

Bell Aliant Regional Communications Income Fund

Management's discussion and analysis

For the period ended December 31, 2006

March 2, 2007



MD&A

This document provides management's discussion and analysis (MD&A) of our financial condition as at, and results of operations for, the period ended December 31, 2006. This MD&A should be read in conjunction with the consolidated financial statements and accompanying notes of Bell Aliant Regional Communications Income Fund for the period ended December 31, 2006, together with consolidated financial statements and notes and MD&A of Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP) for the year ended December 31, 2006.

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 the entity and its subsidiaries.

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. Additional information related to the Fund is available at www.sedar.com.

Forward-looking information

This MD&A is dated March 2, 2007, and is current to that date, unless otherwise stated. This document contains forward-looking statements concerning anticipated future events, results, circumstances and expectations. 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 March 2, 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; 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 and 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 carry on any business for the period from establishment on March 30, 2006, to July 6, 2006. Accordingly, the financial information for the period ended December 31, 2006, reflects operations from July 7, 2006, to December 31, 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 63.4 per cent indirect interest in NorthernTel, Limited Partnership and Télébec, Limited Partnership (the Bell Nordiq Partnerships), was completed as described in Aliant's management information circular dated April 14, 2006.

As a result of the Arrangement, we indirectly own an 81.5 per cent equity interest in Bell Aliant Holdings LP, which in turn consolidates subsidiaries which hold the operations of the Combined Business and, at December 31, 2006, held a 63.3 per cent interest in the Bell Nordiq Partnerships.

We are entirely dependent on distributions from Bell Aliant Holdings LP and from our 36.7 per cent interest in the Bell Nordiq Partnerships to make our own distributions. We qualify as a "mutual fund trust" for the purposes of the Income Tax Act (Canada) (the Tax Act) and as such, are only taxable on any income not allocated to unitholders.

SELECTED FINANCIAL INFORMATION

For the year ended December 31, 2006

(millions of dollars)

Net earnings	163.1
Total assets	4,170.2
Total liabilities	29.4
Unitholders' equity	4,140.8
Distributions declared	163.0

NET EARNINGS

Net earnings for the period represents operating revenues, which consist of cash distributions declared by Bell Aliant Holdings LP to holders of class 2 limited partnership units, less \$1.0 million in Fund expenses. The financial performance of Bell Aliant Holdings LP is discussed in its MD&A for the year ended December 31, 2006.

ASSETS AND LIABILITIES

At December 31, 2006, our assets mainly consist of our indirect investment in, and distributions receivable from, Bell Aliant Holdings LP. Our liabilities consist mainly of distributions payable to our unitholders.

UNITHOLDERS' EQUITY

As a result of the Arrangement, Aliant common shares held by the public and a certain number of Aliant common shares held by BCE Inc. (BCE) were exchanged for Fund units on a one-for-one basis, effective at the close of business on July 7, 2006. The Fund units each represent an equal fraction of undivided beneficial interest in the Fund. All Fund units are transferable and share equally in all our distributions whether of net earnings, net realized capital gains or other amounts, and in the net assets of the Fund in the event of its termination or winding-up. All Fund units rank among themselves equally and ratably without discrimination, preference or priority. Each Fund unit entitles the holder thereof to certain rights of redemption.

Exchangeable limited partnership units are issued by certain of our subsidiaries and are intended to be, to the greatest extent practicable, the economic equivalent of Fund units. Holders of exchangeable limited partnership units are entitled to receive per unit distributions from the limited partnerships equal to, the greatest extent practicable, per unit distributions we pay to holders of Fund units. Each exchangeable limited partnership unit is exchangeable for a Fund unit on a one-for-one basis. The exchangeable limited partnership units are transferable subject to certain restrictions.

Each exchangeable limited partnership unit is issued together with a special voting unit of the Fund entitling the holder to one vote at all meetings of unitholders of the Fund, for each special voting unit held. Concurrent with the exchange of exchangeable limited partnership units for Fund units, any related special voting units will be cancelled.

At December 31, 2006, there were 124,115,890 Fund units outstanding and 100,373,827 exchangeable limited partnership units outstanding, which represent 224,489,717 Fund units on a fully diluted basis. The number of fully diluted Fund units at February 26, 2007, was 237,956,951, reflecting Fund units issued in relation to the privatization of Bell Nordiq Income Fund, as discussed in the "Subsequent events" section.

DISTRIBUTIONS

We expect to make monthly cash distributions to our unitholders. During the period ended December 31, 2006, we declared distributions totalling \$163.0 million, or \$1.3128 per unit.

STABILITY RATINGS

Our stability ratings are SR-2, stable (moderate) outlook for Standard and Poor's and STA-2 (high) for Dominion Bond Rating Service.

