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# Annual Information Form

For the year ended December 31, 2009

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## TABLE OF CONTENTS

CORPORATE STRUCTURE .....	1
Name and incorporation .....	1
Intercorporate relationships .....	1
GENERAL DEVELOPMENT OF THE BUSINESS .....	1
Strategic Wireless Agreements .....	1
Non-telecommunications IT consulting group sale .....	2
Acquisition of wireless spectrum .....	2
Investments in broadband networks .....	2
Initiatives to streamline business operation .....	3
Regulatory developments .....	3
DESCRIPTION OF THE BUSINESS .....	3
Business segments .....	3
Wireless services .....	4
Data services .....	4
Local services .....	5
Long distance services .....	6
Other .....	6
Employee relations .....	7
Distribution channels .....	7
Environmental policy .....	8
Social responsibility .....	8
Risk factors .....	8
INCOME TAXES .....	8
LEGAL PROCEEDINGS .....	8
CAPITAL STRUCTURE .....	9
General description .....	9
Credit facilities .....	10
Credit ratings .....	10
Share capital .....	11
Constraints .....	11
Normal course issuer bids .....	12
Dividend policy .....	12
MARKET FOR SECURITIES .....	12
DIRECTORS AND OFFICERS .....	13
Directors .....	13
Directors not standing for re-election .....	14
Additional information on Directors .....	14
Officers .....	14
AUDIT COMMITTEE .....	15
Composition .....	15
Policy on engagement of external auditors .....	16
External auditor service fees .....	17
TRANSFER AGENT AND REGISTRAR .....	17
ADDITIONAL INFORMATION .....	17
APPENDIX A: AUDIT COMMITTEE CHARTER .....	18

*In this Annual Information Form (“AIF”), “we”, “our” and “us” refer to Manitoba Telecom Services Inc. and, where the context so requires, to its subsidiaries. This AIF and the financial information contained herein have been reviewed by our Audit Committee and approved by our Board of Directors.*

*This AIF 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, matters identified in the “Risks and Uncertainties” section of our Annual Report. Please note that forward-looking statements reflect our expectations as at March 5, 2010. 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 AIF, along with additional information relating to our company, such as the Annual Management’s Discussion and Analysis (“MD&A”), is available on SEDAR at [www.sedar.com](http://www.sedar.com). Unless otherwise stated, all amounts are expressed in Canadian dollars.*

## **CORPORATE STRUCTURE**

### **Name and incorporation**

Manitoba Telecom Services Inc. (“MTS” or the “Company”) commenced its operations in the province of Manitoba in 1908, first as a department of the provincial government, and then as a Crown corporation that was incorporated in 1933. On January 7, 1997, MTS was continued as a share capital corporation pursuant to *The Manitoba Telephone System Reorganization and Consequential Amendments Act* (Manitoba). MTS subsequently was continued under *The Corporations Act* (Manitoba)

pursuant to a Certificate and Articles of Continuance dated April 5, 2000. MTS’s articles, as amended, were restated by Certificates and Restated Articles of Incorporation dated May 15, 2001 and June 28, 2004. Pursuant to a Certificate and Articles of Amalgamation dated August 3, 2004, MTS amalgamated with its wholly owned subsidiary, Qunara Inc., to form an amalgamated company operating under the name MTS.

Our head and registered office is located at 333 Main Street, PO Box 6666, Winnipeg, Manitoba, R3C 3V6.

### **Intercorporate relationships**

MTS owns 100% of the issued and outstanding shares of its main operating subsidiary, MTS Allstream Inc., which was amalgamated under the *Canada Business Corporations Act*.

## **GENERAL DEVELOPMENT OF THE BUSINESS**

The general development of our business over the last three years has been influenced by several events, including:

- our strategic wireless agreements;
- our sale of our non-telecommunications Information Technology (“IT”) consulting group;
- our acquisition of wireless spectrum in 2008;
- our investments in our broadband network;
- initiatives to streamline our business operations; and
- regulatory developments.

Each of these developments is described below.

### **Strategic Wireless Agreements**

On July 28, 2009, we made a significant announcement regarding our wireless strategy going forward for both divisions of our 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 deployment of our regional wireless HSPA network is proceeding according to schedule, and we expect the network to be operational by the end of 2010.

Our strategic wireless arrangement with Rogers Wireless also provides us with the opportunity to launch a business wireless offering under the Allstream brand through a competitive wholesale arrangement. Towards the end of 2010, we expect to launch Allstream wireless targeting the geographic markets where we are strongest. Our Allstream wireless offering will focus on a converged wireless/wireline product suite. This business-only wireless service will complement our existing enterprise portfolio and provide customers with unique functionality. Over the next three years, we would expect our cumulative investment in Allstream wireless to be approximately \$25 million, including customer acquisition costs, as we already have significant customer relationships, wireless application development capabilities, distribution channels and billing systems and access to a national wireless network through our strategic arrangement with Rogers Wireless.

#### **Non-telecommunications IT consulting group sale**

On December 23, 2009, we committed to sell the majority of our non-telecommunications IT consulting group to PricewaterhouseCoopers Canada ("PwC"). This transaction closed on January 31, 2010. In addition, we have created an alliance with PwC that we expect to contribute to our revenues. PwC will refer their customers, who require communications solutions services to us, and we will refer our customers who require the support of a non-telecommunications IT consulting group to PwC. The 2009 and 2008 financial results reported in this AIF have been adjusted to exclude the operating results from our non-telecommunications IT consulting business, which was classified as discontinued operations.

