

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND**

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
(Unaudited)

June 30, 2007



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

<i>(millions of dollars)</i>	<b>Notes</b>	<b>As at June 30, 2007</b>	<b>As at December 31, 2006 (as restated, note 2)</b>
<b>Assets</b>			
Current assets			
Cash and cash equivalents		\$ 127.9	\$ 0.7
Distributions receivable		33.3	28.5
Due from related parties	8	0.5	-
		161.7	29.2
Investments	2, 3	4,288.7	4,105.9
<b>Total assets</b>		<b>\$ 4,450.4</b>	<b>\$ 4,135.1</b>
<b>Liabilities and unitholders' equity</b>			
Current liabilities			
Payables and accruals		\$ 0.1	\$ 0.2
Distributions payable	6	30.7	28.3
Due to related parties	8	0.6	0.9
		31.4	29.4
Unitholders' equity	4	4,419.0	4,105.7
<b>Total liabilities and unitholders' equity</b>		<b>\$ 4,450.4</b>	<b>\$ 4,135.1</b>

*See accompanying notes to the consolidated financial statements*

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND**  
**Consolidated statement of earnings**  
**(Unaudited)**  
**For the three and six months ended June 30, 2007**

<i>(millions of dollars, except earnings per unit)</i>	<b>Notes</b>	<b>Three months</b>		<b>Six months</b>	
				<i>(as restated, note 2)</i>	
Operating revenues		\$	48.7	\$	123.5
Operating expenses			2.3		3.2
			46.4		120.3
Interest charges	8		0.9		2.0
Net earnings from continuing operations			45.5		118.3
Net earnings from discontinued operations	3		212.2		216.6
<b>Net earnings</b>		<b>\$</b>	<b>257.7</b>	<b>\$</b>	<b>334.9</b>
<b>Earnings per unit</b>	<b>5</b>				
Basic from continuing operations		\$	0.34	\$	0.89
Basic from discontinued operations			1.59		1.63
Basic		\$	1.93	\$	2.52
Diluted from continuing operations		\$	0.25	\$	0.82
Diluted from discontinued operations			1.11		1.14
Diluted		\$	1.36	\$	1.96

**Consolidated statement of comprehensive earnings**  
**(Unaudited)**  
**For the three and six months ended June 30, 2007**

<i>(millions of dollars)</i>	<b>Three months</b>		<b>Six months</b>	
			<i>(as restated, note 2)</i>	
Net earnings	\$	257.7	\$	334.9
Other comprehensive earnings		5.0		7.9
<b>Comprehensive earnings</b>	<b>\$</b>	<b>262.7</b>	<b>\$</b>	<b>342.8</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 June 30, 2007

<i>(millions of dollars)</i>	Notes	Stated capital	Contributed surplus	Accumulated earnings	Distributions declared	Accumulated other comprehensive earnings (loss)	Unitholders' equity
Balance, as reported December 31, 2006		\$ 4,140.7	\$ -	\$ 163.1	\$ (163.0)	\$ -	\$ 4,140.8
Correction of an error	2	-	-	(35.1)	-	-	(35.1)
Balance, as restated December 31, 2006		\$ 4,140.7	-	\$ 128.0	\$ (163.0)	-	\$ 4,105.7
Net earnings, for the period		-	-	334.9	-	-	334.9
Distributions declared	6	-	-	-	(188.9)	-	(188.9)
Issuance of units	4	394.0	-	-	-	-	394.0
Redemption of units	4	(0.2)	-	-	-	-	(0.2)
Units purchased for cancellation	4	(223.4)	-	-	-	-	(223.4)
Excess of stated value over repurchase of units	4	-	14.9	-	-	-	14.9
Deferred unit plan	7	-	6.3	-	-	-	6.3
Reclassification adjustment of equity investee	1	-	-	0.6	-	(32.8)	(32.2)
Other comprehensive earnings of equity investee		-	-	-	-	7.9	7.9
<b>Balance, June 30, 2007</b>		<b>\$ 4,311.1</b>	<b>\$ 21.2</b>	<b>\$ 463.5</b>	<b>\$ (351.9)</b>	<b>\$ (24.9)</b>	<b>\$ 4,419.0</b>

