

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 September 30, 2009 is as at November 4, 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 nine months ended September 30, 2009 updates the information contained in our interim MD&As for the first and second quarters of 2009, 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 MD&A 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 interim MD&As for the first and second quarters of 2009, 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 November 4, 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 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 nine 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 high-speed packet access (“HSPA”) deployment and related billing implementation; costs related to certain regulatory proceedings; certain costs associated with our transition from Canadian GAAP to International Financial Reporting Standards (“IFRS”); a rebate related to *Use of deferral account funds to improve access to telecommunications services for persons with disabilities and to expand broadband services to rural and remote communities*, Telecom Decision CRTC 2008-1 (“Decision 2008-1”); and solvency funding to our pension plans.

In the first nine 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 (“CMD”) and the Enterprise Solutions division (“ESD”). 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 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 almost 30,000 kilometres, and provides international connections through strategic alliances and interconnection agreements with other international service providers.

STRATEGIC PRIORITIES UPDATE

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

1. **Focus on profitable growth**
Our Consumer Markets division’s growth services revenues increased by 8.2%, and our Enterprise Solutions division’s growth services revenues increased by 1.6%. EBITDA from our growth services, across the company, was up 9.0%.
2. **Improve the customer experience and gain market share**
Our wireless services revenues climbed by 9.0% year-over-year on customer growth of 7.4%. Our consumer high-speed Internet revenues were up 8.4%, with subscribers growing by 3.4%. Driven in part by the success of our newly introduced high definition television (“HDTV”) product, MTS Ultimate TV Service, late in the first quarter of 2009, our digital television revenues were up 8.1% on subscriber growth of 2.3%. Revenues from our converged IP enterprise data products delivered 12.0% growth. We have maintained our market share in most of our major product lines.

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 met our 2009 target, having achieved \$51.4 million in annualized cost savings from these initiatives in the first nine months of the year, and we continue to pursue additional cost saving opportunities.

4. *Drive the transition from legacy to growth services*
 Growth services accounted for 47.0% of our total revenue from continuing operations in the first three quarters of 2009, up from 43.8% a year earlier.

5. *Determine HSPA deployment plan in Manitoba and national wireless strategy*
 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 an HSPA wireless network across Manitoba. 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 with Rogers Wireless as our 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. We are continuing our analysis of the opportunity and will provide more information to stakeholders when available.

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 interim MD&As for the first and second quarters of 2009, our 2008 annual MD&A and our 2008 Annual Information Form.

On October 7, 2009, we updated our 2009 financial outlook by issuing a press release, a copy of which has been made available on www.sedar.com. Our current 2009 financial outlook is detailed in the following table:

<i>2009 Financial Outlook - Continuing Operations</i>	
Revenues	\$1.855 billion to \$1.900 billion
EBITDA	\$625 million to \$645 million
EPS	\$2.60 to \$2.90
Free cash flow	\$230 million to \$250 million
Capital expenditures	13% to 15% of revenues

Our updated outlook reflects the impact the recession and the slow pace of economic recovery are having principally on our Enterprise Solutions division, and primarily reflects a sharper than expected decline in our legacy long distance and data services portfolio, as well as a decline in revenues from our unified communications line of business.

Through the third quarter and first nine months of the year, our Consumer Markets division continued to deliver strong results and growth, as well as benefit from exposure to Manitoba’s resilient economy. Converged IP services, the largest and fastest growing product line within our Enterprise Solutions division, also continued to deliver solid growth.

Our growth businesses that will define our long-term success, such as wireless, digital television, high-speed Internet and converged IP, are continuing to perform well despite the economy, and we expect the positive trends in these lines of business to continue. We remain on track to achieve our targeted cost reductions, which are expected to achieve \$50 million to \$60 million of annualized savings in 2009.

Material Assumptions

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

Market Assumptions

As competition in the overall marketplace continues, the broad market segment trends that have taken shape in 2008 and 2009 will continue to persist through the balance of 2009.

Growth for our Consumer Markets division in such services as Internet and digital television is expected to continue at similar levels in the fourth quarter of 2009 as it has through the first nine months of the year. 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 continue to expect there will be no meaningful new competitor in wireless services in Manitoba in 2009 and competitive pressures to continue upon local and long distance services. Although we expect competition from an incumbent cable operator 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 wireless, Internet, digital television, local, long distance and home security services, we believe that we are well-positioned to compete successfully.

With respect to our Enterprise Solutions division, we expect our converged IP services to continue to deliver strong growth in the fourth quarter of 2009 as compared to the same period in 2008. 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 IP-based services. To face the continued competition in the enterprise markets through 2009, we have been refining our market focus, creating innovative IP solutions, reducing our cost structure, and investing selectively in higher-margin opportunities.

Economic Assumptions

Through the third quarter and first nine months of the year, our Consumer Markets division continued to deliver strong results and to benefit from exposure to the resilient Manitoba economy, which is expected to outperform the national economy for the balance of the year.

Our Enterprise Solutions division is affected by the national economy, which deteriorated sharply towards the end of 2008. While some economists have begun to see indications of a very slight economic improvement in the second half of 2009, we have yet to see the effect of this improvement on

our enterprise business and do not expect to through the fourth quarter of 2009.

Financial and Operational Assumptions

Our financial and operational assumptions for the balance of 2009 are discussed above.

Cost Reduction Assumptions

For the first nine months of the year, we have achieved \$51.4 million in annualized cost savings. Our initial target for 2009 was to generate \$35 million to \$45 million in cost savings. In the second quarter, we increased the range to \$50 million to \$60 million. This increase 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 are not included in our 2009 financial outlook from continuing operations. For the first nine months of 2009, our restructuring costs are \$27.8 million dollars.

Liquidity and Capital Resources Assumptions

Our operations historically have delivered strong cash flows, and we expect this trend to continue in 2009. We 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. For example, during the first nine months of this year, we have been scaling back our capital expenditures in light of the impact the economy is having on our Enterprise Solutions division and continues to do so. In 2009, our capital program is expected to be 13% to 15% of our revenues from continuing operations, with the majority spent on growth services.

Our cash requirements for 2009 include two non-recurring obligations of approximately \$35 million to \$40 million for restructuring programs; and \$14.4 million for wireless transition costs. We expect our pension solvency funding requirement to be approximately \$35 million, which is lower than our original expected range of \$40 million to \$50 million.

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 our new billing platform, and the cost to build this new platform is approximately \$40 million over the next three years.