A rating is not a recommendation to buy, sell or hold units and may be revised or withdrawn at any time. Stability ratings do not take into consideration such factors as pricing or stock market risk.

RELATED PARTY TRANSACTIONS

BCE owned, directly and indirectly, 44.7 per cent of the Fund on a fully diluted basis at December 31, 2006. A securityholders' agreement among the Fund, its subsidiaries, BCE and Bell Canada, provides that so long as BCE, directly or indirectly, holds not less than 30 per cent of the Fund units on a fully diluted basis, and certain commercial agreements with BCE have not been terminated, BCE shall be entitled to appoint up to a majority of the directors of material subsidiaries of the Fund and nominate a majority of the trustees of the Fund. As long as BCE directly or indirectly holds not less than 20 per cent, BCE will be provided with certain consent rights, including the right to approve the appointment or removal of any chief executive officer. In addition, the securityholders' agreement provides BCE and Bell Canada with pre-emptive rights to purchase securities in the event that units, securities convertible into units, or debt securities are issued.

SUBSEQUENT EVENTS

In October 2006, we announced a proposal to increase our ownership interest and to take Bell Nordiq Income Fund private. At December 31, 2006, we held an indirect 63.3 per cent voting interest in each of the Bell Nordiq Partnerships. Under the proposal, we would acquire, through Bell Nordiq Trust, the remaining 36.7 per cent indirect ownership interest in the Bell Nordiq Partnerships.

On January 16, 2007, at a special meeting of Bell Nordiq Income Fund unitholders, the unitholders voted in favour of the proposal. All conditions precedent to the transaction were satisfied or waived by January 22, 2007, and Bell Nordiq Income Fund unitholders of record at the close of business on January 26, 2007, were paid by Bell Nordiq Income Fund a special distribution of \$4.00 in cash on January 29, 2007. Bell Nordiq Income Fund units ceased to trade on the Toronto Stock Exchange at the close of business on January 29, 2007, and were redeemed in exchange for Fund units and delisted at the close of business on January 30, 2007. On January 30, 2007, we acquired the assets and liabilities of Bell Nordiq Income Fund units in exchange for 0.4113 Fund units for each outstanding Bell Nordiq Income Fund unit, for a total of 13,467,791 million units.

We are equity accounting for our 36.7 per cent indirect interest in the Bell Nordiq Partnerships through Bell Nordiq Trust as we exercise significant influence over operating, investing and financial policies but do not control the entities. Bell Aliant Holdings LP, which indirectly holds the remaining 63.3 per cent interest, consolidates the Bell Nordiq Partnerships results and records a non-controlling interest.

On February 28, 2007, we commenced a normal course issuer bid (NCIB), which 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, at market prices with cash through the facilities of the TSX. The NCIB will expire on February 27, 2008.

For a discussion of subsequent events related to the business of Bell Aliant Holdings LP, refer to the “Strengthening our core business” section of Bell Aliant Holdings LP’s MD&A for the year ended December 31, 2006.

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

Our consolidated financial statements have been prepared in accordance with Canadian GAAP. Greater detail on our significant accounting policies and a discussion of future changes in accounting policies is provided in note 1 to our consolidated financial statements for the period ended December 31, 2006.

Under Canadian GAAP, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosures of contingent assets and liabilities in the financial statements.

We base our estimates and assumptions on past experience and other factors that we believe are reasonable under the circumstances. This involves varying degrees of judgment about matters that may be inherently uncertain. The amounts currently reported in the financial statements could prove to be inaccurate or are subject to change under different conditions or using different assumptions. We periodically evaluate the reasonability of these estimates and assumptions.

Investments

The valuation of our investments in Bell Aliant Holdings LP and Bell Aliant Regional Communications Holdings Inc. (Bell Aliant Holdings GP) will be regularly reviewed by management to ensure that any decline in market value that is considered other than temporary will be reflected in the related carrying value of the investment. In making the assessment, several factors will have to be considered including the amount by which the carrying value exceeds the market value, the duration of any market value decline and the expected future cash flows and earnings.

RISK AND RISK MANAGEMENT

The following is a discussion of risks that are unique to income trusts. 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.

Dependence on Bell Aliant Holdings LP and Bell Nordiq Trust

We are an open-ended, limited purpose trust, and are entirely dependent on distributions from Bell Aliant Holdings LP and Bell Nordiq Trust to make our distributions. There can be no assurance regarding our ability to make distributions, which is dependent upon the financial performance of Bell Aliant Holdings LP and Bell Nordiq Trust.

