

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND**

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
(Unaudited)**

September 30, 2010

**Bell**Aliant

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

<i>(millions of dollars)</i>	Notes	As at September 30, 2010	As at December 31, 2009
<b>Assets</b>			
Current assets			
Cash and cash equivalents	8	\$ 6.2	\$ 2.6
Distributions receivable	8	31.2	31.1
Due from related parties	8	24.8	25.2
		<u>62.2</u>	<u>58.9</u>
Investments	2	4,014.0	4,092.7
<b>Total assets</b>		<b>\$ 4,076.2</b>	<b>\$ 4,151.6</b>
<b>Liabilities and unitholders' equity</b>			
Current liabilities			
Payables and accruals		\$ 0.1	\$ -
Distributions payable	6	30.8	30.8
		<u>30.9</u>	<u>30.8</u>
Unitholders' equity		4,045.3	4,120.8
<b>Total liabilities and unitholders' equity</b>		<b>\$ 4,076.2</b>	<b>\$ 4,151.6</b>

*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	
		2010	2009	2010	2009
Equity income from investments	2	\$ 61.4	\$ 80.7	\$ 198.5	\$ 223.4
Operating expenses		0.5	0.7	2.5	3.2
Net earnings from continuing operations		60.9	80.0	196.0	220.2
Net earnings (loss) from discontinued operations	2	0.5	(5.7)	0.5	(8.5)
<b>Net earnings</b>		<b>\$ 61.4</b>	<b>\$ 74.3</b>	<b>\$ 196.5</b>	<b>\$ 211.7</b>
<b>Earnings per unit</b>	4				
Basic from continuing operations		\$ 0.48	\$ 0.63	\$ 1.54	\$ 1.73
Basic from discontinued operations		-	(0.05)	-	(0.07)
Basic		\$ 0.48	\$ 0.58	\$ 1.54	\$ 1.66
Diluted from continuing operations		\$ 0.47	\$ 0.58	\$ 1.48	\$ 1.64
Diluted from discontinued operations		-	(0.05)	-	(0.07)
Diluted		\$ 0.47	\$ 0.53	\$ 1.48	\$ 1.57

*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		\$ 61.4	\$ 74.3	\$ 196.5	\$ 211.7
Other comprehensive earnings	2	1.2	0.8	2.8	12.0
<b>Comprehensive earnings</b>		<b>\$ 62.6</b>	<b>\$ 75.1</b>	<b>\$ 199.3</b>	<b>\$ 223.7</b>

*See accompanying notes to the consolidated financial statements*

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

For the nine month period ended September 30, 2010

<i>(millions of dollars)</i>	Notes	Stated capital	Contributed surplus	Accumulated deficit	Accumulated other comprehensive loss	Total accumulated deficit and other comprehensive loss	Total unitholders' equity
Balance December 31, 2009		\$ 4,192.2	\$ 45.7	\$ (95.3)	\$ (21.8)	\$ (117.1)	\$ 4,120.8
Net earnings		-	-	196.5	-	196.5	196.5
Distributions declared	6	-	-	(277.0)	-	(277.0)	(277.0)
Redemption of units	3	(0.1)	-	-	-	-	(0.1)
Deferred unit plan	3, 7	3.2	(0.9)	-	-	-	2.3
Other comprehensive earnings of equity investee	2	-	-	-	2.8	2.8	2.8
<b>Balance September 30, 2010</b>		<b>\$ 4,195.3</b>	<b>\$ 44.8</b>	<b>\$ (175.8)</b>	<b>\$ (19.0)</b>	<b>\$ (194.8)</b>	<b>\$ 4,045.3</b>

For the nine month period ended September 30, 2009

<i>(millions of dollars)</i>	Notes	Stated capital	Contributed surplus	Accumulated deficit	Accumulated other comprehensive loss	Total accumulated deficit and other comprehensive loss	Total unitholders' equity
Balance December 31, 2008		\$ 4,184.9	\$ 45.7	\$ (15.3)	\$ (34.6)	\$ (49.9)	\$ 4,180.7
Net earnings		-	-	211.7	-	211.7	211.7
Distributions declared	6	-	-	(276.7)	-	(276.7)	(276.7)
Redemption of units	3	(0.1)	-	-	-	-	(0.1)
Deferred unit plan	3, 7	7.1	(1.4)	-	-	-	5.7
Other comprehensive earnings of equity investee	2	-	-	-	12.0	12.0	12.0
<b>Balance September 30, 2009</b>		<b>\$ 4,191.9</b>	<b>\$ 44.3</b>	<b>\$ (80.3)</b>	<b>\$ (22.6)</b>	<b>\$ (102.9)</b>	<b>\$ 4,133.3</b>

