

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND

CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)

September 30, 2009

The logo for Bell Aliant, featuring the word "Bell" in a bold, blue, sans-serif font, followed by "Aliant" in a lighter blue, sans-serif font. The entire logo is set against a light blue rectangular background.

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND

Consolidated balance sheets

(Unaudited)

(millions of dollars)

	Notes	As at	
		September 30, 2009	December 31, 2008
Assets			
Current assets			
Cash and cash equivalents	7	\$ 2.2	\$ 6.2
Distributions receivable	7	31.1	31.2
Due from related parties	7	23.8	13.6
		57.1	51.0
Investments	2	4,107.0	4,160.6
Total assets		\$ 4,164.1	\$ 4,211.6
Liabilities and unitholders' equity			
Current liabilities			
Payables and accruals		\$ -	\$ 0.2
Distributions payable	5	30.8	30.7
		30.8	30.9
Unitholders' equity		4,133.3	4,180.7
Total liabilities and unitholders' equity		\$ 4,164.1	\$ 4,211.6

See accompanying notes to the consolidated financial statements

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND

Consolidated statements of earnings

(Unaudited)

For the period ended September 30

<i>(millions of dollars, except earnings per unit)</i>	Notes	Three months		Nine months	
		2009	2008	2009	2008
Equity income from investments	2	\$ 80.7	\$ 76.1	\$ 223.4	\$ 189.6
Other revenues		-	0.1	-	0.1
		80.7	76.2	223.4	189.7
Operating expenses		0.7	1.5	3.2	3.5
Net earnings from continuing operations		80.0	74.7	220.2	186.2
Net earnings (loss) from discontinued operations	2	(5.7)	0.3	(8.5)	(0.4)
Net earnings		\$ 74.3	\$ 75.0	\$ 211.7	\$ 185.8
Earnings per unit	4				
Basic from continuing operations		\$ 0.63	\$ 0.59	\$ 1.73	\$ 1.47
Basic from discontinued operations		(0.05)	0.00	(0.07)	(0.01)
Basic		\$ 0.58	\$ 0.59	\$ 1.66	\$ 1.46
Diluted from continuing operations		\$ 0.58	\$ 0.58	\$ 1.64	\$ 1.47
Diluted from discontinued operations		(0.05)	0.00	(0.07)	(0.01)
Diluted		\$ 0.53	\$ 0.58	\$ 1.57	\$ 1.46

See accompanying notes to the consolidated financial statements

Consolidated statements of comprehensive earnings

(Unaudited)

For the period ended September 30

<i>(millions of dollars)</i>	Note	Three months		Nine months	
		2009	2008	2009	2008
Net earnings		\$ 74.3	\$ 75.0	\$ 211.7	\$ 185.8
Other comprehensive earnings (loss)	2	0.8	(0.4)	12.0	-
Comprehensive earnings		\$ 75.1	\$ 74.6	\$ 223.7	\$ 185.8

See accompanying notes to the consolidated financial statements

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND

Consolidated statements of unitholders' equity

(Unaudited)

For the period ended September 30, 2009

<i>(millions of dollars)</i>	Notes	Stated capital	Contributed surplus	Accumulated deficit	Accumulated other comprehensive loss	Total accumulated deficit and other comprehensive loss	Total unitholders' equity
Balance December 31, 2008		\$ 4,184.9	\$ 45.7	\$ (15.3)	\$ (34.6)	\$ (49.9)	\$ 4,180.7
Net earnings		-	-	211.7	-	211.7	211.7
Distributions declared	5	-	-	(276.7)	-	(276.7)	(276.7)
Redemption of units	3	(0.1)	-	-	-	-	(0.1)
Deferred unit plan	3, 6	7.1	(1.4)	-	-	-	5.7
Other comprehensive earnings of equity investee	2	-	-	-	12.0	12.0	12.0
Balance September 30, 2009		\$ 4,191.9	\$ 44.3	\$ (80.3)	\$ (22.6)	\$ (102.9)	\$ 4,133.3

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For the period ended September 30, 2008

<i>(millions of dollars)</i>	Notes	Stated capital	Contributed surplus	Accumulated earnings	Accumulated other comprehensive loss	Total accumulated earnings and other comprehensive loss	Total unitholders' equity
Balance December 31, 2007		\$ 4,184.0	\$ 31.8	\$ 100.8	\$ (30.4)	\$ 70.4	\$ 4,286.2
Net earnings		-	-	185.8	-	185.8	185.8
Distributions declared	5	-	-	(275.4)	-	(275.4)	(275.4)
Redemption of units	3	(0.1)	-	-	-	-	(0.1)
Deferred unit plan	3, 6	0.9	8.9	-	-	-	9.8
Other comprehensive earnings of equity investee	2	-	-	-	-	-	-
Balance September 30, 2008		\$ 4,184.8	\$ 40.7	\$ 11.2	\$ (30.4)	\$ (19.2)	\$ 4,206.3

