

Bell Aliant Regional Communications Income Fund

Consolidated financial statements and notes

December 31, 2007



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 shareholders' 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 independent auditors' report outlines the scope of their examination and their opinion.



Stephen Wetmore
*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 4, 2008

Independent 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, 2007 and 2006, 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, 2007 and 2006, 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 4, 2008

Statements

CONSOLIDATED BALANCE SHEETS

As at December 31

(millions of dollars)

	Notes	2007	2006
			<i>(as restated, note 2)</i>
Assets			
Current assets			
Cash and cash equivalents	8	2.1	0.7
Distributions receivable		28.5	28.5
Due from related parties	8	3.0	—
		33.6	29.2
Investments	3	4,290.5	4,106.1
Total assets		4,324.1	4,135.3
Liabilities and unitholders' equity			
Current liabilities			
Payables and accruals		0.4	0.2
Distributions payable	6	29.8	28.3
Due to related parties		—	0.9
		30.2	29.4
Unitholders' equity		4,293.9	4,105.9
Total liabilities and unitholders' equity		4,324.1	4,135.3

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 periods ended December 31

(millions of dollars, except earnings per unit)

	Notes	2007	2006
			(as restated, note 2)
Equity income from investments	3	297.6	120.5
Other revenues	8	2.6	—
		300.2	120.5
Operating expenses	8	5.5	1.0
		294.7	119.5
Interest charges	8	2.0	—
Net earnings from continuing operations		292.7	119.5
Net earnings from discontinued operations	3	216.5	8.7
Net earnings		509.2	128.2
Earnings per unit	5		
Basic from continuing operations		2.24	0.96
Basic from discontinued operations		1.66	0.07
Basic		3.90	1.03
Diluted from continuing operations		2.03	0.98
Diluted from discontinued operations		1.15	0.05
Diluted		3.18	1.03

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

For the periods ended December 31

(millions of dollars)

	Notes	2007	2006
			(as restated, note 2)
Net earnings		509.2	128.2
Other comprehensive earnings	3	2.4	—
Comprehensive earnings		511.6	128.2

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

<i>For the year ended December 31, 2007</i> <i>(millions of dollars)</i>	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, as restated		4,140.7	—	128.2	(163.0)	—	4,105.9
Net earnings, for the year		—	—	509.2	—	—	509.2
Distributions declared	6	—	—	—	(368.9)	—	(368.9)
Issuance of units	3, 4	394.0	—	—	—	—	394.0
Redemption of units	4	(0.3)	—	—	—	—	(0.3)
Units purchased for cancellation	4	(350.5)	20.3	—	—	—	(330.2)
Deferred unit plan	4, 7	0.1	11.3	—	—	—	11.4
Reclassification adjustment of equity investee	1	—	—	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		4,184.0	31.8	640.4	(531.9)	(30.4)	4,293.9

<i>For the period ended December 31, 2006</i> <i>(as restated, note 2)</i> <i>(millions of dollars)</i>	Notes	Stated capital	Contri- buted surplus	Accu- mulated earnings	Distri- butions declared	Accu- mulated other compre- hensive earnings (loss)	Unit- holders' equity
Net earnings, for the period		—	—	163.1	—	—	163.1
Distributions declared	6	—	—	—	(163.0)	—	(163.0)
Issuance of units in exchange for Aliant common shares	4	4,141.0	—	—	—	—	4,141.0
Redemption of units	4	(0.3)	—	—	—	—	(0.3)
Balance, December 31, 2006, as reported		4,140.7	—	163.1	(163.0)	—	4,140.8
Correction of an error	2	—	—	(34.9)	—	—	(34.9)
Balance, December 31, 2006, as restated		4,140.7	—	128.2	(163.0)	—	4,105.9

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the periods ended December 31

(millions of dollars)