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	
		2010	2009	2010	2009
Cash from (used in) operating activities					
Net earnings from continuing operations		\$ 60.9	\$ 80.0	\$ 196.0	\$ 220.2
Adjustments to reconcile net earnings to cash from operating activities					
Income from equity investments	2	(61.4)	(80.7)	(198.5)	(223.4)
Change in operating assets and liabilities	5	(0.6)	(2.0)	(0.4)	(11.8)
		(1.1)	(2.7)	(2.9)	(15.0)
Cash from (used in) financing activities					
Issuance of units	3	-	0.4	3.2	7.1
Redemption of units	3	-	-	(0.1)	(0.1)
Purchase of units for distribution reinvestment	3	(4.1)	(3.8)	(12.2)	(10.8)
Cash distributions paid to unitholders		(88.3)	(88.5)	(264.8)	(265.8)
		(92.4)	(91.9)	(273.9)	(269.6)
Cash from investing activities					
Cash distributions received from equity investment	2	93.5	93.6	280.4	280.6
		93.5	93.6	280.4	280.6
Net increase (decrease) in cash from continuing operations					
		-	(1.0)	3.6	(4.0)
Cash and cash equivalents, beginning of period		6.2	3.2	2.6	6.2
Cash and cash equivalents, end of period		\$ 6.2	\$ 2.2	\$ 6.2	\$ 2.2

*See accompanying notes to the consolidated financial statements*

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
**September 30, 2010**

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

**1. SIGNIFICANT ACCOUNTING POLICIES**

*Consolidated financial statements*

We have prepared these unaudited interim consolidated financial statements in accordance with Canadian generally accepted accounting principles using the same basis of presentation and accounting policies as our audited consolidated financial statements for the year ended December 31, 2009. These financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2009, along with Bell Aliant Holdings LP’s audited consolidated financial statements for the year ended December 31, 2009, and unaudited interim consolidated financial statements for the nine months ended September 30, 2010.

*Future changes in accounting policies*

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

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

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

**2. INVESTMENTS**

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

For the period ended September 30 <i>(millions of dollars)</i>	Three months		Nine months	
	2010	2009	2010	2009
Equity income - continuing operations	\$ 61.4	\$ 80.7	\$ 198.5	\$ 223.4
Net earnings (loss) - discontinued operations	0.5	(5.7)	0.5	(8.5)
Other comprehensive earnings	1.2	0.8	2.8	12.0
Distributions declared	93.5	93.4	280.5	280.5
Distributions received	93.5	93.6	280.4	280.6

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
**September 30, 2010**

**2. INVESTMENTS (Continued)**

For both the three and nine months ended September 30, 2010, equity income from continuing operations includes \$0.2 million of future income tax expense (September 30, 2009 - \$0.3 million and \$1.3 million, respectively) relating to our proportionate share of temporary differences between the reported carrying amounts and corresponding tax values of assets and liabilities in certain subsidiaries of Bell Aliant Holdings LP, which are expected to reverse after January 1, 2011.

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

**3. UNITHOLDERS' CAPITAL**

*Issued and outstanding*

<i>(millions of dollars, except as otherwise noted)</i>	As at September 30, 2010		As at December 31, 2009	
	Number of units	Stated Capital	Number of units	Stated Capital
Units	127,384,917	\$ 4,195.3	127,264,016	\$ 4,192.2
Special voting units	100,373,827	-	100,373,827	-
		\$ 4,195.3		\$ 4,192.2

*Units*

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

For the nine months ended September 30	2010		2009	
<i>(millions of dollars, except as otherwise noted)</i>	Number of units	Stated Capital	Number of units	Stated Capital
Units, beginning of period	127,264,016	\$ 4,192.2	126,983,707	\$ 4,184.9
Deferred unit plan units exercised (note 7)	122,030	3.2	273,238	7.1
Redemption of units	(1,115)	(0.1)	(1,880)	(0.1)
Fractional unit adjustment	(14)	-	(10)	-
Units, end of period	127,384,917	\$ 4,195.3	127,255,055	\$ 4,191.9

*Distribution reinvestment and optional unit purchase plan*

For the three and nine months ended September 30, 2010, we bought 171,783 units and 509,873 units, respectively (September 30, 2009 - 155,879 units and 459,802 units, respectively) on the open market for unitholders participating in the distribution reinvestment and optional unit purchase plan. This was in lieu of paying \$4.1 million and \$12.2 million in cash distributions, respectively (September 30, 2009 - \$3.8 million and \$10.8 million, respectively), and in respect of optional unit purchase plans cash payments received of \$0.3 million and \$1.0 million, respectively (September 30, 2009 - \$0.3 million and \$0.9 million, respectively).

