



Bell Aliant Regional Communications Income Fund

Management's Discussion and Analysis

Third Quarter 2008

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 months ended September 30, 2008, compared to the corresponding periods in 2007. This MD&A should be read together with our unaudited interim consolidated financial statements and accompanying notes for the period ended September 30, 2008, and our audited consolidated financial statements and accompanying notes as at and for the year ended December 31, 2007, and related MD&A. Our consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All amounts in this document are in millions of Canadian dollars, except where otherwise noted.

This MD&A is dated October 28, 2008, and is current to that date unless otherwise stated.

Throughout this document, unless otherwise specified or the context otherwise indicates, "we", "us", "our" and the "Fund" refer to Bell Aliant Regional Communications Income Fund. References to Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP) includes that entity and its subsidiaries.

Quarterly and annual reports, as well as annual information forms and information circulars, can be found under "financial reports" on the Bell Aliant Regional Communications Income 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 contains forward-looking information related to our future financial condition and results of operations. The purpose of forward-looking information is to provide the reader with information about management's expectations and plans for fiscal 2008 or other future periods. Readers are cautioned that such information may not be appropriate for other purposes. This information is 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 information in this MD&A describes our expectations at October 28, 2008. In some cases, forward-looking information may be identified by words such as "anticipate", "believe", "could", "expect", "plan", "seek", "may", "intend", "will" and similar expressions. This information is 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: our dependence on Bell Aliant Holdings LP, and therefore all of the risks and uncertainties to which its operations are subject; stock market volatility; market or business conditions; and changing laws and regulations. Some of these factors are largely beyond our control. Refer to the "Risk management" section of this MD&A for further discussion of these and other risk factors. Should any factor affect us in an unexpected manner, or should assumptions underlying the forward-looking information prove incorrect, the actual results or events may differ materially from the results or events predicted. Unless otherwise indicated, forward-looking information does not take into account the effect that transactions or non-recurring or other special items announced or occurring after this information is provided may have on our business. All of the forward-looking information reflected 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 will be realized or, even if substantially realized, that they will have the expected consequences for us. Except as may be required by Canadian securities laws, we disclaim any intention and assume no obligation to update or revise any forward-looking information, even if new information becomes available, as a result of future events or for any other reason. Readers should not place undue reliance on any forward-looking information.

See also our Notice concerning forward-looking information dated February 5, 2008, which is available at www.bell.aliant.ca as well as at www.sedar.com.

Our Business

We are an unincorporated, open-ended, limited purpose trust governed by the laws of the province of Ontario. We hold investments in subsidiaries that operate one of the largest regionally focused telecommunications service providers in North America.

On January 1, 2008, we transferred our 36.7 per cent indirect ownership interest in Télébec, Limited Partnership (Télébec) and NorthernTel, Limited Partnership (NorthernTel) to our subsidiary, Bell Aliant Holdings LP, in return for 8,246,429 class 2 limited partnership units of Bell Aliant Holdings LP. Since there was no substantive change in ownership of our 36.7 per cent indirect interest in Télébec and NorthernTel, the transfer was accounted for at carrying value. For the periods prior to January 1, 2008, we equity accounted for this investment as we exercised significant influence over the operating, investing and financial policies of these entities, but we did not control them.

We indirectly own an 82.5 per cent equity interest in Bell Aliant Holdings LP, which in turn consolidates the financial results of Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Télébec and NorthernTel. We equity account for this investment as we exercise significant influence over the operating, investing and financial policies of this entity, but we do not control it. BCE Inc. (BCE) and Bell Canada own the remaining 17.5 per cent interest in Bell Aliant Holdings LP. Bell Canada also owns a 37.9 per cent interest in Bell Aliant LP (34.9 per cent on a proportionate cash distribution basis). These interests are exchangeable into Fund units which gives BCE an effective 44.2 per cent combined interest in us on a fully-diluted basis. Under a Securityholders' Agreement, BCE has certain governance rights which give it control over Bell Aliant Holdings LP so long as its fully-diluted ownership interest is 30.0 per cent or greater and certain commercial agreements are in place with Bell Aliant LP.

