



Bell Aliant Regional Communications Income Fund

Management's Discussion and Analysis

Third Quarter 2007

This document provides management's discussion and analysis (MD&A) of our financial condition as at, and results of operations for, the three and nine month periods ended September 30, 2007. This MD&A should be read in conjunction with our unaudited consolidated financial statements and accompanying notes for the period ended September 30, 2007, and our December 31, 2006, audited consolidated financial statements and accompanying notes, and related MD&A. In addition, refer to the unaudited consolidated financial statements and notes and MD&A of Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP) for the period ended September 30, 2007, and the Bell Aliant Holdings LP December 31, 2006, audited consolidated financial statements and accompanying notes, and related MD&A. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All amounts in this MD&A are in millions of Canadian dollars, except where otherwise noted.

Throughout this MD&A, "we", "us", "our" and the "Fund" refer to Bell Aliant Regional Communications Income Fund. References to Bell Aliant Holdings LP include Bell Aliant Holdings LP and its subsidiaries.

Quarterly reports, annual reports, annual information forms and information circulars, can be found under "financial reports" on the Bell Aliant Regional Communications Income Fund (the Fund) website at www.bell.aliant.ca. These and other continuous disclosure documents are also available at www.sedar.com.

Forward-looking information

This MD&A is dated October 31, 2007, and is current to that date, unless otherwise stated. This MD&A contains forward-looking statements related to our future financial condition and results of operations. These statements are based on current expectations and estimates about the markets in which we operate and management's beliefs and assumptions regarding these markets. Unless otherwise indicated, forward-looking statements in this MD&A describe our expectations at October 31, 2007. In some cases, forward-looking statements may be identified by words such as "anticipate", "believe", "could", "expect", "plan", "seek", "may", "intend", "will" and similar expressions. These statements are subject to important risks and uncertainties, which are difficult to predict, and assumptions, which may prove to be inaccurate. Some of the factors which could cause results or events to differ materially from current expectations include but are not limited to: the performance of Bell Aliant Holdings LP; stock market volatility; market or business conditions; the federal government's administration of its recently enacted tax rules for publicly listed income trusts; and changing laws or regulations. Some of these factors are largely beyond our control. Should any factor affect us in an unexpected manner, or should assumptions underlying the forward-looking statements prove incorrect, the actual results or events may differ materially from the results or events predicted. Unless otherwise indicated, forward-looking statements do not take into account the effect that transactions or non-recurring or other special items announced or occurring after the statements are made may have on our business. All of the forward-looking statements made in this document and the documents referred to within are qualified by these cautionary statements. There can be no assurance that the results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences for us. Readers should not place undue reliance on any forward-looking statements. Please see the "Risk management" section for a further discussion of factors that may affect actual results.

About our business

We are an unincorporated, open-ended limited purpose trust governed by the laws of the province of Ontario pursuant to a Declaration of Trust dated March 30, 2006, as amended and restated on July 6, 2006. We did not engage in any activities for the period from establishment on March 30, 2006, to July 6, 2006. Accordingly, the comparative information is for the period beginning on July 7, 2006.

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 Québec (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.

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. Bell Nordiq Income Fund units were subsequently delisted from the Toronto Stock Exchange (TSX).

As a result, we indirectly own an 81.5 per cent equity interest in Bell Aliant Holdings LP, which in turn consolidates subsidiaries that hold the operations of the Combined Business, including Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP) and the 63.3 per cent interest in NorthernTel and Télébec. We also indirectly own an equity investment in the remaining 36.7 per cent of NorthernTel and Télébec. We equity account for these investments as we exercise significant influence over operating, investing and financial policies of these entities, but do not control them. BCE Inc. (BCE) and Bell Canada own the remaining 18.5 per cent interest of Bell Aliant Holdings LP and a 36.9 per cent interest in Bell Aliant LP. Under a Securityholders' Agreement, BCE has certain rights which give it control over the board of Bell Aliant Holdings LP. BCE and Bell Canada's interests in these entities are exchangeable into Fund units such that their ownership of us would be 44.2 per cent on a fully diluted basis.