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 \$360 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

Operating Revenues

<i>(in millions \$)</i>	Q3/09	Q3/08	% change
Revenue (continuing operations)	462.9	479.9	(3.5)
Deferral account rebate	(13.5)	--	n.m.
Revenue	449.4	479.9	(6.4)

<i>(in millions \$)</i>	YTD/09	YTD/08	% change
Revenue (continuing operations)	1,410.1	1,445.1	(2.4)
Deferral account rebate	(13.5)	--	n.m.
Revenue	1,396.6	1,445.1	(3.4)

<i>(in millions \$, except EPS)*</i>	2009			2008	
	Q3	Q2	Q1	Q4	Q3
Growth services revenues	218.2	216.7	227.2	212.5	213.1
Legacy services revenues	244.7	247.6	255.7	263.9	266.8
Revenue	462.9	464.3	482.9	476.4	479.9
EBITDA	156.9	159.3	163.2	156.7	165.1
Free cash flow	62.0	59.9	68.7	39.4	70.8
EPS	0.67	0.67	0.71	0.59	0.74
Capital expenditures/revenue	15%	14%	12%	19%	14%

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

Through the third quarter, our growth and legacy services continued to be negatively affected by the impact of the recession and slow pace of economic recovery. This contributed to the year-over-year decline in the key metrics listed in the table above.

REVENUES

By Segment (continuing operations)

<i>(in millions \$)</i>	Q3/09	Q3/08	% change
Revenues	462.9	479.9	(3.5)
CMD growth services revenues	108.0	100.8	7.1
ESD growth services revenues	110.2	112.3	(1.9)
Total growth services revenues	218.2	213.1	2.4
CMD legacy services revenues	100.6	107.4	(6.3)
ESD legacy services revenues	144.1	159.4	(9.6)
Total legacy services revenues	244.7	266.8	(8.3)

<i>(in millions \$)</i>	YTD/09	YTD/08	% change
Revenues	1,410.1	1,445.1	(2.4)
CMD growth services revenues	313.3	289.5	8.2
ESD growth services revenues	348.8	343.4	1.6
Total growth services revenues	662.1	632.9	4.6
CMD legacy services revenues	307.2	323.3	(5.0)
ESD legacy services revenues	440.8	488.9	(9.8)
Total legacy services revenues	748.0	812.2	(7.9)

Summary

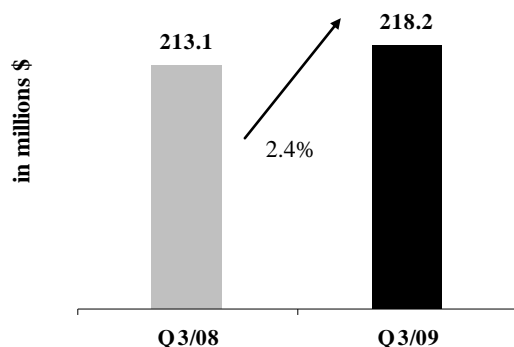
Overall improvement in our growth services revenues, which include our wireless, consumer high-speed Internet, digital television, converged IP, unified communications, security and professional services, and alarm services business, continued in the third quarter and the first nine months of 2009. While sluggishness in the economy has persisted throughout the third quarter, we continue to see strong demand for the converged IP products that our Enterprise Solutions division offers in its growth services portfolio. We believe that it will be our key growth services, such as wireless, digital television, high-speed Internet and converged IP, that will define our long-term success and continue to perform well despite the economy.

Growth Services Revenues

Revenues from our growth services increased 2.4% or \$5.1 million and 4.6% or \$29.2 million in the three and nine months ended September 30, 2009, respectively, as compared to the same periods last year. These increases are a reflection of the continued solid demand for the majority of our products offered within in our growth services portfolio. Contributing to this performance are higher, often market-leading, year-over-year revenue growth 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

Legacy services revenues include our local, long distance and legacy data services. As we continue to see the impact of declining revenues from legacy services contracts with Rogers Communications Inc. (“Rogers”) and AT&T Corp. (“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. In addition, 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 resulted in revenues from these customers decreasing to \$16.5 million in the third quarter and \$51.7 million year to date as compared to \$23.1 million and \$74.4 million in the same periods last year, respectively. For the three and nine months ended September 30, 2009, our legacy services revenues declined by 8.3% and 7.9%, respectively. However, if Rogers and AT&T are excluded, revenues from our legacy services would have decreased by 6.4% and 5.6% for these periods.

Operating Revenues (continuing operations)

(in millions \$)	Q3/09	Q3/08	% change
Wireless	80.6	75.1	7.3
Data	162.3	171.3	(5.3)
Local	128.2	132.6	(3.3)
Long distance	70.2	80.2	(12.5)
Other	21.6	20.7	4.3
Total	462.9	479.9	(3.5)

(in millions \$)	YTD/09	YTD/08	% change
Wireless	234.4	215.1	9.0
Data	508.1	523.8	(3.0)
Local	387.6	396.3	(2.2)
Long distance	215.3	248.0	(13.2)
Other	64.7	61.9	4.5
Total	1,410.1	1,445.1	(2.4)

Wireless Services

(in millions \$)	2009	2008	% change
Q3	80.6	75.1	7.3
YTD	234.4	215.1	9.0

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

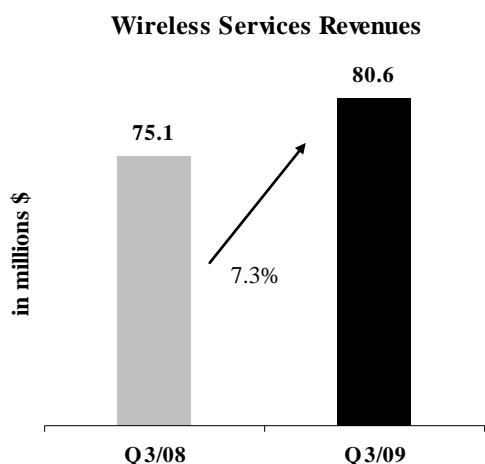
Year-over-year increases in our wireless services revenue were primarily driven by our growing subscriber base. As at September 30, 2009, our wireless subscriber base grew by 7.4% over the previous year, reaching 451,916 subscribers. We also continue to see increased subscriber usage of individual and bundled service features such as data, text messaging, voicemail and call display services which are solidly contributing to revenue growth in our wireless services. On a year to date basis, our performance was enhanced by a \$3.4 million one-time sale of FleetNet 800™ handsets to the City of Winnipeg which occurred in the first quarter of this year.

Our average revenue per user (“ARPU”) of \$57.04 decreased by 0.8% or \$0.47 for the nine months ended September 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. 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 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 third quarter of 2009, wireless penetration in Manitoba was approximately 64% 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 23.3% for the nine months ended September 30, 2009. Growth in revenues from our wireless Internet access services, attractive wireless data bundles and service features such as text messaging, drove this increase.