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
**September 30, 2010**

**4. EARNINGS PER UNIT**

For the period ended September 30 <i>(millions of dollars, except as otherwise noted)</i>	Three months		Nine months	
	2010	2009	2010	2009
<b>Basic</b>				
Net earnings from continuing operations	\$ 60.9	\$ 80.0	\$ 196.0	\$ 220.2
Net earnings (loss) from discontinued operations	0.5	(5.7)	0.5	(8.5)
<b>Net earnings</b>	<b>\$ 61.4</b>	<b>\$ 74.3</b>	<b>\$ 196.5</b>	<b>\$ 211.7</b>
Weighted average number of units outstanding	127,384,921	127,247,247	127,339,137	127,194,555
Basic earnings per unit from continuing operations	\$ 0.48	\$ 0.63	\$ 1.54	\$ 1.73
Basic earnings per unit from discontinued operations	-	(0.05)	-	(0.07)
<b>Basic earnings per unit</b>	<b>\$ 0.48</b>	<b>\$ 0.58</b>	<b>\$ 1.54</b>	<b>\$ 1.66</b>
<b>Diluted</b>				
Net earnings from continuing operations	\$ 60.9	\$ 80.0	\$ 196.0	\$ 220.2
Add non-controlling interest of holders of exchangeable units:				
Bell Aliant Holdings LP	13.5	17.7	43.5	49.2
Bell Aliant LP	33.6	34.1	99.3	104.2
	108.0	131.8	338.8	373.6
Net earnings (loss) from discontinued operations	0.5	(5.7)	0.5	(8.5)
Add non-controlling interest of holders of exchangeable units:				
Bell Aliant LP	0.1	(1.3)	0.1	(2.0)
	0.6	(7.0)	0.6	(10.5)
<b>Diluted net earnings</b>	<b>\$ 108.6</b>	<b>\$ 124.8</b>	<b>\$ 339.4</b>	<b>\$ 363.1</b>
Weighted average number of units outstanding	127,384,921	127,247,247	127,339,137	127,194,555
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	666,248	431,871	666,248	431,871
	228,424,996	228,052,945	228,379,212	228,000,253
Diluted earnings per unit from continuing operations	\$ 0.47	\$ 0.58	\$ 1.48	\$ 1.64
Diluted earnings per unit from discontinued operations	-	(0.05)	-	(0.07)
<b>Diluted earnings per unit</b>	<b>\$ 0.47</b>	<b>\$ 0.53</b>	<b>\$ 1.48</b>	<b>\$ 1.57</b>

The exchangeable limited partnership units are intended to be, to the greatest extent practicable, the economic equivalent of our units. If holders of the exchangeable limited partnership units were to trigger an exchange for our units, the distributions currently being paid to the holders by Bell Aliant Holdings LP and Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP) would be paid directly to us. In 2010 and 2009, the exchangeable limited partnership units were anti-dilutive for discontinued operations. The deferred units under unit-based compensation plans, as discussed in note 7, are dilutive.

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
**September 30, 2010**

**5. CHANGES IN OPERATING ASSETS AND LIABILITIES**

For the period ended September 30 <i>(millions of dollars)</i>	Three Months		Nine Months	
	2010	2009	2010	2009
Due from related parties	\$ (0.6)	\$ (2.0)	\$ (0.5)	\$ (11.6)
Payables and accruals	-	-	0.1	(0.2)
	\$ (0.6)	\$ (2.0)	\$ (0.4)	\$ (11.8)

The change in operating assets and liabilities is net of the changes caused by unit issuances under the deferred unit plan (DUP), as described in note 7, which are reflected as financing activities in the consolidated statement of cash flows.