Privatization of BCE

On June 30, 2007, our significant unitholder, BCE, announced it had entered into a definitive agreement to be acquired by an investment group led by Teachers Private Capital, the private investment arm of the Ontario Teachers Pension Plan, Providence Equity Partners Inc. and Madison Dearborn Partners, LLC. On September 21, 2007, the transaction received BCE shareholder approval. Upon receipt of certain other approvals, the transaction is expected to be completed in the first quarter of 2008. We are not a party to this transaction and cannot predict the impact that a change of ownership of BCE may have on our organization.

Enactment of tax changes for publicly-listed income trusts

As a result of the federal government's recent enactment of tax changes for publicly-listed income trusts, we will commence accounting for a future tax liability related to our share of income from NorthernTel and Télébec upon completion of the purchase price allocation for our acquisition of the 36.7 per cent indirect interest in NorthernTel and Télébec. We anticipate completion of the purchase price allocation by December 31, 2007.

Summary financial information

For the period ended September 30, 2007 (millions of dollars)	Three months			Nine months		
	2007	2006	% change	2007	2006	% change
Net earnings from continuing operations	\$68.8	\$45.1	52.5	\$187.1	\$45.1	n.m.
Net earnings from discontinued operations	0.4	4.1	(90.2)	217.0	4.1	n.m.
Net earnings	\$69.2	\$49.2	40.7	\$404.1	\$49.2	n.m.
Distributions declared	\$90.5	\$77.9	16.2	\$279.4	\$77.9	n.m.

n.m. - not meaningful

Net earnings

Net earnings for the third quarter represents operating revenues, which consist of interest income and our equity percentage ownership of Bell Aliant Holdings LP, NorthernTel and Télébec's net earnings, less \$1.1 million in Fund expenses. The financial performance of Bell Aliant Holdings LP for the period ended September 30, 2007, is discussed in its MD&A.

Distributions declared

We make monthly cash distributions to our unitholders. During the three months ended September 30, 2007, we declared distributions totalling \$90.5 million, or \$0.705 per unit. The year-over-year increase since 2006 reflects the partial distribution period in July 2006, as distributions began effective July 7, 2006, a higher average outstanding Fund unit balance and the higher distribution rate since February 2007. Quarterly total distributions have been declining during 2007 as we repurchase units under our normal course issuer bid (NCIB) discussed under "Fund units".

The distributions we make are generally taxable to the recipient unitholder. The tax attributes of our distributions may change from year to year. In 2006, our distributions consisted of 26.7 per cent dividend income, 73.1 per cent other taxable income and 0.2 per cent was a return of capital. We estimate that 2007 distributions will consist of approximately 85 to 90 per cent other taxable income and approximately 10 to 15 per cent dividend income, however the actual composition will not be finalized and reported to unitholders until early 2008.

We are entirely dependent on distributions from Bell Aliant Holdings LP and from our 36.7 per cent indirect interest in NorthernTel and Télébec to make our distributions. A complete discussion of distributions made by Bell Aliant Holdings LP can be found in its MD&A for the quarter ended September 30, 2007.

(millions of dollars)	As at September 30, 2007	As at December 31, 2006
Total assets	\$4,311.3	\$4,135.3
Total liabilities	\$30.6	\$29.4
Unitholders' equity	\$4,280.7	\$4,105.9

Assets and liabilities

At September 30, 2007, our assets mainly consist of our indirect investment in, and distributions and other amounts receivable from, Bell Aliant Holdings LP, NorthernTel and Télébec. As well, during the first quarter of 2007 we assumed a loan of \$131.0 million from Bell Aliant LP as part of the Bell Nordiq Income Fund privatization transaction. In addition, we borrowed \$69.9 million from Bell Aliant LP primarily for the repurchase of units under our NCIB, which commenced on February 28, 2007. Both of these advances were repaid during the second quarter using the funds we received from a return of capital from Bell Aliant Holdings LP in the amount of \$460.9 million. The remainder of the funds received from the return of capital have been used to repurchase units under our NCIB. At September 30, 2007, there remains \$10.5 million receivable from Bell Aliant Holdings LP, which is reflected in cash and cash equivalents as we expect to collect it in the fourth quarter as we complete our NCIB.

