

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND

CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)

March 31, 2010

BellAliant

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

<i>(millions of dollars)</i>	Notes	As at March 31, 2010		As at December 31, 2009
Assets				
Current assets				
Cash and cash equivalents	8	\$	3.9	\$ 2.6
Distributions receivable	8		31.2	31.1
Due from related parties	8		21.6	25.2
			56.7	58.9
Investments	2		4,063.9	4,092.7
Total assets		\$	4,120.6	\$ 4,151.6
Liabilities and unitholders' equity				
Current liabilities				
Payables and accruals		\$	0.1	\$ -
Distributions payable	6		30.8	30.8
			30.9	30.8
Unitholders' equity			4,089.7	4,120.8
Total liabilities and unitholders' equity		\$	4,120.6	\$ 4,151.6

See accompanying notes to the consolidated financial statements

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND
Consolidated statements of earnings
(Unaudited)

For the three months ended March 31
(millions of dollars, except earnings per unit)

	Notes		2010		2009
Equity income from investments	2	\$	63.8	\$	66.4
Operating expenses			0.6		1.0
Net earnings from continuing operations			63.2		65.4
Net earnings from discontinued operations	2		-		0.6
Net earnings		\$	63.2	\$	66.0
Earnings per unit	4				
Basic from continuing operations		\$	0.50	\$	0.51
Basic from discontinued operations			-		0.01
Basic		\$	0.50	\$	0.52
Diluted from continuing operations		\$	0.48	\$	0.51
Diluted from discontinued operations			-		-
Diluted		\$	0.48	\$	0.51

See accompanying notes to the consolidated financial statements

Consolidated statements of comprehensive earnings
(Unaudited)

For the three months ended March 31
(millions of dollars)

	Notes		2010		2009
Net earnings		\$	63.2	\$	66.0
Other comprehensive earnings	2		0.8		1.1
		\$	64.0	\$	67.1

See accompanying notes to the consolidated financial statements

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND
Consolidated statements of unitholders' equity
(Unaudited)

For the three months ended March 31, 2010

<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, 2009		\$ 4,192.2	\$ 45.7	\$ (95.3)	\$ (21.8)	\$ (117.1)	\$ 4,120.8
Net earnings		-	-	63.2	-	63.2	63.2
Distributions declared	6	-	-	(92.3)	-	(92.3)	(92.3)
Redemption of units	3	(0.1)	-	-	-	-	(0.1)
Deferred unit plan	3, 7	0.4	(3.1)	-	-	-	(2.7)
Other comprehensive earnings of equity investee	2	-	-	-	0.8	0.8	0.8
Balance March 31, 2010		\$ 4,192.5	\$ 42.6	\$ (124.4)	\$ (21.0)	\$ (145.4)	\$ 4,089.7

For the three months ended March 31, 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		-	-	66.0	-	66.0	66.0
Distributions declared	6	-	-	(92.1)	-	(92.1)	(92.1)
Redemption of units	3	(0.1)	-	-	-	-	(0.1)
Deferred unit plan	3, 7	6.4	(3.5)	-	-	-	2.9
Other comprehensive earnings of equity investee	2	-	-	-	1.1	1.1	1.1
Balance March 31, 2009		\$ 4,191.2	\$ 42.2	\$ (41.4)	\$ (33.5)	\$ (74.9)	\$ 4,158.5

See accompanying notes to the consolidated financial statements

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND
Consolidated statements of cash flows
(Unaudited)

For the three months ended March 31

<i>(millions of dollars)</i>	Notes	2010	2009
Cash from (used in) operating activities			
Net earnings from continuing operations		\$ 63.2	\$ 65.4
Adjustments to reconcile net earnings to cash from operating activities			
Income from equity investments	2	(63.8)	(66.4)
Change in operating assets and liabilities	5	0.6	(11.0)
		-	(12.0)
Cash from (used in) financing activities			
Issuance of units	3	0.4	6.4
Redemption of units	3	(0.1)	(0.1)
Purchase of units for distribution reinvestment	3	(4.1)	(3.4)
Cash distributions paid to unitholders		(88.2)	(88.7)
		(92.0)	(85.8)
Cash from investing activities			
Cash distributions received from equity investments	2	93.3	93.5
		93.3	93.5
Net increase (decrease) in cash from continuing operations		1.3	(4.3)
Cash and cash equivalents, beginning of period		2.6	6.2
Cash and cash equivalents, end of period		\$ 3.9	\$ 1.9

See accompanying notes to the consolidated financial statements

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND
Notes to the consolidated financial statements
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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 using the same basis of presentation and accounting policies as our audited consolidated financial statements for the year ended December 31, 2009. These financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2009, along with Bell Aliant Holdings LP’s audited consolidated financial statements for the year ended December 31, 2009, and unaudited interim consolidated financial statements for the three months ended March 31, 2010.