Privatization of BCE

As announced on June 30, 2007, our significant stakeholder, BCE, 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., Madison Dearborn Partners, LLC, and Merrill Lynch Global Private Equity. We are not a party to the transaction and cannot predict the effect that a change of ownership of BCE may have on our organization.

Changes to Trustees and Board of Directors

On July 11, 2008, Mr. Lawson Hunter was replaced by Mr. Siim Vanaselja as trustee and chair of the Fund. In addition, Mr. Vanaselja, Mr. George Cope and Mr. David Wells replaced Mr. Hunter, Mr. Michael Sabia and Mr. Patrick Pichette on the boards of directors of our operating subsidiaries. Mr. Cope was appointed chair of these boards.

Planning for future changes in taxation

As a result of the Federal Government's October 31, 2006 announced changes to income tax legislation affecting publicly listed or traded income trusts, starting January 1, 2011, we will be taxed as if we were a corporation, at a blended federal/provincial tax rate we anticipate being in the range of 25.0 to 30.0 per cent of taxable income. While it is too early to precisely determine the effect that these changes will have on our cash flow in years after 2010, we are forecasting that we will have sufficient tax shelter to defer incurring an income tax liability until 2012. We are continuing to investigate strategies and options that could mitigate the effect that payment of income taxes will have on the distributions that we pay to our unitholders. These options may include, among other things: planning to preserve or augment our tax loss carryforward amounts and other discretionary tax deduction or credit pools for utilization after 2010 to reduce taxable income or income taxes otherwise payable by Bell Aliant Holdings LP; strengthening the financial position of Bell Aliant Holdings LP to allow greater flexibility in our future distribution policy; investing in productivity initiatives at Bell Aliant Holdings LP to lower our overall expenses and contribute positively to our future cash flow growth; and utilizing excess cash in the period prior to 2011 to repurchase our units to reduce total future cash distribution requirements. It is uncertain whether these initiatives, if pursued, will allow Bell Aliant Holdings LP to avoid reducing its per-unit cash distributions, and ultimately distributions made by us to Fund unitholders.

On July 14, 2008, the Department of Finance (Finance) released proposed amendments to the Income Tax Act (Canada) (Tax Act) to facilitate the conversion of existing income trusts, such as us, into corporations on a tax-deferred basis (Conversion Rules). These Conversion Rules, if implemented, would be available until January 2013

The Conversion Rules, as proposed, would permit two basic tax-efficient conversion strategies. In general, income trusts may convert by either (i) having unitholders directly exchange their income trust units for shares of a Canadian corporation (Exchange Method), or (ii) redeeming the outstanding income trust units by distributing to unitholders the shares of an underlying Canadian corporation that directly or indirectly owns the business (Distribution Method). The Conversion Rules would permit further rationalization of the organization structure by allowing the dissolution of the income trust and certain subsidiary trusts on a tax-deferred basis. Under both methods, the conversion may be effected on a tax deferred basis for both trusts and their unitholders without the need to file any tax elections.

The Conversion Rules are complex and technical, and Finance has proposed a number of alternatives for completing a conversion. The Conversion Rules may also be further amended before being enacted into law. Accordingly, we will be carefully considering our particular circumstances in order to determine whether to propose a conversion transaction to our unitholders and, if so, how to structure a conversion into a corporation.

Summary Financial Information

The following table shows selected consolidated financial results for the most recent eight quarters. This quarterly information is unaudited, but has been prepared on the same basis as our annual and interim consolidated financial statements.

