

# Consolidated financial statements and notes

December 31, 2008

# Management's report

## TO THE UNITHOLDERS

The accompanying financial statements are the responsibility of management. The financial statements have been prepared according to Canadian generally accepted accounting principles and include amounts based on management's best estimates and judgments.

Management has established and maintains accounting and internal control systems that include written policies, procedures and a comprehensive internal audit program. These systems are designed to provide reasonable assurance that our financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements, and that our assets are properly safeguarded.

The board of directors oversees management's responsibilities for financial reporting primarily through the audit committee. The financial statements have been reviewed and approved by the board of directors on recommendation from the audit committee. The audit committee is also responsible for making recommendation with respect to the appointment of the independent auditors and for approving their remuneration and terms of engagement. Other responsibilities of the audit committee include meeting periodically with the independent auditors, management and the internal auditors to review accounting, auditing, internal controls, litigation, financial reporting and other matters. The internal auditors and the external auditors have free access to the audit committee both with and without management present.

Our independent auditors, Deloitte & Touche LLP, have audited our financial statements. The accompanying auditors' report outlines the scope of their examination and their opinion.



Karen H. Sheriff  
President and chief executive officer  
Bell Aliant Regional Communications  
Holdings Inc., General Partner of  
Bell Aliant Regional Communications  
Holdings, Limited Partnership



Glen LeBlanc  
Chief financial officer  
Bell Aliant Regional Communications  
Holdings Inc., General Partner of  
Bell Aliant Regional Communications  
Holdings, Limited Partnership

March 10, 2009

# Auditors' report

## TO THE UNITHOLDERS OF BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND

We have audited the consolidated balance sheets of Bell Aliant Regional Communications Income Fund (the "Fund") as at December 31, 2008 and 2007, and the consolidated statements of earnings, comprehensive earnings, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Deloitte & Touche LLP*

Deloitte & Touche LLP  
Chartered Accountants  
Halifax, Nova Scotia  
March 10, 2009

# Statements

## CONSOLIDATED BALANCE SHEETS

As at December 31

(millions of dollars)

	Notes	2008	2007 (as restated, note 2)
<b>Assets</b>			
Current assets			
Cash and cash equivalents	8	6.2	2.1
Distributions receivable		31.2	28.5
Due from related parties	8	13.6	3.0
		51.0	33.6
Investments	2	4,160.6	4,282.8
<b>Total assets</b>		<b>4,211.6</b>	<b>4,316.4</b>
<b>Liabilities and unitholders' equity</b>			
Current liabilities			
Payables and accruals		0.2	0.4
Distributions payable	6	30.7	29.8
		30.9	30.2
Unitholders' equity		4,180.7	4,286.2
<b>Total liabilities and unitholders' equity</b>		<b>4,211.6</b>	<b>4,316.4</b>

See accompanying notes to the consolidated financial statements  
Approved on behalf of the board of trustees:



Charles White  
Trustee



Edward Reevey  
Trustee

**CONSOLIDATED STATEMENTS OF EARNINGS**

For the years ended December 31

(millions of dollars, except earnings per unit)	Notes	2008	2007 (as restated, note 2)
Equity income from investments	2	255.6	297.6
Other revenues	8	0.1	2.6
		255.7	300.2
Operating expenses	8	4.0	5.5
		251.7	294.7
Interest charges		—	2.0
Net earnings from continuing operations		251.7	292.7
Net earnings (loss) from discontinued operations	2	(0.3)	208.8
<b>Net earnings</b>		<b>251.4</b>	<b>501.5</b>
<b>Earnings per unit</b>	<b>5</b>		
Basic from continuing operations		1.98	2.24
Basic from discontinued operations		—	1.60
Basic		1.98	3.84
Diluted from continuing operations		1.93	2.03
Diluted from discontinued operations		—	1.11
Diluted		1.93	3.14

See accompanying notes to the consolidated financial statements

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS**

For the years ended December 31

(millions of dollars)	Note	2008	2007 (as restated, note 2)
Net earnings		251.4	501.5
Other comprehensive earnings (losses)	2	(4.2)	2.4
<b>Comprehensive earnings</b>		<b>247.2</b>	<b>503.9</b>