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 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 our equity investments were as follows:

For the three months ended March 31 <i>(millions of dollars)</i>	2010	2009
Equity income – continuing operations	\$ 63.8	\$ 66.4
Equity income – discontinued operations	-	0.6
Other comprehensive earnings	0.8	1.1
Distributions declared	93.4	93.5
Distributions received	93.3	93.5

For the three months ended March 31, 2010, equity income from continuing operations includes an immaterial amount of future income tax expense (March 31, 2009 - \$0.6 million) 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.

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND
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2. INVESTMENTS (Continued)

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

3. UNITHOLDERS' CAPITAL

Issued and outstanding

<i>(millions of dollars, except as otherwise noted)</i>	As at March 31, 2010		As at December 31, 2009	
	Number of units	Stated Capital	Number of units	Stated Capital
Units	127,276,513	\$ 4,192.5	127,264,016	\$ 4,192.2
Special voting units	100,373,827	-	100,373,827	-
		\$ 4,192.5		\$ 4,192.2

Units

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

<i>(millions of dollars, except as otherwise noted)</i>	2010		Number of units	2009
	Number of units	Stated Capital		
For the three months ended March 31				
Units, beginning of period	127,264,016	\$ 4,192.2	126,983,707	\$ 4,184.9
Deferred unit plan units exercised (note 7)	13,462	0.4	245,545	6.4
Redemption of units	(959)	(0.1)	(1,551)	(0.1)
Fractional unit adjustment	(6)	-	(4)	-
Units, end of period	127,276,513	\$ 4,192.5	127,227,697	\$ 4,191.2

Distribution reinvestment and optional unit purchase plan

For the three months ended March 31, 2010, we bought 168,900 units (March 31, 2009 – 150,631 units) on the open market for unitholders participating in the distribution reinvestment and optional unit purchase plan. This was in lieu of paying \$4.1 million in cash distributions (March 31, 2009 - \$3.4 million), and in respect of optional unit purchase plans cash payments received of \$0.3 million (March 31, 2009 – \$0.3 million).

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4. EARNINGS PER UNIT

For the three months ended March 31 (millions of dollars, except as otherwise noted)	2010	2009
Basic:		
Net earnings from continuing operations	\$ 63.2	\$ 65.4
Net earnings from discontinued operations	-	0.6
Net earnings	\$ 63.2	\$ 66.0
Weighted average number of units outstanding	127,270,942	127,097,939
Basic earnings per unit from continuing operations	\$ 0.50	\$ 0.51
Basic earnings per unit from discontinued operations	-	0.01
Basic earnings per unit	\$ 0.50	\$ 0.52
Diluted:		
Net earnings from continuing operations	\$ 63.2	\$ 65.4
Add non-controlling interest of holders of exchangeable units:		
Bell Aliant Holdings LP	14.0	14.7
Bell Aliant LP	32.7	36.3
	109.9	116.4
Net earnings from discontinued operations	-	0.6
Add non-controlling interest of holders of exchangeable units:		
Bell Aliant LP	-	0.1
	-	0.7
Diluted net earnings	\$ 109.9	\$ 117.1
Weighted average number of units outstanding	127,270,942	127,097,939
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 under unit-based compensation plan	741,970	437,769
	228,386,739	227,909,535
Diluted earnings per unit from continuing operations	\$ 0.48	\$ 0.51
Diluted earnings per unit from discontinued operations	-	-
Diluted earnings per unit	\$ 0.48	\$ 0.51

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 under unit-based compensation plans, as discussed in note 7, are dilutive.