Our liabilities consist mainly of distributions payable to our unitholders.

Fund units

During the three months ended September 30, 2007, we redeemed or repurchased units as follows:

- Our NCIB allows us to purchase, from time to time, up to 13,738,000 of our outstanding units at market prices, with cash, through the facilities of the TSX. During the third quarter of 2007, we purchased for cancellation 3,710,100 units for an aggregate price of \$117.1 million. On a year to date basis, we have purchased for cancellation 10,486,500 units for an aggregate price of \$325.6 million.
- We redeemed 663 units according to their redemption terms. Year to date, 6,729 units have been redeemed.

At September 30, 2007, there were 127,094,626 Fund units outstanding, 100,373,827 exchangeable limited partnership units outstanding, and 777,992 units outstanding under our deferred unit plan. Only 317,733 of the deferred units are considered dilutive, as the remainder are subject to certain performance criteria being met. Therefore, there are 227,786,186 Fund units outstanding on a fully diluted basis.

As at October 30, 2007, there were 126,951,126 Fund units outstanding. The reduction in Fund units since September 30, 2007, is due to the repurchase of units under our NCIB for an aggregate price of \$4.6 million.

Pro forma summary financial information

We equity account for our 81.5 per cent indirect investment in Bell Aliant Holdings LP and our 36.7 per cent indirect investment in NorthernTel and Télébec, as we do not exercise control over these investments.

Bell Aliant Holdings LP controls NorthernTel and Télébec through its 63.3 per cent ownership and therefore, NorthernTel and Télébec's results of operations are consolidated in the Bell Aliant Holdings LP financial statements with a non-controlling interest of 36.7 per cent recorded, reflecting our indirect equity investment.

The following pro forma summary financial information reflects our financial results had we been able, under Canadian GAAP, to consolidate our equity investments in Bell Aliant Holdings LP, NorthernTel and Télébec:

<i>For the period ended September 30, 2007</i>								
<i>Unaudited (millions of dollars)</i>	Three months				Nine months			
	Bell Aliant Income Fund	Bell Aliant Holdings LP	Pro forma adjustments	Pro forma Fund consolidated	Bell Aliant Income Fund	Bell Aliant Holdings LP	Pro forma adjustments	Pro forma Fund consolidated
Operating revenues	\$69.9	\$837.9	(\$70.0)	\$837.8	\$193.4	\$2,514.7	(\$193.5)	\$2,514.6
Net earnings from continuing operations	\$68.8	\$72.7	(\$72.7)	\$68.8	\$187.1	\$200.6	(\$200.6)	\$187.1
Net earnings	\$69.2	\$73.2	(\$73.2)	\$69.2	\$404.1	\$466.9	(\$466.9)	\$404.1
Current assets					\$40.3	\$487.3	(\$39.9)	\$487.7
Non-current assets					\$4,271.0	\$9,994.8	(\$3,832.6)	\$10,433.2
Current liabilities					\$30.6	\$860.5	(\$39.9)	\$851.2
Non-current liabilities					-	\$3,282.5	-	\$3,282.5

The pro forma adjustments represent the elimination of the Fund's investments in Bell Aliant Holdings LP, Télébec and NorthernTel as well as intercompany receivables and payables. The excess of the cost of the Fund's investment in NorthernTel and Télébec over its carrying value is included as goodwill in non-current assets as the purchase price allocation has not yet been completed.

Stability ratings

Our stability ratings have not changed during the third quarter of 2007 and were re-confirmed in September and October, 2007.