See accompanying notes to the consolidated financial statements

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND

Consolidated statements of cash flows

(Unaudited)

For the period ended September 30

<i>(millions of dollars)</i>	Notes	Three months		Nine months	
		2009	2008	2009	2008
Cash from (used in) operating activities					
Net earnings from continuing operations		\$ 80.0	\$ 74.7	\$ 220.2	\$ 186.2
Adjustments to reconcile net earnings to cash from operating activities					
Income from equity investments	2	(80.7)	(76.1)	(223.4)	(189.6)
Change in operating assets and liabilities		(2.0)	1.7	(11.8)	3.2
		(2.7)	0.3	(15.0)	(0.2)
Cash from (used in) financing activities					
Issuance of units	3	0.4	0.8	7.1	0.9
Redemption of units	3	-	-	(0.1)	(0.1)
Purchase of units for distribution reinvestment	3	(3.8)	(3.3)	(10.8)	(10.0)
Cash distributions paid to unitholders		(88.5)	(88.8)	(265.8)	(264.5)
		(91.9)	(91.3)	(269.6)	(273.7)
Cash from investing activities					
Cash distributions received from equity	2	93.6	93.4	280.6	276.8
		93.6	93.4	280.6	276.8
Net increase (decrease) in cash from continuing operations		(1.0)	2.4	(4.0)	2.9
Cash and cash equivalents, beginning of period		3.2	2.6	6.2	2.1
Cash and cash equivalents, end of period		\$ 2.2	\$ 5.0	\$ 2.2	\$ 5.0

See accompanying notes to the consolidated financial statements

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND
Notes to the consolidated financial statements
(Unaudited)
September 30, 2009

Bell Aliant Regional Communications Income Fund was established in 2006 and is an unincorporated, open-ended, limited purpose trust governed by the laws of Ontario pursuant to a Declaration of Trust. All references to “we”, “us”, “our” or the “Fund” refer to Bell Aliant Regional Communications Income Fund and its subsidiaries. We hold investments in entities whose operations are primarily focused on the provision of regional telecommunications services in Atlantic Canada, Ontario and Quebec. Our principal investment is an 82.5 per cent equity interest in Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP), which consolidates its operating subsidiaries.

1. SIGNIFICANT ACCOUNTING POLICIES

Consolidated financial statements

We have prepared these unaudited interim consolidated financial statements in accordance with Canadian generally accepted accounting principles (Canadian GAAP) using the same basis of presentation and accounting policies as our audited consolidated financial statements for the year ended December 31, 2008. These financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2008, along with Bell Aliant Holdings LP’s audited consolidated financial statements for the year ended December 31, 2008, and unaudited interim consolidated financial statements for the nine months ended September 30, 2009.

Economic dependence

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

Future changes in accounting policies

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

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

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

2. INVESTMENTS

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

For the period ended September 30 <i>(millions of dollars)</i>	Three months		Nine months	
	2009	2008	2009	2008
Equity income - continuing operations	\$ 80.7	\$ 76.1	\$ 223.4	\$ 189.6
Equity income - discontinued operations	(5.7)	0.3	(8.5)	(0.4)
Other comprehensive earnings	0.8	(0.4)	12.0	-
Distributions declared	93.4	93.3	280.5	279.4
Distributions received	93.6	93.4	280.6	276.8

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND
Notes to the consolidated financial statements
(Unaudited)
September 30, 2009

2. INVESTMENTS (Continued)

For the three and nine months ended September 30, 2009, equity income from continuing operations includes \$0.3 million and \$1.3 million, respectively, of future income tax expense (September 30, 2008 - \$0.3 million of future income tax expense and \$8.5 million of future income tax recovery, respectively) relating to our proportionate share of temporary differences in certain subsidiaries of Bell Aliant Holdings LP, which are expected to reverse after January 1, 2011.

