

**BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED
PARTNERSHIP**

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)**

September 30, 2010

BellAliant

BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP
Consolidated balance sheets
(Unaudited)

<i>(millions of dollars)</i>	Notes	As at September 30, 2010	As at December 31, 2009
Assets			
Current assets			
Cash and cash equivalents		\$ 15.0	\$ 27.1
Accounts receivable	2	221.4	304.0
Notes receivable from related parties	15	72.8	-
Inventory		21.4	14.4
Prepayments		25.9	14.8
Future income tax asset		76.2	57.6
Income tax receivable		26.0	14.4
Current assets of discontinued operations	3	69.1	-
		527.8	432.3
Capital investments			
Property, plant and equipment		3,618.0	3,662.8
Finite-life intangibles		2,945.4	3,069.8
		6,563.4	6,732.6
Other assets			
Long-term receivables		20.9	23.8
Deferred charges		21.0	13.4
Future income tax asset		4.2	4.2
Accrued benefit asset	4	451.6	418.0
Indefinite-life intangibles		125.2	125.2
Goodwill		2,768.9	2,768.3
Non-current assets of discontinued operations	3	7.1	-
		3,398.9	3,352.9
Total assets		\$ 10,490.1	\$ 10,517.8
Liabilities and partners' equity			
Current liabilities			
Notes payable to related parties	15	\$ 6.3	\$ 2.6
Payables and accruals	5	287.3	416.2
Distributions payable	15	128.2	55.3
Short-term debt	6	187.8	40.0
Long-term debt due within one year	7	424.3	17.2
Current liabilities of discontinued operations	3	25.3	-
		1,059.2	531.3
Future income tax liability		419.5	421.6
Long-term debt	7	2,365.6	2,759.9
Accrued benefit liability	4	374.2	382.9
Deferred credits and other long-term liabilities	5	37.5	34.8
Total liabilities		4,256.0	4,130.5
Non-controlling interest		1,530.2	1,587.9
Partners' equity		4,703.9	4,799.4
Total liabilities and partners' equity		\$ 10,490.1	\$ 10,517.8

See accompanying notes to the consolidated financial statements

BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP
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	
		2010	2009	2010	2009
Operating revenues		\$ 698.2	\$ 724.7	\$ 2,075.8	\$ 2,151.2
Expenses					
Operating expenses		357.7	372.0	1,071.1	1,123.1
Depreciation and amortization		177.9	176.1	526.2	526.6
Restructuring and other charges	5	0.8	12.9	16.1	25.6
		<u>536.4</u>	<u>561.0</u>	<u>1,613.4</u>	<u>1,675.3</u>
Operating income		161.8	163.7	462.4	475.9
Other expenses (income)					
Loss on long-term debt redemption	7, 11	12.1	-	12.1	-
Financial derivatives loss	11	-	-	-	13.3
Other expenses (income)		0.7	(1.2)	1.2	(0.5)
		<u>12.8</u>	<u>(1.2)</u>	<u>13.3</u>	<u>12.8</u>
Interest charges					
Interest on long-term debt		38.4	37.5	113.1	108.3
Other interest expense	11	3.0	2.5	7.8	8.2
		<u>41.4</u>	<u>40.0</u>	<u>120.9</u>	<u>116.5</u>
Earnings before underlisted items		107.6	124.9	328.2	346.6
Income taxes					
Current tax expense (recovery)		2.9	-	2.9	(2.0)
Future tax recovery		(4.1)	(7.7)	(18.0)	(29.9)
		<u>(1.2)</u>	<u>(7.7)</u>	<u>(15.1)</u>	<u>(31.9)</u>
Earnings before non-controlling interest		108.8	132.6	343.3	378.5
Non-controlling interest		33.6	34.1	99.3	104.2
Net earnings from continuing operations		75.2	98.5	244.0	274.3
Net earnings (loss) from discontinued operations	3	0.6	(6.7)	(1.1)	(10.7)
Net earnings		\$ 75.8	\$ 91.8	\$ 242.9	\$ 263.6
Earnings per unit	10				
Basic from continuing operations		\$ 0.47	\$ 0.61	\$ 1.52	\$ 1.71
Basic from discontinued operations		-	(0.04)	(0.01)	(0.07)
Basic		<u>\$ 0.47</u>	<u>\$ 0.57</u>	<u>\$ 1.51</u>	<u>\$ 1.64</u>

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	
		2010	2009	2010	2009
Net earnings		\$ 75.8	\$ 91.8	\$ 242.9	\$ 263.6
Other comprehensive earnings, net of tax	11	1.5	0.9	3.4	14.7
Comprehensive earnings		\$ 77.3	\$ 92.7	\$ 246.3	\$ 278.3