#### **Acquisition of wireless spectrum**

Following the auction of spectrum licenses in the 2 GHz range, including advanced wireless

services that was concluded by the federal government on July 21, 2008, we strengthened our existing wireless business by acquiring 35 MHz of wireless spectrum covering 1.2 million people in Manitoba at a total cost of approximately \$48 million.

#### **Investments in broadband networks**

In 2008, we initiated our Broadband Evolution program which has enhanced our broadband access infrastructure across several communities in Manitoba, allowing us to offer improved High-Speed Internet and television ("TV") services. We launched a new service, MTS high definition ("HD") TV (renamed MTS Ultimate TV), in Portage la Prairie in 2008 and in Winnipeg and Brandon in 2009. MTS Ultimate TV provides a state-of-the-art entertainment service including a wide selection of HD TV and standard definition TV channels, Whole Home Personal Video Recorder ("PVR"), Video on Demand, Pay Per View, as well as access to our fastest Internet speeds. We also expanded our standard High Speed Internet ("HSI") service to four additional communities in 2008 and seven additional communities in 2009, making our wireline HSI service available to more than 85% of Manitobans in 173 communities.

We have made investments in our Internet Protocol ("IP") core network in Manitoba to add capacity for customer growth and to increase the reliability of the network. In 2009 we completed our dense wave division multiplexing ("DWDM") fibre optic system between Winnipeg and Brandon, increased capacity to many of our Internet serving areas, and completed a major upgrade to our Internet core routing network to make it more robust.

In June 2009, we signed an agreement with Sprint Nextel that is enabling us to offer a larger and more exciting selection of Code Division Multiple Access ("CDMA") handsets on a more cost effective basis while we deploy HSPA in Manitoba. We continued to extend our Manitoba digital wireless CDMA network by adding seven new locations to our coverage area in 2009. Our wireless network provides 1x radio transmission technology ("1xRTT") voice and data service in all regions in which we provide wireless service, which encompasses 97% of Manitoba's population. In addition, we provide high-speed wireless data service using 1x Evolution Data Optimized Rev A in Winnipeg, Brandon and 24

more of Manitoba's largest communities encompassing 73% of the population. We also have roaming and interconnection arrangements in effect with other wireless service providers, which enable our customers to use their phones in the service areas of other carriers. These roaming arrangements govern the pricing of the services between carriers.

As described earlier, in 2009 we entered into a strategic wireless arrangement with Rogers Wireless that will see both companies share the cost to deploy an HSPA wireless network across Manitoba. This strategic wireless arrangement will provide us with higher data speeds across our wireless network in Manitoba. With this agreement we also gain access to an enhanced HSPA handset selection, and greater roaming capabilities worldwide. The network is expected to be operational by the end of 2010.

Important investments in our national fiber coast-to-coast broadband network have also been made. In 2009 we continued the expansion of our IP Multiprotocol Label Switching ("MPLS") network to increase capacity and geographic reach to support the growth of our converged IP services.

Over the last three years we have made investments in our national DWDM network to support our national Lightspeed™ wavelength product offering, with 2.5 gigabyte ("G") and 10 G wavelength services in key cross-sections across the country.

### **Initiatives to streamline business operation**

In 2009, we continued with our ongoing cost reduction initiatives aimed at achieving process improvements and further cost reductions with a focus on our Enterprise Solutions division. We incurred costs of \$33.6 million, which include severance and other employee-related expenses, costs to review and improve efficiencies in our current processes, and the cost of facilities consolidation of certain real estate. Our 2009 efficiency program achieved \$58.4 million in annualized savings as at December 31, 2009, which was at the high end of our increased target for the year of \$50 million to \$60 million in annualized cost savings.

### **Regulatory developments**

The telecommunications and broadcast industries in which we operate are federally

regulated. As a result, our business is affected by decisions made by various regulatory agencies of the federal government, including the Canadian Radio-television and Telecommunications Commission ("CRTC") and Industry Canada. For a description of the principal regulatory initiatives and proceedings affecting us, please refer to "Our Regulatory Environment" section of our 2009 MD&A.

## **DESCRIPTION OF THE BUSINESS**

### **Business segments**

We are a leading national communications provider in Canada. As at December 31, 2009, we had two reportable operating segments the Consumer Markets division and the Enterprise Solutions 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 a wholly owned subsidiary, AAA Alarm Systems Ltd. ("AAA Alarm"). This complete range of products is unmatched by any other single provider in Manitoba. In addition, the Consumer Markets division is an important service provider in the national small business telecommunications market in Manitoba as well as outside the province, providing customers in targeted major Canadian centres with a range of innovative business Internet, data and voice services under the Allstream brand.

The Enterprise Solutions division, which operates under the Allstream brand nationally and under the MTS Allstream brand in Manitoba, is a leading player in the national business and wholesale markets. This division offers customers a portfolio of solutions tailored to the needs of medium and large businesses, offering IP-based communications, unified communications, voice and data connectivity, and security 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.

Effective January 1, 2010, we realigned our business around geographic markets. We

replaced our two divisions with two new business units – an MTS unit, and an Allstream unit. The enterprise account base in Manitoba, previously part of the Enterprise Solutions division, is now a part of the MTS unit, and the national small business account base across Canada, previously part of the Consumer Markets division, is now a part of the Allstream unit. The organization impacts only the operating divisions and about 300 employees, all corporate groups will continue to be integrated on a company-wide basis.