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

3. UNITHOLDERS' CAPITAL

Issued and outstanding

	As at September 30, 2009		As at December 31, 2008	
	Number of units	Stated capital	Number of units	Stated capital
<i>(millions of dollars, except as otherwise noted)</i>				
Units	127,255,055	\$ 4,191.9	126,983,707	\$ 4,184.9
Special voting units	100,373,827	-	100,373,827	-
		\$ 4,191.9		\$ 4,184.9

Units

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

For the nine months ended September 30	2009		2008	
	Number of units	Stated capital	Number of units	Stated capital
<i>(millions of dollars, except as otherwise noted)</i>				
Units, beginning of period	126,983,707	\$ 4,184.9	126,949,663	\$ 4,184.0
Deferred unit plan units exercised (note 6)	273,238	7.1	32,883	0.9
Redemption of units	(1,880)	(0.1)	(2,084)	(0.1)
Fractional unit adjustment	(10)	-	(23)	-
Units, end of period	127,255,055	\$ 4,191.9	126,980,439	\$ 4,184.8

Distribution reinvestment and optional unit purchase plan

For the three and nine months ended September 30, 2009, we bought 155,879 units and 459,802 units, respectively (September 30, 2008 - 132,264 units and 395,461 units, respectively) on the open market for unitholders participating in the distribution reinvestment plan. This was in lieu of paying \$3.8 million and \$10.8 million in cash distributions, respectively (September 30, 2008 - \$3.3 million and \$10.0 million, respectively), and in respect of optional unit purchase plan cash payments received of \$0.3 million and \$0.9 million, respectively (September 30, 2008 - \$0.4 million and \$1.4 million, respectively).

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND
Notes to the consolidated financial statements
(Unaudited)
September 30, 2009

4. EARNINGS PER UNIT

For the period ended September 30 <i>(millions of dollars, except as otherwise noted)</i>	Three months		Nine months	
	2009	2008	2009	2008
Basic:				
Net earnings from continuing operations	\$ 80.0	\$ 74.7	\$ 220.2	\$ 186.2
Net earnings (loss) from discontinued operations	(5.7)	0.3	(8.5)	(0.4)
Net earnings	\$ 74.3	\$ 75.0	\$ 211.7	\$ 185.8
Weighted average number of units outstanding	127,247,247	126,970,933	127,194,555	126,958,239
Basic earnings per unit from continuing operations	\$ 0.63	\$ 0.59	\$ 1.73	\$ 1.47
Basic earnings per unit from discontinued operations	(0.05)	0.00	(0.07)	(0.01)
Basic earnings per unit	\$ 0.58	\$ 0.59	\$ 1.66	\$ 1.46
Diluted:				
Net earnings from continuing operations	\$ 80.0	\$ 74.7	\$ 220.2	\$ 186.2
Add non-controlling interest of holders of exchangeable units:				
Bell Aliant Holdings LP	17.7	16.7	49.2	43.3
Bell Aliant LP	34.1	39.6	104.2	117.8
	131.8	131.0	373.6	347.3
Net earnings (loss) from discontinued operations	(5.7)	0.3	(8.5)	(0.4)
Add non-controlling interest of holders of exchangeable units:				
Bell Aliant Holdings LP	(1.3)	0.1	(2.0)	0.2
	(7.0)	0.4	(10.5)	(0.2)
Diluted net earnings	\$ 124.8	\$ 131.4	\$ 363.1	\$ 347.1
Weighted average number of units outstanding	127,247,247	126,970,933	127,194,555	126,958,239
Add exchangeable limited partnership units:				
Class 1 exchangeable limited partnership units of Bell Aliant Holdings LP	28,168,803	28,168,803	28,168,803	28,168,803
Class B exchangeable limited partnership units of Bell Aliant LP	72,205,024	72,205,024	72,205,024	72,205,024
Deferred units under unit-based compensation plan	431,871	466,435	431,871	466,435
	228,052,945	227,811,195	228,000,253	227,798,501
Diluted earnings per unit from continuing operations	\$ 0.58	\$ 0.58	\$ 1.64	\$ 1.47
Diluted earnings per unit from discontinued operations	(0.05)	0.00	(0.07)	(0.01)
Diluted earnings per unit	\$ 0.53	\$ 0.58	\$ 1.57	\$ 1.46

The exchangeable limited partnership units are intended to be, to the greatest extent practicable, the economic equivalent of our units. If holders of the exchangeable limited partnership units were to trigger an exchange for our units, the distributions currently being paid to the holders by Bell Aliant Holdings LP and Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP) would be paid directly to us. The exchangeable limited partnership units were anti-dilutive for discontinued operations for the three and nine months ended September 30, 2009, and for both continuing and discontinued operations for the nine months ended September 30, 2008. The deferred units under unit-based compensation plans, as discussed in note 6, are dilutive.