See accompanying notes to the consolidated financial statements

BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP

Consolidated statements of partners' equity

(Unaudited)

For the nine month period ended September 30, 2010

<i>(millions of dollars)</i>	Notes	Partners' capital	Contributed surplus	<i>Accumulated earnings</i>	<i>Accumulated other comprehensive loss</i>	Total accumulated earnings and other comprehensive loss	Total partners' equity
Balance December 31, 2009		\$ 2,061.5	\$ 0.4	\$ 2,764.5	\$ (27.0)	\$ 2,737.5	\$ 4,799.4
Net earnings		-	-	242.9	-	242.9	242.9
Distributions declared on:							
Class 1 exchangeable limited partnership units		-	-	(61.3)	-	(61.3)	(61.3)
Class 2 limited partnership units	15	-	-	(280.5)	-	(280.5)	(280.5)
Other comprehensive earnings, net of tax	11	-	-	-	3.4	3.4	3.4
Balance September 30, 2010		\$ 2,061.5	\$ 0.4	\$ 2,665.6	\$ (23.6)	\$ 2,642.0	\$ 4,703.9

For the nine month period ended September 30, 2009

<i>(millions of dollars)</i>	Notes	Partners' capital	Contributed surplus	<i>Accumulated earnings</i>	<i>Accumulated other comprehensive loss</i>	Total accumulated earnings and other comprehensive loss	Total partners' equity
Balance December 31, 2008		\$ 2,061.5	\$ 0.4	\$ 2,863.7	\$ (42.7)	\$ 2,821.0	\$ 4,882.9
Net earnings		-	-	263.6	-	263.6	263.6
Distributions declared on:							
Class 1 exchangeable limited partnership units		-	-	(61.3)	-	(61.3)	(61.3)
Class 2 limited partnership units	15	-	-	(280.5)	-	(280.5)	(280.5)
Other comprehensive earnings, net of tax	11	-	-	-	14.7	14.7	14.7
Balance September 30, 2009		\$ 2,061.5	\$ 0.4	\$ 2,785.5	\$ (28.0)	\$ 2,757.5	\$ 4,819.4

See accompanying notes to the consolidated financial statements

BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP
Consolidated statements of cash flows
(Unaudited)

For the period ended September 30

<i>(millions of dollars)</i>	Notes	Three months		Nine months	
		2010	2009	2010	2009
Cash from (used in) operating activities					
Net earnings from continuing operations		\$ 75.2	\$ 98.5	\$ 244.0	\$ 274.3
Adjustments to reconcile net earnings to cash from operating activities					
Depreciation and amortization		177.9	176.1	526.2	526.6
Gain on disposal of assets		0.1	-	0.1	0.1
Future income tax recovery		(4.1)	(7.7)	(18.0)	(29.9)
Net cost of benefit plans	4	20.4	18.3	61.0	59.0
Funding of defined benefit pension and other post-employment benefit plans	4	(40.9)	(36.5)	(103.3)	(95.3)
Non-controlling interest		33.6	34.1	99.3	104.2
Financial derivatives loss	11	-	-	-	13.3
Loss on long-term debt redemption	7	12.1	-	12.1	-
Change in operating assets and liabilities	12	(17.0)	(1.4)	(105.0)	(48.0)
Other		0.9	(2.2)	(0.6)	(5.1)
		258.2	279.2	715.8	799.2
Cash from (used in) financing activities					
Repurchase of accounts receivable	2	-	-	(15.0)	-
Net proceeds (repayments) of short-term debt	6	47.2	(1.3)	147.8	(130.7)
Net proceeds (repayments) of notes payable to related party		0.1	(0.9)	3.7	(3.9)
Proceeds of long-term debt	7	348.7	-	348.7	348.6
Repayment of long-term debt	7	(357.0)	(0.9)	(358.3)	(152.0)
Repayment of capital lease obligations		(5.1)	(2.4)	(13.7)	(6.0)
Net settlement of financial derivatives	11	-	-	-	(15.4)
Distributions paid by subsidiaries to non-controlling interest	15	-	(52.4)	(104.7)	(157.1)
Distributions paid	15	(93.6)	(114.0)	(321.3)	(341.9)
		(59.7)	(171.9)	(312.8)	(458.4)
Cash from (used in) investing activities					
Increase in notes receivable from related parties	15	(72.8)	-	(72.8)	-
Purchase of capital investments		(113.4)	(114.3)	(332.0)	(342.4)
Proceeds on sale of capital investments		0.1	-	0.1	-
		(186.1)	(114.3)	(404.7)	(342.4)
Net increase (decrease) in cash from continuing operations		12.4	(7.0)	(1.7)	(1.6)
Net increase (decrease) in cash from discontinued operations	3	(9.5)	18.9	(10.4)	14.4
Cash and cash equivalents, beginning of period		12.1	15.5	27.1	14.6
Cash and cash equivalents, end of period		\$ 15.0	\$ 27.4	\$ 15.0	\$ 27.4
Supplementary disclosure					
Cash and cash equivalents, end of period					
Cash				\$ 14.7	\$ 6.3
Cash equivalents				0.3	21.1
				\$ 15.0	\$ 27.4
Interest paid		\$ 72.3	\$ 66.3	\$ 148.8	\$ 137.6
Income taxes paid, net		\$ 0.4	\$ 0.3	\$ 4.5	\$ 1.0