See accompanying notes to the consolidated financial statements

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND**  
**Consolidated statement of cash flows**  
**(Unaudited)**  
**For the three and six months ended June 30, 2007**

<i>(millions of dollars)</i>	<b>Notes</b>	<b>Three months</b>	<b>Six months</b>
			<i>(as restated, note 2)</i>
Cash from (used in) operating activities			
Net earnings from continuing operations	\$	45.5	\$ 118.3
Adjustments to reconcile net earnings to cash from operating activities			
Income from equity investments		(47.1)	(121.9)
Other non-cash		1.7	1.7
Change in operating assets and liabilities		(2.5)	(1.0)
		(2.4)	(2.9)
Cash from (used in) financing activities			
Proceeds of loan from related party		-	69.9
Repayment of loan to related party	8	(200.9)	(200.9)
Repurchase of units	4	(137.6)	(208.5)
Redemption of units	4	(0.1)	(0.2)
Purchase of units for distribution reinvestment and optional unit purchase plan	4	(3.3)	(6.5)
Cash distributions paid to unitholders		(91.2)	(180.0)
		(433.1)	(526.2)
Cash from investing activities			
Cash distributions received from equity investments		102.3	195.4
Return of capital	3	460.9	460.9
		563.2	656.3
Net increase in cash from continuing operations		127.7	127.2
Cash and cash equivalents, beginning of period		0.2	0.7
<b>Cash and cash equivalents, end of period</b>	<b>\$</b>	<b>127.9</b>	<b>\$ 127.9</b>

*See accompanying notes to the consolidated financial statements*

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
**June 30, 2007**

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**1. SIGNIFICANT ACCOUNTING POLICIES**

Bell Aliant Regional Communications Income Fund is an unincorporated, open-ended trust governed by the laws of Ontario pursuant to a Declaration of Trust dated March 30, 2006, as amended and restated on July 6, 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, we hold 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, 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 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 and correction of an error 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, including Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), 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 June 30, 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)**  
**June 30, 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 for the six months ended June 30, 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 1530, Comprehensive Income;
- Section 3251, Equity;
- Section 3855, Financial Instruments – Recognition and Measurement;
- Section 3865, Hedges;
- 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 (loss) and opening accumulated earnings which related to the adoption of the standards, as well as other comprehensive earnings during the six months ended June 30, 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 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)**  
**June 30, 2007**

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

*Cash and cash equivalents*

Cash and cash equivalents consist of cash on hand, balances with banks and investments in money market instruments with a maturity of less than 90 days, and notes receivable from Bell Aliant LP, as described in note 8, all of which are readily convertible to cash and subject to an insignificant risk of change in fair value.

*Income taxes*

As a result of the recent enactment of Bill C-52, the Budget Implementation Act 2007, we will, beginning in 2011, be subject to tax as if we were a corporation. Upon completion of the notional purchase price allocation related to our acquisition of the remaining 36.7 percent interest in NorthernTel and Télébec (note 3), we will commence reporting a non-cash charge to reflect future tax liabilities related to our share of the temporary differences between the accounting and tax basis of NorthernTel's and Télébec's assets and liabilities. The charge will not affect cash flows or distributions.

*Economic dependence*

The Fund is economically dependent on Bell Aliant Holdings LP, Télébec and NorthernTel. The ability to pay our distributions is entirely dependent on the distributions received from Bell Aliant Holdings LP, Télébec and NorthernTel. Significant events or transactions in Bell Aliant Holdings LP, Télébec, or NorthernTel could materially influence our ability to pay our distributions.

**2. CORRECTION OF AN ERROR**

During the second quarter, we determined that the method used to equity account for our proportionate share of net earnings related to our investment in Bell Aliant Holdings LP was incorrect. As a result, our operating revenues, net earnings and investment in Bell Aliant Holdings LP were overstated during the period from July 8, 2006 to March 31, 2007 by \$52.6 million, of which \$17.5 million related to the three months ended March 31, 2007 and \$35.1 million related to the period ending December 31, 2006 (\$29.6 million for the three months ended September 30, 2006 and \$5.5 million for the three months ended December 31, 2006). We have restated prior period balances to reflect the correction of the error in accordance with CICA Handbook, Section 1506, Accounting Changes.