Our operating segments are responsible for business strategies, investment priorities for new products and services, sales and marketing, and distribution channels.

Total revenues by operating segment for the past two years, adjusted to exclude the operating results from our non-telecommunications IT consulting business, which was classified as discontinued operations, are as follows:

<b>For the years ended December 31</b> (in \$ millions)	<b>2009</b>	<b>2008</b>
Consumer Markets division	826.0	818.0
Enterprise Solutions division	997.4	1,049.1
Revenue (continuing operations)	1,823.4	1,867.1
Deferral account rebates	(13.5)	-
Revenue reported	1,809.9	1,867.1

Revenue from continuing operations in 2009 excludes the \$13.5 million deferral account rebate in relation to CRTC Decision 2008-1. Further detail on our revenue from continuing operations is as follows:

<b>For the years ended December 31</b> (in \$ millions)	<b>2009</b>	<b>2008</b>
<b>Revenue</b>		
Wireless services	312.9	289.7
Data services	620.3	637.8
Local services	514.9	527.5
Long distance services	288.4	328.2
Other	86.9	83.9
Total revenue (continuing operations)	1,823.4	1,867.1

### Wireless services

We provide wireless services to both consumer and business customers in Manitoba. These services include postpaid and prepaid cellular, wireless data, paging and group communications services. There continues to be solid growth in the adoption of our wireless products and services.

Currently in Manitoba, where we continue to be the leading wireless provider, over 97% of the population has access to our wireless service through our CDMA 1xRTT network with the higher speed EV-DO data services reaching 73% of the population.

In 2009, wireless services revenues were \$312.9 million, representing an increase of 8.0% over 2008 revenues of \$289.7 million. This increase reflects continued growth in our customer base and increased utilization of our wireless data services and features. As at December 31, 2009, our customer base totalled 458,478 cellular subscribers, representing an increase of 23,702 or 5.5% over December 31, 2008. In 2009, we had a post-paid churn rate of 1.20%. Churn is the percentage of our total base of customers who cancel their service each month. A low churn rate like ours is important, because it directly impacts profitability.

Our wireless data revenues in Manitoba increased strongly in 2009, achieving growth of 25.3%. On the consumer side, subscribers are adopting data services such as downloadable games, ringtones and screensavers; text messaging; mobile browsing; picture and video messaging; and streaming video and social networking services. On the business side, the adoption of high-speed wireless access to e-mail and corporate data has been increasing steadily, which is fuelled largely by integrated voice and data devices.

Our group communications services also include FleetNet 800™, which is a two-way wireless communications solution used by enterprises with requirements for dispatch communications. Organizations using this service include police departments, the Royal Canadian Mounted Police, other emergency services, and transportation companies.

Our main competitors in the wireless market in Manitoba include Rogers Communications Inc. ("Rogers") and TELUS Communications Inc. ("TELUS").

### Data services

We provide data services to business customers across Canada. Data services provided by both of our operating segments connect data, video and voice networks to establish private connections across office locations and to

integrate traffic over highly secure networks. Increasingly, our customers require solutions that integrate three core capabilities consisting of data connectivity through transport and access technologies for local, national and international networking; a growing emphasis on security services; and unified communications that link enterprise applications to telecommunications infrastructure.

Our data line of business includes revenues from the provision of data, Internet and security services. In 2009, data services revenues totalled \$620.3 million, representing a decrease of 2.7% from 2008 revenues of \$637.8 million. This decrease reflects the effects of continuing migration of legacy data communications traffic by Rogers and AT&T Corp. to their respective networks, 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 security services. This is offset by continued double digit growth in converged IP and consumer Internet lines of business.

Our competitors in the data market include Bell Canada ("Bell") and TELUS.

#### *Internet services*

We offer Internet services to both residential and business customers within Manitoba. We provide both digital subscriber line ("DSL") high-speed and dial-up Internet services. DSL is a technology that allows subscribers to receive voice and data information over the same telephone line at the same time. We offer various pricing and plan options to meet the needs of our residential and business customers.

As at December 31, 2009, 99% of our access lines in Winnipeg and Brandon, and more than 85% of our access lines province-wide, have the capability to provide high-speed Internet services. High-speed Internet access speeds range from 256 kilobits per second to 32.0 megabits per second ("Mbps"), with the majority of residential customers accessing our standard up-to-7.0 Mbps service. In the high-speed market in Manitoba, our main competitors include Shaw Cablesystems Limited ("Shaw") in Winnipeg and surrounding communities, and Westman Media Cooperative Ltd. in Brandon and surrounding communities.

Nationally, we provide a wide range of Internet connectivity services to meet the needs of small business customers across Canada. We offer multiple forms of dedicated high-speed Internet access, which provide "always on" access to the Internet and asymmetrical and symmetrical bandwidth options. With various Internet services ranging from simple high-speed connections to more complex Internet solutions, we provide access speeds ranging from 3 Mbps to 1 G per second. Nationally, our competitors in the market include Bell, TELUS, Shaw and Rogers.

#### Local services

We provide local voice access services for residential and business customers within Manitoba's local exchanges. A local exchange is defined as a geographic or metropolitan area in which customers are able to connect to each other for a flat monthly fee. We also earn local services revenues from payphones and enhanced local calling features, such as Call Answer, Call Display, Call Waiting, and 3-Way Calling. In addition, we earn wholesale revenues by providing our competitors with access to our local exchange facilities. Local services revenues include subsidies paid to us for providing local services in high-cost serving areas.