See accompanying notes to the consolidated financial statements

## CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

For the year ended December 31, 2008 (millions of dollars)	Notes	Stated capital	Contri- buted surplus	Accu- mulated earnings	Distri- butions declared	Accu- mulated other compre- hensive earnings (loss)	Unit- holders' equity
Balance December 31, 2007, as restated		4,184.0	31.8	632.7	(531.9)	(30.4)	4,286.2
Net earnings		—	—	251.4	—	—	251.4
Distributions declared	6	—	—	—	(367.5)	—	(367.5)
Redemption of units	3	(0.1)	—	—	—	—	(0.1)
Deferred unit plan	3, 7	1.0	13.8	—	—	—	14.8
Other equity adjustments of equity investee		—	0.1	—	—	—	0.1
Other comprehensive earnings of equity investee		—	—	—	—	(4.2)	(4.2)
<b>Balance December 31, 2008</b>		<b>4,184.9</b>	<b>45.7</b>	<b>884.1</b>	<b>(899.4)</b>	<b>(34.6)</b>	<b>4,180.7</b>

For the year ended December 31, 2007 (millions of dollars)	Notes	Stated capital	Contri- buted surplus	Accu- mulated earnings	Distri- butions declared	Accu- mulated other compre- hensive earnings (loss)	Unit- holders' equity
Balance December 31, 2006		4,140.7	—	128.2	(163.0)	—	4,105.9
Net earnings		—	—	509.2	—	—	509.2
Distributions declared	6	—	—	—	(368.9)	—	(368.9)
Issuance of units	3	394.0	—	—	—	—	394.0
Redemption of units	3	(0.3)	—	—	—	—	(0.3)
Units purchased for cancellation	3	(350.5)	20.3	—	—	—	(330.2)
Deferred unit plan	3, 7	0.1	11.3	—	—	—	11.4
Reclassification adjustment of equity investee		—	—	0.6	—	(32.8)	(32.2)
Other comprehensive earnings of equity investee		—	—	—	—	2.4	2.4
Other equity adjustments of equity investee		—	0.2	2.4	—	—	2.6
Balance December 31, 2007, as reported		4,184.0	31.8	640.4	(531.9)	(30.4)	4,293.9
Correction of an error	2	—	—	(7.7)	—	—	(7.7)
<b>Balance December 31, 2007, as restated</b>		<b>4,184.0</b>	<b>31.8</b>	<b>632.7</b>	<b>(531.9)</b>	<b>(30.4)</b>	<b>4,286.2</b>

See accompanying notes to the consolidated financial statements

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the years ended December 31

(millions of dollars)	Notes	2008	2007
<b>Cash from (used in) operating activities</b>			
Net earnings from continuing operations		251.7	292.7
Adjustments to reconcile net earnings to cash from operating activities			
Income from equity investments	2	(255.6)	(297.6)
Change in operating assets and liabilities		4.6	2.2
		0.7	(2.7)
<b>Cash from (used in) financing activities</b>			
Repayment of loan to related party		—	(200.9)
Proceeds of loans received from related party		—	69.9
Repurchase of units	3	—	(330.2)
Redemption of units	3	(0.1)	(0.3)
Purchase of units for distribution reinvestment plan	3, 6	(13.3)	(13.0)
Cash distributions paid to unitholders	6	(353.3)	(354.4)
		(366.7)	(828.9)
<b>Cash from investing activities</b>			
Cash distributions received from equity investments	2	370.1	372.1
Return of capital		—	460.9
		370.1	833.0
Net increase in cash from continuing operations		4.1	1.4
Cash and cash equivalents, beginning of year		2.1	0.7
<b>Cash and cash equivalents, end of year</b>		<b>6.2</b>	<b>2.1</b>
<b>Supplementary disclosure</b>			
Interest paid		—	2.0

See accompanying notes to the consolidated financial statements

# Notes

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.

## 1 SIGNIFICANT ACCOUNTING POLICIES

### **Basis of presentation**

We have prepared these consolidated financial statements in accordance with Canadian generally accepted accounting principles (Canadian GAAP).