	Notes	2007	2006
			(as restated, note 2)
Cash from (used in) operating activities			
Net earnings from continuing operations		292.7	119.5
Adjustments to reconcile net earnings to cash from operating activities			
Income from equity investments	3	(297.6)	(120.5)
Change in operating assets and liabilities		2.2	1.1
		(2.7)	0.1
Cash from (used in) financing activities			
Repayment of loan to related party	8	(200.9)	—
Proceeds of loans received from related party	8	69.9	—
Issuance of units		—	4,141.0
Repurchase of units	4	(330.2)	—
Redemption of units	4	(0.3)	(0.3)
Purchase of units for distribution reinvestment plan	4	(13.0)	(5.9)
Cash distributions paid to unitholders	6	(354.4)	(128.8)
		(828.9)	4,006.0
Cash from (used in) investing activities			
Cash distributions received from equity investments	3	372.1	135.6
Return of capital	3	460.9	—
Increase in investments		—	(4,141.0)
		833.0	(4,005.4)
Net increase in cash from continuing operations		1.4	0.7
Cash and cash equivalents, beginning of period		0.7	—
Cash and cash equivalents, end of period		2.1	0.7
Supplementary disclosure			
Interest paid	8	2.0	—

See accompanying notes to the consolidated financial statements

Notes

Bell Aliant Regional Communications Income Fund is an unincorporated, open-ended limited purpose trust governed by the laws of Ontario pursuant to a Declaration of Trust dated March 30, 2006, as amended and restated on July 6, 2006. All references to “we”, “us”, “our” or the “Fund” refer to Bell Aliant Regional Communications Income Fund.

On July 7, 2006, the Plan of Arrangement (the Arrangement) to combine Aliant Inc.’s (Aliant) wireline telecommunications operation in Atlantic Canada, information technology operation and other related operations with Bell Canada’s wireline telecommunications operation in certain of its regional territories in Ontario and Quebec (the Combined Business) and Bell Canada’s then 63.4 per cent indirect interest in NorthernTel, Limited Partnership (NorthernTel) and Télébec, Limited Partnership (Télébec), was completed as described in Aliant’s management information circular dated April 14, 2006. As a result of the Arrangement, we hold an indirect interest in the Combined Business, NorthernTel and Télébec.

On January 30, 2007, we acquired the remaining 36.7 per cent indirect interest in NorthernTel and Télébec through privatizing Bell Nordiq Income Fund. The transaction involved Bell Nordiq Income Fund paying its unitholders of record at close of business on January 26, 2007, a special distribution of \$4.00 per unit in cash on January 29, 2007. On January 30, 2007, we acquired the assets and liabilities of Bell Nordiq Income Fund in exchange for 13,467,791 Fund units. On January 30, 2007, Bell Nordiq Income Fund redeemed its units, exchanging 0.4113 Fund units for each outstanding Bell Nordiq Income Fund unit. The Bell Nordiq Income Fund units were subsequently de-listed from the Toronto Stock Exchange (TSX).

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, Bell Aliant Holdings Trust and Bell Nordiq Trust, and equity account for the following investments over which we exercise significant influence:

- Through Bell Aliant Holdings Trust, we have an 81.5 per cent equity interest in Bell Aliant Regional Communications Holdings Inc. (Bell Aliant Holdings GP) and Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP), which consolidates the entities that operate the Combined Business, including Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), and which holds a 63.3 per cent interest in NorthernTel and Télébec. These financial statements should be read in conjunction with the consolidated financial statements of Bell Aliant Holdings LP as at December 31, 2007.
- Through Bell Nordiq Trust, we hold the remaining 36.7 per cent equity interest in NorthernTel and Télébec.

All significant intercompany transactions have been eliminated on consolidation.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

We did not carry on any business for the period from establishment on March 30, 2006, to July 6, 2006. Accordingly, our statement of earnings, statement of unitholders' equity and statement of cash flows, prepared for the period ended December 31, 2006, reflects operations from July 7, 2006, to December 31, 2006.

Comparative figures

Certain comparative financial information has been reclassified to conform to the presentation adopted for 2007.

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. Actual results could differ from estimates used in these financial statements.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and notes receivable from 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.

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 equity account for our 81.5 per cent investments in Bell Aliant Holdings GP and Bell Aliant Holdings LP, as we exercise significant influence over operating, investing and financial policies but do not control the companies. BCE and Bell Canada own the remaining 18.5 per cent interest in Bell Aliant Holdings GP and Bell Aliant Holdings LP.

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, holds 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, holds 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.