Our main competitor in Manitoba is Shaw, which began offering residential phone service in Winnipeg in 2005 and select rural markets in 2007. Westman Communications Group ("Westman") began offering residential phone service in Brandon in 2008 and select rural markets in 2009. Other companies competing against us include Bell, TELUS, Telecom Options Inc., and Web-based telephone service providers, such as Primus Telecommunications Canada Inc. ("Primus") and Vonage Canada Corp. Our position in the Manitoba market continues to be strong, with an estimated 83% and 90% market share for the residential and business markets, respectively.

Nationally, we provide a full range of local services to business customers. These services allow customers to complete calls in their local exchange and to access long distance, cellular networks and the Internet. We also earn wholesale revenues for providing competitors with access to our local exchange facilities. Nationally, our competitors in the local services

market include TELUS, Bell and Bell Aliant Regional Communications, Limited Partnership.

In 2009, we earned revenues from local services of \$514.9 million, representing a decrease of 2.4% from 2008 revenues of \$527.5 million. This decrease reflects decreased residential network access lines due to local competition and wireless substitution. We continue to demonstrate a strong ability to maintain the lowest rate in the industry of telephone customer losses to cable operator competitors.

#### Long distance services

In Manitoba, we provide long distance voice services which allow residential and business customers to communicate with destinations outside the local exchange. We offer a variety of long distance savings plans to our Manitoba customers and dial-around service in British Columbia and Alberta. We offer calling cards and prepaid cards for national and international long distance calling. We also offer teleconferencing, toll-free and featured long distance services to our business customers.

We also provide long distance voice services to business customers on a national basis. We offer a variety of long distance savings plans, calling cards for national and international long distance calls, and teleconferencing and virtual networking to business customers. We also offer an advanced toll-free service to large enterprise customers.

In the long distance market, our principal competitors in the provision of business long distance services nationally and in Manitoba include national carriers such as Bell, Primus and TELUS. In the Manitoba market, the primary competitor in the provision of residential long distance is Shaw. In addition, long distance dial-around service providers, resellers, discount packagers of long distance services, and broadband voice over IP providers are contributing to the increased competition in Western Canada.

Long distance services generated revenues of \$288.4 million in 2009, representing a decrease of 12.1% from 2008 revenues of \$328.2 million. This decrease can be attributed to the effects of competitive pricing pressures, customer losses, lower volumes in cross-border and domestic markets, and a slowing economy contributing to

lower long distance services revenues in all the markets that we serve.

#### Other

Other revenues are earned from digital television services, as well as miscellaneous revenues in the form of security services offered by AAA Alarm and the sale and maintenance of terminal equipment.

#### *Digital television services*

In January 2003, we launched our digital television service, known as MTS Classic TV, to residential customers in Winnipeg. In 2006, we started offering new services, including HD TV service and live events pay-per-view. In August 2006, we acquired all of the issued and outstanding shares of 2892031 Manitoba Ltd. and its wholly owned subsidiary Valley Cable Vision (1997) Limited, a provider of cable and Internet services in rural Manitoba which had approximately 3,700 cable customers and 150 cable high-speed Internet customers at the time of acquisition.

In 2009, we enhanced our television offering with the introduction of our premium service branded MTS Ultimate TV. By year end, the service was available to about 70% of Winnipeg households, as well as Portage la Prairie and Brandon. Powered by an Alcatel-Lucent network and the award winning Microsoft MediaRoom software platform, MTS Ultimate TV delivers a highly advanced TV viewing experience. Customers have access to an extensive HD channel line up, built on the foundational value proposition of MTS Classic TV which is customer choice and flexibility in channel packaging. Whole Home PVR was also made available in 2009, giving customers the opportunity to record up to three programs simultaneously and access recorded content from any TV within the home. Whole Home PVR is exclusive to MTS Ultimate TV subscribers and is proving to be quite popular.

In 2009, revenues from MTS TV services totalled \$53.8 million, representing an increase of 8.2% over 2008 revenues of \$49.7 million. As at December 31, 2009, our customer base was 86,520, representing a 34% market share in the Winnipeg market. Our competitors in the television market are Shaw, Westman, and direct to home satellite TV service providers.



### *Miscellaneous*

We provide security installation and monitoring services to residential and small business customers in Manitoba. The strength of our AAA Alarm brand, coupled with our reputation as a full-service telecommunications provider, offers us an opportunity to grow market share in Manitoba and to expand home security services into new geographic markets.

We earn revenues from the sale of terminal equipment, such as telephone switches and hardware, to business customers. We also earn revenue from the related maintenance of this equipment. Our principal competitors in this market include Bell, Telus and International Business Machines Canada Limited.

### **Employee relations**

Prior to the reorganization into the MTS and Allstream business units, as at December 31, 2009, the number of full-time and regular part-time employees of the Consumer Markets division and the Enterprise Solutions division was 3,021 and 2,816, respectively. Of these employees, 3,283 were members of a union. Our employees are represented by five labour unions, which are the Telecommunications Employees Association of Manitoba–International Federation of Professional and Technical Engineers, Local 161 (“TEAM-IFPTE”); the International Brotherhood of Electrical Workers, Local 435 (“IBEW”); the Communications, Energy and Paperworkers Union of Canada, Local 7 (“CEP”); the Canadian Auto Workers, Local 2000 (“CAW”); and the United Steelworkers, TC Local 1976 (“USW”).

TEAM-IFPTE represents certain management and professional employees. The collective agreement with this union expired on February 19, 2010 and negotiations to renew the collective agreement have commenced.