Data Services

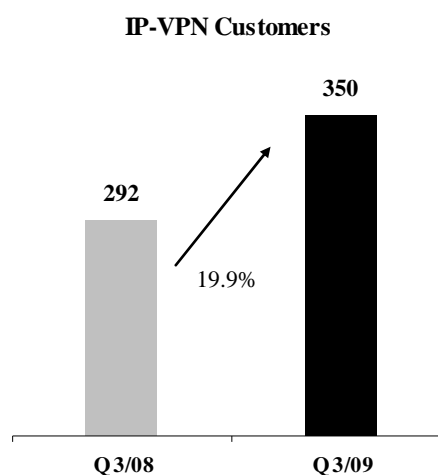
(in millions \$)	2009	2008	% change
Q3	162.3	171.3	(5.3)
YTD	508.1	523.8	(3.0)

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 our converged IP services, which delivered revenue growth of 12.2% and 12.0% for the third quarter and year to date periods in 2009. Our consumer Internet services revenues rose by 4.8% and 8.4% in the third quarter and for the first nine months of this year. However, offsetting this growth were the effects of lower legacy data services revenues resulting from customer transition to IP-based growth services and the impact of the recession as many enterprise customers are experiencing

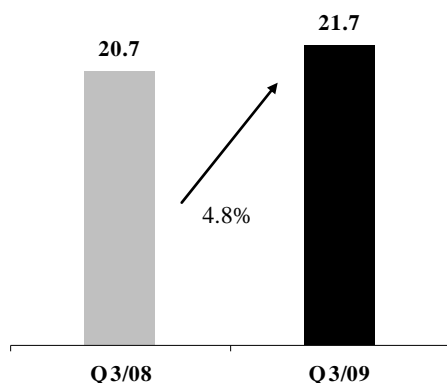
lower business volumes and postponing purchases of unified communications and professional services. In addition, the continuing migration of legacy data communications traffic by Rogers and AT&T to their respective networks has further impacted the year-over-year declines in our data services revenues. Our data services revenues decreased by 5.3% and 3.0% in the third 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 declines of 2.9% and 0.2% in the third quarter and year to date periods, respectively.

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 September 30, 2009, we were supporting 350 IP-VPN customers, a 19.9% increase over last year.

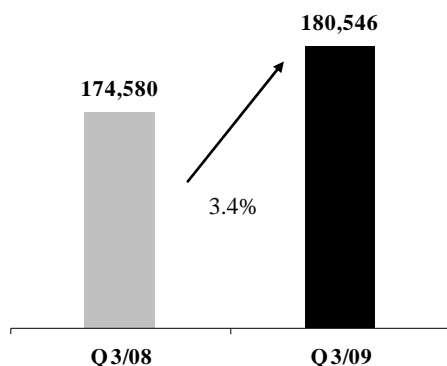


Our consumer Internet services revenue continued to grow in the third quarter and first nine months of the year with increases of 4.8% to \$21.7 million and 8.4% to \$66.1 million, respectively. Contributing to this growth was an increase of 3.4% in our consumer high-speed Internet customer base, which reached 180,546 customers as at September 30, 2009, and a 7.5% 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
Q3	128.2	132.6	(3.3)
YTD	387.6	396.3	(2.2)

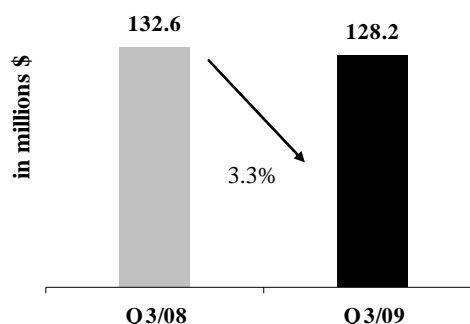
Local services revenues include basic voice connections for residential customers, including enhanced calling features (such as Call Answer, Call Display, Call Waiting and 3-Way Calling), payphone revenue, wholesale revenues from services provided to third parties, as well as a full range of local services 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 3.5% in the third 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 0.7% as compared to the third quarter of 2008.

Year-over-year, reduced local services revenues reflect decreased residential network access lines due to local competition and substitution. However, our year-over-year residential line loss is among the lowest in Canada at 5.1% and demonstrates the success of our service bundle and consumer 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. In the national local business markets, our Enterprise Solutions division continues to perform well and achieve stable revenues in the markets where it competes.

Local Voice Services Revenues



Long Distance Services

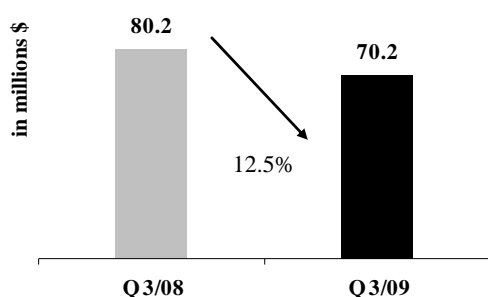
(in millions \$)	2009	2008	% change
Q3	70.2	80.2	(12.5)
YTD	215.3	248.0	(13.2)

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.

Similar to the first half this year, we continued to experience impacts in the third quarter from competitive pricing pressures, customer losses and a slowing economy on our long distance services revenues in all market segments that we serve. Long distance services revenues in our Consumer Markets division were lower mainly due to customer migration to lower-priced long distance plans, reduced volumes and customer losses. Decreased long distance services revenues in our Enterprise Solutions

division resulted primarily from lower volumes in the cross-border, international and domestic markets along with lower domestic 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. In the face of these pressures on our long distance business in the enterprise segment, we launched sales and marketing initiatives designed to identify new customers, retain our existing customer base and encourage higher long distance usage.

Long Distance Services Revenues



Other Revenues

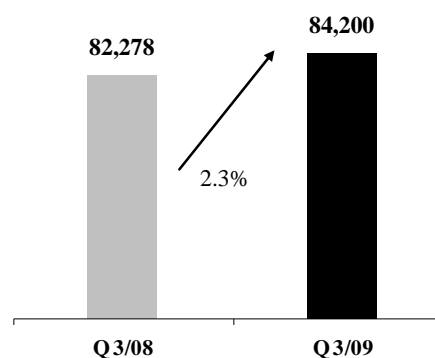
(in millions \$)	2009	2008	% change
Q3	21.6	20.7	4.3
YTD	64.7	61.9	4.5

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, Brandon 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 services revenues. Revenues from our digital television services increased by 9.6% or \$1.2 million, and 8.1% or \$3.0 million in the third quarter and year to date, respectively.

We continued to add new customers to our digital television subscriber base during the third quarter and these additions were enhanced by an increase in average revenue per subscriber (“ARPS”) of 2.3% to \$51.49 in the first nine months of the year. Year-over-year, our digital television subscriber base increased by 2.3% reaching 84,200 subscribers as at September 30, 2009 and our market share increased to 34% as compared to approximately 33% in the same period last year.

Digital Television Services Customers



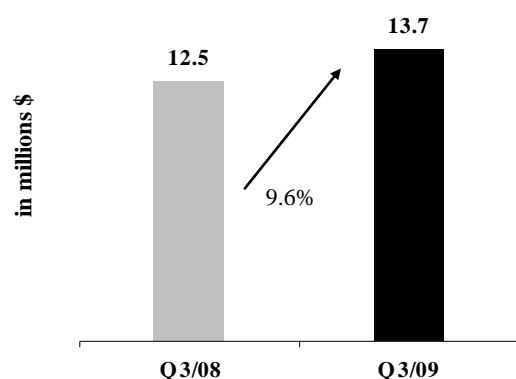
Contributing to the growth in digital television services revenues is a price increase to our basic television service that we implemented in January 2009, increased usage of our MTS Ultimate TV Service personal video recorder (“PVR”) as well as increased subscriber purchases of pay-per-view events and services, and increased video-on-demand services. In fact, pay-per-view events and services purchases contributed a \$0.30 increase to ARPS on a year to date basis. 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 Ultimate TV Service in Winnipeg and Brandon.