We consolidate the financial statements of entities we control, including Bell Aliant Holdings Trust and Bell Nordiq Trust, and equity account for the investments over which we exercise significant influence, including Bell Aliant Regional Communications Holdings Inc. (Bell Aliant Holdings GP) and Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP). Bell Aliant Holdings LP consolidates its operating subsidiaries. These financial statements should be read in conjunction with the audited consolidated financial statements as at December 31, 2008, of Bell Aliant Holdings LP.

All significant intercompany transactions have been eliminated on consolidation.

### **Use of accounting estimates**

Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. By their nature, these estimates and assumptions are subject to measurement uncertainty and as such, actual results could differ from estimates used in these financial statements. We use estimates for certain items such as income taxes.

### **Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, balances with banks and notes receivable from Bell Aliant Regional Communications, Limited Partnership (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 and credit risk.

### **Distributions**

Distributions receivable from our indirect investment in Bell Aliant Holdings LP are recorded when declared. Distributions payable to our unitholders are recorded when declared.

### **Investments**

We account for our 81.50 per cent investment in Bell Aliant Holdings GP and 82.46 per cent investment in Bell Aliant Holdings LP on an equity basis, as we exercise significant influence over operating, investing and financial policies but do not control the companies. BCE and Bell Canada own the remaining 18.50 per cent interest in Bell Aliant Holdings GP and 17.54 per cent interest in Bell Aliant Holdings LP.

## 1. Significant accounting policies (continued)

Under a Securityholders' Agreement, BCE has certain rights in respect of the board of Bell Aliant Holdings GP including:

- The right to nominate up to a majority of directors for so long as BCE and Bell Canada, directly or indirectly, hold not less than 30 per cent of our units (on a fully diluted basis) and certain commercial agreements are in place; and
- The right to require written consent from BCE, along with the majority vote from the board, prior to undertaking certain matters or transactions for so long as BCE and Bell Canada, directly or indirectly, hold not less than 20 per cent of our units (on a fully diluted basis).

As a result of these rights, BCE controls the board of Bell Aliant Holdings GP, and thus Bell Aliant Holdings LP.

**Income taxes**

We qualify as a mutual fund trust for the purposes of the Income Tax Act (Canada). As such, we are only taxable on any amounts not allocated to unitholders. These financial statements do not reflect any current income taxes as we are committed to distributing to our unitholders all or virtually all of our taxable income and taxable capital gains and we intend to comply with the provisions of the Income Tax Act that permit the deduction of distributions to unitholders from our taxable income and taxable capital gains. Income tax liabilities related to our distributions are the obligations of the unitholders.

As a result of the June 2007 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. 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 subsidiaries of Bell Aliant Holdings LP and their corresponding tax values, as well as the benefit of its 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).

**Financial instruments**

Financial instruments are recognized when we become a party to the contractual provisions of a financial instrument or non-financial derivative contract. All financial instruments are measured at fair value on initial recognition.

For purposes of ongoing measurement, we classify financial assets and liabilities according to their characteristics and management's choices and intentions related thereto. Subsequent measurement for these financial assets and financial liabilities is based on either fair value or amortized cost using the effective interest method, depending upon their classification. The carrying values of our financial instruments approximate fair values due to their short-term nature.

Our financial assets and liabilities are generally classified and measured as follows:

Balance sheet account	Classification	Subsequent measurement
Cash and cash equivalents	Held for trading	Fair value
Distributions receivable	Loans and receivables	Amortized cost
Due from related parties	Loans and receivables	Amortized cost
Payables and accruals	Other liabilities	Amortized cost
Distributions payable	Other liabilities	Amortized cost

## 1. Significant accounting policies (continued)

### Held for trading

Held for trading financial assets are typically acquired with the objective to generate revenue from short-term fluctuations in price. Interest earned, gains and losses realized on disposal and unrealized gains and losses from changes in fair value are recorded in net earnings as incurred.

### Loans and receivables

Loans and receivables result from the delivery of cash or other assets by us to a borrower in return for a promise to repay on demand or on a specified date(s). Gains and losses are recognized in earnings in the period that the asset is derecognized or impaired.