IBEW represents craft and allied employees, such as warehouse, shopcraft and building utility workers. The collective agreement with IBEW in relation to these employees expires on January 31, 2011. The collective agreement between IBEW and AAA Alarm expires on April 27, 2010.

CEP represents operators and clerical employees who are covered by a collective

agreement which expires on December 19, 2010. CEP also represents operators employed by AAA Alarm, who are covered by a collective agreement which expires on November 20, 2010.

CAW represents technical and non-technical employees who are covered by a collective agreement which expired on December 31, 2009. Negotiations are currently underway to renew the collective agreement.

USW represents technical and clerical employees. The collective agreement with USW expired on December 31, 2009. Negotiations to renew this collective agreement are scheduled to commence in mid March 2010.

### **Distribution channels**

Customer contact is provided throughout Manitoba via various distribution channels, which include our retail and corporate sales channels, MTS Connect™ stores, contact centres, the Web site [www.mts.ca](http://www.mts.ca), bill payment agents, and multi-dwelling unit programs.

Through these channels, we offer residential and business customers full access to our local, data, long distance, wireless, and broadband (Internet and television) services, as well as other products and services. We utilize our retail and corporate sales channels to service our business customers and to provide solutions to meet their ongoing business needs. Our MTS Connect stores are retail outlets, which are used for providing services to our residential and small business customers. We operate three MTS Connect stores staffed by MTS employees, and have arrangements with dealers who operate 37 additional MTS Connect stores. We also have an extensive, province-wide network of wireless and Internet dealers, which provide our customers with access to these products and services.

Contact centres consist of call centres and business offices. MTS call centres provide a significant sales channel for residential local and long distance inbound customers, and our dealer channel provides solutions and wireless fulfillment through an established outbound program. Our business office and Web site also provide our customers with access to information on our products and services, along with customer assistance.

Nationally, we provide customer contact through various distribution channels, including a direct sales force, alliance arrangements, contact centres, a customer service portal and our Web site [www.allstream.com](http://www.allstream.com). We use these channels to provide our business customers with access to converged IP services, such as MPLS and Internet service; unified communications; voice and data connectivity; and security and information technology consulting services. Our direct and alliance sales channels are used to service our business customers across Canada and to provide business solutions to meet the needs of our customers. Contact centres provide a sales channel for inbound calls, as well as outbound telemarketing. Our customer care contact centre and portal allow our customers to access customer assistance, tools and information regarding their products and services.

### **Environmental policy**

We have a formal Environmental Management System (the "EMS"), which was approved by our Board of Directors. The EMS functions as an operational manual and reference guide for environmental compliance and management. It is comprised of several components which specify the organizational structure, responsibilities, practices, procedures and resources employed in implementing our *Environmental Policy* and complying with environmental law.

The foundation of the EMS is our *Environmental Policy*, which was established to ensure that we operate our business in a manner that reflects concern for the environment and supports the principles of sustainable development. Our *Environmental Policy* is designed to support:

- compliance with applicable laws and regulations regarding the environment and sustainable development;
- appropriate communication to, and education of, our employees to foster environmentally aware attitudes and knowledge of environmental matters;
- reduction, reuse and recycling where appropriate in order to minimize the creation of waste;
- disposition of waste in an environmentally sound manner;

- development and maintenance of environmental emergency procedures;
- substitution of environmentally friendly substances where appropriate;
- innovation regarding products and services that contribute to the preservation of the environment; and
- regular reporting on environmental compliance and initiatives.

### **Social responsibility**

We have long been recognized as one of Canada's most responsible corporate citizens, and as a top socially responsible company in the country's telecommunications industry. For a discussion on our social responsibility, please refer to the "Social Responsibility" section of our 2009 MD&A.

### **Risk factors**

Our business operations are subject to various risk factors, which could contribute to a material change to our business and our ability to achieve expected performance. For a summary of our risks, please refer to the "Risks and Uncertainties" section of our 2009 MD&A.

### **INCOME TAXES**

For a discussion of how we are impacted by income taxes, please refer to the "Critical Accounting Estimates and Assumptions" section of our 2009 MD&A.

### **LEGAL PROCEEDINGS**

In August 2004, a national class action claim was filed in the Saskatchewan Court of Queen's Bench against certain wireless carriers, including us, on behalf of a class of plaintiffs described as subscribers or customers for wireless or cellular services. This claim alleges that each of the carriers is in breach of contract and has violated competition, trade practices and consumer protection legislation in connection with certain system access fees, system licensing charges and other similar charges that the carriers have billed to their wireless customers. The claim seeks unspecified general, aggravated, punitive and exemplary damages.

Similar class action claims have been filed in various jurisdictions across Canada, but these

actions have been held in abeyance pending the outcome of a certification process in respect of the Saskatchewan claim. In September 2007, the Saskatchewan court certified this claim as a class action. The defendants in this action, including us, are seeking leave to appeal. A decision is expected in March 2010. If leave is not granted and the certification order remains in effect, we will continue to defend this claim vigorously, as we believe that we have a good defence to this claim.