At the end of March of this year, we launched MTS Ultimate TV Service; becoming the first company in Canada to provide 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. When launched, this service was available to approximately 20% of Winnipeg households. At the end of the third quarter, we extended our coverage to over 50% of Winnipeg households and expect it reach 70% at year-end. This service provides customers with a feature-rich television experience and is the most-advanced television experience in Canada. It also includes PVR functionality, improved guide features and other television advancements. MTS Ultimate TV Service gives customers access to our fastest Internet speeds available and places our television product in a better position to match and exceed those of our competitors while helping 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, and expanded our offering of MTS Ultimate TV Service to Brandon on September 25, 2009.

More recently, on October 19, 2009, we launched Whole Home PVR, a new, more-advanced PVR that is capable of recording up to three programs at the same time

and playing back programs from any connected television in a subscriber's home. This is the only service of its kind in Canada and is exclusive to subscribers of MTS Ultimate TV Service. Still early in its launch, Whole Home PVR is proving to be very popular with our MTS Ultimate TV Service subscribers. We expect it to contribute to enhanced growth in our digital television services revenues in coming quarters.

Digital Television Services Revenues



EBITDA

(in millions \$)	Q3/09	Q3/08	% change
EBITDA (continuing operations)	156.9	165.1	(5.0)
Deferral account rebate	(13.5)	--	n.m.
Restructuring and other costs	(9.0)	(7.1)	26.8
National wireless/wireless transition costs	(0.7)	(7.5)	(90.7)
EBITDA	133.7	150.5	(11.2)

(in millions \$)	YTD/09	YTD/08	% change
EBITDA (continuing operations)	479.4	505.1	(5.1)
Deferral account rebate	(13.5)	--	n.m.
Restructuring and other costs	(27.8)	(7.1)	n.m.
National wireless/wireless transition costs	(14.4)	(17.8)	(19.1)
EBITDA	423.7	480.2	(11.8)

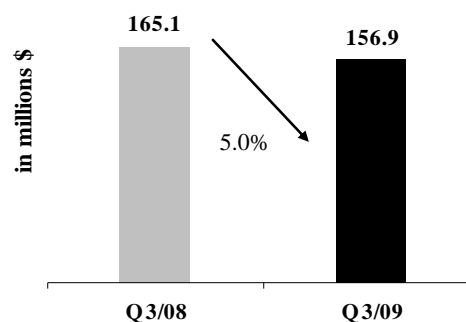
Our EBITDA from continuing operations was \$156.9 million this quarter and \$479.4 million on a year to date basis. Solid growth in wireless, digital television and consumer Internet services, as well as double-digit growth in revenues from our converged IP services, was offset by the impact of the recession on our long distance, legacy data, unified communications, and security and professional services revenues in the first nine months of the year as well as reduced revenues from Rogers and AT&T. 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, the costs associated with the transition away from Bell Mobility to new suppliers and our wireless platform, and the deferral account rebate we recorded in the third quarter of 2009.

At the end of the second quarter this year, our cost reduction program was 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 September 30, 2009, we have generated \$51.4 million in annualized savings and have re-engineered and streamlined production processes to improve capacity output. 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 launch an additional cost reduction program targeting other areas of our business that were not reviewed in our previous initiatives. We believe that there are further opportunities to streamline and gain additional efficiencies in our business in 2010.

EBITDA (Continuing Operations)



EPS

<i>(in \$)</i>	Q3/09	<i>Q3/08</i>	<i>% change</i>
EPS (continuing operations)	0.67	0.74	(9.5)
National wireless/wireless transition costs	--	(0.08)	n.m.
Deferral account rebate	(0.14)	--	n.m.
Restructuring and other costs	(0.10)	(0.07)	(42.9)
Basic EPS	0.43	0.59	(27.1)

<i>(in \$)</i>	YTD/09	<i>YTD/08</i>	<i>% change</i>
EPS (continuing operations)	2.05	2.39	(14.2)
National wireless/wireless transition costs	(0.14)	(0.18)	(22.2)
Deferral account rebate	(0.14)	--	n.m.
Future tax rate adjustment	--	(0.12)	n.m.
Restructuring and other costs	(0.30)	(0.07)	n.m.
Basic EPS	1.47	2.02	(27.2)

Note: EPS for the three and nine months ended September 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 9.5% in the third quarter and 14.2% for the first nine months of the year as a result of lower EBITDA. Also impacting EPS in the first nine months of the year are higher debt charges due to our decision to issue long-term debt at attractive rates in the second quarter of this year. These rates are higher than the short-term rates we incurred last year but represent excellent financing costs for us as compared to our historical long-term average.

Basic EPS decreased to \$0.43 and \$1.47 in the third quarter and first nine months of 2009, respectively. This performance reflects impacts of the restructuring costs related to our cost saving initiatives, the transition of certain wireless service requirements away from Bell Mobility to new suppliers and our wireless platform, and the rebate from the deferral account 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	<i>2008</i>	<i>% change</i>
Q3	306.0	314.8	(2.8)
YTD	930.7	940.0	(1.0)

Operating expenses in the third quarter and year to date were down 2.8% and 1.0%, 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. Our savings on a year to date basis are partly offset by increases in direct costs in our Enterprise Solutions division.

We continued to make progress with our 2009 cost reduction program. As at September 30, 2009, we achieved \$51.4 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.

Restructuring and Transition

<i>(in millions \$)</i>	2009	<i>2008</i>	<i>% change</i>
Q3	9.7	14.6	(33.6)
YTD	42.2	24.9	69.5

We incurred restructuring costs in the amounts of \$9.7 million and \$42.2 million in the third 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. We initiated another workforce reduction program in the third quarter this year and recorded costs of \$2.2 million. Partly offsetting the year to date workforce changes is the success of internal redeployment efforts. Please refer to Note 2 to our consolidated financial statements for further details on our restructuring and transition expenses.

Amortization Expense

<i>(in millions \$)</i>	2009	2008	% change
Q3	82.1	83.9	(2.1)
YTD	245.2	246.6	(0.6)

Amortization expense was lower in the third quarter due to a decrease in the composite rate. In the first nine months of the year, a decrease in the composite rate was partly offset by an increase in intangible assets and a charge taken in the first quarter of 2009 related to an accounting change in AAA Alarm Systems Ltd.

Other Income

<i>(in millions \$)</i>	2009	2008	% change
Q3	3.2	2.5	28.0
YTD	7.6	7.6	nil

Other income was higher in the third quarter of 2009 primarily due to interest income on a tax credit recorded in the third quarter of 2009 under the scientific research and experimental development (“SR&ED”) program. In the first nine months of the year, other income was impacted by interest income on the tax credit under the SR&ED program as well as the gain of \$3.1 million, related to the sale of our alarm customers outside of Manitoba in exchange for Manitoba-based customers of SecurTek Monitoring Solutions Inc. (“SecurTek”), offset by foreign exchange losses.