We equity account for our 36.7 per cent investments in NorthernTel and Télébec as we exercise significant influence over operating, investing and financial policies but do not control the companies. Bell Aliant Holdings LP owns the remaining 63.3 per cent interest in NorthernTel and Télébec.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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. 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 for financial reporting purposes and their corresponding tax values, as well as the benefit of losses that will more likely than not be realized and carried forward to future years to reduce income taxes, which flow to us from our 36.7 per cent indirect interest in NorthernTel and Télébec.

Financial instruments

Commencing January 1, 2007, we adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA):

- Section 1530, Comprehensive Income;
- Section 3251, Equity;
- Section 3855, Financial Instruments – Recognition and Measurement;
- Section 3865, Hedges;
- Section 3862, Financial Instruments – Disclosures; and
- Section 3863, Financial Instruments – Presentation.

The new standards require that we present a consolidated statement of comprehensive earnings that reflects changes in accumulated other comprehensive earnings (losses), which is shown as a separate component of unitholders' equity.

The adoption of these sections did not have any direct effect on the way we recognize and measure our financial assets and financial liabilities. Bell Aliant Holdings LP recorded a reclassification adjustment in accumulated other comprehensive earnings (losses) and opening accumulated earnings, which related to the adoption of the standards, as well as other comprehensive earnings during the year ended December 31, 2007. As a result of our equity investment in Bell Aliant Holdings LP, we have recorded our indirect interest in these amounts.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The following table summarizes the January 1, 2007, reclassification adjustments on our balance sheet to adopt the new standards:

Consolidated balance sheet <i>(millions of dollars)</i>	Increase (decrease)
Investments	(32.2)
Accumulated earnings	0.6
Accumulated other comprehensive losses	(32.8)

Prior period consolidated financial statements have not been restated and the above changes did not have any effect on our consolidated statement of earnings.

Our financial instruments are classified as loans and receivables and other liabilities with the exception of the cash on hand or balances with banks, which are classified as held for trading. The carrying values of our financial instruments approximate fair values due to their short-term nature.

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 employees' 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

The Fund is economically dependent on Bell Aliant Holdings LP, Télébec and NorthernTel. The ability to pay our distributions is entirely dependent on the distributions received from Bell Aliant Holdings LP, Télébec and NorthernTel. Significant events or transactions in Bell Aliant Holdings LP, Télébec or NorthernTel could materially influence our ability to pay our distributions.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Future changes in accounting policies

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

Capital disclosures

The CICA issued section 1535, Capital Disclosures, which establishes standards for disclosing information about an entity's capital and how the entity manages it. These standards come into effect for fiscal years beginning on or after October 1, 2007. As they relate only to disclosure requirements, these standards will have no effect on our financial results.

2 CORRECTION OF AN ERROR

The calculation of our equity income, reflecting our proportionate share of net earnings of our equity investment in Bell Aliant Holdings LP, was incorrect for the period from July 7, 2006, to March 31, 2007. We have restated prior period balances to reflect the correction of the error in accordance with CICA Handbook, section 1506, Accounting Changes. The effect of the restatement is as follows:

	January 1, 2007 to March 31, 2007	October 1, 2006 to December 31, 2006	July 7, 2006 to September 30, 2006	Total
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(millions of dollars)

Consolidated statements of earnings

Increase (decrease) to:

Equity income from investments	(21.9)	(10.1)	(33.5)	(65.5)
Net earnings from continuing operations	(21.9)	(10.1)	(33.5)	(65.5)
Net earnings from discontinued operations	4.4	4.6	4.1	13.1
Net earnings	(17.5)	(5.5)	(29.4)	(52.4)

Consolidated balance sheets

Decrease to:

Investments	(17.5)	(5.5)	(29.4)	(52.4)
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(dollars)

Earnings per unit

Increase (decrease) to:

Basic from continuing operations		(0.16)	(0.08)	(0.27)
Basic from discontinued operations		0.03	0.04	0.03
Basic		(0.13)	(0.04)	(0.23)
Diluted from continuing operations		(0.14)	(0.09)	(0.23)
Diluted from discontinued operations		0.02	0.03	0.02
Diluted		(0.12)	(0.07)	(0.21)

3 INVESTMENTS

As at December 31

(millions of dollars)