**6. DISTRIBUTIONS DECLARED TO UNITHOLDERS**

Distributions declared were as follows:

<i>(millions of dollars, except per unit amounts)</i>	2010		2009	
	Monthly distributions	Distributions per unit	Monthly distributions	Distributions per unit
Record date:			Record date:	
January 29	\$ 30.7	\$ 0.2417	January 30	\$ 30.7 \$ 0.2417
February 26	30.8	0.2417	February 27	30.7 0.2417
March 31	30.8	0.2417	March 31	30.7 0.2417
April 30	30.7	0.2417	April 30	30.7 0.2417
May 31	30.8	0.2417	May 29	30.8 0.2417
June 30	30.8	0.2417	June 30	30.8 0.2417
July 30	30.8	0.2417	July 31	30.7 0.2417
August 31	30.8	0.2417	August 31	30.8 0.2417
September 30	30.8	0.2417	September 30	30.8 0.2417
	\$ 277.0	\$ 2.1753	\$ 276.7	\$ 2.1753

**7. UNIT-BASED COMPENSATION PLANS**

*Employee unit purchase plans*

For the three and nine months ended September 30, 2010, we bought 444,189 units and 1,474,127 units, respectively (September 30, 2009 - 441,292 units and 1,551,011 units, respectively), at a total cost of \$11.4 million and \$38.2 million, respectively (September 30, 2009 - \$11.7 million and \$39.3 million, respectively), on the open market for employees of certain subsidiaries of Bell Aliant Holdings LP participating in the employee unit purchase plans. Of these totals, \$2.2 million and \$6.8 million, respectively (September 30, 2009 - \$2.1 million and \$6.9 million, respectively) was recorded as compensation expense in Bell Aliant Holdings LP, and the remainder was contributed by employees through payroll deduction, interest earned or distributions reinvested in employee plan accounts.

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND**  
**Notes to the consolidated financial statements**  
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**7. UNIT-BASED COMPENSATION PLANS (Continued)**

*Deferred unit plan*

In February 2010, the Fund trustees approved amendments to the DUP to allow plan members to receive one unit or the cash equivalent of one 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 unit upon qualification for payout. There is no exercise price paid by the grantee for deferred units. We may issue up to 3,154,120 (December 31, 2009 - 3,276,150) additional units out of treasury to satisfy awards under this 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	91,102	97,934
	460,886	448,426
Forfeited	(267,190)	(66,501)
Exercised (note 3)	(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

For the nine months ended September 30, 2010, the fair value of the 460,886 deferred units granted or credited on reinvestment of notional distributions (September 30, 2009 - 448,426 deferred units granted or credited) was \$11.9 million, or \$25.86 per deferred unit (September 30, 2009 - \$11.7 million, or \$26.09 per deferred unit).

As the deferred units may be settled with our units when exercised, for the nine months ended September 30, 2010, we have recorded in contributed surplus the equivalent of the compensation expense that was recorded in Bell Aliant Holdings LP of \$2.2 million plus \$0.1 million of other adjustments (September 30, 2009 - \$5.9 million less \$0.2 million of other adjustments). We issued 122,030 units (September 30, 2009 - 273,238 units) out of treasury at an average market value of \$25.98 per unit (September 30, 2009 - \$26.11 per unit) related to the deferred units exercised in the period. When exercised, the corresponding value of \$3.2 million (September 30, 2009 - \$7.1 million) was reclassified from contributed surplus to stated capital.

**BELL ALIANT REGIONAL COMMUNICATIONS INCOME FUND**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
**September 30, 2010**

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**8. RELATED PARTY TRANSACTIONS**

*Bell Aliant Holdings LP*

We receive distributions from Bell Aliant Holdings LP, as described in note 2, which allow us to make our distributions, as described in note 6. At September 30, 2010, \$31.2 million (December 31, 2009 - \$31.1 million) was included in distributions receivable.

At September 30, 2010, \$24.8 million was due from Bell Aliant Holdings LP and its subsidiaries (December 31, 2009 - \$25.2 million), which relates to the net of operating expenses payable as well as amounts receivable from the deferred unit plan as described in note 7.

We loan our excess cash to Bell Aliant LP through a series of promissory notes. Payments are requested as required for operating purposes. The \$2.6 million promissory note that was receivable from Bell Aliant LP at December 31, 2009, was repaid on January 15, 2010. Subsequently issued promissory notes carried rates of interest from 0.50 per cent to 1.28 per cent per annum, resulting in an immaterial amount of interest revenue being earned during the nine months ended September 30, 2010 (September 30, 2009 - immaterial amount). At September 30, 2010, a \$6.2 million promissory note was receivable from Bell Aliant LP, which carries interest at 1.28 per cent per annum and matures on October 15, 2010. This balance is included in cash and cash equivalents.

There is minimal credit risk associated with balances receivable from related parties at September 30, 2010.