Debt Charges

<i>(in millions \$)</i>	2009	2008	% change
Q3	15.1	12.1	24.8
YTD	43.9	36.7	19.6

Debt charges are higher in 2009 as compared to 2008. This increased interest expense is primarily associated with our higher levels of outstanding debt and higher average coupon rates, which results from a higher proportion of our debt being long-term in 2009.

Income Tax Expense

<i>(in millions \$)</i>	2009	2008	% change
Q3	11.8	18.9	(37.6)
YTD	47.2	74.2	(36.4)

Income tax expense declined by 37.6% or \$7.1 million to \$11.8 million in the third quarter and 36.4% or \$27.0 million to \$47.2 million in the first nine months of the year as compared to the same periods in 2008, respectively, primarily due to lower income before tax and a lower effective tax rate in 2009 as compared to 2008. In addition, the impact of a \$7.5 million charge related to a change in provincial tax rates that was required in the second quarter

of 2008 is included in the year-over-year decrease in the first nine months of the year.

We continue to benefit from our substantial CCA pools and available tax losses which have enabled us to fully-offset our taxable income. By utilizing our deferred CCA deductions, we project that we will not pay cash taxes before 2015 with the present value of our tax asset being approximately \$360 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>	Q3 2009	Q2 2009	Q1 2009	Q4 2008
Operating revenues	449.4	464.3	482.9	476.4
Operating income	51.6	59.2	67.7	50.3
Net income and comprehensive income	27.9	30.1	37.0	13.7
Earnings per share	0.43	0.47	0.57	0.21
Diluted earnings per share	0.43	0.47	0.57	0.21
<i>(in millions \$, except earnings per share)</i>	Q3 2008	Q2 2008	Q1 2008	Q4 2007
Operating revenues	479.9	486.4	478.8	489.2
Operating income	66.6	78.8	88.2	72.1
Net income and comprehensive income	38.1	38.0	54.2	14.3
Earnings per share	0.59	0.59	0.84	0.22
Diluted earnings per share	0.59	0.58	0.83	0.22

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 charges in the amount of \$13.5 million for the deferral account rebate in relation to Decision 2008-1 in the third quarter of 2009.
- The recording of \$7.4 million, \$6.3 million and \$0.7 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, second and third 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 following amounts: \$5.4 million in the first quarter of 2009; \$12.3 million in the second quarter of 2009; \$8.6 million in the third quarter of 2009; \$7.1 million and \$13.7 million in the third and fourth quarters of 2008, respectively; and \$3.0 million in the fourth quarter of 2007.
- 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>
Q3	120.9	124.9	(4.0)
YTD	224.3	359.7	(135.4)

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

In the third quarter of 2009, cash flows from operating activities declined primarily due to lower consolidated EBITDA and higher debt charges which were partially offset by higher utilization of our accounts receivable securitization program resulting in increased cash from working capital and lower pension solvency funding requirements. On a year to date basis, the decrease in cash flows from operating activities is due primarily to lower utilization of our accounts receivable securitization program resulting in a decrease to cash from working capital in the amount of \$122.5 million, lower consolidated EBITDA, increased debt charges, increased deferred wireless costs and increased pension solvency funding.

Cash Flows used in Investing Activities

<i>(in millions \$)</i>	2009	2008	<i>\$ change</i>
Q3	77.3	120.1	(42.8)
YTD	204.4	249.3	(44.9)

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 decreased in the third quarter primarily due to our cost of acquiring spectrum in the AWS spectrum auction last year, which was partly offset by our acquisition of VisionIP Technologies Inc. (“VisionIP”). The decrease in cash flows used in investing activities on a year to date basis resulted mainly from our cost of acquiring spectrum in the AWS spectrum auction last year, and the proceeds from the transaction with SecurTek earlier this year and our acquisition of ICU Technologies Inc. in 2008, partly offset by our acquisition of VisionIP in the third quarter of 2009. Our capital expenditures from continuing operations in the third quarter of 2009 were \$67.4 million as compared to \$69.1 million in the same quarter in 2008 and on a year to date basis were \$186.7 million as compared to \$194.0 million last year.

Free Cash Flow

<i>(in millions \$)</i>	Q3/09	Q3/08	<i>% change</i>
Free cash flow (continuing operations)	62.0	70.8	(12.4)
Deferral account rebate	(13.5)	--	n.m.
Restructuring and other costs	(9.0)	(7.1)	26.8
HSPA and related billing expenditures	(6.5)	--	n.m.
Pension solvency funding	(6.0)	(10.7)	(43.9)
Restructuring capital expenditures	(0.6)	--	n.m.
Wireless transition capital expenditures	--	(2.4)	n.m.
National wireless/wireless transition costs	(0.7)	(7.5)	(99.4)
Spectrum license costs	--	(48.6)	n.m.
Consolidated free cash flow	25.7	(5.5)	n.m.

<i>(in millions \$)</i>	<i>YTD/09</i>	<i>YTD/08</i>	<i>% change</i>
Free cash flow (continuing operations)	190.6	221.9	(14.1)
Deferral account rebate	(13.5)	--	n.m.
Restructuring and other costs	(27.8)	(7.1)	n.m.
HSPA and related billing expenditures	(14.0)	--	n.m.
Pension solvency funding	(23.5)	(22.1)	6.3
Restructuring capital expenditures	(1.4)	--	n.m.
Wireless transition capital expenditures	(0.2)	(2.4)	(91.7)
National wireless/wireless transition costs	(14.4)	(17.8)	(19.1)
Spectrum license costs	--	(48.6)	n.m.
Consolidated free cash flow	95.8	123.9	(22.7)

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

The year-over-year decrease in free cash flow from continuing operations in the three months ended September 30, 2009 primarily reflects lower EBITDA from continuing operations, partly offset by lower capital expenditures. For the nine months ended September 30, 2009, lower EBITDA from continuing operations, higher debt charges and deferred wireless costs were partly offset by lower capital expenditures.

Consolidated free cash flow increased to \$25.7 million in the third quarter this year and decreased to \$95.8 million on a year to date basis, as compared to the same periods in 2008. Details on the items not included in continuing operations are included in the preceding tables.

Cash Flows from (used in) Financing Activities

<i>(in millions \$)</i>	<i>2009</i>	<i>2008</i>	<i>\$ change</i>
Q3	(41.6)	3.3	(44.9)
YTD	(17.4)	(103.8)	86.4

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

The decrease in cash flows from financing activities in the third quarter of 2009 mainly resulted from the repayment of notes payable. On a year to date basis, the increase in cash flows from financing activities is primarily due to the net issuance of debt.