<i>For the eight quarters ended September 30, 2008</i> <i>(millions of dollars, except per unit amounts)</i>	2006	2007				2008		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Equity income from investments and other revenues	\$75.4	\$74.8	\$48.7	\$69.9	\$106.8	\$44.1	\$69.4	\$76.2
Net earnings from continuing operations	74.4	72.8	45.5	68.8	105.6	43.0	68.5	74.7
Net earnings (loss) from discontinued operations	4.6	4.4	212.2	0.4	(0.5)	0.0	(0.7)	0.3
Net earnings	\$79.0	\$77.2	\$257.7	\$69.2	\$105.1	\$43.0	\$67.8	\$75.0
Basic earnings per unit from continuing operations	\$0.60	\$0.55	\$0.34	\$0.53	\$0.83	\$0.34	\$0.54	\$0.59
Basic earnings (loss) per unit from discontinued operations	0.04	0.03	1.59	0.01	0.00	0.00	(0.01)	0.00
Basic earnings per unit	\$0.64	\$0.58	\$1.93	\$0.54	\$0.83	\$0.34	\$0.53	\$0.59
Diluted earnings per unit from continuing operations	\$0.58	\$0.55	\$0.25	\$0.49	\$0.72	\$0.34	\$0.54	\$0.58
Diluted earnings per unit from discontinued operations	0.03	0.02	1.11	0.00	0.00	0.00	(0.01)	0.00
Diluted earnings per unit	\$0.61	\$0.57	\$1.36	\$0.49	\$0.72	\$0.34	\$0.53	\$0.58
Cash distributions declared	\$85.1	\$96.0	\$92.9	\$90.5	\$89.5	\$91.2	\$92.1	\$92.1

Net earnings

Net earnings represent equity income from our indirect ownership in the earnings of our investments, increased (decreased) for future tax recovery (expense) related to our proportionate share of temporary differences between the carrying amounts of assets and liabilities reported on the balance sheets of our subsidiaries and their corresponding tax values less our expenses. As such, we are entirely dependent upon the results of operations of our investments. During the third quarter of 2008, our equity income from Bell Aliant Holdings LP increased by 9.0 per cent over that reported for the same period in 2007 due to an improvement in the operating performance of that investment combined with lower restructuring and other charges. Net earnings in discontinued operations for the third quarter of 2008 relate to the reclassification of our Defence, Security and Aerospace business (DSA) and Atlantic Mobility Products (AMP) as discontinued operations. Net earnings from discontinued operations in previous quarters include our proportionate share of the results of operations of Aliant Directory Services (ADS) until April 2007, when an after-tax gain of \$258.2 million was recorded by Bell Aliant Holdings LP on the disposal of its net assets and operations, and SalesBridge Canada Corp., which is being wound up. The financial performance of Bell Aliant Holdings LP for the three and nine month periods ended September 30, 2008, compared to the same periods in 2007, is discussed in its third quarter 2008 MD&A.

Distributions declared

We make monthly cash distributions to our unitholders. During the third quarter of 2008, we declared distributions totalling \$92.1 million, or \$0.725 per unit, compared to \$90.5 million, or \$0.705 per unit, in the third quarter of 2007. The quarter-over-quarter increase reflects a 2.8 per cent increase in our monthly distribution rate which commenced in February 2008, offset slightly by a lower average outstanding Fund unit balance due to the repurchase and cancellation of 10,630,000 Fund units under our normal course issuer bid (NCIB), which ran from February 28, 2007, to February 27, 2008.

We are entirely dependent on distributions from Bell Aliant Holdings LP to make our distributions. A discussion of distributions made by Bell Aliant Holdings LP can be found in its third quarter 2008 MD&A.

Assets and liabilities

<i>(millions of dollars)</i>	As at September 30, 2008	As at December 31, 2007
Total assets	\$4,245.3	\$4,324.1
Total liabilities	\$31.3	\$30.2
Unitholders' equity	\$4,214.0	\$4,293.9

At September 30, 2008, our assets mainly consisted of our indirect investment in, and distributions and other amounts receivable from, Bell Aliant Holdings LP. We generally consolidate our excess cash with that of Bell Aliant LP and invest it together in marketable, short-term money market instruments and as such, the balance receivable from or payable to Bell Aliant LP will fluctuate over time depending on these cash balances. At September 30, 2008, we had a \$5.0 million promissory note receivable from Bell Aliant LP bearing interest at 3.22 per cent per annum, which is included in cash and cash equivalents.

