

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Unless otherwise indicated, this Management's Discussion and Analysis ("MD&A") of our financial results for the interim period ended June 30, 2009 is as at August 6, 2009. In this MD&A, "we", "our", and "us" refer to Manitoba Telecom Services Inc. ("MTS"). This interim MD&A should be read in conjunction with our interim consolidated financial statements and the discussion and analysis that accompanies our audited consolidated financial statements for the year ended December 31, 2008. This interim MD&A for the six months ended June 30, 2009 updates the information contained in our first quarter 2009 interim MD&A, and our 2008 annual MD&A. Unless otherwise stated, all amounts are expressed in Canadian dollars.

Disclaimer Regarding Forward-Looking Statements

This interim MD&A includes forward-looking statements and information (collectively, the "statements") about our corporate direction, business opportunities, operating and dispute resolution activities, financial objectives and future financial results and performance that are subject to risks, uncertainties and assumptions. As a consequence, actual results in the future may differ materially from any

conclusion, forecast or projection in such forward-looking statements. Examples of statements that constitute forward-looking information may be identified by words such as "believe", "expect", "project", "should", "anticipate", "could", "target", "forecast", "intend", "plan", "outlook", "see", "set", "pending", and other similar terms.

Factors that could cause anticipated opportunities and actual results to differ materially include, but are not limited to, the intensity of competitive activity from both traditional and new competitors (competitive conditions); the ability to retain major customers (customer relationships); decisions by the federal regulator that affect our ability to compete effectively or to enter into new business opportunities (developments in federal regulation); general economic and market conditions and the level of consumer confidence and spending, and the demand for, and prices of, our products and services (market conditions and economic fluctuations); fluctuations in pension plan funding requirements (pension solvency funding); the ability to manage labour relations effectively (collective agreements); the ability to anticipate, and respond to, changes in technology (technology); and other risk factors listed from time to time in our comprehensive public disclosure documents, including our 2008 Annual Report and in other filings with the Canadian securities regulatory authorities.

For further information, please refer to the "Risks and Uncertainties" section in this interim MD&A, our first quarter 2009 interim MD&A, our 2008 annual MD&A, and our Annual Information Form, all of which are available on SEDAR at www.sedar.com.

Please note that forward-looking statements reflect our expectations as at August 6, 2009. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as required by law. This report, interim MD&A and the financial information contained herein have been reviewed by our Audit Committee and approved by our Board of Directors.

NON-GAAP MEASURES OF PERFORMANCE

In this MD&A, we provide information concerning continuing operations, EBITDA and free cash flow because we believe investors use them as measures of our financial performance. These measures do not have a standardized meaning as prescribed by Canadian generally accepted accounting principles ("GAAP"), and are not necessarily comparable to similarly titled measures used by other companies.

- **Continuing Operations** – We provide information that refers to our performance from continuing operations to

assist investors in understanding the performance of our company.

In the first six months of 2009, continuing operations excludes restructuring costs; the costs to transition certain wireless service requirements away from Bell Mobility to new suppliers and to our wireless platform; costs related to our wireless evolution; costs related to certain regulatory proceedings; certain costs associated with our transition from Canadian GAAP to International Financial Reporting Standards (“IFRS”); and solvency funding to our pension plans.

In the first six months of 2008, continuing operations excluded the costs of transitioning certain wireless service requirements away from Bell Mobility to new suppliers and to our wireless platform as well as costs associated with the advanced wireless services (“AWS”) spectrum auction; restructuring and integration costs; the impact of changes in income tax rates on our tax asset; and solvency funding to our pension plans.

- **EBITDA** – We define EBITDA as earnings before interest, taxes, amortization and other income. EBITDA should not be construed as an alternative to operating income or to cash flows from operating activities (as determined in accordance with Canadian GAAP) as a measure of liquidity.
- **Free Cash Flow** – We define free cash flow as cash flow from operating activities, less capital expenditures, and excluding changes in working capital. Free cash flow is the amount of discretionary cash flow that we have for purchasing additional assets beyond our annual capital expenditure program, paying dividends, buying back shares and/or retiring debt.

OVERVIEW

MTS is a leading national communications provider in Canada and the market leader in Manitoba. We are organized into two reportable operating segments, the Consumer Markets division and the Enterprise Solutions division. Our common shares are listed on The Toronto Stock Exchange (trading symbol: MBT). Our website is www.mtsallstream.com.

Consumer Markets division

The Consumer Markets division leads every telecommunications market segment in Manitoba, delivering a full suite of next generation wireless, high-speed Internet and data, digital television and wireline voice services under the MTS brand, as well as security and alarm monitoring services through AAA Alarm Systems Ltd., a subsidiary of MTS. This complete range of products is unmatched by any other provider in Manitoba. In addition, the Consumer Markets division is an important service provider in the national small business telecommunications market,

providing customers in targeted major Canadian centres with a range of innovative business Internet, data and voice services under the Allstream brand.

Enterprise Solutions division

The Enterprise Solutions division, which operates under the Allstream brand nationally and under the MTS Allstream brand in Manitoba, is a leading competitor in the national business and wholesale markets. This division’s main customer base is medium and large businesses and government organizations and its key products are Internet protocol (“IP”)-based communications, unified communications, voice and data connectivity, and professional services. The Enterprise Solutions division operates an extensive national broadband fibre optic network that spans more than 27,900 kilometres, and provides international connections through strategic alliances and interconnection agreements with other international service providers.

STRATEGIC PRIORITIES UPDATE

In summary, during the first six months of 2009 we made the following progress on four core priorities:

1. *Focus on smart profitable growth*
Our Consumer Markets division’s growth services revenues increased by 8.8% for the first six months as compared to the year earlier while our Enterprise Solutions division’s growth services revenues increased by 3.2%.
2. *Improve the customer experience and gain market share*
Our key converged IP enterprise data products delivered 11.9% growth in the first two quarters as compared to last year. In Manitoba, our Internet subscriber base continued to grow with a 3.6% increase in high-speed Internet subscribers.
3. *Align cost structure to new market realities*
Our revised and increased target for 2009 is to generate \$50 million to \$60 million in annualized cost savings. We are on schedule to meet our target having achieved \$27.3 million in annualized cost savings from these initiatives in the first six months of the year.
4. *Drive the transition from legacy to growth services*
Growth services accounted for 46.9% of our total revenue in the first two quarters of 2009, up from 43.5% a year earlier.

2009 OUTLOOK UPDATE

This outlook and the financial information contained herein have been reviewed by our Audit Committee and should be read in conjunction with the “Disclaimer Regarding Forward-Looking Statements” and the “Risks and Uncertainties” sections in this interim MD&A, as well as similar sections of our first quarter 2009 interim MD&A, our 2008 Annual MD&A and our 2008 Annual Information Form.

Our financial outlook from continuing operations as announced on December 17, 2008 is detailed below:

2009 Financial Outlook - Continuing Operations

Revenues	\$1.900 billion to \$1.980 billion
EBITDA	\$645 million to \$685 million
EPS	\$2.90 to \$3.20
Free cash flow	\$250 million to \$280 million
Capital expenditures	13% to 15% of revenues

While the economy deteriorated sharply following the release of our financial outlook on December 17, 2008, after the first six months of 2009 we were halfway to the lower end of our guidance for four of our five key metrics: revenue, EBITDA, free cash flow and capital expenditures. For the fifth key metric, earnings per share (“EPS”), the six months results trended slightly below what was required to be halfway to the lower end of our target. Key factors affecting our performance in the second quarter and first half of 2009 were the intensity of the recession and the continuing reduction in the utilization of legacy services in the Enterprise Solutions division.

As an example of the economic deterioration following our December 2008 outlook, the Conference Board of Canada changed its forecast of 2009 national gross domestic product (“GDP”) from 1.5% growth, when our outlook was developed, to a decrease of 1.9% in July 2009. While we have undertaken to significantly reduce our cost structure, most of the impact of these reductions will not be fully-reflected until 2010. More recently, economists are beginning to see indications of a very slight economic improvement in the second half of 2009, including a report by the Bank of Canada on July 21, 2009, which stated that “recovery is nascent.”

The performance of the Company and the current economic conditions through the first half of the year suggests that results in the second half should be similar to the first half of the year which we expect would allow us to meet the lower end of our 2009 outlook for revenue, EBITDA and free cash flow. Our capital expenditures from continuing operations

have been scaled back to reflect expected revenue and are expected to be lower by an additional 10% in the Enterprise Solutions division.

During the quarter, we took the opportunity to refinance \$350 million in short-term debt with a medium term note offering on May 11, 2009. While the new rates are favourable, they are higher than the rates on which our EPS outlook was based. Considering the expected performance of the Company and the additional cost of financing, we expect our 2009 EPS from continuing operations to be below our outlook at approximately \$2.80.

HSPA Announcement

On July 28, 2009, we made a significant announcement regarding our wireless strategy going forward for both divisions of the company. We entered into a strategic wireless arrangement with Rogers Wireless Partnership (“Rogers Wireless”) that will see both companies share the cost to deploy a universal mobile telecommunications systems/high-speed packet access (“HSPA”) wireless network across the existing Manitoba wireless footprint. The agreement also allows us to leverage Rogers Wireless’s purchasing scope and scale to gain cost effective access to the new network technology and leading-edge HSPA handsets. Our customers will have access to the best national and international roaming capabilities as a Rogers Wireless roaming partner, and both companies will share roaming revenues from the HSPA network in Manitoba. The agreement also provides us with the opportunity to launch a national wireless business offering under the Allstream brand through a competitive wholesale arrangement. Over the upcoming quarters, management will finalize our analysis of the opportunity for the launch of a national Allstream-branded business wireless service and provide more information to stakeholders when available.

On July 28, 2009, we issued a material change report in respect of this transaction, which is available on SEDAR at www.sedar.com. This material change report is incorporated by reference herein.

Consumer Markets division

In our Consumer Markets division, our emphasis is on growth products and bundles in areas such as high-speed Internet, wireless, home security and digital television services. Bundling is a strategic advantage as our competitors cannot match our broad range of services.

Geographically, the Consumer Markets division is affected mainly by the Manitoba economy, which in the first half of 2009 outperformed the Canadian economy as a whole. Even as local competition intensified during the first six months of 2009, our Consumer Markets division has outperformed most other telecommunications providers in Canada. Our goal is to maintain our position as the one-stop provider of clear choice to Manitoba households and consumers by delivering stable growth in our Internet, digital television and wireless services in 2009. We have been forborne in a

few markets, including the local market in Winnipeg, which has enhanced our ability to compete against new market entrants.

MTS HDTV, which we launched in Winnipeg and Portage la Prairie, is one of the leading North American digital television services offering such advanced features as personal video recorder, and more HD channels. Because our new MTS HDTV service exceeds the capabilities of our competitors in many ways, we expect it will strengthen our subscriber growth rates going forward.

