

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND

CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)

September 30, 2008

Bell Aliant

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND

Consolidated balance sheets

(Unaudited)

(millions of dollars)

	Notes	As at September 30, 2008	As at December 31, 2007
Assets			
Current assets			
Cash and cash equivalents	8	\$ 5.0	\$ 2.1
Distributions receivable		31.1	28.5
Due from related parties		9.6	3.0
		45.7	33.6
Investments	2	4,199.6	4,290.5
Total assets		\$ 4,245.3	\$ 4,324.1
Liabilities and unitholders' equity			
Current liabilities			
Payables and accruals		\$ 0.6	\$ 0.4
Distributions payable	6	30.7	29.8
		31.3	30.2
Unitholders' equity		4,214.0	4,293.9
Total liabilities and unitholders' equity		\$ 4,245.3	\$ 4,324.1

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	
		2008	2007	2008	2007
Equity income from investments	2	\$ 76.1	\$ 69.3	\$ 189.6	\$ 190.9
Other revenues		0.1	0.6	0.1	2.5
		76.2	69.9	189.7	193.4
Operating expenses		1.5	1.1	3.5	4.3
		74.7	68.8	186.2	189.1
Interest charges		-	-	-	2.0
Net earnings from continuing operations		74.7	68.8	186.2	187.1
Net earnings (loss) from discontinued operations	2	0.3	0.4	(0.4)	217.0
Net earnings		\$ 75.0	\$ 69.2	\$ 185.8	\$ 404.1
Earnings per unit					
	5				
Basic from continuing operations		\$ 0.59	\$ 0.53	\$ 1.47	\$ 1.42
Basic from discontinued operations		0.00	0.01	(0.01)	1.65
Basic		\$ 0.59	\$ 0.54	\$ 1.46	\$ 3.07
Diluted from continuing operations		\$ 0.58	\$ 0.49	\$ 1.47	\$ 1.31
Diluted from discontinued operations		0.00	0.00	(0.01)	1.15
Diluted		\$ 0.58	\$ 0.49	\$ 1.46	\$ 2.46

Consolidated statements of comprehensive earnings

(Unaudited)

For the period ended September 30

<i>(millions of dollars)</i>	Note	Three months		Nine months	
		2008	2007	2008	2007
Net earnings		\$ 75.0	\$ 69.2	\$ 185.8	\$ 404.1
Other comprehensive earnings (losses)	2	(0.4)	(5.2)	-	2.7
Comprehensive earnings		\$ 74.6	\$ 64.0	\$ 185.8	\$ 406.8

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, 2008

<i>(millions of dollars)</i>	Notes	Stated capital	Contributed surplus	Accumulated earnings	Distributions declared	Accumulated other comprehensive earnings (loss)	Unitholders' equity
Balance December 31, 2007		\$ 4,184.0	\$ 31.8	\$ 640.4	\$ (531.9)	\$ (30.4)	\$ 4,293.9
Net earnings for the period		-	-	185.8	-	-	185.8
Distributions declared	6	-	-	-	(275.4)	-	(275.4)
Redemption of units	3	(0.1)	-	-	-	-	(0.1)
Deferred unit plan	3, 7	0.9	8.9	-	-	-	9.8
Other comprehensive earnings of equity investee		-	-	-	-	-	-
Balance September 30, 2008		\$ 4,184.8	\$ 40.7	\$ 826.2	\$ (807.3)	\$ (30.4)	\$ 4,214.0

For the period ended September 30, 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	\$ -	\$ 128.2	\$ (163.0)	\$ -	\$ 4,105.9
Net earnings for the period		-	-	404.1	-	-	404.1
Distributions declared	6	-	-	-	(279.4)	-	(279.4)
Issuance of units	3	394.0	-	-	-	-	394.0
Redemption of units	3	(0.2)	-	-	-	-	(0.2)
Units purchased for cancellation	3	(345.8)	20.2	-	-	-	(325.6)
Deferred unit plan		0.1	8.7	-	-	-	8.8
Reclassification adjustment of equity investee		-	-	0.6	-	(32.8)	(32.2)
Other comprehensive earnings of equity investee		-	-	-	-	2.7	2.7
Other equity adjustments of equity investee		-	0.2	2.4	-	-	2.6
Balance September 30, 2007		\$ 4,188.8	\$ 29.1	\$ 535.3	\$ (442.4)	\$ (30.1)	\$ 4,280.7