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
**June 30, 2007**

**3. INVESTMENTS**

<i>(millions of dollars)</i>	<b>As at June 30, 2007</b>	<b>As at December 31, 2006 (as restated, note 2)</b>
Bell Aliant Holdings LP	<b>\$ 3,760.5</b>	<b>\$ 4,105.9</b>
Télébec and NorthernTel	<b>528.2</b>	<b>-</b>
	<b>\$ 4,288.7</b>	<b>\$ 4,105.9</b>

*Bell Aliant Holdings LP*

On January 1, 2007, the investment in Bell Aliant Holdings LP decreased by \$32.2 million as a result of the adoption of the financial instruments standards, as discussed in note 1, which was partially offset by recording other comprehensive earnings in the amount of \$7.9 million in the six months ended June 30, 2007.

In May 2007, a series of transactions was undertaken to enable us to fund our normal course issuer bid (NCIB) and settle a related party loan. This included the receipt of \$460.9 million as a return of capital on the Class 2 limited partnership units we hold in Bell Aliant Holdings LP, which has reduced the carrying value of our investment in Bell Aliant Holdings LP.

*Télébec and NorthernTel*

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 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 4) 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 the investment plus transaction costs of \$4.7 million and the net book value of the assets and liabilities purchased is \$223.7 million, which is included in the cost of the investment. As the notional purchase price allocation is not final, the total value has been allocated to equity goodwill.

The investment in NorthernTel and Télébec also includes a \$131.0 million loan (note 8) that was assumed as part of the acquisition transaction and has since been repaid.

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
**June 30, 2007**

**4. 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 units</b>	<b>Stated capital</b>
Fund units, as at December 31, 2006, as restated	<b>124,115,890</b>	<b>\$ 4,140.7</b>
Issuance of units (note 3)	<b>13,467,791</b>	<b>394.0</b>
Redemption of units	<b>(6,066)</b>	<b>(0.2)</b>
Fractional unit adjustment	<b>(141)</b>	<b>-</b>
Units purchased for cancellation	<b>(6,776,400)</b>	<b>(223.4)</b>
<b>Fund units, as at June 30, 2007</b>	<b>130,801,074</b>	<b>\$ 4,311.1</b>

We commenced an 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 six months ended June 30, 2007, we purchased for cancellation 6,776,400 units for an aggregate price of \$208.5 million, which reduced our stated capital by \$223.4 million and increased contributed surplus by \$14.9 million.

*Distribution reinvestment and optional unit purchase plan*

For the six months ended June 30, 2007, we bought 253,549 units on the open market in lieu of paying \$6.5 million in distributions and in respect of optional cash purchases of \$1.1 million.

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
**June 30, 2007**

**5. EARNINGS PER UNIT**

For the three and six months ended June 30, 2007		
<i>(millions of dollars, except per unit amounts)</i>		
	<b>Three months</b>	<b>Six months</b>
		<i>(as restated, note 2)</i>
<b>Basic:</b>		
Net earnings from continuing operations	\$ 45.5	\$ 118.3
Net earnings from discontinued operations	212.2	216.6
<b>Net earnings</b>	<b>\$ 257.7</b>	<b>\$ 334.9</b>
Weighted average number of units outstanding	133,199,607	132,961,258
Basic earnings per unit from continuing operations	\$ 0.34	\$ 0.89
Basic earnings per unit from discontinued operations	1.59	1.63
<b>Basic earnings per unit</b>	<b>\$ 1.93</b>	<b>\$ 2.52</b>
<b>Diluted:</b>		
Net earnings from continuing operations	\$ 45.5	\$ 118.3
Add non-controlling interest of holders of exchangeable units		
Bell Aliant Holdings LP	8.3	23.7
Bell Aliant LP	5.3	49.9
	59.1	191.9
Net earnings from discontinued operations	212.2	216.6
Add non-controlling interest of holders of exchangeable units		
Bell Aliant Holdings LP	48.2	49.2
	260.4	265.8
<b>Diluted net earnings</b>	<b>\$ 319.5</b>	<b>\$ 457.6</b>
Weighted average number of units outstanding	133,199,607	132,961,258
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 units	322,831	322,831
	233,896,265	233,657,916
Diluted earnings per unit from continuing operations	\$ 0.25	\$ 0.82
Diluted earnings per unit from discontinued operations	1.11	1.14
<b>Diluted earnings per unit</b>	<b>\$ 1.36</b>	<b>\$ 1.96</b>