We are also a defendant in a 2008 national class action lawsuit filed in Saskatchewan on behalf of the class of plaintiffs described as subscribers or customers for wired, wireless or cellular services who have paid extra fees and charges in the nature of, but not limited to, 911 fees. The damages claimed include the recovery of all charges relating to 911 or Emergency Service Access, charged to all customers over and above what the defendants were entitled to charge, as well as aggravated, punitive and exemplary damages and the disgorgement of all profits relating to such charges. The defendants are the major Canadian telecommunications carriers including wireless carriers. The class in this action has not yet been certified by a court, which is required before the claim can proceed on the merits of the claim. Even if the plaintiffs are successful in obtaining certification of the class, they must still prove their case on the merits of their claims. The potential for liability and magnitude of potential loss cannot be determined at this time.

In September 1999, three of our unions and a retiree suing on behalf of other retirees and their surviving spouses filed a claim in the Court of Queen's Bench of Manitoba against us in respect of the Manitoba Telecom Services Inc. and Participating Subsidiaries Employee Pension Plan (the "Pension Plan") regarding the 1997 initial funding, ongoing surplus and governance of the primary pension plan in respect of our Manitoba-based employees. These claims arose in respect of matters that occurred at the time of privatization of the Company. This claim sought various declarations to the effect that we are not entitled to use any portion of the surplus in the Pension Plan to reduce contributions, and that such utilization by us is a breach of our obligations to our employees and former employees. The claim also sought, among other things, a mandatory order directing us to reimburse the Pension Plan for all amounts of the

surplus that we have used to reduce our contributions, as well as an injunction prohibiting us from utilizing any future surplus in the Pension Plan.

This matter proceeded to trial in the fall of 2008, and a decision by the Court was issued in January 2010. In its decision, the court upheld the governance of the pension plan and affirmed our position with respect to the issue of ongoing surplus. As a result, there will be no changes to our expected future ongoing funding requirements and administration of the Pension Plan. The court also ruled that we are obligated to make a \$43 million one-time payment, retroactive to 1997, the year we were privatized and this Pension Plan was implemented. We believe, based on legal advice received, that key aspects of this part of the decision are flawed and present strong grounds for appeal. Pending the outcome of an appeal, the financial implications of the Court's decision could result in a one-time future payment of approximately \$100 million. This would be comprised of \$43 million plus interest calculated at a rate equal to the Pension Plan's rate of return since 1997. We expect that such a payment, if any, would not be required until all appeals have been determined. There will be no increase to our ongoing pension funding requirements as a result of this decision.

## CAPITAL STRUCTURE

### General description

The composition of our capital structure is summarized in the following table:

<b>As at December 31</b> <i>(in millions \$)</i>	<b>2009</b>	<b>2008</b>
Cash and cash equivalents	(110.2)	(6.5)
Proceeds from accounts receivable securitization	--	127.0
Notes payable	--	95.0
Capital lease obligations, including current portion	17.6	18.8
Long-term debt, including current portion	1,051.5	650.2
Total debt	958.9	884.5
Shareholders' equity	1,316.9	1,382.0
Total capitalization	2,275.8	2,266.5
Debt to capitalization	42.1%	39.0%

## Credit facilities

(in millions \$)	Capacity	Utilized at December 31, 2009
Medium term note program	500.0	200.0
Accounts receivable securitization	150.0	--
Revolving credit facility	350.0	137.3
Total	1,000.0	337.3

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

We renewed our medium term note program on October 16, 2009 for \$500.0 million and utilized \$200.0 million of this facility to issue debt in December 2009. In total during 2009, we successfully raised \$625 million in long-term debt at favourable rates while preserving our solid balance sheet. This replaced all debt that was being carried on our short-term credit facilities, due to difficult credit markets in 2008, effectively balancing the maturity schedule for all of our debt capital.

We also have a \$350.0 million revolving credit facility, of which \$150.0 million is available to back-stop our commercial paper program. As at December 31, 2009, we utilized \$137.3 million of our revolving credit facility for undrawn letters of credit. Of this amount, \$110.2 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. In addition to these programs and facilities, we have an accounts receivable securitization program under which we had unutilized available liquidity of \$150.0 million at year-end.

## Credit ratings

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. On December 7, 2009, S&P revised their credit ratings on our

long-term corporate credit and senior unsecured debt to "BBB" from "BBB+", and confirmed our commercial paper rating of "A-2". S&P also changed its outlook to stable from negative. DBRS confirmed its ratings on January 18, 2010 for our senior debentures as "BBB" and our commercial paper "R-2 (high)". DBRS's outlook remained stable. The credit ratings provided by DBRS and S&P (collectively the "Rating Agencies") as at December 31, 2009 also are summarized in the following table.

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

The credit ratings of the Rating Agencies are not recommendations to purchase, hold or sell the instruments to which they relate, inasmuch as such ratings do not comment as to market price or suitability for a particular investor. Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. We provide the Rating Agencies with confidential, in-depth information in support of their rating processes. There is no assurance that any rating will remain in effect for any given period of time, or that any rating will not be revised or withdrawn entirely by a Rating Agency in the future if, in its judgment, circumstances so warrant.

According to the S&P rating system, the "BBB" rating is the fourth highest of ten available rating categories and means that the obligor's capacity to meet its financial commitment on the obligation is adequate. According to the DBRS rating system, the "BBB" rating is the fourth highest of ten available rating categories, and means that the debt security is of adequate credit quality.

The "A-2" rating assigned to our commercial paper is the third highest of nine available rating categories and means that our capacity to meet our financial commitment on an obligation is satisfactory.

The "R-2 (high)" rating assigned to our commercial paper is the fourth highest of nine available rating categories and means that our commercial paper is considered to be at the upper end of adequate credit quality.

## Share capital

Our authorized share capital consists of an unlimited number of Common Shares of a single class, and an unlimited number of Preference Shares of two classes.