	2007	2006
		(as restated, note 2)
Bell Aliant Holdings LP	3,763.0	4,106.1
NorthernTel and Télébec	527.5	—
	4,290.5	4,106.1

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

For the periods ended December 31 (millions of dollars)	2007			2006		
	Bell Aliant Holdings LP	Télébec and NorthernTel	Total	Bell Aliant Holdings LP	Télébec and NorthernTel	Total
Equity income – continuing operations	259.6	38.0	297.6	120.5	—	120.5
Equity income – discontinued operations	216.5	—	216.5	8.7	—	8.7
Other comprehensive earnings	2.4	—	2.4	—	—	—
Distributions declared	331.2	40.9	372.1	164.1	—	164.1
Distributions received	335.7	36.4	372.1	135.6	—	135.6

Bell Aliant Holdings LP

On January 1, 2007, the investment in Bell Aliant Holdings LP decreased by \$32.2 million as a result of the adoption of the financial instruments standards, as discussed in note 1, which was partially offset by recording other comprehensive earnings in the amount of \$2.4 million for the year ended December 31, 2007.

In May 2007, a series of transactions was undertaken to enable us to fund our normal course issuer bid (NCIB) and settle a related party loan. This included the receipt of \$460.9 million as a return of capital on the class 2 limited partnership units we hold in Bell Aliant Holdings LP, which has reduced the carrying value of our investment in Bell Aliant Holdings LP.

NorthernTel and Télébec

On January 30, 2007, we acquired the remaining 36.7 per cent ownership interest in NorthernTel and Télébec through the acquisition of the assets and liabilities of Bell Nordiq Income Fund having a net book value of \$175.0 million. Bell Nordiq Income Fund held 100.0 per cent of the units and notes issued by Bell Nordiq Trust, which in turn held a 36.7 per cent interest in NorthernTel and Télébec. We exchanged 13,467,791 Fund units, having a total value of \$394.0 million (note 4), for the assets and liabilities of Bell Nordiq Income Fund. The total value was calculated using the weighted average price of Fund units for the five days prior to January 30, 2007. The difference between the cost of the investment plus transaction costs of \$5.3 million and the net book value of the assets and liabilities purchased is \$224.3 million, which is included in the cost of the investment. The notional purchase price allocation was final on December 31, 2007, with no material change to the investment.

The investment in NorthernTel and Télébec also includes a \$131.0 million loan (note 8) that was assumed as part of the acquisition transaction and has since been repaid.

4 UNITHOLDERS' CAPITAL

Authorized

We are authorized to issue an unlimited number of 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.

We are also authorized to issue an unlimited number of special voting units 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)	2007		2006	
	Number of units	Stated capital	Number of units	Stated capital
Units	126,949,663	4,184.0	124,115,890	4,140.7
Special voting units	100,373,827	—	100,373,827	—
		4,184.0		4,140.7

Units

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

As at December 31 (millions of dollars, except as otherwise noted)	2007		2006	
	Number of units	Stated capital	Number of units	Stated capital
Units, beginning of period	124,115,890	4,140.7	—	—
Issued on settlement	—	—	10	—
Repurchase of units	—	—	(10)	—
Issuance of units in exchange for Aliant common shares	—	—	124,121,176	4,141.0
Issuance of units in exchange for assets and liabilities of Bell Nordiq Income Fund (note 3)	13,467,791	394.0	—	—
Deferred unit plan units exercised (note 7)	4,380	0.1	—	—
Redemption of units	(8,172)	(0.3)	(4,864)	(0.3)
Fractional unit adjustment	(226)	—	(422)	—
Units purchased for cancellation	(10,630,000)	(350.5)	—	—
Units, end of period	126,949,663	4,184.0	124,115,890	4,140.7

As a result of the Arrangement, Aliant common shares held by the public and a certain number of Aliant common shares held by BCE were exchanged for our units on a one-for-one basis, effective at the close of business on July 7, 2006.

4 UNITHOLDERS' CAPITAL *(continued)*

As unit certificates are issued to unitholders for whole units, fractional units are paid out in cash.

