated balance sheet. As we did not carry on any business in the first quarter of 2006, no comparative information is presented for the consolidated statement of earnings, statement of unitholders' equity and statement of cash flows.

*Financial instruments*

Effective January 1, 2007, we adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA):

- Section 3855, Financial Instruments – Recognition and Measurement,;
- Section 3865, Hedges,;
- Section 1530, Comprehensive Income;
- Section 3251, Equity;
- Section 3862, Financial Instruments – Disclosure; and
- Section 3863, Financial Instruments – Presentation.

The new standards require that we present a consolidated statement of comprehensive earnings which reflects changes in accumulated other comprehensive earnings (loss), which is shown as a separate component of unitholders' equity.

The adoption of these sections did not directly have any impact on the way we recognize and measure our financial assets and financial liabilities. Bell Aliant Holdings LP recorded a reclassification adjustment in accumulated other comprehensive earnings (losses) and opening accumulated earnings which related to the adoption of the standards, as well as other comprehensive earnings during the three months ended March 31, 2007. As a result of our equity investment in Bell Aliant Holdings LP, we have recorded our indirect interest in these amounts.

The following table summarizes the January 1, 2007, reclassification adjustments on our balance sheet to adopt the new standards:

Consolidated balance sheet <i>(millions of dollars)</i>	Increase (decrease)
Investments	\$ (32.2)
Accumulated earnings	\$ 0.6
Accumulated other comprehensive earnings (loss)	(32.8)

Prior period consolidated financial statements have not been restated and the above changes did not have any impact on our consolidated statement of earnings.

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
**March 31, 2007**

**2. INVESTMENTS**

<i>(millions of dollars)</i>	<b>As at</b>		<b>As at</b>
	<b>March 31, 2007</b>	December 31, 2006	
Bell Aliant Holdings LP	\$ 4,111.7	\$ 4,141.0	
Télébec and NorthernTel	<b>527.0</b>	-	
	<b>\$ 4,638.7</b>	\$ 4,141.0	

During the three months ended March 31, 2007, the investment in Bell Aliant Holdings LP decreased as a result of the adoption of the financial instruments standards, as discussed in note 1.

On January 30, 2007, we acquired the remaining 36.7 per cent ownership interest in NorthernTel and Télébec through the acquisition of the assets and liabilities of Bell Nordiq Income Fund having a net book value of \$175.0 million. Bell Nordiq Income Fund held 100.0 per cent of the units and notes issued by Bell Nordiq Income Trust which in turn held a 36.7 per cent interest in NorthernTel and Télébec. We exchanged 13,467,791 Fund units, having a total value of \$394.0 million (note 3) for the assets and liabilities of Bell Nordiq Income Fund. The total value was calculated using the weighted average price of Fund units for the five days prior to January 30, 2007. The difference between the cost of investment plus transaction costs and net book value of the assets and liabilities at the date of purchase was \$223.4 million, which has been included as part of the cost of the investment. As the notional purchase price allocation is not final, the total value has been allocated to equity goodwill.

The value of the equity investment in NorthernTel and Télébec includes \$4.4 million of costs incurred directly as part of the acquisition and the assumption of a \$131.0 million loan (note 7).

**3. UNITHOLDERS' EQUITY**

*Issued and outstanding*

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

<i>(millions of dollars, except as otherwise stated)</i>	<b>Number of</b>	<b>Stated</b>
	<b>units</b>	<b>capital</b>
Fund units, as at December 31, 2006	<b>124,115,890</b>	<b>\$ 4,140.7</b>
Issuance of units (note 2)	<b>13,467,791</b>	<b>394.0</b>
Redemption of units	<b>(3,036)</b>	<b>(0.1)</b>
Fractional unit adjustment	<b>(59)</b>	<b>-</b>
Units purchased for cancellation	<b>(2,384,200)</b>	<b>(78.6)</b>
<b>Fund units, as at March 31, 2007</b>	<b>135,196,386</b>	<b>\$ 4,456.0</b>

We commenced a normal course issuer bid (NCIB) on February 28, 2007. The NCIB allows us to purchase, from time to time, up to 13,738,000 of our outstanding units, representing approximately 10.0 per cent of our public float outstanding on February 26, 2007. Purchases under the NCIB are made with cash, at market prices, through the facilities of the TSX. The NCIB will expire on February 27, 2008. For the three months ended March 31, 2007, we purchased for cancellation 2,384,200 units for an aggregate price of \$70.9 million, which reduced our stated

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**3. UNITHOLDERS' EQUITY (Continued)**

*Issued and outstanding (continued)*

capital by \$78.6 million and increased contributed surplus by \$7.7 million.

*Distribution reinvestment and optional unit purchase plan*

For the three months ended March 31, 2007, we bought 131,044 units on the open market in lieu of paying \$3.2 million in distributions and in respect of optional cash purchases of \$0.6 million.