See accompanying notes to the consolidated financial statements

Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP) was established in 2006 under the laws of the Province of Quebec, and holds the principal operations of Bell Aliant Regional Communications Income Fund (the Fund). All references to “we”, “us” or “our” refer to Bell Aliant Holdings LP and its subsidiaries.

Our operations are principally focused on regional telecommunications services in Atlantic Canada, Quebec and Ontario. We provide a wide range of innovative and traditional voice and data communications services.

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 unaudited interim consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2009.

Comparative figures

Certain comparative financial information has been reclassified to be consistent with the presentation adopted for 2010 related to discontinued operations, as discussed in note 3.

Future changes in accounting policies

The Accounting Standards Board of the Canadian Institute of Chartered Accountants (CICA) continually amends certain standards and guidelines contained in the CICA Handbook. We monitor these amendments 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. TRANSFER OF RECEIVABLES

In May 2010, we reduced the net cash proceeds under our revolving accounts receivable purchase and sale agreement with a securitization trust by \$15.0 million. At September 30, 2010, our net cash proceeds under the agreement were \$150.0 million. The security required under the agreement recorded as retained interest was \$39.2 million at September 30, 2010 (December 31, 2009 - \$43.0 million).

3. DISCONTINUED OPERATIONS

xwave business

On October 26, 2010, Bell Aliant Holdings LP announced that it had signed an asset purchase agreement, subject to certain conditions, under which Bell Canada will acquire our xwave business for proceeds of approximately \$40.0 million, plus certain post-closing adjustments. As a result, we have reclassified the results of our xwave business operations as discontinued operations. Accordingly, prior period consolidated statements of earnings and cash flows have been restated to reflect this change and the net assets of our xwave business have been reclassified as discontinued operations on the consolidated balance sheet as at September 30, 2010.

Innovatia Inc. (Innovatia)

On November 1, 2009, Bell Aliant Holdings LP concluded a share purchase agreement under which the senior leaders of Innovatia acquired all of the outstanding shares of Innovatia.

xwave New England Corp. (xwave NE)

On June 1, 2009, Bell Aliant Holdings LP and Abilis Solutions Inc. (Abilis) concluded a share purchase agreement under which Abilis acquired all of the outstanding shares of xwave NE.

Defence, Security and Aerospace (DSA) business

On May 1, 2009, Bell Aliant Holdings LP and CAE Professional Services (Canada) Inc. (CAE) concluded an asset purchase agreement under which CAE acquired our DSA business, which operated under the xwave brand.

Presentation of discontinued operations

The net assets of our xwave business are presented in the consolidated balance sheet as at September 30, 2010, as assets and liabilities of discontinued operations at their carrying amounts. The following table shows the major categories of the assets and liabilities of discontinued operations:

<i>(millions of dollars)</i>		As at September 30, 2010
Current assets of discontinued operations		
Accounts receivable	\$	67.7
Prepayments		1.2
Inventory		0.2
	\$	69.1
Non-current assets of discontinued operations		
Property, plant and equipment	\$	2.9
Finite-life intangibles		3.7
Deferred charges		0.5
	\$	7.1
Current liabilities of discontinued operations		
Payables and accruals	\$	25.3

BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP
Notes to the consolidated financial statements
(Unaudited)
September 30, 2010

3. DISCONTINUED OPERATIONS (Continued)

Presentation of discontinued operations (continued)

The summarized statements of earnings for discontinued operations are as follows:

For the three months ended September 30 (millions of dollars)	2010		2009			
	xwave	xwave Innovatia	xwave NE	DSA	Total	
Operating revenues	\$ 64.5	\$ 61.1	5.1	-	-	66.2
Operating expenses	63.6	58.9	4.5	-	0.2	63.6
Depreciation and amortization	0.9	1.3	0.4	-	-	1.7
Restructuring charges	1.7	0.9	-	-	-	0.9
Other expenses (income)	(0.6)	0.4	0.3	-	-	0.7
Write-down of net assets	-	-	6.1	-	-	6.1
Loss on sale	-	-	-	0.3	0.1	0.4
Income tax expense (recovery)	(1.7)	(0.7)	0.2	-	-	(0.5)
Net earnings (loss) from discontinued operations	\$ 0.6	\$ 0.3	(6.4)	(0.3)	(0.3)	(6.7)

For the nine months ended September 30 (millions of dollars)	2010		2009			
	xwave	xwave Innovatia	xwave NE	DSA	Total	
Operating revenues	\$ 218.6	\$ 237.4	15.8	5.6	9.0	267.8
Operating expenses	215.6	229.4	17.2	6.5	9.7	262.8
Depreciation and amortization	3.5	4.2	1.2	0.8	-	6.2
Restructuring and other charges	2.4	1.0	0.7	0.1	-	1.8
Other expenses (income)	0.8	(0.6)	(0.3)	0.5	-	(0.4)
Write-down of net assets	-	-	6.1	-	-	6.1
Loss (gain) on sale	-	-	-	2.9	(1.9)	1.0
Income tax expense (recovery)	(2.6)	(0.2)	0.6	-	0.6	1.0
Net earnings (loss) from discontinued operations	\$ (1.1)	\$ 3.6	(9.7)	(5.2)	0.6	(10.7)

BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP
Notes to the consolidated financial statements
(Unaudited)
September 30, 2010

3. DISCONTINUED OPERATIONS (Continued)

Presentation of discontinued operations (continued)

The summarized statements of cash flows for discontinued operations are as follows:

For the three months ended September 30 (millions of dollars)	2010		2009			
	xwave	xwave	Innovatia	xwave NE	DSA	Total
Cash from (used in):						
Operating activities	\$ (8.6)	\$ 18.9	(1.2)	(0.1)	(0.3)	17.3
Investing activities	(0.9)	(0.3)	(0.3)	2.2	-	1.6
Net increase (decrease) in cash from discontinued operations	\$ (9.5)	\$ 18.6	(1.5)	2.1	(0.3)	18.9

For the nine months ended September 30 (millions of dollars)	2010		2009			
	xwave	xwave	Innovatia	xwave NE	DSA	Total
Cash from (used in):						
Operating activities	\$ (8.4)	\$ 4.3	1.1	(4.6)	(7.3)	(6.5)
Investing activities	(2.0)	0.5	(0.8)	4.9	16.3	20.9
Net increase (decrease) in cash from discontinued operations	\$ (10.4)	\$ 4.8	0.3	0.3	9.0	14.4

4. POST-EMPLOYMENT BENEFITS

Accrued benefit asset (liability)

The following table shows the status of the defined benefit (DB) pension and other post employment benefit (OPEB) plans and changes during the period.

<i>(millions of dollars)</i>	DB pension plans		OPEB plans		Total
Accrued benefit asset (liability) as at December 31, 2009	\$ 255.7	\$ (220.6)	\$	\$	35.1
Net cost of benefit plans	(55.0)	(6.0)			(61.0)
Contributions	97.3	6.0			103.3
Accrued benefit asset (liability) as at September 30, 2010	\$ 298.0	\$ (220.6)	\$	\$	77.4
Accrued benefit asset	\$ 451.6	\$ -	\$	\$	451.6
Accrued benefit liability	(153.6)	(220.6)			(374.2)
	\$ 298.0	\$ (220.6)	\$	\$	77.4

BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP
Notes to the consolidated financial statements
(Unaudited)
September 30, 2010

4. POST-EMPLOYMENT BENEFITS (Continued)

Net cost of benefit plans

The following table shows the net cost of DB pension and OPEB plans.