Credit Facilities

<i>(in millions \$)</i>	<i>capacity</i>	<i>utilized at September 30, 2009</i>
Medium term note program	350.0	350.0
Accounts receivable securitization	150.0	77.0
Revolving credit facility	350.0	106.9
Total	850.0	533.9

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. Our medium term note program was renewed on October 16, 2009 for \$500.0 million.

Our revolving credit facility is \$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 September 30, 2009, we utilized \$77.0 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>	<i>September 30, 2009</i>	<i>December 31, 2008</i>
Cash and cash equivalents	(9.0)	(6.5)
Proceeds from accounts receivable securitization	77.0	127.0
Notes payable	--	95.0
Capital lease obligations, including current portion	19.4	18.8
Long-term debt, including current portion	852.5	650.2
Total debt	939.9	884.5
Shareholders' equity	1,351.9	1,382.0
Total capitalization	2,291.8	2,266.5
Debt to capitalization	41.0%	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 41.0% as at September 30, 2009 continues to represent 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 October 27, 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	64,667,817	1,266.9

Stock options:

Options	Number	Weighted Average Exercise Price Per Share
Outstanding	2,369,835	\$40.80
Exercisable	1,204,940	\$41.43

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 interim MD&As for the first and second quarters of 2009, and our 2008 annual MD&A. For additional details, please consult our interim MD&As for the first and second quarters of 2009, 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 interim MD&As for the first and second quarters of 2009, and our 2008 annual MD&A. For additional details, please consult our interim MD&As for the first and second quarters of 2009, 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 interim MD&As for the first and second quarters of 2009, and our 2008 annual MD&A. For additional details, please consult our interim MD&As for the first and second quarters of 2009, 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 changeover date will differ from current IFRS. Our first financial statements under IFRS will be for periods commencing January 1, 2011.

We began 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 completed Phase 2 activities to assess and select accounting policies. This assessment is based on our expectations of accounting standards that will be in place at the time of changeover, as well as the estimated impact of these standards. Consequently, the detailed evaluation of the impacts of certain accounting policy options is ongoing, along with the final selection of these accounting policies. As IFRS continues to evolve, further evaluation may 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 commenced Phase 3 activities, including the assessment of implications to systems, processes and internal controls resulting from financial accounting policy differences. We have designed a solution for dual reporting in 2010, and development is underway. We also have commenced design and development activities related to IT system and process 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 first quarter of 2010 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. Further information regarding the selection of IFRS-compliant accounting policies and quantification of the impacts will be provided as we move closer to the changeover date.

RISKS AND UNCERTAINTIES

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

Deployment of the HSPA Network

The expected timing, completion and benefits to be gained from the execution of our strategic wireless agreement with Rogers Wireless are subject to various risks and uncertainties. The agreement with Rogers Wireless has been structured with the intent of reducing our long-term capital and operating costs and providing us with an opportunity to generate new business through a national wireless offering. However, there can be no assurance that we will be able to fully realize the expected cost savings and efficiencies from the new technology or the network sharing arrangements, and there are inherent risks associated with deploying new

technologies, new products and billing platforms that could negatively impact our operations, customer service and profitability.

Bell Mobility Arbitration

As a result of the end of a historical wireless alliance with Bell Mobility, we incurred significant one-time costs of transitioning certain wireless services requirements away from Bell Mobility to new suppliers and to our wireless platform. Although we have completed this transition and have migrated all existing wireless customers to our new service platform, we are disputing certain costs charged in the past by Bell Mobility, as well as claiming other costs caused by this transition. We are of the opinion that certain of such costs are recoverable from Bell Mobility; however, there is no certainty that such costs will be recovered and the matter is subject to arbitration.

Changes in Telecommunications Policy and Canadian Radio-television and Telecommunications Commission (“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 (“BDU”) serving Winnipeg and the surrounding areas. The following describes developments relating to material regulatory and policy proceedings that occurred during the third quarter of 2009 and should be read in conjunction with our 2008 annual MD&A, as well as the disclosures in our interim MD&As for the first and second quarters of this year.

Deferral Account

On February 16, 2006, the CRTC issued 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.

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 were 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 and on September 18, 2009, the Supreme Court issued its decision dismissing the appeals and upholding Decision 2006-9 (2009 SCC 40).

We will provide the CRTC with a proposed roll-out plan to expand broadband services to 16 previously approved rural and remote communities as well as file a plan to credit the remaining deferral account monies to the accounts of residential urban customers. Pursuant to directions issued by the CRTC, these proposals will be filed in early 2010. We have estimated these cost and accrued for them.

Internet Traffic Management Practices (Net Neutrality)

On November 20, 2008, by way of Telecom Public Notice CRTC 2008-19, the CRTC commenced a consultation to consider issues relating to wholesale and retail Internet traffic management practices (net neutrality) of the incumbent cable and telephone companies. The issues raised in this proceeding bear on the essential services framework that was established by the CRTC in 2008 and what network traffic management practices for Internet traffic are acceptable and whether these practices are equally acceptable for wholesale and retail customers. We argued that the capacity or traffic management practices applied to retail customers should not be applied to wholesale services. After conducting a public proceeding with a hearing in July 2009, the CRTC issued its decision on October 21, 2009. This decision adopted an Internet traffic management practices (“ITMP”) framework to deal with assessing measures utilized by incumbent telephone and cable carriers in order to manage network capacity issues as usage grows. While indicating a preference for economic (e.g., usage fees or caps) rather than technical (e.g., traffic choking or throttling) measures, the CRTC left the decision as to the appropriate measure in the hands of the incumbent telephone or cable carrier, with an accompanying obligation to inform customers in a manner that will enable their customers to ascertain the consequences of such measures in terms of pricing or technical performance. While the CRTC recognized the importance of wholesale services in the context of its ITMP framework, we believe the CRTC has yet to recognize the distinction between the Internet access services sold to retail customers and the wholesale broadband access services purchased by competitors. We will continue to work with the CRTC to have them recognize the distinction and will review potential next steps with respect to this decision.

Broadcasting Policy

On June 4, 2009, the CRTC issued Broadcasting Regulatory Policy CRTC 2009-329 (the “New Media Decision”) in which it accepted our submissions and those of other

Internet service providers (“ISPs”) by dismissing proposals to levy a charge on ISPs’ gross revenues as a means of funding the creation of Canadian broadcasting content and by extending the exemption of broadcasting content distributed over the Internet or via mobile devices from regulation. In the New Media Decision, the CRTC also referred to the Federal Court the issue of whether when ISPs are providing access to broadcast content via the Internet, they are acting as BDUs and subject to the requirements of the Broadcasting Act. We intend to intervene in the referral and to argue that ISPs are not BDUs but rather are telecommunications carriers offering access to the Internet.

On July 6, 2009, the CRTC issued Broadcasting Regulatory Policy CRTC 2009-406 and Broadcasting Notice of Consultation 2009-411 in which it, on an interim basis, increased the levy that BDUs, such as ourselves, must pay to support local programming from 1% to 1.5% of BDU revenue while initiating a proceeding to determine the appropriate level of that levy on a more permanent basis and to determine the appropriate mechanism to determine the “fair market value” of local and distant conventional television signals that would then be paid by BDUs to broadcasters for the right of distribution. The proceeding will also examine a number of related issues concerning broadcasting license renewals, obligations and conventional television. In September 2009, the CRTC indicated that the public hearing originally scheduled for that month would be delayed until November of this year.