Related party transactions

BCE owns, directly and indirectly, 44.2 per cent of the Fund units on a fully diluted basis at October 31, 2007. There have been no changes to the Securityholders' Agreement in the third quarter of 2007. During the nine months ended September 30, 2007, we entered into a series of loans and repayments with subsidiaries of Bell Aliant Holdings LP. We repaid all loans payable during the second quarter of 2007 and we had \$10.5 million of loans receivable outstanding at September 30, 2007. Refer to note 8 to our unaudited interim consolidated financial statements as at September 30, 2007, for a further discussion.

Significant accounting policies and critical accounting estimates

Our unaudited interim consolidated financial statements as at September 30, 2007, have been prepared in accordance with Canadian GAAP. Our accounting policies and methods and critical accounting estimates and assumptions are described in note 1 to our consolidated financial statements for the year ended December 31, 2006. As discussed in note 1 to our unaudited interim consolidated financial statements as at September 30, 2007, on January 1, 2007, we adopted sections 1530, 3251, 3855, 3862, 3863, and 3865 of the Canadian Institute of Chartered Accountants Handbook, relating to comprehensive income, financial instruments and hedges.

The adoption of these sections did not have any direct impact 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 three and nine months ended September 30, 2007. As a result of our equity investment in Bell Aliant Holdings LP, we have recorded our indirect interest in these accounts.

We constantly monitor changes in accounting standards and guidelines to ensure that we continue to adhere to Canadian GAAP. Other than described above, there have not been any changes in accounting standards or guidelines which have resulted in changes to our accounting in the first nine months of 2007.

Risk management

For a discussion of risks that are unique to the Fund, refer to the "Risk and risk management" section of our December 31, 2006, MD&A. For a discussion of risks related to the business of Bell Aliant Holdings LP, refer to the "Risk and risk management" section of Bell Aliant Holdings LP's MD&A for the year ended December 31, 2006.

Internal controls over financial reporting

Management has designed internal controls over financial reporting (as defined in Canadian Securities Administrators' Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

There have been no changes in our internal controls over financial reporting during the three months ended September 30, 2007, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Supplementary financial information

The accompanying table shows selected quarterly consolidated financial data. This quarterly information has been prepared on the same basis as the consolidated financial statements.

For the five quarters ended September 30 (millions of dollars, except for per unit amounts)	2006 ⁽¹⁾		2007		
	Q3	Q4	Q1 ⁽¹⁾	Q2	Q3
Operating revenues	\$45.1	\$75.4	\$74.8	\$48.7	\$69.9
Net earnings from continuing operations	45.1	74.4	72.8	45.5	68.8
Net earnings (loss) from discontinued operations	4.1	4.6	4.4	212.2	0.4
Net earnings	\$49.2	\$79.0	\$77.2	\$257.7	\$69.2
Basic earnings per unit from continuing operations	\$0.36	\$0.60	\$0.55	\$0.34	\$0.53
Basic earnings per unit from discontinued operations	0.03	0.04	0.03	1.59	0.00
Basic earnings per unit	\$0.40	\$0.64	\$0.58	\$1.93	\$0.54
Diluted earnings per unit from continuing operations	\$0.40	\$0.59	\$0.57	\$0.25	\$0.49
Diluted earnings per unit from discontinued operations	0.02	0.03	0.02	1.11	0.00
Diluted earnings per unit	\$0.42	\$0.61	\$0.59	\$1.36	\$0.49
Cash distributions declared	\$77.9	\$85.1	\$96.0	\$92.9	\$90.5

⁽¹⁾ The financial information for 2006 and Q1 2007 have been restated to reflect the correction of an error as described in note 2 to our unaudited interim consolidated financial statements as at September 30, 2007.

The third quarter of 2006 represents results subsequent to July 7, 2006. The net earnings from discontinued operations in the second quarter of 2007 include our proportionate share of the gain on disposal of the net assets and operations of Aliant Directory Services.