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	
		2008	2007	2008	2007
Cash from (used in) operating activities					
Net earnings from continuing operations		\$ 74.7	\$ 68.8	\$ 186.2	\$ 187.1
Adjustments to reconcile net earnings to cash from operating activities					
Income from equity investments	2	(76.1)	(69.3)	(189.6)	(190.9)
Change in operating assets and liabilities		2.5	1.2	4.1	1.6
		1.1	0.7	0.7	(2.2)
Cash from (used in) financing activities					
Repayment of loan to related party		-	-	-	(200.9)
Proceeds of loans received from related party		-	-	-	69.9
Repurchase of units	3	-	(117.1)	-	(325.6)
Redemption of units	3	-	-	(0.1)	(0.2)
Purchase of units for distribution reinvestment plan	3	(3.3)	(3.2)	(10.0)	(9.7)
Cash distributions paid to unitholders		(88.8)	(88.1)	(264.5)	(268.1)
		(92.1)	(208.4)	(274.6)	(734.6)
Cash from investing activities					
Cash distributions received from equity investments	2	93.4	90.7	276.8	286.1
Return of capital		-	-	-	460.9
		93.4	90.7	276.8	747.0
Net increase (decrease) in cash from continuing operations		2.4	(117.0)	2.9	10.2
Cash and cash equivalents, beginning of period		2.6	127.9	2.1	0.7
Cash and cash equivalents, end of period		\$ 5.0	\$ 10.9	\$ 5.0	\$ 10.9
Supplementary disclosure					
Interest paid		\$ -	\$ -	\$ -	\$ 2.0

See accompanying notes to the consolidated financial statements

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND
Notes to the consolidated financial statements
(Unaudited)
September 30, 2008

Bell Aliant Regional Communications Income Fund is an unincorporated, open-ended, limited purpose 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.

Through Bell Aliant Holdings Trust and Bell Nordiq Trust, we have an 82.46 per cent equity interest in Bell Aliant Regional Communications Inc. and Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP), which consolidates the operating subsidiaries of the Fund. These financial statements should be read in conjunction with the audited consolidated financial statements as at December 31, 2007, of Bell Aliant Holdings LP and the interim consolidated financial statements as at September 30, 2008, of Bell Aliant Holdings LP.

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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, 2007, 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, 2007.

Capital disclosures

Commencing January 1, 2008, we adopted Section 1535, Capital Disclosures, which was issued by the Canadian Institute of Chartered Accountants (CICA) and establishes standards for disclosing qualitative and quantitative information about an entity's capital and how it is managed. Refer to note 4 for our capital management discussion.

Income taxes

Beginning in 2011, we will be subject to tax as if we were a corporation. Income taxes are accounted for using the asset and liability method of tax allocation. Under this method, our proportionate share of equity income from investments will be reduced (increased) for future tax expense (recovery) to reflect the expected future tax consequences of our proportionate share of the temporary differences between the carrying amounts of assets or liabilities reported on the balance sheets of our subsidiaries and their corresponding tax values, as well as the benefit of our subsidiaries' losses that will more likely than not be realized and carried forward to future years to reduce income taxes. Future income taxes are computed using substantially enacted rates applicable to the years in which the differences are expected to reverse. For the Fund, only temporary differences expected to reverse after January 1, 2011, are taken into account in the determination of the future tax expense (recovery).

Future changes in accounting policies

The Accounting Standards Board of the CICA continually amends and improves 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.

Effective January 1, 2011, International Financial Reporting Standards will replace Canadian GAAP. The Accounting Standards Board has released an exposure draft that outlines the standards. We are currently assessing the effect that this transition will have on our operations and financial reporting.