For the period ended September 30 (millions of dollars)	Three months		Nine months	
	2010	2009	2010	2009
<i>DB pension plans</i>				
Current service cost	\$ 10.9	\$ 10.3	\$ 32.6	\$ 33.7
Interest on the accrued benefit obligation	41.8	39.6	125.4	119.5
Expected return on plan assets	(40.8)	(38.5)	(122.9)	(115.6)
Amortization of deferred amounts:				
Past service costs	1.3	1.4	4.1	4.1
Net actuarial losses	5.3	4.0	15.8	12.8
	\$ 18.5	\$ 16.8	\$ 55.0	\$ 54.5
<i>OPEB plans</i>				
Current service cost	\$ 0.4	\$ 0.4	\$ 1.2	\$ 1.3
Interest on the accrued benefit obligation	3.0	2.7	9.1	8.1
Amortization of deferred amounts:				
Past service costs	(2.0)	(2.0)	(6.0)	(6.1)
Net actuarial losses	0.5	0.4	1.7	1.2
	\$ 1.9	\$ 1.5	\$ 6.0	\$ 4.5
Total net cost of DB pension and OPEB plans	\$ 20.4	\$ 18.3	\$ 61.0	\$ 59.0

Benefit plan contributions

Our contributions to DB pension and OPEB plans, as well as defined contribution (DC) pension plans are as follows:

For the period ended September 30 (millions of dollars)	Three months		Nine months	
	2010	2009	2010	2009
DB pension plans contributions	\$ 33.4	\$ 34.3	\$ 97.3	\$ 89.3
OPEB plans contributions	1.9	2.2	6.0	6.0
Funding of DB pension and OPEB plans	\$ 35.3	\$ 36.5	\$ 103.3	\$ 95.3
DC pension plans contributions for continuing operations	1.6	1.7	5.4	5.6
DC pension plans contributions for discontinued operations	0.1	-	0.2	0.1
Total contributions	\$ 37.0	\$ 38.2	\$ 108.9	\$ 101.0

Included in the DB pension plans contributions for the nine months ended September 30, 2010, is an amount of \$5.6 million that was accrued at June 30, 2010, but was paid in July 2010.

5. RESTRUCTURING AND OTHER CHARGES

Restructuring charges

As part of our organizational productivity initiatives, during the first nine months of 2010, we offered a voluntary retirement incentive to a limited number of our unionized employees in Ontario and Quebec, and continued to streamline our management workforce. As a result, during the three and nine months ended September 30, 2010, we estimated and recorded a restructuring charge of \$0.6 million and \$12.8 million, respectively, in employee severance and benefit costs which will be paid as employees retire or leave the organization as well as real estate rationalization costs.

5. RESTRUCTURING AND OTHER CHARGES (Continued)

Restructuring charges (continued)

In addition, in the first and second quarters of 2010, we increased the estimated costs of our 2009 restructuring initiative by \$2.5 million in total, to reflect the final costs as departing employees had options that affected the amount of their severance.

During the nine months ended September 30, 2009, restructuring charges of \$23.9 million included employee severance and benefit costs related to a voluntary retirement incentive offered to certain unionized employees in Atlantic Canada and Ontario and Quebec, consolidation of certain contact centres in Atlantic Canada, and real estate rationalization costs.

The restructuring charges liability included in payables and accruals is as follows:

<i>(millions of dollars)</i>	
Liability as at December 31, 2009	\$ 41.2
Restructuring charges:	
Employee severance and benefit costs, included in continuing operations	11.6
Real estate rationalization costs	1.2
Change in the 2009 restructuring charge estimate	2.5
	15.3
Employee severance and benefit costs, included in discontinued operations (note 3)	2.4
Cash payments	42.3
Liability as at September 30, 2010	\$ 16.6

As at September 30, 2010, the restructuring charge liability included \$6.7 million in real estate rationalization costs, of which \$5.0 million are included in other long-term liabilities as they will be drawn down after September 30, 2011.

Other charges

During the three and nine months ended September 30, 2010, we incurred \$0.2 million and \$0.8 million, respectively, of other charges (September 30, 2009 - \$0.8 million and \$1.7 million, respectively), which mainly relate to rebranding our operations.

6. SHORT-TERM DEBT

As at September 30, 2010, we had amounts available for use under operating facilities of \$1,121.3 million (December 31, 2009 - \$1,121.9 million). The amount of issued letters of credit at September 30, 2010, was \$266.9 million (December 31, 2009 - \$269.6 million). Included in the amounts of issued letters of credit is \$12.4 million (December 31, 2009 - \$12.5 million) for discontinued operations.

Amounts drawn under operating facilities are as follows:

<i>(millions of dollars)</i>	As at September 30, 2010	As at December 31, 2009
Drawn amounts:		
Commercial paper program	\$ 147.8	\$ -
Non-revolving pension reserve facility	40.0	40.0
	\$ 187.8	\$ 40.0

6. SHORT-TERM DEBT (Continued)

We ensure at all times that sufficient undrawn capacity exists on our committed revolving operating facilities to support issuances of commercial paper. Short-term promissory notes totalling \$147.8 million, issued under our commercial paper program to fund changes in operating assets and liabilities, carry interest at 1.17 percent per annum and have maturity dates from October 6, 2010, to October 29, 2010.