### Other liabilities

Other liabilities include all financial liabilities other than derivatives or liabilities that have been classified as held for trading. These financial liabilities are measured at amortized cost.

### Transaction costs

Transaction costs that are incremental and directly attributable to the acquisition or issue of a financial asset or financial liability are recorded as follows:

- Held for trading – expensed as incurred; and
- Loans and receivables, and other liabilities – included in the carrying value of the financial asset or financial liability and amortized over the expected life of the financial instrument using the effective interest method.

### Revenue recognition

Equity income is recorded based on our percentage ownership in the net earnings of investments over which we exercise significant influence over operating, investing and financial policies but do not control.

Other revenue includes interest income, which is recorded as it is earned.

### Earnings per unit

Basic earnings per unit is based on the weighted average number of units outstanding during the period. Diluted earnings per unit is computed in accordance with the treasury stock method and based on the weighted average number of units and dilutive unit equivalents.

### Unit-based compensation plans

We maintain employee unit purchase plans and a deferred unit plan for employees of certain subsidiaries of Bell Aliant Holdings LP. Compensation expense related to these plans is recorded in those entities. Details of these plans are described in note 7.

### 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 distributions.

### Future changes in accounting policies

The Accounting Standards Board of the 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.

## 1. Significant accounting policies (continued)

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.

## 2 INVESTMENTS

As at December 31

(millions of dollars)

	2008	2007
		(as restated)
Bell Aliant Holdings LP	4,160.6	3,755.3
Télébec and NorthernTel	—	527.5
	4,160.6	4,282.8

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

For the years ended December 31 (millions of dollars)	2008			2007		
	Bell Aliant Holdings LP	Télébec and NorthernTel	Total	Bell Aliant Holdings LP	Télébec and NorthernTel	Total
Equity income – continuing operations	255.6	—	255.6	259.6	38.0	297.6
Equity income – discontinued operations	(0.3)	—	(0.3)	208.8	—	208.8
Other comprehensive earnings	(4.2)	—	(4.2)	2.4	—	2.4
Distributions declared	372.8	—	372.8	331.2	40.9	372.1
Distributions received	370.1	—	370.1	335.7	36.4	372.1

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. We retain a nominal one unit ownership interest in each of Télébec and NorthernTel. Since there was 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 \$8.9 million. These adjustments were recognized in the equity income from our investment in Bell Aliant Holdings LP for the year ended December 31, 2008.

### Correction of an error

In the fourth quarter of 2008, we corrected an error made in the second quarter of 2007 that overstated our proportionate share of net earnings from discontinued operations of our equity investment in Bell Aliant Holdings LP. Accordingly, the 2007 financial results were restated to reduce our equity income from investments included in net earnings (loss) from discontinued operations by \$7.7 million and decrease the investment in Bell Aliant Holdings LP and the unitholders' equity by the same amount as at December 31, 2007. This correction reduced basic and diluted earnings per unit from discontinued operations by \$0.06 and \$0.04, respectively, for the year ended December 31, 2007.

### 3 UNITHOLDERS' CAPITAL

#### Authorized

Our unitholders' capital is authorized to include an unlimited number of two classes of units:

- Units; and
- Special voting units.

Each unit represents an equal fraction of undivided beneficial interest in us. All units are transferable and share equally in all of our distributions whether of net earnings (losses), net realized capital gains or other amounts, and in our net assets in the event of our termination or winding up. All units rank among themselves equally and ratably without discrimination, preference or priority. Units are redeemable at a price per unit equal to the lesser of (a) 90 per cent of the current market price of a unit calculated as of the date on which the units were tendered for redemption; or (b) 100 per cent of the closing market price on the redemption date.

Special voting units are issued in connection with certain securities exchangeable or exercisable for, or convertible into, our units. Special voting units are not entitled to any beneficial interest in any of our distributions or in our net assets in the event of our termination or winding up. Each special voting unit entitles the holder to a number of votes at any meeting of voting unitholders equal to the number of units into, or for which, the related exchangeable security is exchangeable, exercisable or convertible.