Economic dependence

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

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND
Notes to the consolidated financial statements
(Unaudited)
September 30, 2008

2. INVESTMENTS

<i>(millions of dollars)</i>	As at		As at	
	September 30, 2008		December 31, 2007	
Bell Aliant Holdings LP	\$	4,199.6	\$	3,763.0
Télébec and NorthernTel		-		527.5
	\$	4,199.6	\$	4,290.5

On January 1, 2008, we transferred our 36.7 per cent ownership interest in Télébec, Limited Partnership (Télébec) and NorthernTel, Limited Partnership (NorthernTel) to Bell Aliant Holdings LP in return for 8,246,429 class 2 limited partnership units of Bell Aliant Holdings LP. Since there is no substantive change in ownership of our 36.7 per cent ownership interest in Télébec and NorthernTel, the transfer was accounted for at its carrying value of \$527.5 million less a \$14.0 million notional depreciation and amortization adjustment related to the finalization of the notional purchase price allocation and other minor charges. In addition, an adjustment to record a future tax recovery relating to our 36.7 per cent proportionate share of temporary differences that are expected to reverse after January 1, 2011, of Télébec and NorthernTel increased the investment account by \$8.5 million. These adjustments were recognized in the equity income from our investment in Bell Aliant Holdings LP for the period ended September 30, 2008.

Equity income and other comprehensive earnings from our investments, and distributions declared and received from our equity investments were as follows:

For the nine months ended September 30	2008			2007		
<i>(millions of dollars)</i>	Bell Aliant Holdings LP	Télébec and NorthernTel	Total	Bell Aliant Holdings LP	Télébec and NorthernTel	Total
Equity income - continuing operations	\$ 189.6	\$ -	\$ 189.6	\$ 163.4	\$ 27.5	\$ 190.9
Equity income - discontinued operations	(0.4)	-	(0.4)	217.0	-	217.0
Other comprehensive earnings	-	-	-	2.7	-	2.7
Distributions declared	279.4	-	279.4	256.8	28.7	285.5
Distributions received	276.8	-	276.8	260.6	25.5	286.1

3. UNITHOLDERS' CAPITAL

Issued and outstanding

<i>(millions of dollars, except as otherwise noted)</i>	As at September 30, 2008		As at December 31, 2007	
	Number of units	Stated capital	Number of units	Stated capital
Units	126,980,439	\$ 4,184.8	126,949,663	\$ 4,184.0
Special voting units	100,373,827	-	100,373,827	-
		\$ 4,184.8		\$ 4,184.0

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND
Notes to the consolidated financial statements
(Unaudited)
September 30, 2008

3. UNITHOLDERS' CAPITAL (Continued)

Issued and outstanding (continued)

The following tables provide the details of the change in our issued and outstanding units.

For the nine month period ended September 30	2008		2007	
<i>(millions of dollars, except as otherwise noted)</i>	Number of units	Stated capital	Number of units	Stated capital
Units, beginning of period	126,949,663	\$ 4,184.0	124,115,890	\$ 4,140.7
Issuance of units in exchange for assets and liabilities of Bell Nordiq Income Fund	-	-	13,467,791	394.0
Deferred unit plan units exercised (note 7)	32,883	0.9	4,380	0.1
Redemption of units	(2,084)	(0.1)	(6,729)	(0.2)
Fractional unit adjustment	(23)	-	(206)	-
Units purchased for cancellation	-	-	(10,486,500)	(345.8)
Units, end of period	126,980,439	\$ 4,184.8	127,094,626	\$ 4,188.8

We commenced a normal course issuer bid (NCIB) on February 28, 2007, which enabled 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. The NCIB expired on February 27, 2008, with us having purchased a total of 10,630,000 units. Purchases under the NCIB were made with cash, at market prices, through the facilities of the Toronto Stock Exchange. No purchases have been made under the NCIB in 2008. During the nine months ended September 30, 2007, we purchased 10,486,500 units for an aggregate price of \$325.6 million, which reduced our stated capital by \$345.8 million and increased contributed surplus by \$20.2 million.