Enterprise Solutions division

In our Enterprise Solutions division, we will build on our established leadership in advanced IP, multiprotocol label switching (“MPLS”) solutions and unified communications services. As part of this strategy, we will strive to reduce our direct costs through the migration of customers from facilities leased on our competitors’ networks to our network, and we will continue to improve our productivity and cost structure. From a growth perspective, we forecast that revenue from our IP connectivity product line will continue to grow at a double-digit rate.

Geographically, our Enterprise Solutions division is affected by the national economy, which underperformed the economy of Manitoba. While certain customers have postponed purchases of communications solutions and products during the first six months of 2009 due to weakness in the national economy, we anticipate that demand momentum will slowly rebuild with economic recovery, which may soon be underway.

Cost Reductions

For the first six months of the year, we have achieved \$27.3 million in annualized cost savings. Our initial target for 2009 was to generate \$35 million to \$45 million in cost savings. We now expect to achieve \$50 million to \$60 million in savings from these initiatives. This will result in our restructuring costs for 2009 to be approximately \$25 million to \$35 million as compared to our initial estimate of \$10 million to \$20 million. These restructuring costs were not included in our 2009 financial outlook from continuing operations.

Since the fourth quarter of 2008, we have announced the reduction of 330 positions in our Enterprise Solutions division, representing 10% of this division’s workforce, and we are pursuing various cost reduction initiatives to continue to realign our cost structure to recent market realities.

Material Assumptions

We have made a number of assumptions in preparing our financial outlook and making certain other forward-looking statements, which include, but are not limited to, the following assumptions:

Economic Assumptions

The business prospects and performance of the Canadian economy, and to a greater extent, the Manitoba economy, have an impact on our business performance. When we were developing our financial outlook from continuing operations for 2009 in October 2008, the Conference Board of Canada was forecasting a national growth rate of approximately 1.5% for GDP and a growth rate of 2.4% for GDP for the province of Manitoba. More recent forecasts such as the July 15, 2009, Manitoba Department of Finance forecasts for GDP included a decrease of 2.3% for the national average and a decrease of 0.4% for Manitoba. The actual performance of the Canadian economy and the Manitoba economy may impact the assumptions we used in the development of our business plan, which may have a negative impact on our actual results in 2009.

Market Assumptions

As competition in the overall marketplace continues, the broad market segment trends that have taken shape in recent years will also persist in 2009.

Growth for our Consumer Markets division in such services as Internet and digital television is expected to continue at similar levels in 2009. We are assuming that there will not be any material changes to the continued growth of wireless services in 2009, notwithstanding anticipated changes to relationships and market dynamics. In addition, we have forecasted no meaningful new competitor in wireless services in Manitoba in 2009 and competitive pressures to continue upon local and long distance services. Although competition from an incumbent cable operator is expected to continue in the Manitoba residential market, we are confident that we have prudently prepared our operations and strategies to counter these threats. Through our broadband network initiative, our bundling leadership, and our residential service offerings, which include local and long distance, wireless, Internet, digital television and home security services, we believe that we are well-positioned to compete successfully.

With respect to our Enterprise Solutions division, we are expecting growth to continue in 2009 for IP-based next generation services. In addition, the competitive pressure experienced in traditional legacy services, which include data connectivity, local and long distance services will continue in similar trends as it did in 2008. Likewise, we anticipate that customer demand will continue to migrate to next generation services. To face the continued strong competition in the enterprise markets, we have been refining our market focus, creating innovative IP solutions, reducing our cost structure, and investing selectively in high-margin opportunities.

Financial and Operational Assumptions

Our financial and operating assumptions are based on our 2009 financial outlook from continuing operations above.

Cost Reduction Assumptions

Our cost reduction assumptions, and changes from the prior quarter, are discussed above under “Cost Reductions.”

Liquidity and Capital Resources Assumptions

Our operations historically have delivered strong cash flows, and we expect this positive trend to continue in 2009. We will continue to invest in our core operations with a focus on our growth products and services to ensure success in the markets in which we operate. We have adopted a prudent expenditure and investment strategy that is scalable and provides flexibility to adjust the pace of investment according to economic conditions. Significant investments have been made in modernizing our network infrastructure, both in Manitoba and nationally. In 2005, we saw the completion of a five-year, \$300 million fibre optic broadband expansion program in Manitoba, which demonstrates our leadership in bringing fibre closer to the home and also, has positioned our network capabilities second to none in Canada. These investments, in addition to the investment choices we are making nationally, are placing us in a favourable position in terms of capital requirements going forward. In 2009, our capital program is expected to comprise 13% to 15% of our revenues from continuing operations.

On July 28, 2009, we announced a strategic arrangement with Rogers Wireless that will see both companies share the cost of building an HSPA network over our existing Manitoba wireless footprint. The cost of our regional HSPA network upgrade is expected to be up to \$70 million ending in early 2011, approximately \$20 million of which will be funded by our existing capital envelope.

In conjunction with our HSPA roll-out in Manitoba, we will be implementing a new integrated billing platform with the capability for multiple services, creating the opportunity for significant future cost savings. Wireless customers will be the first to be served over the new platform, and the cost to migrate our wireless customers to this platform will be approximately \$40 million over the next three years.

Our cash requirements for 2009 include two non-recurring obligations of approximately \$25 million to \$35 million for restructuring programs; and \$13.7 million for wireless transition costs, a program that is now completed. We expect our pension solvency funding requirement to be approximately \$35 million, which is lower than our previously expected range of \$40 million to \$50 million.

Tax Assumptions

We have been able to reduce our taxable income by utilizing our substantial capital cost allowance (“CCA”) pools and available tax losses. By utilizing our deferred CCA deductions, we project that we will not pay cash taxes before 2015.

The present value of our tax asset is approximately \$370 million. On March 26, 2009, the province of Ontario

announced plans to reduce its corporate tax rate from the current rate of 14% to 10% by 2013. When the new rates are substantively enacted, the effect will be to reduce the book value of our future tax asset by \$17.5 million.

RESULTS OF OPERATIONS

<i>(in millions \$, except EPS)*</i>	2009		2008		
	Q2	Q1	Q4	Q3	Q2
Growth services revenues	216.7	227.2	212.5	213.1	214.9
Legacy services revenues	247.6	255.7	263.9	266.8	271.5
Revenue	464.3	482.9	476.4	479.9	486.4
EBITDA	159.3	163.2	156.7	165.1	171.3
Free cash flow	59.9	68.7	39.4	70.8	72.4
EPS	0.67	0.71	0.59	0.74	0.81
Revenue/capital expenditures	14%	12%	19%	14%	14%

* All financial metrics in this table are from continuing operations.

Our growth and legacy services were negatively affected by the slowing of the economy in the second quarter of 2009. This contributed to the sequential and year-over-year decline in the key metrics listed in the table above. Even so, our results for the first six months mostly remained on trend with the lower end of our guidance range for 2009 as a whole.

Capital expenditures as a percentage of revenue has remained within our guidance range in the second quarter and first six months of 2009 as we have reduced our capital programs to reflect reduced revenue. The performance of other metrics is discussed in more detail below.

Divisional Highlights (continuing operations)

(in millions \$)	three months ended June 30		change
	2009	2008	
Consumer Markets division ("CMD")			
CMD growth services revenues ⁽¹⁾	103.5	97.0	6.7%
CMD legacy services revenues ⁽²⁾	104.3	107.9	(3.3%)
CMD total revenues	207.8	204.9	1.4%
CMD EBITDA	108.1	105.4	2.6%

Enterprise Solutions division ("ESD")

ESD growth services revenues ⁽³⁾	113.2	117.9	(4.0%)
ESD legacy services revenues ⁽²⁾	143.3	163.6	(12.4%)
ESD total revenues	256.5	281.5	(8.9%)
ESD EBITDA	51.0	65.5	(22.1%)

MTS totals

Revenues	464.3	486.4	(4.5%)
EBITDA ⁽⁴⁾	159.3	171.3	(7.0%)

(in millions \$)	six months ended June 30		change
	2009	2008	

Consumer Markets division ("CMD")

CMD growth services revenues ⁽¹⁾	205.3	188.7	8.8%
CMD legacy services revenues ⁽²⁾	206.6	215.9	(4.3%)
CMD total revenues	411.9	404.6	1.8%
CMD EBITDA	214.4	207.8	3.2%

Enterprise Solutions division ("ESD")

ESD growth services revenues ⁽³⁾	238.6	231.1	3.2%
ESD legacy services revenues ⁽²⁾	296.7	329.5	(10.0%)
ESD total revenues	535.3	560.6	(4.5%)
ESD EBITDA	107.7	130.6	(17.5%)

MTS totals

Revenues	947.2	965.2	(1.9%)
EBITDA ⁽⁵⁾	322.5	340.0	(5.1%)

(1) Consists mainly of wireless, consumer Internet and digital television services.

(2) Consists mainly of local, long distance and data services.

(3) Consists mainly of converged IP and unified communications services.

(4) Includes other EBITDA of \$0.2 million in the second quarter of 2009 as compared to \$0.4 million in the second quarter of 2008.

(5) Includes other EBITDA of \$0.4 million in the first six months of 2009 as compared to \$1.6 million in the first six months of 2008.

Summary

We believe our Consumer Markets division achieved market-leading results in the second quarter and first six months of 2009 as compared to a year earlier. While legacy services revenues continued to follow the long-term industry trend of year-over-year declines, these reductions were more than offset by gains in growth services in both the second quarter and the first six months of the year. Successfully managing cable competition in the Manitoba market, our Consumer Markets division's performance has continued to be market-leading in our industry.

Our strategy of attractively bundling the products and services offered by our Consumer Markets division contributed to deliver growth. In the second quarter of 2009, the number of customers selecting our product bundles increased by 4.7% over the same period last year.

Our Enterprise Solutions division continued to experience double-digit growth in converged IP services in the three and six months ended June 30, 2009 over the previous year. However, this strong growth was offset by a slowing economy and the ongoing reduction in network traffic from Rogers Communications Inc. ("Rogers") and AT&T Corp. ("AT&T") as they continued to migrate their communication needs to their respective networks.

REVENUES

By Segment (continuing operations)

(in millions \$)	Q2/09	Q2/08	Q2/09 chg Q2/08
Revenues	464.3	486.4	(4.5%)
CMD growth services revenues	103.5	97.0	6.7%
ESD growth services revenues	113.2	117.9	(4.0%)
Total growth services revenues	216.7	214.9	0.8%
CMD legacy services revenues	104.3	107.9	(3.3%)
ESD legacy services revenues	143.3	163.6	(12.4%)
Total legacy services revenues	247.6	271.5	(8.8%)

Summary

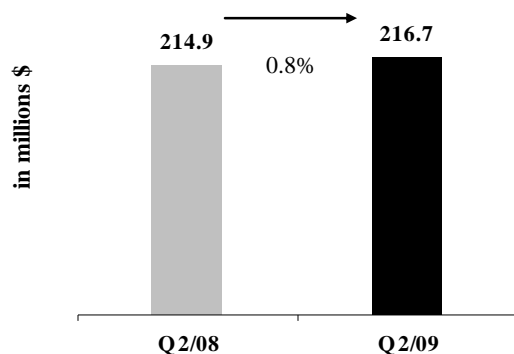
Growth services revenues continued to show improvement overall for the second quarter and the first six months of 2009, as compared to the same periods a year earlier. Even with the weak economy, we experienced high demand for converged IP services within our Enterprise Solutions division growth services portfolio.