Bankers' acceptance advances of \$40.0 million outstanding under our non-revolving pension reserve facility carry interest at rates of 1.70 percent per annum and mature on October 29, 2010.

7. LONG-TERM DEBT

In September 2010, we issued \$350.0 million of unsecured medium-term notes, bearing interest at 4.37 per cent per annum and maturing on September 13, 2017. Debt issue costs of \$1.3 million were incurred, resulting in net proceeds of \$348.7 million.

The net proceeds were used to make a partial redemption of the 4.72 per cent medium-term notes (the "2011 Notes") maturing on September 26, 2011. We redeemed \$345.0 million principal amount, or 46 per cent of the total outstanding principal amount, of the 2011 Notes on a *pro rata* basis at the price and under the conditions specified in the 2011 Notes. We recognized a \$12.1 million loss on redemption, recorded in other expenses (income), as a result of paying \$356.0 million for principal redemption and recognizing \$1.1 million in previously unamortized costs. The remaining \$405.0 million outstanding principal portion of the 2011 Notes is classified as long-term debt due within one year.

During the nine months ended September 30, 2010, we entered into capital lease obligations totalling \$23.8 million for telecommunications and other equipment and bearing interest at rates ranging from 3.54 per cent to 5.51 per cent per annum.

8. FINANCIAL INSTRUMENTS

Fair value

For cash and cash equivalents, trade receivables, notes receivable from related parties, trade payables and short-term loans and borrowings, the carrying value approximates their fair value due to the short-term maturity of these instruments.

The fair value of our long-term debt has been estimated based on calculations of the present value of future cash flows, using the appropriate discount rates in effect at the balance sheet dates for our long-term debt that is not actively traded, and quoted prices for our long-term debt that is actively traded.

The fair value of our long-term debt is estimated as follows:

<i>(millions of dollars)</i>	As at September 30, 2010		As at December 31, 2009	
	Fair value	Carrying value	Fair value	Carrying value
Long-term debt	\$ 2,982.0	\$ 2,789.9	\$ 2,844.1	\$ 2,777.1

9. UNIT-BASED COMPENSATION PLANS

Employee unit purchase plans

The total number of Fund units bought on the open market for our employee unit purchase plans for the three and nine months ended September 30, 2010, was 444,189 and 1,474,127 respectively (September 30, 2009 - 441,292 and 1,551,011 respectively). Compensation expense related to the employee unit purchase plans of \$2.2 million and \$6.8 million, respectively, was recorded for the three and nine months ended September 30, 2010 (September 30, 2009 - \$2.1 million and \$6.9 million, respectively).

Deferred unit plan

In February 2010, the Fund trustees approved amendments to the deferred unit plan (DUP) to allow plan members to receive either one Fund unit or the cash equivalent of one Fund unit for each vested deferred unit upon qualifying for payout under the terms of the grant. Previously, plan members were only permitted to receive one Fund unit upon qualification for payout. There is no exercise price paid by the grantee for deferred units. The Fund may issue up to 3,154,120 (December 31, 2009 - 3,276,150) additional Fund units out of treasury to satisfy awards under the DUP. Any deferred units that do not vest due to failure to achieve prescribed performance targets are forfeited. Further, any unvested deferred units of a plan member are forfeited upon their departure.

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

For the nine months ended September 30	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
June 2010 - Service period fiscal 2010 to 2012	369,784	-
Reinvested distributions during the period	91,102	97,934
	460,886	448,426
Forfeited	(267,190)	(66,501)
Exercised	(122,030)	(273,238)
Deferred units outstanding, end of period	1,365,365	1,290,645
Deferred units vested, end of period	666,248	431,871

The fair value of the 460,886 deferred units granted or credited on reinvestment of notional distributions for the nine months ended September 30, 2010, was \$11.9 million (September 30, 2009 - 448,426 deferred units granted or credited was \$11.7 million). For the three and nine months ended September 30, 2010, we recorded compensation expense of \$1.7 million and \$2.2 million, respectively (September 30, 2009 - \$3.7 million and \$5.9 million, respectively), related to the deferred units' costs recognized over the vesting period, and the change in the quoted market price of Fund units between the grant date and the reporting period date.