Unpredictability and volatility of unit price

A publicly traded income trust does not necessarily trade at values determined by reference to the underlying value of its business. The prices at which the units trade cannot be predicted. The market price of the units could be subject to significant fluctuations in response to variations in quarterly operating results, distributions and other factors, including changes in tax laws affecting the tax treatment of trusts and distributions from trusts. The annual yield on the units as compared to the annual yield on other financial instruments may also influence the price of units in the public trading markets. In addition, the securities markets experience significant price and volume fluctuations from time to time that often are unrelated or disproportionate to the operating performance of particular issuers. These broad fluctuations may adversely affect the market price of the units.

Nature of Fund units

The Fund units are not “deposits” within the meaning of the Canada Deposit Insurance Corporation Act (the Act) and are not insured under the provisions of the Act or any other legislation. Furthermore, we are not a trust company and, accordingly, are not registered under any trust and loan company legislation, as we do not carry on or intend to carry on the business of a trust company. In addition, although we qualify as a “mutual fund trust” as defined by the Income Tax Act, we are not a “mutual fund” as defined by applicable securities legislation.

The Fund units are hybrids in that they share certain attributes common to both equity securities and debt instruments. The Fund units do not represent a direct investment in the business of Bell Aliant Holdings LP and should not be viewed by investors as shares or interests in such entity or any other company. The Fund units do not represent debt instruments and there is no principal amount owing to unitholders. As holders of Fund units, unitholders do not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring “oppression” or “derivative” actions. Each Fund unit represents an equal, undivided, beneficial interest in the Fund. The price per unit is a function of our anticipated distributable cash at any time, which, in turn is dependent on the distributable cash distributed upstream by Bell Aliant Holdings LP and Bell Nordiq Trust.

Cash distributions are not guaranteed and will fluctuate with the performance of the business

Although we intend to continue to distribute the income we earn less taxes, expenses and amounts, if any, paid in connection with the redemption of units, there can be no assurance regarding the amounts of cash distributions distributed upstream by Bell Aliant Holdings LP and Bell Nordiq Trust, and thus, eventually available for us to distribute. The actual amount of distributions paid in respect of the Fund units depends upon numerous factors, all of which are susceptible to a number of risks and other factors beyond our control and that of Bell Aliant Holdings LP. Distributions are not guaranteed and will fluctuate with the performance of Bell Aliant Holdings LP. Bell Aliant Holdings LP has the discretion to establish cash reserves (including regulatory capital reserves) for the proper conduct of its business. Adding to these reserves (including regulatory capital reserves) in any year would reduce the amount of distributable cash and, hence, of cash available for distributions in that year. Accordingly, there can be no assurance regarding the actual levels of our distributions.

Structural subordination of the Fund units

The Fund units are subordinated to the existing credit facilities and most of the other indebtedness and liabilities of Bell Aliant Holdings LP.

Capital expenditures

The timing and amount of capital expenditures by Bell Aliant Holdings LP directly affects the amount of distributable cash available for distribution, including, ultimately, the cash available for distributions to unitholders. Such distributions may be reduced, or even eliminated, at times when the trustees deem it necessary to make significant capital or other expenditures. For details on planned capital expenditures of Bell Aliant Holdings LP and the sources of financing for these expenditures, refer to Bell Aliant Holdings LP's MD&A for the year ended December 31, 2006.

Limitation on non-resident ownership

Our Declaration of Trust imposes various restrictions on unitholders. Non-resident unitholders are prohibited from beneficially owning more than 45 per cent of Fund units. In addition, our Declaration of Trust contains a provision prohibiting non-Canadians (for purposes of the Broadcasting Act, the Radio Communication Act and the Telecommunications Act) from owning more than 20 per cent of the Fund units. These restrictions may limit (or inhibit the exercise of) the rights of certain persons, including non-residents and non-Canadians, to acquire Fund units, to exercise their rights as unitholders and to initiate and complete take-over bids in respect of the Fund units. As a result, these restrictions may limit the demand for Fund units from certain unitholders and thereby adversely affect the liquidity and market value of the Fund units held by the public.

Dilution

Our Declaration of Trust authorizes us to issue an unlimited number of Fund units for the consideration and on those terms and conditions as are established by the trustees, without the approval of unitholders. Any further issuance of Fund units will dilute the interests of existing unitholders.

The acceptance of our proposal to increase our ownership interest and to take Bell Nordiq Income Fund private resulted in the issuance of approximately 13.5 million Fund units on January 30, 2007.

Tax related risks*Qualified investments for tax deferred plans*

There can be no assurance that Fund Units will continue to be qualified investments for certain plans under the Tax Act.

Status as a mutual fund trust

There can be no assurance that the Fund will continue to qualify as a “mutual fund trust” for the purposes of the Tax Act. If the Fund ceases to qualify as a “mutual fund trust” under the Tax Act, the income tax treatment of the Fund and its unitholders would be materially and adversely different than its current income tax treatment in certain respects.