Growth Services Revenues

Solid demand for the products we offer within our growth services portfolio continued and is reflected by increases of 0.8% or \$1.8 million and 5.7% or \$24.1 million for the three and six months ended June 30, 2009 as compared to

the prior year. Contributing to this performance are higher, often market-leading, year-over-year revenues from converged IP, consumer Internet, wireless and digital television services on a quarterly and year to date basis, which were partially offset by lower revenues from unified communications, and security and professional services.

Growth Services Revenues



Legacy Services Revenues

As we continue to see the impact of declining revenues from legacy services contracts with Rogers and AT&T, we are also experiencing the effects of re-pricing and lower volumes in the enterprise legacy market and competitive losses in the consumer market. We are also seeing a decline in legacy services revenues related to the slowing economy as some of our enterprise customers who are based or have operations in the U.S. are reducing their business volumes.

The expected migration of communications traffic by Rogers and AT&T to their own respective networks has continued, which has resulted in revenues from these customers decreasing to \$17.0 million in the second quarter and \$35.2 million year to date as compared to \$24.8 million and \$51.3 million in the same periods last year, respectively. For the three and six months ended June 30, 2009, our legacy services revenues declined by 8.8% and 7.7%, respectively. However, if Rogers and AT&T are excluded, revenues from our legacy services would have decreased by 6.5% and 5.3% for these periods.

Operating Revenues (continuing operations)

(in millions \$)	Q2/09	Q2/08	% change
Wireless	76.0	71.9	5.7
Data	167.9	178.6	(6.0)
Local	129.8	132.5	(2.0)
Long distance	68.1	82.6	(17.6)
Other	22.5	20.8	8.2
Total	464.3	486.4	(4.5)

(in millions \$)	YTD/09	YTD/08	% change
Wireless	153.8	140.0	9.9
Data	345.8	352.5	(1.9)
Local	259.4	263.7	(1.6)
Long distance	145.1	167.8	(13.5)
Other	43.1	41.2	4.6
Total	947.2	965.2	(1.9)

Wireless Services

(in millions \$)	2009	2008	% change
Q2	76.0	71.9	5.7
YTD	153.8	140.0	9.9

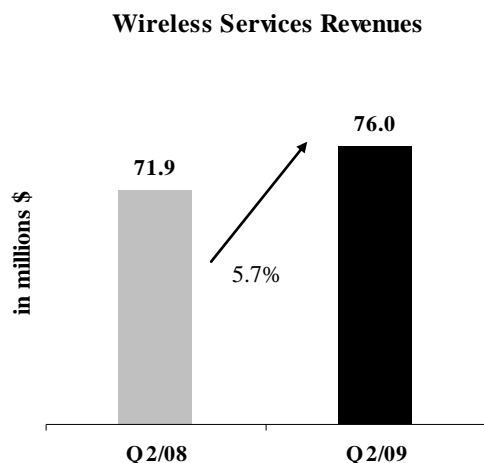
Our wireless portfolio consists of cellular, wireless data, paging and group communications services that we offer in the Manitoba market.

Primarily driving the year-over-year increases in our wireless services revenues is growth in our wireless subscriber base. As at June 30, 2009, our wireless subscriber base had reached 446,293 subscribers, growing by 9.3% over last year. In addition, increased subscriber usage of individual and bundled features such as data, texting, voicemail and call display contributed to the year-over-year increases in our wireless services revenues. Enhancing our performance on a year to date basis is a \$3.4 million one-time sale of FleetNet 800™ handsets to the City of Winnipeg which occurred in the first quarter this year.

Our average revenue per user ("ARPU") of \$55.98 decreased by 0.9% or \$0.48 for the six months ended June 30, 2009. We have continued to see increased airtime usage along with strong increases in wireless data services and calling-feature utilization however, this positive performance was impacted by the presence of aggressively-priced plans from competitors in the fourth quarter of 2008 and first quarter of this year, as well as a reduction in wholesale revenues from competitors. We remained disciplined with our pricing strategy but we were forced to partly respond to these plans for a limited time, withdrawing our promotion in February 2009.

We continue to see growth potential for our wireless services revenues in Manitoba. Our MTS Mobility network provides strong brand awareness, network reach and customer service, in addition, the high-value product bundles that we offer customers cannot be matched by our competitors. These factors along with increasing consumer adoption of wireless products provide an environment for further growth in Manitoba. For example, at the end of the second quarter of 2009, wireless penetration in Manitoba was approximately 63% as compared to our estimate of the Canadian penetration rate of approximately 67%.

Revenues from our wireless data services continued to experience strong year-over-year growth, increasing 21.8% for the six months ended June 30, 2009. Primarily driving this increase are higher revenues from wireless Internet access services, attractive wireless data bundles and service features such as text messaging.



Data Services

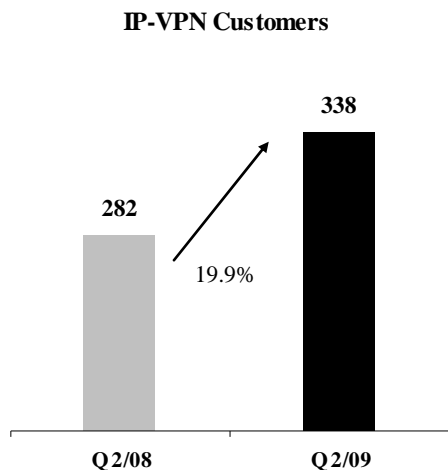
<i>(in millions \$)</i>	2009	2008	<i>% change</i>
Q2	167.9	178.6	(6.0)
YTD	345.8	352.5	(1.9)

Our data line of business includes revenues earned from providing data, Internet, converged IP and professional services. Data services connect data, video and voice networks to establish private connections across office locations and to integrate traffic over highly secure networks. We provide a wide range of Internet connectivity services to meet the needs of residential customers in Manitoba and business customers across the country. We also offer hosting and security services to business customers across Canada.

Strong demand is continuing for key data applications such as our converged IP services, which experienced increased revenues of 13.0% and 11.9% for the second quarter and year to date periods this year and our consumer Internet services with increases in revenues of 8.8% and 10.2% in the second quarter and year to date. However, offsetting this growth were the effects of lower legacy data services revenues resulting from customer transition to next generation growth services and the slowing of the economy as many enterprise customers are experiencing lower business volumes and postponing purchases of unified communications and professional services. In addition, the continuing migration of legacy data communications traffic by Rogers and AT&T to their respective networks has further impacted the year-over-year declines in our data services revenues. Our data services revenues decreased by 6.0% and 1.9% in the second quarter and year to date, respectively. If the data services revenues of Rogers and AT&T were excluded, our data services revenues would have shown a decline of 3.5% in the second quarter and growth of 1.1% year to date this year.

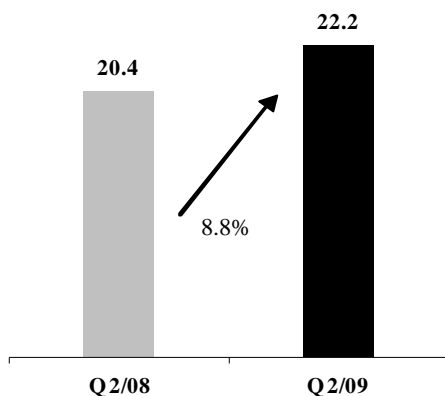
Year-over-year revenues from our next generation data services, which include converged IP and unified communications services, grew by 5.6% year to date. Customers are continuing to migrate to IP solutions that utilize our state-of-the-art IP MPLS network and customer service capabilities. Converged IP services represents the largest revenue stream for our Enterprise Solutions division.

The capabilities of the suite of products offered by our Enterprise Solutions division continued to be demonstrated by solid growth in our IP-virtual private network (“IP-VPN”) customer base. As at June 30, 2009, we were supporting 338 IP-VPN customers, a 19.9% increase over last year.

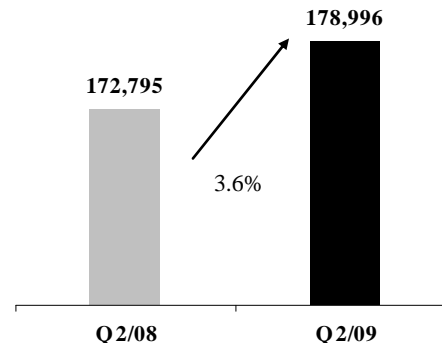


Our consumer Internet services revenue continued to grow in the second quarter and first six months of the year with increases of 8.8% to \$22.2 million and 10.2% to \$44.4 million, respectively. Contributing to this growth was an increase of 3.6% in our consumer high-speed Internet customer base, which reached 178,996 customers as at June 30, 2009, and a 9.0% year-over-year increase in ARPU. Similar to our national peers, increasing penetration in the high-speed Internet market is slowing our subscriber activations.

Consumer Internet Services Revenues



Consumer High-Speed Internet Services Customers



Local Services

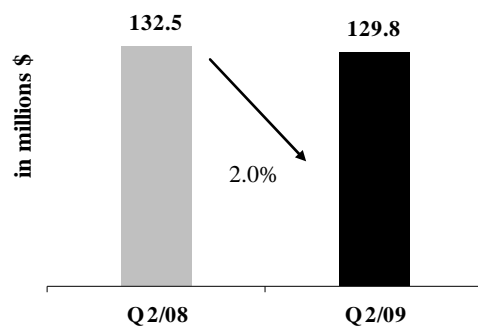
(in millions \$)	2009	2008	% change
Q2	129.8	132.5	(2.0)
YTD	259.4	263.7	(1.6)

Local services revenues include basic voice connections for residential customers, including enhanced calling features (such as Call Answer, Call Display, Call Waiting and 3-Way Calling), payphone revenue, wholesale revenues from services provided to third parties, as well as a full range of local services to business customers. These services allow customers to complete calls in their local calling areas and to access long distance, cellular networks and the Internet.

We believe that we have positioned ourselves for long-term success in our markets by bundling our residential services in attractive offerings. The popularity of our residential service bundle packages, which can include wireless, Internet, digital television and alarm services bundles, continues to provide a unique value proposition for our customers. Customers utilizing our bundled service packages grew by 4.7% in the second quarter of 2009 as compared to the same period in 2008. Through the success of these programs, we continued to deliver “best in class” performance against cable company competitors, and are minimizing the reduction in our local services revenues. Our overall customer connections, which include network access services, high-speed Internet, wireless and digital television subscribers, increased year-over-year by 1.3% as compared to the second quarter of 2008.