We commenced an NCIB on February 28, 2007. The NCIB allows 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. Purchases under the NCIB are made with cash, at market prices, through the facilities of the TSX. The NCIB will expire on February 27, 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

Special voting units issued relate to exchangeable limited partnership units that were issued by Bell Aliant Holdings LP and Bell Aliant LP and 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 equal, to the greatest extent practicable, to 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.

The following table provides the numbers of exchangeable limited partnership units and special voting units issued and outstanding at December 31, 2007.

	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

Distribution reinvestment and optional unit purchase plan

Effective July 5, 2006, we implemented a distribution reinvestment and optional unit purchase plan. Under the provisions of the 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, 2007, we bought 496,267 units (July 7, 2006, to December 31, 2006 – 206,433 units) on the open market for unitholders in lieu of paying \$13.0 million in cash distributions (July 7, 2006, to December 31, 2006 – \$5.9 million) and in respect of optional cash payments received we bought additional units for \$2.2 million (July 7, 2006, to December 31, 2006 – \$0.5 million).

5 EARNINGS PER UNIT

For the periods ended December 31

(millions of dollars, except as otherwise noted)

	2007	2006 <i>(as restated, note 2)</i>
Basic:		
Net earnings from continuing operations	292.7	119.5
Net earnings from discontinued operations	216.5	8.7
Net earnings	509.2	128.2
Weighted average number of units outstanding	130,431,180	124,119,412
Basic earnings per unit from continuing operations	2.24	0.96
Basic earnings per unit from discontinued operations	1.66	0.07
Basic earnings per unit	3.90	1.03
Diluted:		
Net earnings from continuing operations	292.7	119.5
Add non-controlling interest of holders of exchangeable units:		
Bell Aliant Holdings LP	59.0	27.3
Bell Aliant LP	117.7	72.8
	469.4	219.6
Net earnings from discontinued operations	216.5	8.7
Add non-controlling interest of holders of exchangeable units:		
Bell Aliant Holdings LP	49.1	2.0
	265.6	10.7
Diluted net earnings	735.0	230.3
Weighted average number of units outstanding	130,431,180	124,119,412
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	324,655	—
	231,129,662	224,493,239
Diluted earnings per unit from continuing operations	2.03	0.98
Diluted earnings per unit from discontinued operations	1.15	0.05
Diluted earnings per unit	3.18	1.03

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 represent units outstanding under the deferred unit plan (DUP), as discussed in note 7. The deferred units included in this calculation represent deferred units relating to the 2006 grant as those are the only ones that meet the criteria for being dilutive.

6 DISTRIBUTIONS TO UNITHOLDERS

Distributions declared were as follows:

(millions of dollars, except per unit amounts)	2007		2006	
	Monthly distributions	Distributions per unit	Monthly distributions	Distributions per unit
Record date:			Record date:	
January 31	31.4	0.2283		
February 28	32.3	0.2350		
March 30	32.3	0.2350		
April 30	31.3	0.2350		
May 31	30.9	0.2350		
June 29	30.7	0.2350		
July 31	30.5	0.2350		
August 31	30.1	0.2350	August 31	49.6 0.3996
September 28	29.9	0.2350	September 28	28.4 0.2283
October 31	29.9	0.2350	October 31	28.4 0.2283
November 30	29.8	0.2350	November 30	28.3 0.2283
December 31	29.8	0.2350	December 31	28.3 0.2283
	368.9	2.8133		163.0 1.3128

Distributions paid were as follows:

For the periods ended December 31
(millions of dollars)

	2007	2006
Cash	354.4	128.8
Additional units on distribution reinvestment plan (note 4)	13.0	5.9
	367.4	134.7

We make monthly distributions out of our distributable cash, which generally consists of all distributions received from Bell Aliant Holdings LP, Télébec and NorthernTel, 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 15th day of the following month. Unitholders can elect to receive additional units in lieu of receiving cash distributions, as discussed in note 4.

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. As such, the amount of net earnings allocated to unitholders may exceed the amount of cash distributed.

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. 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

Employees' unit purchase plans

Effective July 7, 2006, we commenced two employee unit purchase plans having similar terms for eligible full-time employees of certain subsidiaries of Bell Aliant Holdings LP. To satisfy the employees' purchase 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.