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND
Notes to the consolidated financial statements
(Unaudited)
September 30, 2009

5. DISTRIBUTIONS DECLARED TO UNITHOLDERS

Distributions declared were as follows:

<i>(millions of dollars, except per unit amounts)</i>	2009		2008	
	Monthly distributions	Distributions per unit	Monthly distributions	Distributions per unit
Record date:			Record date:	
January 30	\$ 30.7	\$ 0.2417	January 31	\$ 29.8 \$ 0.2350
February 27	30.7	0.2417	February 29	30.7 0.2417
March 31	30.7	0.2417	March 31	30.7 0.2417
April 30	30.7	0.2417	April 30	30.7 0.2417
May 29	30.8	0.2417	May 30	30.7 0.2417
June 30	30.8	0.2417	June 30	30.7 0.2417
July 31	30.7	0.2417	July 31	30.7 0.2417
August 31	30.8	0.2417	August 29	30.7 0.2417
September 30	30.8	0.2417	September 30	30.7 0.2417
	\$ 276.7	\$ 2.1753		\$ 275.4 \$ 2.1686

6. UNIT-BASED COMPENSATION PLANS

Employee unit purchase plans

For the three and nine months ended September 30, 2009, we bought 441,292 units and 1,551,011 units, respectively (September 30, 2008 – 454,647 units and 1,373,684 units, respectively), at a total cost of \$11.7 million and \$39.3 million, respectively (September 30, 2008 – \$12.4 million and \$39.4 million, respectively), on the open market for employees of certain subsidiaries of Bell Aliant Holdings LP participating in the employee unit purchase plans. Of these totals, \$2.1 million and \$6.9 million, respectively (September 30, 2008 - \$2.5 million and \$7.1 million, respectively) were recorded as compensation expense in certain subsidiaries of Bell Aliant Holdings LP, and the remainder was contributed by employees through payroll deduction, interest earned or distributions reinvested in employee plan accounts.

Deferred unit plan

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

For the nine months ended September 30	2009	2008
Deferred units outstanding, beginning of period	1,181,958	794,980
Granted:		
May 2008 - Service period fiscal 2008 to 2010	-	412,163
February 2009 - Service period fiscal 2009 to 2011	350,492	-
Reinvested distributions during the period	97,934	72,848
	448,426	485,011
Forfeited	(66,501)	(71,051)
Exercised (note 3)	(273,238)	(32,883)
Deferred units outstanding, end of period	1,290,645	1,176,057
Deferred units vested, end of period	431,871	365,800

For the nine months ended September 30, 2009, the grant-date fair value of the 448,426 units (September 30, 2008 – 485,011 units) granted was \$11.7 million, or \$26.09 per deferred unit (September 30, 2008 - \$14.5 million, or \$29.89 per deferred unit).

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND
Notes to the consolidated financial statements
(Unaudited)
September 30, 2009

6. UNIT-BASED COMPENSATION PLANS (Continued)

Deferred unit plan (continued)

As the deferred units will be settled with our units when exercised, for the three and nine months ended September 30, 2009, we have recorded in contributed surplus the equivalent of the compensation expense that was recorded in certain subsidiaries of Bell Aliant Holdings LP of \$3.7 million and \$5.9 million, respectively (September 30, 2008 - \$3.2 million and \$9.8 million, respectively). We issued 273,238 units (September 30, 2008 – 32,883 units) out of treasury at an average market value of \$26.11 per unit (September 30, 2008 – \$26.98 per unit) related to the deferred units exercised in the period. When exercised, the corresponding value of \$7.1 million (September 30, 2008 - \$0.9 million) was reclassified from contributed surplus to stated capital.

7. RELATED PARTY TRANSACTIONS

Bell Aliant Holdings LP

We are entirely dependent on the distributions we receive from Bell Aliant Holdings LP (note 2) to make our distributions (note 5). We are also exposed to credit risk if Bell Aliant Holdings LP is unable to pay the declared distributions to us. At September 30, 2009, \$31.1 million was included in distributions receivable (December 31, 2008 - \$31.2 million).

We loan our excess cash to Bell Aliant LP through a series of promissory notes. Payments are requested as required for operating purposes. The \$6.2 million promissory note that was receivable from Bell Aliant LP at December 31, 2008, was repaid on January 15, 2009. Subsequently issued promissory notes carried rates of interest from 0.49 per cent to 1.81 per cent per annum, resulting in an immaterial amount of interest revenue being earned during the nine month period ended September 30, 2009 (nine months ended September 30, 2008 - \$0.1 million). At September 30, 2009, we had a net receivable of \$2.2 million in promissory notes from Bell Aliant LP, bearing interest at rates ranging from 0.50 per cent to 1.05 per cent per annum and maturing on October 15, 2009. This balance is included in cash and cash equivalents.

At September 30, 2009, \$23.8 million was due from Bell Aliant Holdings LP and its subsidiaries (December 31, 2008 - \$13.6 million), which relates to the net of operating expenses payable as well as amounts receivable related to the deferred unit plan, as described in note 6.

There is minimal credit risk associated with balances receivable from related parties at September 30, 2009.