#### Issued and outstanding

As at December 31 (millions of dollars, except as otherwise noted)	2008		2007	
	Number of units	Stated capital	Number of units	Stated capital
Units	126,983,707	4,184.9	126,949,663	4,184.0
Special voting units	100,373,827	—	100,373,827	—
		4,184.9		4,184.0

#### Units

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

For the years ended December 31 (millions of dollars, except as otherwise noted)	2008		2007	
	Number of units	Stated capital	Number of units	Stated capital
Units, beginning of year	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)	36,340	1.0	4,380	0.1
Redemption of units	(2,271)	(0.1)	(8,172)	(0.3)
Fractional unit adjustment	(25)	—	(226)	—
Units purchased for cancellation	—	—	(10,630,000)	(350.5)
Units, end of year	126,983,707	4,184.9	126,949,663	4,184.0

As certificates are issued to unitholders for whole units, any fractional units that those unitholders may be entitled to are paid out in cash.

On January 30, 2007, we acquired the remaining 36.7 per cent ownership interest in Télébec and NorthernTel through the acquisition of the assets and liabilities of Bell Nordiq Income Fund. As part of the transaction, we exchanged 13,467,791 Fund units, having a total value of \$394.0 million, for the assets and liabilities of Bell Nordiq Income Fund.

### 3. Unitholders' capital (continued)

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 (TSX). No purchases were made under the NCIB in 2008. For the year ended December 31, 2007, we purchased for cancellation 10,630,000 units for an aggregate price of \$330.2 million, which reduced our stated capital by \$350.5 million and increased contributed surplus by \$20.3 million.

#### Special voting units

The following table provides the number of exchangeable limited partnership units and the number of special voting units issued and outstanding at December 31, 2008.

	Exchangeable limited partnership units	Special voting 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
		100,373,827

Special voting units issued relate to exchangeable limited partnership units that were issued by Bell Aliant Holdings LP. The exchangeable limited partnership units are intended to be, to the greatest extent practicable, the economic equivalent of our units. Holders of exchangeable limited partnership units are entitled to receive distributions per unit from the partnerships that equal, to the greatest extent practicable, our distributions per unit paid to our unitholders. The exchangeable units are used in the calculation of fully diluted earnings per unit (note 5). Each exchangeable limited partnership unit is exchangeable for our units on a one-for-one basis. The exchangeable limited partnership units are transferable subject to certain restrictions. Concurrent with the exchange of exchangeable limited partnership units for our units, any related special voting units will be cancelled.

#### Exchange rights and liquidity rights

Exchange rights and liquidity rights are issued in connection with the exchangeable limited partnership units that were issued by Bell Aliant Holdings LP and Bell Aliant LP. Each class 1 exchangeable limited partnership unit issued by Bell Aliant Holdings LP, together with a share of Bell Aliant Holdings GP and each class B exchangeable limited partnership unit issued by Bell Aliant LP, is exchangeable for our units on a one-for-one basis, subject to customary anti-dilution adjustments. The exchangeable limited partnership units can also be redeemed for cash at the amount of net proceeds received by us for issuing that number of units equal to the number of units that would have been issued on an exchange of the exchangeable units to be redeemed.

#### Distribution reinvestment and optional unit purchase plan

Under the provisions of our distribution reinvestment and optional unit purchase plan, unitholders can elect to receive additional units in lieu of receiving cash distributions. Each participant in the plan may also make optional cash payments, subject to certain dollar value and time restrictions, to purchase additional units. To satisfy the purchase of units under this plan, we may issue units out of treasury or units may be purchased on the open market.

For the year ended December 31, 2008, we bought 553,651 units (December 31, 2007 – 496,267 units) on the open market for unitholders participating in the dividend reinvestment plan in lieu of paying \$13.3 million in cash distributions (December 31, 2007 – \$13.0 million), and in respect of optional cash payments received we bought additional units for \$1.8 million (December 31, 2007 – \$2.2 million).

## 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 operating subsidiaries of Bell Aliant Holdings LP 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.