On October 2, 2009, the CRTC issued Broadcasting Notice of Consultation CRTC 2009-614 following a request from the Governor in Council to prepare a report on the implications and advisability of implementing a compensation regime for the value of television signals. To facilitate the consultation, the CRTC will hold a further public hearing in December 2009, as well as receive submissions. Most BDUs, including ourselves, have indicated that the increased costs associated with a “fee for carriage” would need to be passed through to customers.

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 September 30, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

FOURTH QUARTER DIVIDEND

On November 4, 2009, the Board of Directors of MTS declared a quarterly cash dividend of \$0.65 per share. The fourth quarter dividend is payable on January 15, 2010 to shareholders of record at the close of business on December 15, 2009.

The fourth 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.

Notes:

1. Supplementary financial information is available in the Investors section of the MTS Web site at www.mtsallstream.com.
2. MTS’s third quarter 2009 conference call with the investment community is scheduled for 9:00 a.m. Eastern time on November 5, 2009. The dial-in number is 1-800-732-1073. A live audio Webcast of the investor conference call can be accessed by visiting the Investors section of the MTS Web site (www.mtsallstream.com). A replay of the conference call will be available until midnight November 14, 2009 and can be accessed by dialing 1-877-289-8525 or 1-416-640-1917 (access code 4167928#). The audio Webcast will be archived on MTS’s Web site.

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

For the periods ended September 30 (in millions, except earnings per share)	Three months ended		Nine months ended	
	2009	2008	2009	2008
Operating revenues	\$ 449.4	\$ 479.9	\$ 1,396.6	\$ 1,445.1
Operating expenses				
Operations	306.0	314.8	930.7	940.0
Restructuring and transition (Note 2)	9.7	14.6	42.2	24.9
Amortization	82.1	83.9	245.2	246.6
	397.8	413.3	1,218.1	1,211.5
Operating income	51.6	66.6	178.5	233.6
Other income	3.2	2.5	7.6	7.6
Debt charges	(15.1)	(12.1)	(43.9)	(36.7)
Income before income taxes	39.7	57.0	142.2	204.5
Income tax expense (recovery)				
Current	(2.0)	0.2	(1.8)	0.3
Future	13.8	18.7	49.0	73.9
	11.8	18.9	47.2	74.2
Net income and comprehensive income for the period	\$ 27.9	\$ 38.1	\$ 95.0	\$ 130.3
Basic and diluted earnings per share (Note 7)	\$ 0.43	\$ 0.59	\$ 1.47	\$ 2.02

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

For the periods ended September 30 (in millions)	Three months ended		Nine months ended	
	2009	2008	2009	2008
Retained earnings, beginning of period	\$ 79.9	\$ 129.0	\$ 96.8	\$ 120.8
Net income	27.9	38.1	95.0	130.3
Dividends declared	(42.1)	(42.0)	(126.1)	(126.0)
Retained earnings, end of period	\$ 65.7	\$ 125.1	\$ 65.7	\$ 125.1

MANITOBA TELECOM SERVICES INC.
CONSOLIDATED BALANCE SHEETS
(unaudited)

(in millions)	September 30, 2009	December 31, 2008
Assets		
Current assets		
Cash and cash equivalents	\$ 9.0	\$ 6.5
Accounts receivable (Note 3)	114.9	62.2
Future income taxes	91.4	90.5
Other current assets	70.8	64.0
	286.1	223.2
Capital assets (Note 4)	1,616.9	1,616.7
Other assets	387.6	334.6
Future income taxes	385.8	436.8
Goodwill	42.3	41.7
	\$ 2,718.7	\$ 2,653.0
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 339.1	\$ 351.6
Advance billings and payments	56.9	51.4
Current portion of long-term debt (Note 6)	11.9	220.0
Notes payable (Note 5)	-	95.0
Current portion of capital lease obligations	6.1	3.8
	414.0	721.8
Long-term debt (Note 6)	840.6	430.2
Long-term portion of capital lease obligations	13.3	15.0
Deferred employee benefits	43.2	44.2
Other long-term liabilities	54.6	58.1
Future income taxes	1.1	1.7
	1,366.8	1,271.0
Shareholders' equity		
Share capital (Note 8)	1,266.9	1,265.8
Contributed surplus	19.3	19.4
Retained earnings	65.7	96.8
	1,351.9	1,382.0
	\$ 2,718.7	\$ 2,653.0

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

For the periods ended September 30 (in millions)	Three months ended		Nine months ended	
	2009	2008	2009	2008
Cash flows from operating activities				
Net income	\$ 27.9	\$ 38.1	\$ 95.0	\$ 130.3
Add (deduct) items not affecting cash				
Amortization	82.1	83.9	245.2	246.6
Future income taxes	13.8	18.7	49.0	73.9
Gain on sale of intangible assets	-	-	(3.1)	-
Deferred wireless costs	(10.0)	(9.3)	(35.4)	(28.8)
Pension funding and net pension credit	(15.1)	(17.5)	(48.7)	(42.4)
Other, net	1.5	0.7	(3.9)	(10.7)
Changes in non-cash working capital	20.7	10.3	(73.8)	(9.2)
Cash flows from operating activities	120.9	124.9	224.3	359.7
Cash flows from investing activities				
Capital expenditures, net	(74.5)	(120.1)	(202.3)	(245.0)
Acquisition	(2.1)	-	(2.1)	(4.0)
Net proceeds from sale of intangible assets	-	-	1.4	-
Other, net	(0.7)	-	(1.4)	(0.3)
Cash flows used in investing activities	(77.3)	(120.1)	(204.4)	(249.3)
Cash flows from financing activities				
Dividends paid	(42.1)	(42.0)	(126.1)	(126.0)
Issuance of long-term debt	-	-	425.0	-
Repayment of long-term debt	-	-	(220.0)	(89.7)
(Repayment) issuance of notes payable, net	-	45.0	(95.0)	115.0
Issuance of share capital (Note 8)	0.1	-	0.9	0.2
Other, net	0.4	0.3	(2.2)	(3.3)
Cash flows (used in) from financing activities	(41.6)	3.3	(17.4)	(103.8)
Change in cash and cash equivalents	2.0	8.1	2.5	6.6
Cash and cash equivalents (bank indebtedness), beginning of period	7.0	(11.6)	6.5	(10.1)
Cash and cash equivalents (bank indebtedness), end of period	\$ 9.0	\$ (3.5)	\$ 9.0	\$ (3.5)

MANITOBA TELECOM SERVICES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

For the nine months ended September 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 nine months ended September 30, 2009 and 2008, the Company recorded net restructuring and transition expenses as follows:

	Three months ended		Nine months ended	
	2009	2008	2009	2008
Restructuring				
Workforce	2.2	0.9	10.3	0.9
Other	6.8	6.2	17.5	6.2
	9.0	7.1	27.8	7.1
Wireless transition	0.7	7.5	14.4	17.8
	9.7	14.6	42.2	24.9

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

Balance December 31, 2008	11.3
2009 restructuring costs, net of a \$1.5 million reversal of previously recorded costs	27.8
Less cash payments	(24.5)
Balance September 30, 2009	14.6

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, real estate facility consolidation charges, as well as other non-recurring amounts associated with certain regulatory proceedings and the transition from Canadian GAAP to International Financial Reporting Standards.