The exchangeable limited partnership units are intended to be, to the greatest extent practicable, the economic equivalent of our units. If holders of the exchangeable limited partnership units were to trigger an exchange for our units, the distributions currently being paid to the holders by Bell Aliant Holdings LP and Bell Aliant LP would be paid directly to us. The deferred units represent units outstanding under the deferred unit plan (DUP), as discussed in note 7. The deferred units included in the calculation above represent deferred units relating to the 2006 grant as those are the only ones that meet the criteria for being dilutive.

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
**June 30, 2007**

**6. DISTRIBUTIONS TO UNITHOLDERS**

<i>(millions of dollars, except per unit amounts)</i>		
<b>Record date</b>	<b>Monthly distributions</b>	<b>Distributions per unit</b>
January 31, 2007	\$ 31.4	\$ 0.2283
February 28, 2007	32.3	0.2350
March 30, 2007	32.3	0.2350
April 30, 2007	31.3	0.2350
May 31, 2007	30.9	0.2350
June 29, 2007	30.7	0.2350
<b>Total distributions declared</b>	<b>\$ 188.9</b>	<b>\$ 1.4033</b>

For the six months ended June 30, 2007, distributions declared from Bell Aliant Holdings LP, NorthernTel and Télébec have amounted to \$200.2 million.

**7. UNIT-BASED COMPENSATION PLAN**

*Employees' unit purchase plan*

For the three and six months ended June 30, 2007, we bought 394,224 units and 961,040 units, respectively, 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 first quarter of 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. 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 deferred units vest over a period of three years and are subject to certain performance criteria, with the exception of the 2006 grant, which was not subject to performance criteria. 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.

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
**June 30, 2007**

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

*Deferred unit plan (DUP) (continued)*

A summary of the status of the DUP as at June 30, 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>
Granted through reinvested distributions	<b>17,377</b>
Forfeited	<b>(6,512)</b>
Deferred units outstanding, as at June 30, 2007	<b>781,324</b>

Compensation expense is recorded in subsidiaries of Bell Aliant Holdings LP. As this liability will be settled with Fund units, for the three and six months ended June 30, 2007, we have recorded the equivalent of the compensation expense recorded in Bell Aliant Holdings LP subsidiaries of \$1.9 million and \$6.3 million, respectively, as contributed surplus.

**8. RELATED PARTY TRANSACTIONS**

On January 30, 2007, 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 \$131.0 million to Bell Nordiq Income Fund to enable it to make a special distribution to its unitholders. On the privatization of Bell Nordiq Income Fund, we indirectly assumed the loan. The loan was repaid on May 2, 2007, together with interest calculated thereon at 5.1 per cent per annum which amounted to \$1.7 million of interest charges being 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. Similar loans were made in April 2007 through a series of promissory notes. All of the loans were repaid in April and May 2007, together with interest calculated thereon at 4.4 per cent to 4.42 per cent per annum which amounted to \$0.3 million of interest charges being recorded.

Throughout the second quarter of 2007 we loaned our excess cash to Bell Aliant LP, via a series of promissory notes. Payments are requested as required to fund our NCIB program. All of these notes were subsequently repaid during the second quarter at interest calculated thereon at 4.42 per cent per annum, with the exception of the following:

- \$124.0 million loaned on June 28, 2007, receivable together with interest calculated thereon at 4.52 per cent per annum; and
- \$3.0 million loaned on June 15, 2007, receivable together with interest calculated thereon at 4.44 per cent per annum.

These balances are included in cash and cash equivalents.