## 5 EARNINGS PER UNIT

For the years ended December 31

(millions of dollars, except as otherwise noted)

	2008	2007
		(as restated, note 2)
<b>Basic:</b>		
Net earnings from continuing operations	251.7	292.7
Net earnings (loss) from discontinued operations	(0.3)	208.8
<b>Net earnings</b>	<b>251.4</b>	<b>501.5</b>
Weighted average number of units outstanding	126,964,466	130,431,180
Basic earnings per unit from continuing operations	1.98	2.24
Basic earnings per unit from discontinued operations	—	1.60
<b>Basic earnings per unit</b>	<b>1.98</b>	<b>3.84</b>
<b>Diluted:</b>		
Net earnings from continuing operations	251.7	292.7
Add non-controlling interest of holders of exchangeable units:		
Bell Aliant Holdings LP	57.6	59.0
Bell Aliant LP	131.1	117.7
	440.4	469.4
Net earnings (loss) from discontinued operations	(0.3)	208.8
Add non-controlling interest of holders of exchangeable units:		
Bell Aliant Holdings LP	0.2	47.4
	(0.1)	256.2
<b>Diluted net earnings</b>	<b>440.3</b>	<b>725.6</b>
Weighted average number of units outstanding	126,964,466	130,431,180
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	686,145	324,655
	228,024,438	231,129,662
Diluted earnings per unit from continuing operations	1.93	2.03
Diluted earnings per unit from discontinued operations	—	1.11
<b>Diluted earnings per unit</b>	<b>1.93</b>	<b>3.14</b>

## 5. Earnings per unit (continued)

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, relating to the 2006 grant and a portion of the 2007 and 2008 grants, are dilutive.

## 6 DISTRIBUTIONS DECLARED TO UNITHOLDERS

Distributions declared were as follows:

(millions of dollars, except per unit amounts)	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
October 31	30.7	0.2417	October 31	29.9	0.2350
November 28	30.7	0.2417	November 30	29.8	0.2350
December 31	30.7	0.2417	December 31	29.8	0.2350
	367.5	2.8937		368.9	2.8133

Distributions paid were as follows:

For the years ended December 31		2008	2007
(millions of dollars)			
Cash		353.3	354.4
Additional units on distribution reinvestment plan (note 3)		13.3	13.0
		366.6	367.4

We make monthly distributions out of our distributable cash, which generally consists of all distributions received from Bell Aliant Holdings LP, less normal operating expenses, for or in respect of the relevant period. Monthly distributions are payable to unitholders of record on the last business day of each calendar month, or such other date as may be determined from time to time by our trustees (provided that December 31 in each calendar year shall be a distribution record date), and will be paid, generally on or before the 15<sup>th</sup> day of the following month. Unitholders can elect to receive additional units in lieu of receiving cash distributions, as discussed in note 3.

The trustees may approve additional distributions in excess of the monthly distributions during the year. The distribution payable for the month ending December 31 in each year may include an amount in respect of our net earnings and net realized capital gains, if any, to ensure that we will not be liable for income taxes for that year.

## 6. Distributions declared to unitholders (continued)

Any net earnings that are unavailable for cash distributions will, to the extent necessary to ensure that we will not be liable for income taxes, be distributed to unitholders in the form of additional units. As such, the amount of net earnings allocated to unitholders may exceed the amount of cash distributed. Our Declaration of Trust provides that immediately after any pro rata distribution of units to all unitholders in satisfaction of any non-cash distribution, the number of outstanding units will be consolidated such that each unitholder will hold after the consolidation the same number of units as the unitholder held before the non-cash distribution, except where non-resident unitholders are subject to withholding tax in respect of such distribution.

## 7 UNIT-BASED COMPENSATION PLANS

### Employee unit purchase plans

We have two employee unit purchase plans for eligible employees of certain subsidiaries of Bell Aliant Holdings LP. Under the terms of the plans, employees can choose each year to have up to 10 or 12 per cent of their annual base earnings withheld to purchase our units. Certain subsidiaries of Bell Aliant Holdings LP also contribute to the plan on behalf of participants based upon employee contributions, using a prescribed formula. Depending on which plan the employee participates in, the purchase price of our units is the arithmetic average of the closing price of units traded on the TSX on the last five days up to, and including, the investment date, or the value paid by the trustee to purchase the units on the open market. Participants in the plans receive additional units in lieu of receiving cash distributions. To satisfy employee purchases of our units under these plans, we may issue up to 2,079,527 additional units out of treasury or units may be purchased on the open market.