Our liabilities consist mainly of distributions payable to our unitholders, which were \$30.7 million as at September 30, 2008, and \$29.8 million as at December 31, 2007.

Fund units

We commenced an NCIB on February 28, 2007, which enabled us to purchase, from time to time, up to 13,738,000 of our outstanding units, representing approximately 10.0 per cent of our public float outstanding on February 26, 2007. The NCIB expired on February 27, 2008. Purchases under the NCIB were made with cash, at market prices, through the facilities of the TSX. No purchases were made under the NCIB during 2008. During the nine months ended September 30, 2007, we purchased 10,486,500 units for an aggregate price of \$325.6 million.

As at September 30, 2008, there were 126,980,439 Fund units outstanding, 100,373,827 exchangeable limited partnership units and 1,176,057 units notionally issued under our deferred unit plan. Only 466,435 units notionally issued under our deferred unit plan are considered dilutive, as the remainder are subject to certain performance criteria being met. Therefore, there were 227,820,701 Fund units outstanding on a fully-diluted basis as at September 30, 2008. The number of Fund units outstanding as at October 21, 2008 remained unchanged from September 30, 2008.

Related Party Transactions

As previously discussed in the "About our business" section, we indirectly own an 82.5 per cent (December 31, 2007 – 81.5 per cent) equity interest in Bell Aliant Holdings LP. As well, BCE and Bell Canada own, directly and indirectly, 44.2 per cent (December 31, 2007 – 44.2 per cent) of Fund units on a fully-diluted basis. There was no change to the Securityholders' Agreement with BCE during the third quarter of 2008.

Throughout the third quarter of 2008, we continued to loan our excess cash to Bell Aliant LP, through a series of promissory notes. Payments are requested as required for operating purposes. Refer to note 8 to our unaudited interim consolidated financial statements for the period ended September 30, 2008, for further information.

Significant Accounting Policies and Critical Accounting Estimates

Our accounting policies and methods and critical accounting estimates and assumptions are consistent with those described in note 1 to our audited consolidated financial statements for the year ended December 31, 2007, with the exception of the adoption on January 1, 2008, of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535, Capital Disclosures.

Commencing January 1, 2008, we adopted Section 1535, Capital Disclosures, which establishes standards for disclosing qualitative and quantitative information about an entity's capital and how it is managed.

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

Effective January 1, 2011, International Financial Reporting Standards (IFRS) will replace Canadian GAAP. The Accounting Standards Board has released an exposure draft that outlines the standards. We have developed a four phase approach to transitioning to IFRS as follows:

- Phase 1 – Raise awareness and initial assessment
- Phase 2 – Detailed assessment
- Phase 3 – Design
- Phase 4 – Implementation

The first two phases involve the development of an initial project plan and structure, training and educating, and performing impact assessments on the various aspects of our operations and financial reporting. In the third phase, we will begin to make accounting policy decisions based on the assessments and design any related implementation plans. The final phase is the actual implementation of the conversion. Our preliminary timeline is to complete the first two phases in 2008 and the final two phases by December 31, 2009, with minor changes in 2010.

At September 30, 2008, the majority of the first phase was completed and we are currently in the second phase, assessing the effect that this transition will have on our operations and financial reporting.

Risk Management

For a discussion of risks related to the Fund, refer to the "Risk management" section of our December 31, 2007, MD&A and the "Risk Factors" section of our 2007 Annual Information Form. For a discussion of risks related to the business of Bell Aliant Holdings LP, refer to the "Risk management" section of Bell Aliant Holdings LP's MD&A for the year ended December 31, 2007, and the "Risk Factors" section of Bell Aliant Holdings LP's 2007 Annual Information Form, as updated in Bell Aliant Holdings LP's MD&As for the first, second and third quarters of 2008.

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 nine months ended September 30, 2008, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.