The holders of Common Shares have the following rights:

- to receive notice of, and attend and vote at, meetings of shareholders;
- to receive such dividends as may be declared by the Board of Directors; and
- to share in the distribution of the assets of the Company upon liquidation, winding-up or dissolution, subject to the rights, privileges and conditions attaching to any other class of shares ranking in priority thereto.

The two classes of Preference Shares are issuable in one or more series, for which the Board of Directors may fix the number of shares and determine the designation, rights, privileges, restrictions and conditions. One class of Preference Shares of a single series has been designated as Class A Preference Shares. Another class of Preference Shares of a single series has been designated as Class B Preference Shares. The attributes of these shares are identical to those of the Common Shares except for the following:

- The holders of Class A Preference Shares are not entitled to vote at meetings of shareholders on resolutions electing directors.
- The Class A Preference Shares are convertible, at any time, into Common Shares, on a one-for-one basis.
- The holders of Class B Preference Shares are not entitled to vote at meetings of shareholders, and are not entitled to share in the distribution of the assets of the Company upon a liquidation, winding-up or dissolution.
- The Class B Preference Shares are convertible into Common Shares on a one-for-one basis at the option of the holder at any time subject to foreign ownership restrictions, or upon the occurrence of certain events, or at the option of the Company at any time.

Dividends on each class of Preference Shares are payable on the same dates as dividends are paid on the Common Shares of the Company, using the same record date for determining holders of Preference Shares entitled to dividends as the record date for Common Share dividends, in an amount per Preference Share equal to the corresponding amount of dividends per Common Share.

Both classes of Preference Shares participate in the earnings of the Company on an equal basis with the Common Shares and, therefore, are included in the weighted average number of shares outstanding for purposes of calculating basic and diluted earnings per share.

As at December 31, 2009, our issued and outstanding share capital consisted of 64,667,817 Common Shares. There are no outstanding Preference Shares.

## Constraints

Our Articles set out the following ownership restrictions in relation to our voting shares, which consist of those shares that give the holder the right to receive notice of, and attend and vote at, meetings of shareholders on resolutions electing directors:

- Individual Holdings – The total number of voting shares that may be beneficially owned by any one person or by the members of any one group of associated persons, other than by way of security only, may not exceed 20% of the total number of issued and outstanding voting shares.
- Non-residents of Canada – The number of voting shares that may be beneficially owned by non-residents of Canada, other than by way of security only, may not exceed in the aggregate the maximum percentage of the total number of issued and outstanding voting shares of the Company permitted by applicable law from time to time.
- Government Ownership – No voting shares of the Company or any affiliate may be beneficially owned by any government or government agency, other than the Government of Manitoba and its agents or an entity that invests funds or assets under a pension plan or insurance arrangement.

In order to ensure that we continue to be in compliance with the ownership restriction respecting non-residents of Canada, our share ownership is monitored by our transfer agent and registrar in relation to registered shareholders, and by CDS Clearing and Depository Services Inc. in relation to non-registered shareholders.

### Normal course issuer bids

From time to time, we purchase Common Shares for cancellation pursuant to an Issuer Bid. All purchases of Common Shares are made on the open market through the facilities of the TSX. Purchases under our Issuer Bids are made from time to time when we are of the view that the acquisition of our Common Shares for cancellation is the most appropriate use of funds. The following table lists the number of Common Shares purchased for cancellation pursuant to Issuer Bids over the last three years.

Term of normal course issuer bid	Number of Common Shares purchased for cancellation
December 2006 to December 2007	3,741,100
December 2007 to December 2008	No Issuer Bid in effect
December 2008 to December 2009	No Issuer Bid in effect

### Dividend policy

Our dividend policy is to provide sustained growth in dividends to shareholders to the extent that it is appropriate considering growth in earnings per share, results of operations, financial condition, and our cash position and investment opportunities. The declaration and payment of dividends are at the sole discretion of the Board of Directors. Accordingly, there can be no assurances as to the amount or timing of any dividend in the future.

In 2009, 2008 and 2007 we declared dividends per outstanding Common Share of \$0.65 in each of February, May, August and November.

## MARKET FOR SECURITIES

Our Common Shares are listed on the TSX under the trading symbol of MBT. The following is a summary of the trading volumes and price ranges of our Common Shares by month during 2009.

Month	Trading volumes	Price ranges (\$)
January	3,669,034	33.77 – 37.32
February	3,594,672	33.00 – 35.92
March	5,756,779	31.49 – 35.29
April	4,925,697	31.06 – 35.20
May	3,174,128	32.35 – 34.51
June	3,993,509	32.72 – 36.20
July	3,780,261	33.67 – 35.65
August	7,320,566	31.75 – 35.24
September	4,851,066	32.26 – 33.38
October	6,690,847	30.62 – 33.36
November	5,709,231	31.06 – 32.50
December	6,479,279	32.18 – 34.24



## DIRECTORS AND OFFICERS

### Directors

The following persons are the directors of the Company as at December 31, 2009, each of whom was elected at the annual meeting of shareholders held on May 6, 2009. All directors hold office until the next annual meeting of shareholders, unless a director resigns or a director's office becomes vacant for any reason. The directors are members of the committees of the Board of Directors as specified below.

The information specified below shows the month and year in which each director first became a director of the Company. In the case of a director who was a member of the Board of Commissioners of The Manitoba Telephone System prior to January 7, 1997 (the date on which The Manitoba Telephone System ceased to be a Crown corporation and was continued as a publicly-traded company under the name Manitoba Telecom Services Inc.), the month and year shown is when such director first became a member of the Board of Commissioners.