5. CHANGES IN OPERATING ASSETS AND LIABILITIES

For the three months ended March 31 (millions of dollars)	2010	2009
Due from related parties	\$ 0.5	\$ (10.9)
Payables and accruals	0.1	(0.1)
	\$ 0.6	\$ (11.0)

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6. DISTRIBUTIONS DECLARED TO UNITHOLDERS

Distributions declared were as follows:

(millions of dollars, except per unit amounts)	2010		2009	
	Monthly distributions	Distributions per unit	Monthly distributions	Distributions per unit
Record date:			Record date:	
January 29	\$ 30.7	\$ 0.2417	January 30	\$ 30.7 \$ 0.2417
February 26	30.8	0.2417	February 27	30.7 0.2417
March 31	30.8	0.2417	March 31	30.7 0.2417
	\$ 92.3	\$ 0.7251		\$ 92.1 \$ 0.7251

7. UNIT-BASED COMPENSATION PLANS

Employee unit purchase plans

For the three months ended March 31, 2010, we bought 537,210 units (March 31, 2009 – 577,203 units) at a total cost of \$14.1 million (March 31, 2009 - \$14.2 million) on the open market for employees of certain subsidiaries of Bell Aliant Holdings LP participating in the employee unit purchase plans. Of these totals, \$2.3 million (March 31, 2009 - \$2.3 million) was recorded as compensation expense in 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

In February 2010, the Fund trustees approved amendments to the deferred unit plan (DUP) to allow plan members to receive one unit or its cash equivalent for each vested deferred unit upon qualifying for payout under the terms of the grant. There is no exercise price paid by the grantee for deferred units. We may issue up to 3,262,688 (December 31, 2009 – 3,276,150) additional units out of treasury to satisfy awards under this DUP. Any unvested deferred units of a plan member upon their departure are forfeited. Any deferred units not meeting certain performance criteria at the end of the vesting period are forfeited.

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

For the three months ended March 31	2010	2009
Deferred units outstanding, beginning of period	1,293,699	1,181,958
Granted:		
February 2009 – Service period fiscal 2009 to 2011	-	350,492
Reinvested distributions	30,058	30,909
	30,058	381,401
Forfeited	(233,204)	(34,608)
Exercised (note 3)	(13,462)	(245,545)
Deferred units outstanding, end of period	1,077,091	1,283,206
Deferred units vested, end of period	741,970	437,769

For the three months ended March 31, 2010, the fair value of the 30,058 deferred units granted or credited on reinvestment of notional distributions (March 31, 2009 – 381,401 deferred units granted or credited) was \$0.8 million, or \$26.34 per deferred unit (March 31, 2009 – \$10.0 million, or \$26.14 per deferred unit).

7. UNIT-BASED COMPENSATION PLANS (Continued)

Deferred unit plan (continued)

As the deferred units may be settled with our units when exercised, for the three months ended March 31, 2010, we have recorded in contributed surplus the equivalent of the compensation expense increase (decrease) that was recorded in Bell Aliant Holdings LP of \$(2.6) million plus \$(0.1) million of other adjustments (March 31, 2009 - \$2.9 million). We issued 13,462 units (March 31, 2009 – 245,545 units) out of treasury at an average market value of \$26.92 per unit (March 31, 2009 – \$26.15 per unit) related to the deferred units exercised in the period. When exercised, the corresponding value of \$0.4 million (March 31, 2009 - \$6.4 million) was reclassified from contributed surplus to stated capital.

8. RELATED PARTY TRANSACTIONS

Bell Aliant Holdings LP

We receive distributions from Bell Aliant Holdings LP, as described in note 2, which allow us to make our distributions, as described in note 6. At March 31, 2010, \$31.2 million (December 31, 2009 - \$31.1 million) was included in distributions receivable.

At March 31, 2010, \$21.6 million was due from Bell Aliant Holdings LP and its subsidiaries (December 31, 2009 - \$25.2 million), which relates to the net of operating expenses payable as well as amounts receivable from the deferred unit compensation plan as described in note 7.

We loan our excess cash to Bell Aliant LP through a series of promissory notes. Payments are requested as required for operating purposes. The \$2.6 million promissory note that was receivable from Bell Aliant LP at December 31, 2009, was repaid on January 15, 2010. Subsequently issued promissory notes carried a rate of interest of 0.50 per cent per annum, resulting in an immaterial amount of interest revenue being earned during the three months ended March 31, 2010 (March 31, 2009 – immaterial amount). At March 31, 2010, a \$3.7 million promissory note was receivable from Bell Aliant LP, which carries interest at 0.50 per cent per annum and matures on April 15, 2010. This balance is included in cash and cash equivalents.

There is minimal credit risk associated with balances receivable from related parties at March 31, 2010.