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10. EARNINGS PER UNIT

For the period ended September 30 (millions of dollars, except as otherwise noted)	Three months		Nine months	
	2010	2009	2010	2009
Net earnings from continuing operations	\$ 75.2	\$ 98.5	\$ 244.0	\$ 274.3
Net earnings (loss) from discontinued operations	0.6	(6.7)	(1.1)	(10.7)
Net earnings	\$ 75.8	\$ 91.8	\$ 242.9	\$ 263.6
Basic				
Weighted average number of units outstanding	160,536,409	160,536,409	160,536,409	160,536,409
Basic from continuing operations	\$ 0.47	\$ 0.61	\$ 1.52	\$ 1.71
Basic from discontinued operations	-	(0.04)	(0.01)	(0.07)
Basic earnings per unit	\$ 0.47	\$ 0.57	\$ 1.51	\$ 1.64

11. OTHER COMPREHENSIVE EARNINGS

Components of other comprehensive earnings and the related income tax effects are as follows:

For the three months ended September 30 (millions of dollars)	Amount arising	2010 Income taxes	Net	Amount arising	2009 Income taxes	Net
Losses on derivatives designated as cash flow hedges	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Reclassification to other expense	0.7	0.2	0.5	-	-	-
Reclassification to interest charges	1.2	0.2	1.0	1.2	0.3	0.9
Other comprehensive earnings	\$ 1.9	\$ 0.4	\$ 1.5	\$ 1.2	\$ 0.3	\$ 0.9
For the nine months ended September 30						
(millions of dollars)	Amount arising	2010 Income taxes	Net	Amount arising	2009 Income taxes	Net
Losses on derivatives designated as cash flow hedges	\$ -	\$ -	\$ -	(0.1)	(0.1)	\$ -
Reclassification to other expense	0.7	0.2	0.5	13.3	2.9	10.4
Reclassification to interest charges	3.6	0.7	2.9	5.7	1.4	4.3
Other comprehensive earnings	\$ 4.3	\$ 0.9	\$ 3.4	\$ 18.9	\$ 4.2	\$ 14.7

We reclassify to net earnings the amortization of losses on forward fixed-floating interest rate swaps that were settled in 2007. These interest rate swaps were designated to hedge the coupon payments of anticipated long-term debt issuances, and the interest rate swaps were settled as the anticipated long-term debt issuances occurred. As such, the losses are being amortized as interest charges in conjunction with the long-term debt coupon payments in the year, in accordance with the application of hedge accounting.

In September 2010, we redeemed prior to maturity \$345.0 million of the 2011 Notes, as discussed in note 7. As such, we reclassified to net earnings \$0.7 million of unamortized losses on the forward fixed-floating interest rate swaps related to this debt, included in the loss on long-term debt redemption, as hedge accounting no longer applies.

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11. OTHER COMPREHENSIVE EARNINGS (Continued)

In May 2009, we reclassified to net earnings \$15.4 million in net losses related to cash flow hedges that were settled, composed of \$13.3 million loss on settlement and \$2.1 million interest charges. Hedge accounting no longer applies to these hedges.

As at September 30, 2010, the accumulated other comprehensive loss of \$23.6 million (December 31, 2009 - \$27.0 million) represents the unamortized portion of losses on forward fixed-floating interest rate swaps that were settled in 2007.

12. CHANGES IN OPERATING ASSETS AND LIABILITIES

For the period ended September 30 (millions of dollars)	Three months		Nine months	
	2010	2009	2010	2009
Accounts receivable	\$ 7.6	\$ 22.7	\$ 20.6	\$ 54.0
Inventory	6.4	(3.0)	(7.4)	(1.7)
Prepayments	11.4	11.9	(11.7)	(10.1)
Income tax receivable	0.3	(1.2)	(11.6)	(3.5)
Long-term receivables	0.8	9.5	2.3	10.5
Deferred charges	(5.4)	0.6	(11.7)	2.4
Payables and accruals	(36.7)	(42.7)	(88.3)	(110.1)
Deferred credits and other long-term liabilities	(1.4)	0.8	2.8	10.5
	\$ (17.0)	\$ (1.4)	\$ (105.0)	\$ (48.0)

13. COMMITMENTS

Operating leases and purchase commitments

The estimated future minimum lease payments under operating leases and purchase commitments are as follows:

(millions of dollars)	Remainder of 2010	2011	2012	2013	2014	Thereafter	Total
Operating leases	\$ 9.8	\$ 30.9	\$ 24.9	\$ 24.7	\$ 24.1	\$ 116.2	\$ 230.6
Purchase commitments	101.2	350.4	326.4	317.3	301.3	1,636.0	3,032.6
	\$ 111.0	\$ 381.3	\$ 351.3	\$ 342.0	\$ 325.4	\$ 1,752.2	\$ 3,263.2

Purchase commitments primarily relate to various information systems and technology agreements and obligations under service agreements.