For the year ended December 31, 2008, we bought 1,941,439 units (December 31, 2007 – 1,766,276 units), at a total cost of \$52.9 million (December 31, 2007 – \$53.7 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, \$9.6 million (December 31, 2007 – \$9.9 million) was 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

During 2007, we implemented a deferred unit plan (DUP) for certain executives and senior management of certain subsidiaries of Bell Aliant Holdings LP to further align their long-term incentive compensation with total unitholder value. 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 in 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 our units. 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 made subject to performance criteria, as it was awarded in recognition of 2006 performance. Plan members are eligible to receive one unit for each vested deferred unit upon their departure from the company or may hold the vested deferred units in an account until the end of the second year following their departure. There is no exercise price paid by the grantee for deferred units. We may issue up to 3,559,280 additional units out of treasury to satisfy awards under this DUP. Any unvested deferred units of a plan member upon their departure are forfeited.

## 7. Unit-based compensation plans (continued)

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

For the years ended December 31	2008	2007
Deferred units outstanding, beginning of year	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	431,055	—
Reinvested distributions	106,609	52,581
	537,664	823,040
Forfeited	(114,346)	(23,680)
Exercised (note 3)	(36,340)	(4,380)
Deferred units outstanding, end of year	1,181,958	794,980
Deferred units vested, end of year	686,145	108,219

For the year ended December 31, 2008, the weighted average grant-date fair value of the 537,664 units (December 31, 2007 – 823,040 units) granted was \$15.8 million, or \$29.33 per deferred unit (December 31, 2007 – \$24.1 million, or \$29.31 per deferred unit).

As the deferred units will be settled with our units when exercised, for the year ended December 31, 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 \$14.8 million (December 31, 2007 – \$11.4 million). We issued 36,340 units (December 31, 2007 – 4,380 units) out of treasury at an average market value of \$26.56 per unit (December 31, 2007 – \$31.69 per unit) related to the deferred units exercised in the period. When exercised an amount of \$1.0 million (December 31, 2007 – \$0.1 million) was reclassified from contributed surplus to stated capital.

## 8 RELATED PARTY TRANSACTIONS

### Bell Aliant Holdings LP

We are entirely dependent on the distributions we receive from Bell Aliant Holdings LP to make our distributions. In 2008, distributions declared to us were \$372.8 million, compared to \$372.1 million in 2007. At December 31, 2008, \$31.2 million was included in distributions receivable, compared to \$28.5 million at December 31, 2007.

In the normal course of business, we have an agreement with certain subsidiaries of Bell Aliant Holdings LP for the provision of administrative and support services, such as corporate reporting, governance, investor relations, communications, treasury and all other services as may be necessary or requested by our trustees for our administration. The agreement has an initial term of 10 years and will be automatically extended for additional five year periods unless notice of termination is given.

## 8. Related party transactions (continued)

These services are measured and recorded at their exchange amounts as follows:

For the years ended December 31

(millions of dollars)	2008	2007
Management salaries	0.8	0.8
General and administrative	3.2	4.7
Operating expenses	4.0	5.5

Management salaries are allocated based on estimated hours spent on our matters using actual salary rates. General and administrative expenses are based on actual expenses that are incurred on our behalf.

At December 31, 2008, \$13.6 million was due from related parties (2007 – \$3.0 million), which relates to the net of these operating expenses payable as well as amounts receivable from the deferred unit compensation plan as described in note 7.

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.

We 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 1.81 per cent to 4.68 per cent per annum, resulting in \$0.1 million of interest revenue being earned during the year ended December 31, 2008 (December 31, 2007 – \$2.6 million). At December 31, 2008, a \$6.2 million promissory note was receivable from Bell Aliant LP, which bears interest at 1.81 per cent per annum and matures on January 15, 2009. This balance is included in cash and cash equivalents.

**BCE and Bell Canada**

On a fully diluted basis, BCE and Bell Canada beneficially own and control 44.2 per cent of our outstanding units as at December 31, 2008 (2007 – 44.2 per cent). There were no transactions with BCE and Bell Canada during the year.