The reduction in local services revenues results from a decrease in residential network access lines through local competition while the revenues from our business local services have remained stable year-over-year and continue to perform well in the markets in which we do business. Our year-over-year line loss is among the lowest in Canada at 4.9% and demonstrates the success of our service bundle and consumer marketing strategies in this market. Westman Communication Group launched digital phone service in the Brandon, Manitoba market late in 2008, which has contributed to the decline in local services revenues in 2009.

Local Voice Services Revenues



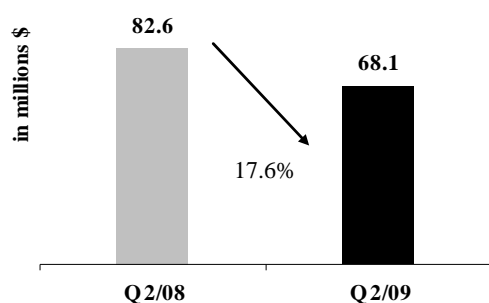
Long Distance Services

(in millions \$)	2009	2008	% change
Q2	68.1	82.6	(17.6)
YTD	145.1	167.8	(13.5)

Long distance services enable residential customers in Manitoba and business customers across Canada to communicate with destinations outside the local exchange. Our long distance voice service portfolio includes basic, domestic, cross-border and international outbound long distance, basic and enhanced toll-free services, calling cards and audio conferencing, as well as a variety of enhanced long distance services and features.

Competitive pricing pressures, customer losses and the impact of a slowing economy continued to impact revenues from our long distance services in all market segments that we service. Lower long distance revenue in our Consumer Markets division is largely due to customer migration to lower-priced long distance plans, volume reductions and customer losses. Our Enterprise Solutions division long distance revenue was primarily impacted by decreased usage and rates in the domestic market as well as lower usage in international and cross-border markets, partly offset by higher international rates. Lower domestic and cross-border volumes are attributable to exiting customers and reduced use by our customers that are based or have operations in the U.S. and have been negatively affected by reduced business activity.

Long Distance Services Revenues



Other Revenues

(in millions \$)	2009	2008	% change
Q2	22.5	20.8	8.2
YTD	43.1	41.2	4.6

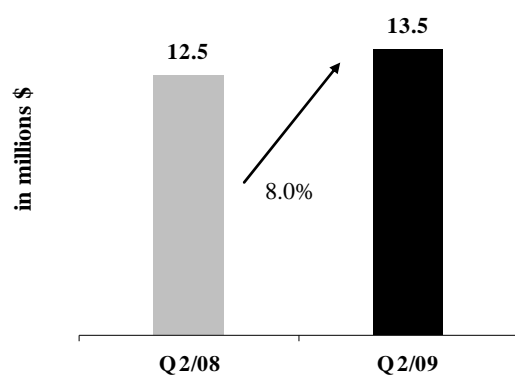
Other revenues consist of revenues earned from our digital television and home security services, and miscellaneous items. Our digital television service is offered across our broadband network platform and is targeted at residential customers in Winnipeg and Portage la Prairie. Miscellaneous revenues primarily consist of the sale and maintenance of terminal equipment.

Year-over-year increases in other revenues were driven by growth in our digital television revenues. Revenues from our digital television services increased by 8.0% or \$1.0 million, and 7.3% or \$1.8 million in the second quarter and year to date, respectively.

Growth in digital television subscribers was partly offset by a decrease in average revenue per subscriber ("ARPS") of 0.2% to \$50.72 in the first six months of the year. This decrease in ARPS was due mainly to an increased number of subscribers on promotional pricing plans, which was partially offset by an increase of \$0.22 from more purchases of pay-per-view events and services year to date. We continue to see our digital television services as a steady growth stream for revenues even during tough economic times, as it provides an entertainment option that is less-expensive than theatre or cinema, in particular as we pursue the roll-out of our recently launched industry-leading MTS HDTV service in Winnipeg.

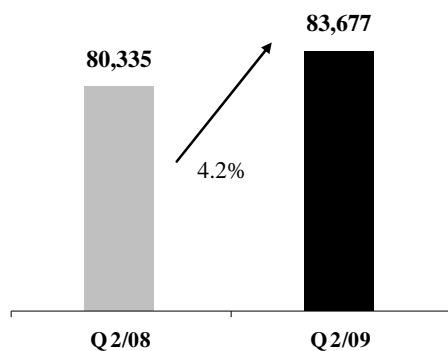
In the first quarter of this year, we became the first company in Canada to have launched the next generation of HDTV, a digital television service that includes combined technology from Alcatel-Lucent Canada Inc. and the award-winning Microsoft Mediaroom Internet Protocol Television software platform. With this milestone of having launched the most advanced television experience in Canada to our customers, we not only provide next generation HDTV but also personal video recorder, improved guide features and other television advancements. The addition of these features places our television product in a better position to match and exceed those of our competitors and helps to drive subscriber growth rates going forward. We successfully launched this new leading-edge service in Winnipeg and Portage la Prairie in the first quarter of 2009, with plans to expand our offering of premium HDTV to Brandon later in the year.

Digital Television Services Revenues



Year-over-year, our digital television subscriber base increased by 4.2% reaching 83,677 subscribers as at June 30, 2009 and our market share increased to 34% as compared to 32% in the same period last year.

Digital Television Services Customers



EBITDA

(in millions \$)	Q2/09	Q2/08	% change
EBITDA (continuing operations)	159.3	171.3	(7.0)
Wireless transition costs and AWS spectrum auction costs	(6.3)	(10.3)	(38.8)
Restructuring and other costs	(12.7)	--	n.m.
EBITDA	140.3	161.0	(12.9)

(in millions \$)	YTD/09	YTD/08	% change
EBITDA (continuing operations)	322.5	340.0	(5.1)
Wireless transition and AWS spectrum auction costs	(13.7)	(10.3)	33.0
Restructuring and other costs	(18.8)	--	n.m.
EBITDA	290.0	329.7	(12.0)

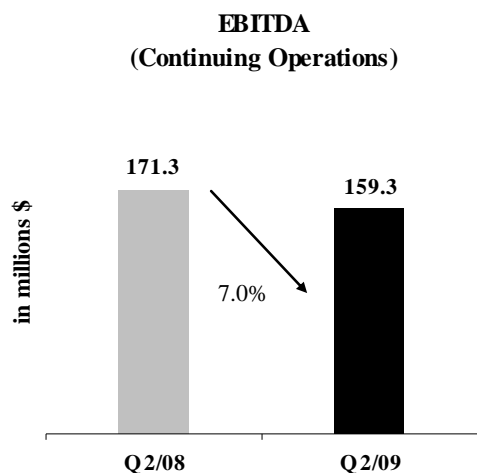
Our EBITDA from continuing operations was \$159.3 million this quarter and \$322.5 million on a year to date basis. Solid performance by our growth services portfolio has continued in the three and six months ended June 30, 2009 with increased revenues from our wireless, digital television and consumer Internet services, as well as double-digit growth in revenues from our converged IP services. However, reduced business from Rogers and AT&T, lower cross-border long distance volumes and the impact of a slowing economy on our Enterprise Solutions division primarily offset these gains. We continue to closely monitor the effects of the current economy on our industry by focusing on our management of our cost structure, revenue retention and prudent capital spending, while progressing with our long-term strategic objectives to increase revenues from growth services and create efficiencies in all areas of our business.

Lower consolidated EBITDA was primarily driven by higher year-over-year restructuring costs, and the costs associated with the transition away from Bell Mobility to new suppliers and our wireless platform.

Our cost reduction program is ahead of schedule and delivering more savings than originally forecasted and as a result, we increased our initial cost savings target for 2009 of \$35 million to \$45 million to the range of \$50 million to \$60 million. As at June 30, 2009, we generated \$27.3 million in annualized savings and have re-engineered and streamlined production processes to improve capacity output. At the end of June 2009, 200 of the 330 announced

position reductions have been completed. We expect our restructuring costs for 2009 to be approximately \$25 million to \$35 million.

Additionally, due to the early success of our initial cost reduction program, we were able to start on another phase of our cost reduction program that targets additional areas of our business that were not reviewed in our previous initiatives. We have not yet quantified the annualized savings this new program will generate, but believe that there are significant opportunities to streamline and gain efficiencies from these areas of the business later in 2009 and in 2010.



EPS

<i>(in \$)</i>	Q2/09	<i>Q2/08</i>	<i>% change</i>
EPS (continuing operations)	0.67	0.81	(17.3)
Wireless transition costs and AWS spectrum auction costs	(0.07)	(0.10)	(30.0)
Restructuring and other costs	(0.13)	--	n.m.
Future tax rate adjustment	--	(0.12)	n.m.
Basic EPS	0.47	0.59	(20.3)

<i>(in \$)</i>	YTD/09	<i>YTD/08</i>	<i>% change</i>
EPS (continuing operations)	1.38	1.65	(16.4)
Wireless transition and AWS spectrum auction costs	(0.14)	(0.10)	40.0
Future tax rate adjustment	--	(0.12)	n.m.
Restructuring and other costs	(0.20)	--	n.m.
Basic EPS	1.04	1.43	(27.3)

Note: EPS for the three and six months ended June 30 is based on weighted average shares outstanding of 64.7 million for 2009, and 64.6 million for 2008.

On a year-over-year basis, EPS from continuing operations decreased by 17.3% in the second quarter and 16.4% year to date as a result of lower EBITDA and higher debt charges. Our debt charges are up due to our decision to issue long-term debt at attractive rates. These rates are higher than short-term rates but represent excellent financing costs for us.

Basic EPS decreased to \$0.47 and \$1.04 in the second quarter and first six months of 2009. This performance reflects impacts of the costs to transition certain wireless service requirements away from Bell Mobility to new suppliers and our wireless platform, and restructuring costs related to our cost saving initiatives as well as a tax rate adjustment which occurred in the second quarter of 2008.

OPERATING EXPENSES

Operations Expense (continuing operations)

<i>(in millions \$)</i>	2009	2008	<i>% change</i>
Q2	305.0	315.1	(3.2)
YTD	624.7	625.2	(0.1)

Operating expenses in the second quarter and year to date were down 3.2% and 0.1%, respectively, as compared to the same periods in the prior year. These decreases are primarily due to our continued focus on cost reduction initiatives in both salaries and benefits, and indirect expenses. These savings are partly offset by higher direct costs resulting from an increase in lower margin revenues in our Enterprise Solutions division, foreign exchange rate changes and a reduction in high-margin revenues from Rogers and AT&T.

We are continuing to make progress with our 2009 cost reduction program, where we expect to achieve \$50 million to \$60 million in cost savings or \$15 million more than originally forecasted for 2009. As at June 30, 2009, we generated \$27.3 million in annualized savings and have re-engineered and streamlined production processes to improve capacity output. In addition, we are seeing success with our cost reduction program that is focusing on areas of our business not impacted by the previous initiatives and expect to generate further savings in the future. At the end of June 2009, 200 of the 330 announced position reductions have been completed.

Restructuring and Transition

<i>(in millions \$)</i>	2009	2008	<i>% change</i>
Q2	19.0	10.3	84.5
YTD	32.5	10.3	n.m.