Distribution reinvestment and optional unit purchase plan

For the three and nine months ended September 30, 2008, we bought 132,264 units and 395,461 units, respectively (September 30, 2007 – 116,728 units and 370,277 units, respectively) on the open market for unitholders participating in the dividend reinvestment plan in lieu of paying \$3.3 million and \$10.0 million in cash distributions, respectively (September 30, 2007 - \$3.2 million and \$9.7 million, respectively), and in respect of optional cash payments received we bought additional units for \$0.4 million and \$1.4 million, respectively (September 30, 2007 – \$0.5 million and \$1.6 million, respectively).

4. CAPITAL MANAGEMENT

We do not carry on any active business operations as our activities are generally restricted to holding securities of our equity investees. We hold indirect equity investments in our operating subsidiaries and we do not incur debt to finance these investments. Therefore, our capital structure is composed solely of our unitholders' equity.

We also have a small amount of current assets financed by our current liabilities as our objective is to manage the timing of the receipt of cash distributions from our equity investees and the payment of our operating expenses and distributions to our unitholders. In order to make additional investments or to manage our capital and the income mix of distributions made to our unitholders, from time to time we consider and may adjust our distribution policy, issue or repurchase units or return capital to our unitholders.

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND
Notes to the consolidated financial statements
(Unaudited)
September 30, 2008

5. EARNINGS PER UNIT

For the period ended September 30 <i>(millions of dollars, except as otherwise noted)</i>	Three months		Nine months	
	2008	2007	2008	2007
Basic:				
Net earnings from continuing operations	\$ 74.7	\$ 68.8	\$ 186.2	\$ 187.1
Net earnings (loss) from discontinued operations	0.3	0.4	(0.4)	217.0
Net earnings	\$ 75.0	\$ 69.2	\$ 185.8	\$ 404.1
Weighted average number of units outstanding	126,970,933	128,960,220	126,958,239	131,607,966
Basic earnings per unit from continuing operations	\$ 0.59	\$ 0.53	\$ 1.47	\$ 1.42
Basic earnings per unit from discontinued operations	0.00	0.01	(0.01)	1.65
Basic earnings per unit	\$ 0.59	\$ 0.54	\$ 1.46	\$ 3.07
Diluted:				
Net earnings from continuing operations	\$ 74.7	\$ 68.8	\$ 186.2	\$ 187.1
Add non-controlling interest of holders of exchangeable units:				
Bell Aliant Holdings LP	16.7	13.4	43.3	37.1
Bell Aliant LP	39.6	30.9	117.8	80.8
	131.0	113.1	347.3	305.0
Net earnings (loss) from discontinued operations	0.3	0.4	(0.4)	217.0
Add non-controlling interest of holders of exchangeable units:				
Bell Aliant Holdings LP	0.1	0.1	0.2	49.3
	0.4	0.5	(0.2)	266.3
Diluted net earnings	\$ 131.4	\$ 113.6	\$ 347.1	\$ 571.3
Weighted average number of units outstanding	126,970,933	128,960,220	126,958,239	131,607,966
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	466,435	317,733	466,435	317,733
	227,811,195	229,651,780	227,798,501	232,299,526
Diluted earnings per unit from continuing operations	\$ 0.58	\$ 0.49	\$ 1.52	\$ 1.31
Diluted earnings per unit from discontinued operations	0.00	0.00	0.00	1.15
Diluted earnings per unit	\$ 0.58	\$ 0.49	\$ 1.52	\$ 2.46

The exchangeable limited partnership units are intended to be, to the greatest extent practicable, the economic equivalent of our units and in the nine month period ended September 30, 2008, are anti dilutive in the above calculations of earnings per unit. 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 deferred units under unit-based compensation plans, as discussed in note 7, relating to the 2006 grant and a portion of the 2007 grant, are dilutive.