There can be no assurance that Canadian federal income tax laws and administrative policies respecting the treatment of mutual fund trusts will not be changed in a manner which adversely affects unitholders.

Taxation of Bell Aliant Holdings Trust, Bell Nordiq Trust and the Fund

Interest on the indebtedness of Bell Aliant Regional Communications Inc. and Bell Nordiq Group Inc. to Bell Aliant Holdings LP will be included in the income of Bell Aliant Holdings LP for Canadian federal income tax purposes on an accrual basis, whether or not actually paid. Bell Aliant Holdings Trust is, in turn, required to include in its income its share of the income of Bell Aliant Holdings LP for each year. A sufficient amount of the annual net income (including net realized capital gains) of Bell Aliant Holdings Trust for each year is intended to be paid or payable in each year to the Fund in order to eliminate Bell Aliant Holdings Trust’s liability under Part I of the Tax Act. Such amount will thereby be included in the income of the Fund as sole unitholder of Bell Aliant Holdings Trust.

Bell Nordiq Trust will be required to include in its income its share of the income of the Bell Nordiq Partnerships for each taxation year. A sufficient amount of the annual net income (including net realized capital gains) of Bell Nordiq Trust for each year is intended to be paid or payable in each year to the Fund, in order to eliminate Bell Nordiq Trust’s liability under Part I of the Tax Act. Amounts so paid or payable to the Fund will be included in the income of the Fund as unitholder of Bell Nordiq Trust.

A sufficient amount of the Fund’s annual net income (including net realized capital gains) is intended to be paid or payable each year to Fund unitholders in order to eliminate the Fund’s liability for tax under Part I of the Tax Act. Where such amount of net income of the Fund in a taxation year exceeds the cash available for distribution in the year, such excess net income will be distributed to Fund unitholders in the form of additional Fund units. Fund unitholders will be required to include an amount equal to such excess net income in their income for tax purposes, in circumstances where they do not receive a corresponding cash distribution.

Interest expense deduction

Income fund structures generally involve significant amounts of inter-company or similar debt, generating substantial interest expense, which serves to reduce earnings and therefore income tax payable. There can be no assurance that taxation authorities will not seek to challenge the amount of interest expense deducted. If such a challenge were to succeed against Bell Nordiq Group Inc. or Bell Aliant Regional Communications Inc., it would materially adversely affect the amount of cash available to the Fund for distribution to Fund unitholders. We believe that the interest expense inherent in our organizational structure is supportable and reasonable in light of the terms of the related indebtedness.

Allocation of partnership income

The general partners of Bell Aliant Holdings LP, Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP) and the Bell Nordiq Partnerships allocate the respective incomes of such partnerships among their respective partners in accordance with the terms of the related partnership agreements. The Tax Act contains provisions which permit a reallocation of partnership income or loss among members of a partnership where the agreed-upon allocation is not reasonable in the circumstances. Although such allocations are believed to be reasonable in the circumstances, there can be no assurance that taxation authorities will not seek to challenge such allocation. If such challenge were to succeed, the amount of cash available to the Fund for distribution to Fund unitholders could be affected adversely.

Federal government's announcement on income trusts

On October 31, 2006, the federal government announced significant changes to the tax treatment of income trusts. For income trusts that were publicly traded before November 2006, as is the case for us, these changes, which generally include the taxation of certain trust income at corporate rates and the taxation of certain distributions made to unitholders as if they were dividends from a corporation, will be delayed to 2011. All else being equal, the imposition of this tax will result in less cash being available to pay distributions from the Fund. The government specified that the transitional delay to 2011 in implementing the new rules is subject to the possible need to "foreclose inappropriate new avoidance techniques". For example, the government stated that while there is now no intention to prevent existing income trusts from normal growth during that transitional period, any undue expansion of an existing income trust could cause this to be revisited. The federal government released guidelines in December 2006, on the meaning of "undue expansion", which we expect to be able to operate within. Based on these guidelines, the privatization of Bell Nordiq Income Fund and the acquisition of Amtelecom Income Fund by Bell Aliant Holdings LP should not represent "undue expansion."

However, the exact legislation that will implement these measures has not been made public so there is uncertainty as to the reach and application of this announcement. It is therefore possible that the anticipated new tax measures for existing income trusts may be different from what was announced and which could result in, amongst other things, the earlier application of these measures.

CEO AND CFO CERTIFICATION

Under the supervision and participation of our management, including the chief executive officer (CEO) and the chief financial officer (CFO) of our Administrator, Bell Aliant LP, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as of December 31, 2006. Based on the evaluation, the CEO and the CFO concluded that our disclosure controls and procedures are effective in making known to them material information relating to us and our consolidated subsidiaries required to be disclosed in our reports filed or submitted under the Multilateral Instrument.

Management has designed internal controls over financial reporting 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 December 31, 2006, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.