We incurred restructuring costs in the amounts of \$12.7 million and \$18.8 million in the second quarter and year to date, respectively. These costs represent a continuation of the cost reduction initiative that we commenced in the fourth quarter of 2008 with the aim to achieve process improvements and further cost reductions, and include facilities consolidation of select real estate. In addition, costs of \$6.3 million and \$13.7 million in the three and six months ended June 30, 2009, respectively, were incurred to transition certain wireless service requirements away from Bell Mobility to new suppliers and our wireless platform. This is outlined in Note 2 to our consolidated financial statements.

Amortization Expense

<i>(in millions \$)</i>	2009	2008	<i>% change</i>
Q2	81.1	82.2	(1.3)
YTD	163.1	162.7	0.2

Amortization expense was lower in the second quarter this year due to a decrease in the composite rate. Year to date, increases in property, plant and equipment, offset by a decrease in the composite rate and a charge taken in the first quarter of 2009 related to an accounting change in AAA Alarm Systems Ltd., resulted in a slight increase in amortization expense.

Other Income

<i>(in millions \$)</i>	2009	2008	<i>% change</i>
Q2	2.9	1.0	n.m.
YTD	4.4	5.1	(13.7)

Other income was higher in the second quarter of 2009 primarily due to the gain of \$3.1 million, which includes a cash payment we received of approximately \$1.5 million, related to the sale of our alarm customers outside of Manitoba in exchange for Manitoba-based customers of SecurTek Monitoring Solutions Inc. ("SecurTek"), a wholly-owned subsidiary of Saskatchewan Telecommunications. This transaction will enhance our strategic position as the leading communications provider in the province of Manitoba by allowing us to concentrate on our alarm services in our home market. Offsetting this gain on a year to date basis, is the impact of gains on foreign exchange hedging contracts last year in the first quarter, which did not occur this year.

Debt Charges

<i>(in millions \$)</i>	2009	2008	<i>% change</i>
Q2	15.7	12.1	29.8
YTD	28.8	24.6	17.1

Debt charges increased in the second quarter primarily due to debt issuance costs as well as higher interest rates and higher average debt levels. We refinanced \$350 million in debt on May 11, 2009 in a difficult market. These rates, while attractive, are higher than the debt that was refinanced and accordingly, results in higher debt costs in 2009.

Income Tax Expense

<i>(in millions \$)</i>	2009	2008	<i>% change</i>
Q2	16.3	29.7	(45.1)
YTD	35.4	55.3	(36.0)

As a result of our acquisition of Allstream Inc. in 2004 along with its income tax loss carryforwards, we were able to reduce our taxable income without utilizing our substantial and growing CCA pools. These tax loss

carryforwards were fully-utilized by the end of the second quarter of 2009. However, by utilizing our deferred CCA deduction, we project that we will not pay cash taxes before 2015.

Income tax expense decreased by 45.1% or \$13.4 million to \$16.3 million in the second quarter of 2009 and 36.0% or \$19.9 million on a year to date basis as compared to the same periods in 2008. These decreases were driven primarily by lower income before tax and a \$7.5 million charge related to a change in provincial tax rates that was required in the second quarter of 2008.

On March 26, 2009, the province of Ontario announced plans to reduce its corporate tax rate from the current rate of 14% to 10% by 2013. When the new rates are substantively enacted, the effect will be to reduce the book value of our future tax asset by \$17.5 million.

CONSOLIDATED QUARTERLY DATA

Unaudited quarterly financial data for our eight most recently completed quarters is presented below:

<i>(in millions \$, except earnings per share)</i>	Q2 2009	Q1 2009	Q4 2008	Q3 2008
Operating revenues	464.3	482.9	476.4	479.9
Operating income	59.2	67.7	50.3	66.6
Net income and comprehensive income	30.1	37.0	13.7	38.1
Earnings per share	0.47	0.57	0.21	0.59
Diluted earnings per share	0.47	0.57	0.21	0.59
<i>(in millions \$, except earnings per share)</i>	Q2 2008	Q1 2008	Q4 2007	Q3 2007
Operating revenues	486.4	478.8	489.2	475.9
Operating income	78.8	88.2	72.1	82.5
Net income and comprehensive income	38.0	54.2	14.3	45.5
Earnings per share	0.59	0.84	0.22	0.70
Diluted earnings per share	0.58	0.83	0.22	0.70

Our consolidated financial results for the eight most recently completed quarters reflect the ongoing performance of our business in the marketplace, as well as the following:

- The recording of \$7.4 million and \$6.3 million in costs in relation to the transition of certain wireless service

requirements away from Bell Mobility to new suppliers and to our wireless platform in the first and second quarters of 2009, respectively. We recorded costs in the amounts of \$10.3 million, \$7.5 million and \$9.3 million in the second, third and fourth quarters of 2008, respectively, for this transition and costs associated with the AWS spectrum auction.

- The recognition of restructuring costs for our ongoing cost reduction initiatives including the amount of \$5.4 million in the first quarter of 2009, which is related to the continuation of the cost reduction initiative that we commenced in the fourth quarter of 2008; restructuring costs in the amount of \$12.3 million in the second quarter of 2009; restructuring costs related to our 2008 efficiency program in the amounts of \$7.1 million and \$13.7 million in the third and fourth quarters of 2008, respectively; and restructuring costs for our 2007 efficiency program in the third and fourth quarters of 2007 in the amounts of \$2.3 million and \$3.0 million, respectively.
- An adjustment in the amount of \$25.7 million for a reduction to our tax asset valuation allowance in the fourth quarter of 2007.
- The recording of charges to reflect decreases in the value of our income tax asset as a result of reductions in future income tax rates or rate differential on temporary differences, consisting of \$7.5 million and \$9.0 million in the second and fourth quarters of 2008, respectively, and \$49.6 million in the fourth quarter of 2007.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows from Operating Activities

<i>(in millions \$)</i>	2009	2008	<i>\$ change</i>
Q2	58.1	141.0	(82.9)
YTD	103.4	234.8	(131.4)

Cash flows from operating activities refer to cash we generate from our normal business activities.

The decrease in cash flows from operating activities in the second quarter and year to date are primarily due to lower utilization of our accounts receivable securitization program resulting in decreased cash from working capital, decreased consolidated EBITDA, increased pension solvency funding, increased deferred wireless costs and increased debt charges.

Cash Flows used in Investing Activities

(in millions \$)	2009	2008	\$ change
Q2	69.9	70.3	(0.4)
YTD	127.1	129.2	(2.1)

Investing activities represent cash used for acquiring, and cash received from disposing of, long-term assets and other long-term investments.

Cash flows used in investing activities declined in the second quarter primarily due to the proceeds from the transaction with SecurTek, offset by the timing of capital expenditures. Year to date, cash flows used in investing activities declined primarily due to the impact of our acquisition of ICU Technologies Inc. in 2008 and the proceeds from the transaction with SecurTek, which were offset by the timing of capital expenditures. Our capital expenditures from continuing operations in the second quarter of 2009 were \$63.3 million as compared to \$70.1 million in the same quarter in 2008 and on a year to date basis were \$119.3 million as compared to \$124.9 million.

Free Cash Flow

(in millions \$)	Q2/09	Q2/08	% change
Free cash flow (continuing operations)	59.9	72.4	(17.3)
Restructuring and other costs	(12.7)	--	n.m.
Pension solvency funding	(8.8)	(7.5)	17.3
Wireless evolution capital expenditures	(7.5)	--	n.m.
Wireless transition costs and AWS spectrum auction costs	(6.3)	(10.3)	(38.8)
Restructuring capital expenditures	(0.4)	--	n.m.
Consolidated free cash flow	24.2	54.6	(55.7)

(in millions \$)	YTD/09	YTD/08	% change
Free cash flow (continuing operations)	128.6	151.1	(14.9)
Restructuring and other costs	(18.8)	--	n.m.
Pension solvency funding	(17.5)	(11.4)	53.5
Wireless transition and AWS spectrum auction costs	(13.7)	(10.3)	33.0
Wireless evolution capital expenditures	(7.5)	--	n.m.
Restructuring capital expenditures	(1.0)	--	n.m.
Consolidated free cash flow	70.1	129.4	(45.8)

Free cash flow refers to cash flow from operating activities, less capital expenditures, and excluding changes in working capital.

Year-over-year decreases in free cash flow from continuing operations in the three and six months ended June 30, 2009 primarily resulted from lower EBITDA from continuing operations, increased deferred wireless costs and higher debt charges which were partially offset by lower capital expenditures.

Consolidated free cash flow decreased to \$24.2 million and \$70.1 million in the second quarter and first six months of this year, respectively, and includes items not from continuing operations as detailed in the table above.

Cash Flows from (used in) Financing Activities

<i>(in millions \$)</i>	2009	2008	<i>\$ change</i>
Q2	23.1	(65.0)	88.1
YTD	24.2	(107.1)	131.3

Financing activities refer to actions we undertake to fund our operations through equity capital and borrowings.

The year-over-year increases in cash flows from financing activities are due primarily to the issuance of long-term debt in the second quarter of this year which was partly offset by repayment of notes payable.

Credit Facilities

<i>(in millions \$)</i>	<i>capacity</i>	<i>utilized at June 30, 2009</i>
Medium term note program	350.0	350.0
Accounts receivable securitization	150.0	75.0
Revolving credit facility	350.0	106.9
Total	850.0	531.9

We have arrangements in place that allow us to access the debt capital markets for funding when required. Borrowings under these facilities typically are used to fund new initiatives, refinance maturing debt, and manage cash flow fluctuations.

We were one of the first corporate issuers in the telecommunications industry to successfully complete a medium term note offering in 2009 following challenging market conditions in the corporate debt market. On May 11, 2009, we issued \$350 million of medium term notes which fully-utilized our \$350 million medium term note program. This issue consisted of \$100 million of three-year notes and \$250 million of seven-year notes, with coupon rates of 5.05% and 6.65%, respectively. We intend to renew our medium term note program in the third quarter of 2009.

Upon the issuance of our medium term notes, our revolving credit facility was decreased from \$600.0 million to \$350.0 million, of which \$150.0 million is available to back-stop our commercial paper program. In addition to these programs and facilities, we have an accounts receivable securitization program of \$150.0 million.

As at June 30, 2009, we utilized \$75.0 million of our accounts receivable securitization program, and \$106.9 million of our revolving credit facility due to \$106.9 million in undrawn letters of credit. Of this amount, \$80.7 million represents letters of credit issued under the *Solvency Funding Relief Regulations* enacted in 2006 under the *Pension Benefits Standards Act, 1985* (Canada), which permit the extension of pension solvency payments from a five-year amortization period to a 10-year amortization period for our defined benefit pension plans.