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND
Notes to the consolidated financial statements
(Unaudited)
September 30, 2008

6. DISTRIBUTIONS DECLARED TO UNITHOLDERS

<i>(millions of dollars, except per unit amounts)</i>	2008		2007	
	Monthly distributions	Distributions per unit	Monthly distributions	Distributions per unit
Record date:			Record date:	
January 31	\$ 29.8	\$ 0.2350	January 31	\$ 31.4 \$ 0.2283
February 29	30.7	0.2417	February 28	32.3 0.2350
March 31	30.7	0.2417	March 30	32.3 0.2350
April 30	30.7	0.2417	April 30	31.3 0.2350
May 30	30.7	0.2417	May 31	30.9 0.2350
June 30	30.7	0.2417	June 29	30.7 0.2350
July 31	30.7	0.2417	July 31	30.5 0.2350
August 29	30.7	0.2417	August 31	30.1 0.2350
September 30	30.7	0.2417	September 28	29.9 0.2350
	\$ 275.4	\$ 2.1686		\$ 279.4 \$ 2.1083

7. UNIT-BASED COMPENSATION PLANS

Employees' unit purchase plans

For the three and nine months ended September 30, 2008, we bought 454,647 units and 1,373,684 units respectively (September 30, 2007 – 377,531 units and 1,338,571 units, respectively) at a total cost of \$12.4 million and \$39.4 million, respectively (September 30, 2007 - \$12.0 million and \$40.9 million, respectively), on the open market for employees of certain subsidiaries of Bell Aliant Holdings LP, participating in the employees' unit purchase plans. Of these totals, \$2.5 million and \$7.1 million, respectively (September 30, 2007 - \$2.3 million and \$7.4 million) 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 employees' plan accounts.

Deferred unit plan (DUP)

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

	2008	2007
For the nine month period ended September 30		
Deferred units outstanding, beginning of period	794,980	-
Granted:		
Service period fiscal 2006 to 2008	-	316,717
Service period March 2007 to March 2010	-	453,742
Service period fiscal 2008 to 2010	412,163	-
Reinvested distributions	72,848	34,365
	1,279,991	804,824
Forfeited	(71,051)	(22,452)
Exercised (note 3)	(32,883)	(4,380)
Deferred units outstanding, end of period	1,176,057	777,992
Deferred units vested, end of period	365,800	108,174

For the nine months ended September 30, 2008, the weighted average grant-date fair value of the 485,011 units (September 30, 2007 – 804,824) granted was \$14.5 million, or \$29.89 per deferred unit (September 30, 2007 - \$23.6 million, or \$29.29 per deferred unit).

BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND
Notes to the consolidated financial statements
(Unaudited)
September 30, 2008

7. UNIT-BASED COMPENSATION PLANS (Continued)

Deferred unit plan (DUP) (continued)

As the deferred units will be settled with our units when exercised, for the three and nine months ended September 30, 2008, we have recorded in contributed surplus the equivalent of the compensation expense that was recorded in certain subsidiaries of Bell Aliant Holdings LP of \$3.2 million and \$9.8 million, respectively (September 30, 2007 - \$2.4 million and \$8.7 million, respectively). We issued 32,883 units (September 30, 2007 - 4,380) out of treasury at an average market value of \$26.98 per unit (September 30, 2007 - \$31.44) related to the deferred units exercised in the period. When exercised an amount of \$0.9 million (September 30, 2007 - \$0.1) was reclassified from contributed surplus to stated capital.

8. RELATED PARTY TRANSACTIONS

On January 1, 2008, we transferred our 36.7 per cent ownership interest in NorthernTel and Télébec to Bell Aliant Holdings LP in return for 8,246,429 class 2 limited partnership units of Bell Aliant Holdings LP. The transfer was accounted for at its carrying value. For further details refer to note 2.

Throughout the first nine months of 2008, we continued to loan our excess cash to Bell Aliant LP through a series of promissory notes. Payments are requested as required for operating purposes. The \$1.9 million promissory note that was receivable from Bell Aliant LP at December 31, 2007, was repaid on January 15, 2008. Subsequently issued promissory notes carried rates of interest from 3.21 per cent to 4.68 per cent per annum, resulting in \$0.1 million of interest revenue being earned during the nine months ended September 30, 2008. At September 30, 2008, a \$5.0 million promissory note was receivable from Bell Aliant LP, which bears interest at 3.22 per cent per annum. This balance is included in cash and cash equivalents.