Included in the total purchase commitments is \$20.2 million related to our xwave business (note 3).

In the second quarter of 2010, we gave notice of our intention not to renew certain existing pole use agreements we have with a power utility serving Newfoundland, which triggered an obligation to repurchase an interest in the poles previously sold to the utility. The purchase is subject to the satisfaction of certain conditions and we anticipate agreement to complete the transaction by late 2010 or early 2011 with an estimated \$55.0 - \$60.0 million in capital investments, not included in the balance of the future minimum purchase commitments reported above. As a result, in the second quarter of 2010, we decreased the previously reported commitment for operating leases by \$241.6 million in total.

14. CONTINGENCIES

System Access Fee Class Action

As discussed in note 23 of our audited consolidated financial statements for the year ended December 31, 2009, on August 9, 2004, a lawsuit was filed in the Saskatchewan Court of Queen's Bench against several Canadian wireless and cellular service providers, including one of our predecessor companies, Aliant Telecom Inc., by several alleged customers or former customers of the defendants. In the claim, the plaintiffs alleged, among other things, breach of contract, misrepresentation, negligence, collusion and breach of statutory obligations under the Competition Act (Canada) in relation to the system access fees that the defendants charge to their customers, and sought unspecified damages. On September 17, 2007, the court granted class action certification. We, as well as the other parties, sought leave to appeal the certification order. The court also denied our motion seeking dismissal of the action against us on the basis that the Saskatchewan court does not have jurisdiction over disputes between us and our customers. We also sought leave to appeal this decision.

The applications for leave to appeal the certification order and the jurisdictional issue were heard on February 24, 2010. On March 15, 2010, the Court of Appeal granted all parties leave to appeal the certification order. We also obtained leave to appeal the jurisdiction issue. The plaintiffs also obtained leave to appeal an earlier decision which denied their motion to convert the certified class into a national "opt-out" class. The defendants' appeals of the certification order and our appeal on the jurisdictional issue are scheduled for hearing beginning on December 13, 2010.

Eliph.com lawsuit

As discussed in note 23 of our audited consolidated financial statements for the year ended December 31, 2009, on November 28, 2005, a lawsuit was filed against us in the Supreme Court of Nova Scotia by Eliph.com Solutions Inc. and Eliph.com Technologies Inc (collectively "Eliph"). In the third quarter of 2010, Eliph applied for a scheduling conference to set a trial date and indicated that they intend to increase their claim to seek approximately \$21.0 million for alleged breach of a contract.

We have defences to these claims, but the outcome of these matters is not determinable at this time.

15. RELATED PARTY TRANSACTIONS

BCE and Bell Canada

On June 25, 2010, BCE and Bell Canada elected to defer receipt of their declared distributions related to their interest in exchangeable limited partnership units of Bell Aliant Holdings LP and Bell Aliant Regional Communications, Limited Partnership for June 2010 up to and including December 2010. The deferred distributions will be paid to BCE and Bell Canada on January 1, 2011. As at September 30, 2010, the amount of the distributions payable to BCE and Bell Canada was \$97.0 million.

BCE and Bell Canada also elected to be loaned amounts equal to the deferred distributions in the form of non-interest bearing notes with maturity dates of January 1, 2011. As a result, on September 30, 2010, \$72.8 million was included in notes receivable from related parties.

15. RELATED PARTY TRANSACTIONS (Continued)

The Fund

The Fund is entirely dependent on the distributions we pay to them to make their distributions. For the three and nine months ended September 30, 2010, we declared distributions to them totaling \$93.5 million and \$280.5 million, respectively (September 30, 2009 - \$93.4 million and \$280.5 million, respectively). At September 30, 2010, \$31.2 million was included in distributions payable (December 31, 2009 - \$31.1 million).

The Fund loans us their excess cash through a series of promissory notes, and requests repayments as required for operating purposes. The \$2.6 million promissory note that was payable to the Fund at December 31, 2009, was repaid on January 15, 2010. Subsequently issued promissory notes carried rates of interest from 0.50 per cent to 1.28 per cent per annum, resulting in an immaterial amount of interest expense being incurred during the three and nine months ended September 30, 2010 (September 30, 2009 - immaterial amount). At September 30, 2010, a \$6.2 million promissory note was payable to the Fund, which bears interest at 1.28 per cent per annum and matures on October 15, 2010.