Capital Structure

<i>(in millions \$)</i>	June 30, 2009	<i>December 31, 2008</i>
Cash and cash equivalents	(7.0)	(6.5)
Proceeds from accounts receivable securitization	75.0	127.0
Notes payable	--	95.0
Capital lease obligations, including current portion	19.1	18.8
Long-term debt, including current portion	852.4	650.2
Total debt	939.5	884.5
Shareholders' equity	1,365.8	1,382.0
Total capitalization	2,305.3	2,266.5
Debt to capitalization	40.8%	39.0%

Our capital structure illustrates the amount of our assets that are financed by debt versus equity. Our debt to total capitalization ratio of 40.8% as at June 30, 2009 continues to represent excellent financial strength and flexibility.

Credit Ratings

S&P – Senior debentures	BBB+
S&P – Commercial paper	A-2
DBRS – Senior debentures	BBB
DBRS – Commercial paper	R-2 (high)

Two leading rating agencies, Standard & Poor's ("S&P") and DBRS Limited ("DBRS"), analyze us and assign ratings based on their assessments. We consistently have been assigned solid investment grade credit ratings. In conjunction with our most recent debt offering, S&P confirmed our credit ratings on our long-term corporate credit and senior unsecured debt of "BBB+", and our commercial paper of "A-2". The outlook remained unchanged at negative. In addition, DBRS confirmed our credit ratings at "BBB" on our senior debentures and "R-2 (high)" on our commercial paper, and maintained its stable outlook.

Outstanding Share Data as at July 28, 2009

Authorized:

- Unlimited number of Preference Shares of two classes issuable in one or more series
- Unlimited number of Common Shares of a single class

Issued:		
Shares	Number	Book Value (in millions \$)
Common	64,659,917	1,266.8

Stock options:		
Options	Number	Weighted Average Exercise Price Per Share
Outstanding	2,454,762	\$40.79
Exercisable	1,202,875	\$41.28

Contractual Obligations, Financial Instruments, Off-Balance Sheet Arrangements, and Other Financial Arrangements

Our contractual obligations, financial instruments, off-balance sheet arrangements, and other financial arrangements remain substantially unchanged from those that were disclosed in our first quarter 2009 interim MD&A, and our 2008 annual MD&A. For additional details, please consult our first quarter 2009 interim MD&A, and our 2008 annual MD&A, which are available on our Web site at www.mtsallstream.com.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Our critical accounting estimates and assumptions remain substantially unchanged from those that were disclosed in our first quarter 2009 interim MD&A, and our 2008 annual MD&A. For additional details, please consult our first quarter 2009 interim MD&A, and our 2008 annual MD&A, which are available on our Web site at www.mtsallstream.com.

CHANGES IN ACCOUNTING POLICIES, INCLUDING INITIAL ADOPTION

Our accounting policies, including initial adoption, remain substantially unchanged from those that were disclosed in our first quarter 2009 interim MD&A, and our 2008 annual MD&A. For additional details, please consult our first quarter 2009 interim MD&A, and our 2008 annual MD&A, which are available on our Web site at www.mtsallstream.com.

IFRS

In February 2008, the Canadian Accounting Standards Board confirmed January 1, 2011 as the date IFRS will replace Canadian GAAP for publicly accountable enterprises. Currently, there are a number of areas where accounting standards under IFRS are different from those under Canadian GAAP. Also, because IFRS continues to evolve, it is expected that IFRS at the transition date will differ from current IFRS. Our first financial statements under IFRS will be for periods commencing January 1, 2011.

We commenced our IFRS changeover project in 2008 and have developed a detailed IFRS changeover plan. A project governance structure has been established, which includes a steering committee, consisting of senior management from our finance, information technology ("IT"), network services, enterprise risk management and treasury departments. Our project team includes certain dedicated resources, employees who contribute as required by the project plan, as well as external consultants who have been engaged for project management and technical accounting expertise. The project team reports regularly to the Audit Committee of the Board of Directors of MTS regarding the status of the project and implications of the changeover to IFRS. Throughout the execution of our IFRS plan, there is ongoing training and communication to affected employees and other internal and external stakeholders. Our IFRS changeover plan consists of the following four phases.

Phase 1: Diagnostic Gap Assessment

Phase 1 consists of a high-level diagnostic gap and impact analysis of the differences between Canadian GAAP and IFRS applicable to us. The key activities of Phase 1 include:

- Identification of significant technical accounting and disclosure differences;
- Identification of key IFRS accounting policy alternatives; and
- Identification of major operational and system impacts.

We completed Phase 1 of our IFRS changeover plan in June 2008.

Phase 2: Design and Planning

Phase 2 entails a detailed analysis of relevant Canadian GAAP and IFRS differences, as well as an assessment of the implications of implementing new standards. The key activities of Phase 2 include:

- Detailed evaluation of accounting and disclosure options, including review of estimated impacts on our financial position and results of operations, key performance indicators, and business activities;
- Selection of IFRS-compliant accounting policies, including IFRS 1 policy choices and continuing accounting policies;
- Assessment of implications to systems, processes and controls in sufficient detail to support solution development in Phase 3; and

- Identification of a dual reporting solution to maintain parallel records during 2010.

We have substantially completed Phase 2 activities to assess and select accounting policies. The detailed evaluation of the impacts of certain accounting policy options is ongoing, along with the selection of these accounting policies. As IFRS continues to evolve, further evaluation may also be required. We have identified a dual reporting solution.

Phase 3: Solution Development

During Phase 3, we will design and test solutions that will be implemented as a result of the changeover to IFRS. The key activities of Phase 3 include:

- Design, development and execution of testing strategies for changes to accounting and business processes and IT solutions;
- Design, development and execution of a testing strategy for our dual reporting solution; and
- Revision of internal controls, as required, resulting from changes to ongoing accounting policies and the one-time adjustments to our opening balance sheet on changeover to IFRS.

We have started certain Phase 3 activities, including the design of a solution for dual reporting in 2010. We also have commenced design and development activities related to IT system changes resulting from the changes in accounting standards for property, plant and equipment. We expect that Phase 3 will be substantially completed by the end of the fourth quarter of 2009.

Phase 4: Implementation

During Phase 4, we will implement IFRS-compliant accounting policies and related systems, processes and controls. The key activities of Phase 4 include:

- Implementation of changes to accounting policies;
- Preparation of IFRS-compliant opening balance sheet as at January 1, 2010;
- Preparation of IFRS-compliant financial statements and related note disclosures; and
- Implementation of changes to systems, processes and controls.

Phase 4 of the IFRS changeover plan is expected to commence in the third quarter of 2009 and will continue until the end of the first quarter of 2011.

During these phases of our IFRS project, we will complete the necessary work required to quantify the impact of the changeover to IFRS on our financial position and results of operations. We will monitor changes to IFRS and assess the impacts that these new standards will have on our financial results and on our IFRS changeover project. The financial impacts on changeover to IFRS may be material to our financial statements, and we expect the impacts to be of similar nature to our competitors. Based on our work to

date, we believe that the areas of highest impact are property, plant and equipment and employee benefits.

RISKS AND UNCERTAINTIES

Our risks and uncertainties remain substantially unchanged from those that were disclosed in our first quarter 2009 interim MD&A, and our 2008 annual MD&A, except as noted below. For additional details, please consult our first quarter 2009 interim MD&A, and our 2008 annual MD&A, which are available on our Web site at www.mtsallstream.com.

Bell Mobility Agreement

We and Bell Mobility have been parties to a wireless alliance that addresses competition and reciprocal services in our respective territories and provides us with access to various wireless-related platforms and products. On March 5, 2008, we provided notice of termination to Bell Mobility of certain wireless agreements relating to the framework underpinning this wireless alliance. These agreements provide for the continuation of services following such notice during a notice period and, thereafter, during a transition period. Bell Mobility disputes that it has any remaining obligations under these agreements. We have commenced formal proceedings to resolve this disagreement. Notwithstanding this dispute, we entered into a transition agreement with Bell Mobility to ensure continuity of services to our customers, while reserving all rights to our respective entitlements under these agreements. Effective September 29, 2008, we started activating new wireless customer additions and handset upgrades on new service platforms independent of Bell Mobility. As at March 31, 2009, we migrated all existing wireless customers to our new service platform. In accordance with the transition agreement we signed with Bell Mobility, we gave Bell Mobility notice of termination of that agreement in December 2008; such termination was effective June 24, 2009.

We incurred significant one-time costs of transitioning certain wireless services requirements away from Bell Mobility to new suppliers and to our wireless platform, as well as the costs associated with the AWS spectrum auction. As noted above, we are disputing certain costs being charged by Bell Mobility in relation to the transition away from Bell Mobility. We are of the opinion that such costs are recoverable from Bell Mobility; however, there is no certainty that such costs will be recovered.

Changes in Telecommunications Policy and CRTC Regulation

The telecommunications and broadcast industries in which we operate are federally regulated. We operate as both an incumbent local exchange carrier (“ILEC”) in Manitoba and as a competitive local exchange carrier nationally. In addition, pursuant to Broadcasting Decision CRTC 2002-235, the CRTC granted us a Class 1 regional broadcasting distribution license to operate as a broadcasting distribution undertaking serving Winnipeg and the surrounding areas. Current regulatory proceedings and policy issues, which present significant risk and uncertainty on our business, are described below.

Essential Facilities

On March 3, 2008, the CRTC issued *Revised regulatory framework for wholesale services and definition of essential service*, Telecom Decision CRTC 2008-17, in which it adopted a new broadened definition of an essential service or facility as one that (i) is required by competitors to provide a retail telecommunications service; (ii) is controlled by a company that could use its market power to lessen or prevent competition; and (iii) provides a functionality that would not be practical or feasible for competitors to duplicate. In addition, the CRTC adopted six categories of mandated competitor services, with differing approaches as to when and how mandated access could or, in the case of one category of services will, be phased out. We applied to have the decision reviewed and varied with respect to the treatment of Ethernet and asymmetric digital subscriber line (“ADSL”). On December 11, 2008 and January 26, 2009 in Telecom Decision CRTC 2008-118 pertaining to Ethernet and Telecom Decision 2009-34 pertaining to ADSL, the CRTC dismissed our applications, and initiated a further proceeding concerning the appropriate unbundling of ADSL.

On December 11, 2008, we expressed our intention to petition Cabinet, which is the next statutorily prescribed level of appeal. On March 11, 2009, we filed our petition with the federal government, seeking to have Ethernet and ADSL access and transport facilities controlled by the incumbents treated as essential and made available to competitors on a mandated basis, at cost-based rates. Bell Canada and TELUS Communications Inc. also filed separate petitions on that date seeking relief which would give them further flexibility to discriminate among or deny competitors access to high-speed network inputs. The government is expected to rule on the petitions by the end of 2009.

On May 8, 2009, by way of Telecom Notice of Consultation CRTC 2009-261, the CRTC initiated a further proceeding merging its earlier proceeding concerning unbundled ADSL into a broader proceeding examining the appropriateness of mandating wholesale high-speed access services to be provided to competitors by incumbents and cable carriers. We will be participating in a public hearing to be held in November 2009. A decision is expected in the first quarter of 2010.