The Company has undertaken additional workforce reduction initiatives throughout 2009. In the second quarter, the Company recorded workforce reduction costs of \$9.4 million relating to the reduction of approximately 160 positions in the Enterprise Solutions division. In the third quarter, the Company initiated another workforce reduction program and recorded costs of \$2.2 million.

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 nine months ended September 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 September 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 September 30, 2009, the Company had received \$77.0 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 \$95.9 million and the reserve accounts of \$18.9 million.

During the three and nine months ended September 30, 2009, the Company recognized a recovery of nil 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 nine months ended September 30, 2009, cash flows received and paid to the trust in revolving period securitizations were \$674.0 million and \$1,708.7 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 September 30, 2009 are as follows:

Annual discount rate	0.68%
Weighted average life of receivables sold (days)	38
Credit loss ratio	0.52%
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 nine months ended September 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:

	September 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	2,876.1	1,884.2	991.9	2,750.2	1,777.4	972.8
General equipment and other	438.8	317.9	120.9	419.1	274.8	144.3
Buildings	265.5	150.2	115.3	262.4	142.9	119.5
Equipment under capital lease	5.4	0.9	4.5	5.4	0.6	4.8
Plant under construction	78.0	-	78.0	91.4	-	91.4
Materials and supplies	20.3	-	20.3	21.3	-	21.3
Land	6.3	-	6.3	6.3	-	6.3
	3,690.4	2,353.2	1,337.2	3,556.1	2,195.7	1,360.4
Intangible assets						
Software	291.1	145.5	145.6	240.0	110.1	129.9
Deferred wireless costs	89.7	39.4	50.3	78.3	37.6	40.7
Other deferred installation costs	29.9	14.9	15.0	43.7	23.6	20.1
Customer contracts and relationships	29.4	12.8	16.6	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
	492.9	213.2	279.7	441.9	185.6	256.3
Total	4,183.3	2,566.4	1,616.9	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 September 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 nil and \$2.5 million for the three and nine months ended September 30, 2009, respectively.

MANITOBA TELECOM SERVICES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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

6. LONG-TERM DEBT

	September 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	(4.4)	(1.7)
	852.5	650.2
Less: current portion of long-term debt	(11.9)	(220.0)
	840.6	430.2

During the three and nine months ended September 30, 2009, the Company recorded interest expense on long-term debt, including amortization of debt issue costs of \$13.1 million and \$33.2 million, respectively. The Company paid interest on long-term debt for the three and nine months ended September 30, 2009 of \$6.2 million and \$24.6 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:

	Nine months ended September 30	
	2009	2008
Net income		
Basic and diluted	95.0	130.3
Weighted average shares outstanding (in millions)		
Weighted average number of shares outstanding – basic and diluted	64.7	64.6
Earnings per share (\$)		
Basic and diluted earnings per share	1.47	2.02

8. SHARE CAPITAL

As at September 30, 2009, share capital consists of 64,667,817 issued and outstanding Common Shares (December 31, 2008 – 64,637,917).

During the nine months ended September 30, 2009, 29,900 stock options to purchase Common Shares were exercised for cash consideration of \$0.9 million, of which \$1.1 million was credited to share capital and \$0.2 million was charged to contributed surplus.

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 nine months ended September 30, 2009 is \$2.9 million and \$6.1 million, respectively.

MANITOBA TELECOM SERVICES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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

10. SEGMENTED INFORMATION

As at September 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, wireline voice services, and alarm monitoring services to residential and small business customers in Manitoba. The Consumer Markets division also provides 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 September 30							
	Consumer Markets		Enterprise Solutions		Other		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Operating revenue								
External	195.1	208.2	254.3	271.7	-	-	449.4	479.9
Internal	0.2	0.1	-	-	8.3	10.4	8.5	10.5
EBITDA	94.3	97.3	40.4	53.3	(1.0)	(0.1)	133.7	150.5
Restructuring and transition	0.1	7.6	8.6	6.8	1.0	0.2	9.7	14.6

	Nine months ended September 30							
	Consumer Markets		Enterprise Solutions		Other		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Operating revenue								
External	607.0	612.8	789.6	832.3	-	-	1,396.6	1,445.1
Internal	0.4	0.3	0.1	0.1	26.4	29.0	26.9	29.4
EBITDA	295.0	296.3	130.6	183.9	(1.9)	-	423.7	480.2
Restructuring and transition	13.8	16.4	26.1	6.8	2.3	1.7	42.2	24.9

Reconciliation to consolidated net income is as follows:

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Total EBITDA	133.7	150.5	423.7	480.2
Amortization	(82.1)	(83.9)	(245.2)	(246.6)
Other income	3.2	2.5	7.6	7.6
Debt charges	(15.1)	(12.1)	(43.9)	(36.7)
Income tax expense	(11.8)	(18.9)	(47.2)	(74.2)
	27.9	38.1	95.0	130.3

MANITOBA TELECOM SERVICES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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

11. COMMITMENTS AND CONTINGENCIES

Commitments

On May 30, 2002, the Canadian Radio-television and Telecommunications Commission ("CRTC") issued *Regulatory framework for second price cap period*, Telecom Decision CRTC 2002-34, which provided the regulatory framework for local rates charged to residential and business customers and the rates that incumbent telephone companies charged their competitors. As part of this framework, the CRTC established a regulatory deferral account. On January 17, 2008, the CRTC issued *Disposition of funds in the deferral accounts*, Telecom Decision CRTC 2008-1, which required the funds that were accumulated in the Company's deferral account to be used for the expansion of broadband services, for initiatives to improve accessibility to telecommunications services for persons with disabilities, and for certain rate reductions or credits. Aspects of Decision 2008-1, including the requirement for rate reductions or credits, were appealed to the Federal Court and then the Supreme Court of Canada by Bell Canada, TELUS Communications Inc. and the Public Interest Advocacy Centre with a decision by the Supreme Court ultimately upholding the CRTC's decision on September 18, 2009. The estimated balance of the Company's deferral account is approximately \$25 million as at September 30, 2009. In the third quarter, the Company recorded a liability in its financial statements in the amount of \$13.5 million for the estimated amount applicable to rate reductions or credits. The Company will be required to file with the CRTC, its intended plan and costs for the approved extension of broadband services and the administration of the rate reductions or credits.

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 in relation to the above claim.

12. COMPARATIVE FIGURES

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