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 the employees' 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 our units traded on the TSX on the last five days up to, and including, the distribution payment date, or the value paid by the trustee to purchase the units on the open market. Participants in the plan receive additional units in lieu of receiving cash distributions.

For the year ended December 31, 2007, we bought 1,766,276 units (July 7, 2006, to December 31, 2006 – 461,924 units) on the open market for employees of certain subsidiaries of Bell Aliant Holdings LP. Compensation expense in an amount equal to the employer's portion of the cash contributions required under the plans was recorded in these subsidiaries. The difference, if any, between the actual cost of the units purchased on the open market and the fair value of the units credited to employee accounts on each reinvestment date is recorded, in the subsidiaries, as a gain or loss in other income (expense) in the period.

Deferred unit plan (DUP)

During 2007, we implemented a 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 returns. 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 1,195,620 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 DUP as at December 31, 2007, and changes during the year then ended is as follows:

	Number of deferred units
Deferred units outstanding, beginning of year	—
Granted in 2007:	
Service period fiscal 2006 to 2008	316,717
Service period March 2007 to March 2010	453,742
Reinvested distributions	52,581
	823,040
Forfeited	(23,680)
Exercised <i>(note 4)</i>	(4,380)
Deferred units outstanding, end of year	794,980
Deferred units vested, end of year	108,219

The weighted average grant-date fair value of the 823,040 units granted in 2007 was \$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, 2007, we have recorded in contributed surplus the equivalent of the compensation expense that was recorded in certain subsidiaries of Bell Aliant Holdings LP of \$11.3 million. We issued 4,380 units out of treasury at an average market value of \$31.69 per unit related to the deferred units exercised in the year. When exercised an amount of \$0.1 million was added to stated capital. Compensation expense and the amounts credited to contributed surplus and stated capital are based on the fair value of the units on the dates of the grants or exercise dates, as applicable.

8 RELATED PARTY TRANSACTIONS

Bell Aliant Holdings LP

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.

These services are recorded at their exchange amounts as follows:

<i>For the periods ended December 31</i> <i>(millions of dollars)</i>	2007	2006
Management salaries	0.8	0.4
General and administrative	4.7	0.6
Operating expenses	5.5	1.0

Management salaries are allocated based on billable hours spent on our matters. General and administrative expenses are based on actual expenses that we incur.

8 RELATED PARTY TRANSACTIONS *(continued)*

Due from related parties is \$3.0 million, which relates to these operating expenses as well as the unit-based compensation plans as discussed in note 7. Interest will be charged on the balance owing in accordance with the policies established from time to time by our administrator.

On January 30, 2007, as part of the transaction to acquire the 36.7 per cent indirect interest in NorthernTel and Télébec, Bell Aliant LP loaned \$131.0 million to Bell Nordiq Income Fund to enable it to make a special distribution to its unitholders. On the privatization of Bell Nordiq Income Fund, we indirectly assumed the loan (note 3). The loan was repaid on May 2, 2007, together with interest calculated thereon at 5.10 per cent per annum, which amounted to \$1.7 million of interest charges being recorded.

On March 28, 2007, a subsidiary of Bell Aliant Holdings LP loaned us \$69.9 million to enable us to repurchase units under our NCIB. Similar loans were made in April 2007 through a series of promissory notes. All of the loans were repaid in April and May 2007, together with interest calculated thereon at 4.40 per cent to 4.42 per cent per annum, which amounted to \$0.3 million of interest charges being recorded.

Throughout 2007, we loaned our excess cash to Bell Aliant LP, through a series of promissory notes. Payments are requested as required to fund our NCIB program and for operating purposes. These promissory notes carried rates of interest from 4.42 per cent to 5.14 per cent per annum, totalling \$2.6 million of interest revenue being recorded. All of these promissory notes were subsequently repaid, with the exception of \$1.9 million that was loaned on December 14, 2007, and is payable together with interest calculated thereon at 4.68 per cent per annum. 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 44.15 per cent of our outstanding units as at December 31, 2007 (2006 – 44.71 per cent).

There were no transactions with BCE and Bell Canada during the year.

9 SUBSEQUENT EVENT

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. Since there is no substantive change in ownership of our 36.7 per cent ownership interest in NorthernTel and Télébec, the transfer will be accounted for at carrying value.