Deferral Account

On February 16, 2006, the CRTC issued *Disposition of funds in the deferral accounts*, Telecom Decision CRTC 2006-9 (“Decision 2006-9”). In this decision, the CRTC determined that the funds accumulated in our deferral account should be used for certain reductions in rates for basic local residential services and for certain optional features; for the expansion of broadband services; and for initiatives to improve accessibility to telecommunications services for persons with disabilities. After using approximately \$5 million to fund the required rate reductions which came into effect on June 1, 2006, the estimate of the balance to be cleared from our deferral account for the remaining initiatives is approximately \$25 million. The final calculation of the balance to be cleared is dependent upon certain other CRTC proceedings.

In two subsequent decisions relating to the use of deferral account funds, Telecom Decision CRTC 2007-50 dated July 6, 2007 and Telecom Decision CRTC 2008-1 dated January 17, 2008 (“Decision 2008-1”), the CRTC approved various proposals submitted for the expansion of broadband services in certain rural and remote communities, and for improved access to telecommunications services for persons with disabilities. In Decision 2008-1, the CRTC directed that the remaining balance of the deferral accounts of the ILECs be rebated to residential customers in non-high-cost serving areas.

Bell Canada and certain consumer groups have been granted leave to appeal Decision 2006-9 to the Supreme Court of Canada. We intervened in that appeal in support of Bell Canada. The appeal was argued in front of the Supreme Court in March 2009 with a decision expected before the end of the year.

The final disposition of deferral account balances will be dependent upon the outcome of these appeals. In the interim, Decision 2006-9 and Decision 2008-1 have been stayed by order of the Supreme Court of Canada.

Proposed Unbundled Local Loop Rate Increases

On June 2, 2009, Bell Canada and Bell Aliant filed tariff notices with the CRTC that propose to increase monthly and one-time charges for unbundled local loops. We have filed an intervention requesting that the CRTC either dismiss outright the applications or establish a proceeding to validate the cost study methodology utilized in support, and assess the implications of the applications on local exchange services, local competition, price caps, the forbearance framework and the contribution regime. The CRTC has indicated it will review the interventions and reply comments that have been filed and advise as to what further process it will invoke.

Pension Solvency Funding

We have defined benefit pension plans which provide retirement benefits to our employees. These plans are funded as determined through periodic actuarial valuations.

We have completed January 1, 2009 actuarial valuations for our defined benefit pension plans, which are in a deficit position, in accordance with federal pension legislation under the *Pension Benefits Standards Act, 1985* (Canada). As one of our defined benefit pension plans is in a surplus position, an actuarial valuation is not required for this plan in 2009. We have two defined benefit pension plans with solvency deficiencies for which a total of \$35 million in solvency and special funding payments are expected to be made in 2009.

In 2006, we elected to extend the amortization period of our solvency funding payments from five years to 10 years based on the *Solvency Funding Relief Regulations*. In 2009, we have also extended our solvency funding amortization period from five years to 10 years for one of our defined benefit plans based on the new *Solvency Funding Relief Regulation, 2009*. In accordance with the requirements of these regulations, we obtain letters of credit, which are amended annually, to guarantee future funding of our registered pension plans.

Future solvency funding requirements will depend on the results of annual actuarial funding valuations which are affected by various factors, such as return on plan assets, changes in solvency liability discount rates, and government regulations regarding the requirements associated with solvency valuations. In 2009, the federal government engaged in a public stakeholder consultation process regarding the rules that govern federally regulated pension plans and we participated in this consultation process. The outcome of the public consultation process may impact our future solvency funding payments.

CONTROLS AND PROCEDURES

Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during our most recent interim period ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

NOTICE OF DIVIDEND RECORD DATE

Notice is hereby given that the close of business on September 15, 2009 has been fixed as the record date for the purpose of determining those shareholders entitled to receive payment of MTS's third quarter dividend. The dividend, in the amount of \$0.65 per Canadian per Common Share, has been declared payable October 15, 2009 to shareholders of record at the close of business on September 15, 2009. This notice is provided in accordance with section 128(4) of *The Corporations Act* (Manitoba).

The third quarter dividend is designated as an "eligible" dividend under the *Income Tax Act* (Canada) and any corresponding provincial legislation. Under this legislation, individuals resident in Canada may be entitled to enhanced dividend tax credits which reduce income tax otherwise payable.

Note:

Supplementary financial information is available in the Investors section of the MTS Web site at www.mtsallstream.com.

MANITOBA TELECOM SERVICES INC.

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MANITOBA TELECOM SERVICES INC.
CONSOLIDATED STATEMENTS OF NET INCOME AND
COMPREHENSIVE INCOME
(unaudited)

For the periods ended June 30 (in millions, except earnings per share)	Three months ended		Six months ended	
	2009	2008	2009	2008
Operating revenues	\$ 464.3	\$ 486.4	\$ 947.2	\$ 965.2
Operating expenses				
Operations	305.0	315.1	624.7	625.2
Restructuring and transition (Note 2)	19.0	10.3	32.5	10.3
Amortization	81.1	82.2	163.1	162.7
	405.1	407.6	820.3	798.2
Operating income	59.2	78.8	126.9	167.0
Other income	2.9	1.0	4.4	5.1
Debt charges	(15.7)	(12.1)	(28.8)	(24.6)
Income before income taxes	46.4	67.7	102.5	147.5
Income tax expense (recovery)				
Current	(0.1)	0.1	0.2	0.1
Future	16.4	29.6	35.2	55.2
	16.3	29.7	35.4	55.3
Net income and comprehensive income for the period	\$ 30.1	\$ 38.0	\$ 67.1	\$ 92.2
Basic earnings per share (Note 7)	\$ 0.47	\$ 0.59	\$ 1.04	\$ 1.43
Diluted earnings per share (Note 7)	\$ 0.47	\$ 0.58	\$ 1.04	\$ 1.41

MANITOBA TELECOM SERVICES INC.
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
(unaudited)

For the periods ended June 30 (in millions)	Three months ended		Six months ended	
	2009	2008	2009	2008
Retained earnings, beginning of period	\$ 91.8	\$ 133.0	\$ 96.8	\$ 120.8
Net income	30.1	38.0	67.1	92.2
Dividends declared	(42.0)	(42.0)	(84.0)	(84.0)
Retained earnings, end of period	\$ 79.9	\$ 129.0	\$ 79.9	\$ 129.0

MANITOBA TELECOM SERVICES INC.
CONSOLIDATED BALANCE SHEETS
(unaudited)

(in millions)	June 30, 2009	December 31, 2008
Assets		
Current assets		
Cash and cash equivalents	\$ 7.0	\$ 6.5
Accounts receivable (Note 3)	117.5	62.2
Future income taxes	91.8	90.5
Other current assets	78.9	64.0
	295.2	223.2
Capital assets (Note 4)	1,612.7	1,616.7
Other assets	374.9	334.6
Future income taxes	399.7	436.8
Goodwill	40.3	41.7
	\$ 2,722.8	\$ 2,653.0
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 325.8	\$ 351.6
Advance billings and payments	59.3	51.4
Current portion of long-term debt (Note 6)	-	220.0
Notes payable (Note 5)	-	95.0
Current portion of capital lease obligations	5.2	3.8
	390.3	721.8
Long-term debt (Note 6)	852.4	430.2
Long-term portion of capital lease obligations	13.9	15.0
Deferred employee benefits	43.4	44.2
Other long-term liabilities	55.9	58.1
Future income taxes	1.1	1.7
	1,357.0	1,271.0
Shareholders' equity		
Share capital (Note 8)	1,266.8	1,265.8
Contributed surplus	19.1	19.4
Retained earnings	79.9	96.8
	1,365.8	1,382.0
	\$ 2,722.8	\$ 2,653.0

MANITOBA TELECOM SERVICES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

For the periods ended June 30 (in millions)	Three months ended		Six months ended	
	2009	2008	2009	2008
Cash flows from operating activities				
Net income	\$ 30.1	\$ 38.0	\$ 67.1	\$ 92.2
Add (deduct) items not affecting cash				
Amortization	81.1	82.2	163.1	162.7
Future income taxes	16.4	29.6	35.2	55.2
Gain on sale of intangible assets	(3.1)	-	(3.1)	-
Deferred wireless costs	(13.3)	(9.6)	(25.4)	(19.5)
Pension funding and net pension credit	(16.8)	(13.4)	(33.6)	(24.9)
Other, net	1.0	(2.1)	(5.4)	(11.4)
Changes in non-cash working capital	(37.3)	16.3	(94.5)	(19.5)
Cash flows from operating activities	58.1	141.0	103.4	234.8
Cash flows from investing activities				
Capital expenditures, net	(71.2)	(70.1)	(127.8)	(124.9)
Acquisition	-	-	-	(4.0)
Net proceeds from sale of intangible assets	1.4	-	1.4	-
Other, net	(0.1)	(0.2)	(0.7)	(0.3)
Cash flows used in investing activities	(69.9)	(70.3)	(127.1)	(129.2)
Cash flows from financing activities				
Dividends paid	(42.0)	(42.0)	(84.0)	(84.0)
Issuance of long-term debt	425.0	-	425.0	-
Repayment of long-term debt	(150.0)	(89.7)	(220.0)	(89.7)
(Repayment) issuance of notes payable, net	(207.0)	70.0	(95.0)	70.0
Issuance of share capital (Note 8)	-	0.2	0.8	0.2
Other, net	(2.9)	(3.5)	(2.6)	(3.6)
Cash flows from (used in) financing activities	23.1	(65.0)	24.2	(107.1)
Change in cash and cash equivalents	11.3	5.7	0.5	(1.5)
Cash and cash equivalents (bank indebtedness), beginning of period	(4.3)	(17.3)	6.5	(10.1)
Cash and cash equivalents (bank indebtedness), end of period	\$ 7.0	\$ (11.6)	\$ 7.0	\$ (11.6)

MANITOBA TELECOM SERVICES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

For the three months ended June 30, 2009 and 2008 (All financial amounts are in \$ millions, except where noted.)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements of Manitoba Telecom Services Inc. (the "Company") have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). These interim consolidated financial statements have been prepared using the same accounting policies and methods of their application as the Company's audited consolidated financial statements for the year ended December 31, 2008, except as described in Note 4.

These interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2008.

2. RESTRUCTURING AND TRANSITION

During the six months ended June 30, 2009 and 2008, the Company recorded net restructuring and transition expenses as follows:

	Three months ended		Six months ended	
	2009	2008	2009	2008
Workforce	8.2	-	8.1	-
Wireless transition	6.3	10.3	13.7	10.3
Other	4.5	-	10.7	-
	19.0	10.3	32.5	10.3

The liability for restructuring costs as at June 30, 2009 is as follows:

Balance December 31, 2008	11.3
2009 restructuring costs	20.3
Less:	
Cash payments	(16.4)
Reversal of previously recorded restructuring costs	(1.5)
Balance June 30, 2009	13.7

Restructuring activities in 2009 represent a continuation of the cost reduction initiative which commenced in the fourth quarter of 2008 aimed at achieving process improvements and further cost reductions. The costs recorded in 2009 include severance and other employee-related expenses, costs to review and improve efficiencies in current processes, as well as real estate facility consolidation charges. The workforce costs include severance associated with the reduction of approximately 160 positions in the Enterprise Solutions division in the second quarter of the year. These charges were offset partly by the reversal of previously recorded restructuring expenses largely as a result of successful internal redeployment efforts. The Company also recorded other non-recurring costs of \$1.1 million relating to certain regulatory proceedings and certain costs associated with the transition from Canadian GAAP to International Financial Reporting Standards.