**4. EARNINGS PER UNIT**

For the three months ended March 31, 2007

*(millions of dollars, except per unit amounts)*

<b>Basic:</b>	
Net earnings	\$ 94.7
Weighted average number of units outstanding	132,722,910
Basic earnings per unit	\$ 0.71
<b>Diluted:</b>	
Net earnings	\$ 94.7
Add distributions on exchangeable limited partnership units in:	
Bell Aliant Holdings LP	19.7
Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP)	50.4
	\$ 164.8
Weighted average number of units outstanding	132,722,910
Add exchangeable limited partnership units:	
Class 1 exchangeable limited partnership units of Bell Aliant Holdings LP	28,168,803
Class B exchangeable limited partnership units of Bell Aliant LP	72,205,024
Deferred units	315,438
	233,412,175
Diluted earnings per unit	\$ 0.71

The exchangeable limited partnership units are intended to be, to the greatest extent practicable, the economic equivalent of our units. If holders of the exchangeable limited partnership units were to trigger an exchange for our units, the distributions currently being paid to the holders by Bell Aliant Holdings LP and Bell Aliant LP would be paid directly to us.

The deferred units represent units outstanding under the deferred unit plan (DUP), as discussed in note 6.

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**5. DISTRIBUTIONS TO UNITHOLDERS**

<i>(millions of dollars, except per unit amounts)</i>			
<b>Record date</b>	<b>Monthly Distributions</b>		<b>per unit</b>
	<b>distributions</b>		
January 31, 2007	\$ 31.4	\$	0.2283
February 28, 2007	32.3		0.2350
March 30, 2007	32.3		0.2350
<b>Total distributions declared</b>	<b>\$ 96.0</b>	<b>\$</b>	<b>0.6983</b>

For the three months ended March 31, 2007, distributions from Bell Aliant Holdings LP, NorthernTel and Télébec have amounted to \$99.1 million, or \$0.7466 per unit.

**6. UNIT-BASED COMPENSATION PLAN**

*Employees' unit purchase plan*

For the three months ended March 31, 2007, we bought 566,816 units on the open market for employees of subsidiaries of Bell Aliant Holdings LP. Compensation expense was recorded in these subsidiaries.

*Deferred unit plan (DUP)*

During the three months ended March 31, 2007, we finalized a DUP for certain executives and senior management of Bell Aliant Holdings LP and its subsidiaries to further align their long-term incentive compensation with total unitholder returns.

Under this DUP, we may grant deferred units to eligible plan members in such number and at such times as we determine as a bonus or in respect of services rendered by the plan member for the year of grant. On the grant date, plan members will be credited with the deferred units granted to them on that date. Grantees are also entitled to receive additional deferred units based on cash distributions that would have been received had the deferred unit been converted to a Fund unit. The plan member may hold the deferred units in an account until the end of the second year following their termination or retirement. We may issue up to 1,200,000 additional units out of treasury to satisfy awards under this DUP.

A summary of the status of our DUP as at March 31, 2007, and changes during the period ended on that date is presented below:

	<i>number of deferred units</i>
Granted - service period fiscal 2006 to 2008	<b>316,717</b>
Granted - service period March 2007 to March 2010	<b>453,742</b>
Forfeited	<b>(1,279)</b>
Deferred units outstanding, as at March 31, 2007	<b>769,180</b>

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
**March 31, 2007**

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**6. UNIT-BASED COMPENSATION PLAN (Continued)**

*Deferred unit plan (DUP) (continued)*

Compensation expense is recorded in subsidiaries of Bell Aliant Holdings LP. As this liability will be settled with Fund units, we have recorded the equivalent of the compensation expense recorded in Bell Aliant Holdings LP subsidiaries of \$4.3 million as contributed surplus and due from related parties.

**7. RELATED PARTY TRANSACTIONS**

Due from related parties includes \$4.3 million related to the DUP (note 6).

Due to related parties includes the following:

- As part of the transaction to acquire the 36.7 per cent indirect interest in NorthernTel and Télébec, a subsidiary of Bell Aliant Holdings LP loaned to Bell Nordiq Income Fund \$131.0 million, to enable them to make a special distribution to their unitholders. On the privatization of Bell Nordiq Income Fund, we indirectly assumed the loan. The loan is payable on demand at an interest rate of 5.1 per cent per annum. As at March 31, 2007, the balance of this loan from related party is \$131.0 million and \$1.1 million of interest charges have been recorded.
- On March 28, 2007, a subsidiary of Bell Aliant Holdings LP loaned us \$69.9 million to enable us to repurchase units under our NCIB. The loan is payable on April 27, 2007, together with interest calculated thereon at 4.4 per cent per annum. At March 31, 2007, the balance of this loan from related party is \$69.9 million.
- Other payables to related parties mainly includes costs relating to the administrative agreement with certain subsidiaries of Bell Aliant Holdings LP, \$4.4 million direct costs incurred as part of our equity investment in NorthernTel and Télébec (note 2) and interest charges.

**8. SUBSEQUENT EVENT**

On April 18, 2007, the Fund announced that it had allowed its offer to purchase all of the outstanding units of Amtelecom Income Fund to expire.