Wireless transition includes costs of transitioning certain wireless service requirements away from Bell Mobility to new suppliers and to the Company's wireless platform. In 2008, this amount also included costs associated with the advanced wireless services spectrum auction.

MANITOBA TELECOM SERVICES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

For the three months ended June 30, 2009 and 2008 (All financial amounts are in \$ millions, except where noted.)

3. ACCOUNTS RECEIVABLE SECURITIZATION

Under the terms of the Company's accounts receivable securitization program, the Company has the ability to sell, on a revolving basis, an undivided ownership interest in its accounts receivable to a securitization trust, up to a maximum of \$150.0 million. As a result of selling the interest in certain of the trade receivables on a fully serviced basis, a service liability of \$0.2 million has been recognized by the Company as at June 30, 2009.

The terms of the Company's accounts receivable securitization program also require the Company to maintain reserve accounts, the fair value of which approximates carrying value. As at June 30, 2009, the Company had received \$75.0 million on the sale of its accounts receivable to the trust, which is comprised of the outstanding undivided ownership interest held by the trust of \$94.3 million and the reserve accounts of \$19.3 million.

During the three and six months ended June 30, 2009, the Company recognized a recovery of \$0.2 million and \$0.4 million, respectively, on previously recorded losses on the sale of accounts receivable, which is recorded in other income.

During the three and six months ended June 30, 2009, cash flows received and paid to the trust in revolving period securitizations were \$674.2 million and \$1,034.7 million, respectively.

The key assumptions used to determine the recovery of previously recorded losses on the sale of receivables and the fair values attributed to the retained interest as at June 30, 2009 are as follows:

Annual discount rate	0.72%
Weighted average life of receivables sold (days)	40
Credit loss ratio	0.58%
Servicing fee liability	1.0%

4. CAPITAL ASSETS

Effective January 1, 2009, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook section 3064 Goodwill and Intangible Assets and the updates to CICA Handbook section 1000 Financial Statement Concepts. This guidance establishes updated standards for the recognition, measurement, presentation and disclosure of intangible and deferred assets. Accordingly, for the 2008 comparatives the Company has reclassified \$51.3 million of other long-term assets and \$9.5 million of other current assets relating to deferred wireless costs and installation costs to intangible assets. The Company also reclassified specific software costs within capital assets of \$129.9 million from property, plant and equipment to intangible assets.

MANITOBA TELECOM SERVICES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

For the three months ended June 30, 2009 and 2008 (All financial amounts are in \$ millions, except where noted.)

4. CAPITAL ASSETS (continued)

The following table provides details of the Company's capital assets:

	June 30, 2009			December 31, 2008		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Property, plant and equipment						
Network equipment and outside plant	2,841.4	1,844.4	997.0	2,750.2	1,777.4	972.8
General equipment and other	430.7	304.7	126.0	419.1	274.8	144.3
Buildings	265.1	148.3	116.8	262.4	142.9	119.5
Equipment under capital lease	5.5	0.7	4.8	5.4	0.6	4.8
Plant under construction	68.9	-	68.9	91.4	-	91.4
Materials and supplies	19.3	-	19.3	21.3	-	21.3
Land	6.3	-	6.3	6.3	-	6.3
	3,637.2	2,298.1	1,339.1	3,556.1	2,195.7	1,360.4
Intangible assets						
Software	273.4	133.0	140.4	240.0	110.1	129.9
Deferred wireless costs	88.9	39.2	49.7	78.3	37.6	40.7
Other deferred installation costs	45.2	29.7	15.5	43.7	23.6	20.1
Customer contracts and relationships	28.6	12.8	15.8	27.1	13.8	13.3
Other contractual relationships	1.3	0.6	0.7	1.3	0.5	0.8
Spectrum licenses	48.6	-	48.6	48.6	-	48.6
Broadcasting certificate	2.9	-	2.9	2.9	-	2.9
	488.9	215.3	273.6	441.9	185.6	256.3
Total	4,126.1	2,513.4	1,612.7	3,998.0	2,381.3	1,616.7

5. NOTES PAYABLE

The Company has a \$350 million bank credit facility with a syndicate of financial institutions which is used for cash management purposes, the issuance of letters of credit and to support the Company's \$150 million commercial paper program. As at June 30, 2009, the Company had \$106.9 million in undrawn letters of credit outstanding under this facility. The Company paid short-term interest costs of \$0.7 million and \$2.5 million for the three and six months ended June 30, 2009, respectively.

MANITOBA TELECOM SERVICES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

For the three months ended June 30, 2009 and 2008 (All financial amounts are in \$ millions, except where noted.)

6. LONG-TERM DEBT

	June 30, 2009	December 31, 2008
Medium Term Note, 5.85%, due February 23, 2009	-	70.0
Medium Term Note, 5.25%, due June 10, 2009	-	150.0
Medium Term Note, 8.625%, due September 8, 2010	11.9	11.9
Medium Term Note, 5.20%, due September 27, 2011	220.0	220.0
Medium Term Note, 5.05%, due May 11, 2012	100.0	-
Loan payable, 6.59%, due May 14, 2014	75.0	-
Medium Term Note, 6.15%, due June 10, 2014	200.0	200.0
Medium Term Note, 6.65%, due May 11, 2016	250.0	-
	856.9	651.9
Less: deferred costs associated with the issuance of long – term debt	(4.5)	(1.7)
	852.4	650.2
Less: current portion of long – term debt	-	(220.0)
	852.4	430.2

During the three and six months ended June 30, 2009, the Company recorded interest expense on long-term debt, including amortization of debt issue costs of \$11.4 million and \$20.1 million, respectively. The Company paid interest on long-term debt for the three and six months ended June 30, 2009 of \$10.1 million and \$18.4 million, respectively.

7. EARNINGS PER SHARE RECONCILIATION

The following table provides a reconciliation of the information used to calculate basic and diluted earnings per share:

	Six months ended June 30	
	2009	2008
Net income		
Basic and diluted	67.1	92.2
Weighted average shares outstanding (in millions)		
Weighted average number of shares outstanding – basic	64.7	64.6
Dilutive effect of outstanding stock options	-	1.0
Weighted average number of shares outstanding – diluted	64.7	65.6
Earnings per share (\$)		
Basic earnings per share	1.04	1.43
Diluted earnings per share	1.04	1.41

8. SHARE CAPITAL

As at June 30, 2009, share capital consists of 64,659,917 issued and outstanding Common Shares (December 31, 2008 – 64,637,917).

During the six months ended June 30, 2009, 22,000 stock options to purchase Common Shares were exercised for cash consideration of \$0.8 million, of which \$1.0 million was credited to share capital and \$0.2 million was charged to contributed surplus.

MANITOBA TELECOM SERVICES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

For the three months ended June 30, 2009 and 2008 (All financial amounts are in \$ millions, except where noted.)

9. EMPLOYEE FUTURE BENEFITS

The Company's total net benefit recovery for all of its defined benefit and defined contribution pension plans, supplemental pension arrangements, and other non-pension employee future benefits for the three and six months ended June 30, 2009 is \$1.6 million and \$3.2 million, respectively.

10. SEGMENTED INFORMATION

As at June 30, 2009, the Company had two reportable operating segments: the Consumer Markets division and the Enterprise Solutions division. The Consumer Markets division provides a full range of wireless, high-speed Internet and data, digital television, and wireline voice services to residential and small business customers in Manitoba. The Consumer Markets division also provides alarm monitoring services to small business customers in the western provinces, and Internet, data and voice services to small business customers in Canada. The Enterprise Solutions division provides Internet protocol-based communications, unified communications, voice, and data connectivity services to medium and large business customers in Canada.

The Company evaluates performance based on EBITDA (earnings before interest, taxes, amortization, and other income). EBITDA, as reported below, includes intersegment revenues and expenses. The Company accounts for intersegment revenues and expenses at either prices that approximate current market prices or cost, depending on the type of service.

The following table provides further segmented information:

	Three months ended June 30							
	Consumer Markets		Enterprise Solutions		Other		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Operating revenue								
External	207.8	204.9	256.5	281.5	-	-	464.3	486.4
Internal	0.1	0.1	0.1	0.1	8.5	8.2	8.7	8.4
EBITDA	101.8	96.6	38.9	65.5	(0.4)	(1.1)	140.3	161.0
Restructuring and transition	6.3	8.8	12.1	-	0.6	1.5	19.0	10.3

	Six months ended June 30							
	Consumer Markets		Enterprise Solutions		Other		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Operating revenue								
External	411.9	404.6	535.3	560.6	-	-	947.2	965.2
Internal	0.2	0.2	0.1	0.1	18.1	18.6	18.4	18.9
EBITDA	200.7	199.0	90.2	130.6	(0.9)	0.1	290.0	329.7
Restructuring and transition	13.7	8.8	17.5	-	1.3	1.5	32.5	10.3

Reconciliation to consolidated net income is as follows:

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Total EBITDA	140.3	161.0	290.0	329.7
Amortization	(81.1)	(82.2)	(163.1)	(162.7)
Other income	2.9	1.0	4.4	5.1
Debt charges	(15.7)	(12.1)	(28.8)	(24.6)
Income tax expense	(16.3)	(29.7)	(35.4)	(55.3)
	30.1	38.0	67.1	92.2

MANITOBA TELECOM SERVICES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

For the three months ended June 30, 2009 and 2008 (All financial amounts are in \$ millions, except where noted.)

11. CONTINGENCIES

On April 21, 2004, Unique Broadband Services, Inc. (UBS) filed a statement of claim against Allstream, Inukshuk Internet Inc. (Inukshuk), Microcell Telecommunications Inc. and Microcell Solutions Inc. (Microcell) in the Ontario Superior Court of Justice. This claim, seeking damages in the amount of \$160.0 million was settled during the second quarter of 2009 without any contribution to the settlement by the Company. There are no future potential liabilities outstanding against the Company.

12. SUBSEQUENT EVENT

On July 28, 2009, the Company entered into an agreement with Rogers Wireless Partnership to share the costs of deploying a Universal Mobile Telecommunications Systems/High Speed Packet Access ("HSPA") wireless network across the existing regional wireless footprint of the Company. The agreement also provides the Company with cost effective access to new network technology and HSPA handsets, access to HSPA national and international roaming capabilities, and the opportunity to launch a national wireless business offering. The Company estimates its cost to build the HSPA network at approximately \$70 million over the next two years.

13. COMPARATIVE FIGURES

The prior period figures have been reclassified when necessary to conform to the current period's presentation.