Name and province of residence	Principal occupation	Director since
Pierre J. Blouin Manitoba, Canada	Chief Executive Officer of each of Manitoba Telecom Services Inc. and MTS Allstream Inc.	March 2006
Jocelyne M. Côté-O'Hara <sup>(1)</sup> Ontario, Canada	Corporate Director	January 1997
N. Ashleigh Everett <sup>(2) (3)</sup> Manitoba, Canada	Chair, Royal Canadian Properties Limited, a company owning and managing various properties President, Royal Canadian Securities Limited, the holding company of Royal Canadian Properties Limited and of Domo Gasoline Corporation Ltd., which operates gas stations in western Canada.	January 1997
The Honourable Gary A. Filmon, P.C., O.C., O.M. <sup>(2) (3)</sup> Manitoba, Canada	Corporate Director and Business Consultant	April 2003
Gregory J. Hanson, FCA, FCIP, FLMI <sup>(2) (3)</sup> Manitoba, Canada	Corporate Director	May 2007
Kishore Kapoor, CA <sup>(1)</sup> Manitoba, Canada	President Wellington West Holdings Inc., the holding company of companies providing investment management, financial planning, insurance, mortgage, asset management and capital markets services	May 2006
David G. Leith <sup>(1)</sup> Ontario, Canada	Corporate Director	May 2009
Donald H. Penny, C.M., FCA, LL.D., O.C. <sup>(1)</sup> Manitoba, Canada	Corporate Director	January 1997
D. Samuel Schellenberg <sup>(1)</sup> Manitoba, Canada	Chief Executive Officer Pembina Valley Water Co-operative Inc., one of the largest regional water supply systems in Manitoba	August 1989
Thomas E. Stefanson, FCA <sup>(2) (3)</sup> Manitoba, Canada	Chairman of each of Manitoba Telecom Services Inc. and MTS Allstream Inc.	June 1988
Carol M. Stephenson, O.C. <sup>(2) (3)</sup> Ontario, Canada	Dean of Richard Ivey School of Business University of Western Ontario	May 2008

(1) Member of the Audit Committee

(2) Member of the Governance & Nominating Committee

(3) Member of the Human Resources & Compensation Committee

### Directors not standing for re-election

Thomas E. Stefanson retired as Chairman of the Board, effective January 8, 2010. He was a member of the Human Resources & Compensation Committee and the Governance & Nominating Committee.

Arthur R. Sawchuk retired from the Board May 6, 2009. He was a member of the Audit Committee.

James S. A. MacDonald retired from the Board May 6, 2009. He was a member of the Audit Committee.

### Additional information on Directors

David G. Leith became Chairman of the Manitoba Telecom Services Inc. and MTS Allstream Inc. Board of Directors on January 8, 2010. Upon being appointed Chairman of the Manitoba Telecom Services Inc. and MTS Allstream Inc. Board of Directors, Mr. Leith became and ex-officio member of all committees of the Board.

During the past five years, each of our directors had the principal occupation indicated above, except as outlined below. Certain other information relating to the directors is outlined below.

- Pierre J. Blouin was Group President - Consumer Markets of Bell Canada prior to October 2005.

- N. Ashleigh Everett was, prior to April 2005, a director and officer of Tereve Holdings Ltd., which filed for protection under the *Companies' Creditors Arrangement Act* (Canada) in August 2005.
- Gregory J. Hanson, FCA, FCIP, FLMI was President and Chief Executive Officer of The Wawanesa Mutual Insurance Company prior to May 2007.
- Kishore Kapoor, CA was appointed President of Wellington West Holdings Inc. in November 2006, and was Executive Vice-President Corporate Development of Loring Ward International Ltd. prior to June 2005.
- David G. Leith was Deputy Chairman and Managing Director of CIBC World Markets and Head of the firm's Investment, Corporate and Merchant Banking activities prior to March 2009.
- Donald H. Penny, C.M., FCA, LL.D. was Chairman of Meyers Norris Penny LLP prior to June 2005.

### Officers

The following persons are the officers of the Company.

Name and province of residence	Principal occupation
Pierre J. Blouin Manitoba, Canada	Chief Executive Officer of each of Manitoba Telecom Services Inc. and MTS Allstream Inc.
Wayne S. Demkey, CA Manitoba, Canada	Chief Financial Officer of each of Manitoba Telecom Services Inc. and MTS Allstream Inc.
Dean L. Prevost Ontario, Canada	President, Allstream MTS Allstream Inc.
Kelvin A. Shepherd, P.Eng. Manitoba, Canada	President, MTS MTS Allstream Inc.
Peter J. Falk, Q.C. Manitoba, Canada	Corporate Secretary of each of Manitoba Telecom Services Inc. and MTS Allstream Inc.
Christopher W. Peirce Ontario, Canada	Chief Corporate Officer of each of Manitoba Telecom Services Inc. and MTS Allstream Inc.
Brenda M. McInnes, CA Manitoba, Canada	Vice-President & Treasurer Manitoba Telecom Services Inc.



During the past five years, each of our officers had the principal occupation indicated above, except as outlined below.

- Pierre J. Blouin was Group President - Consumer Markets of Bell Canada prior to October 2005.
- Wayne S. Demkey, CA was Executive Vice-President Finance & Chief Financial Officer and Corporate Controller of Manitoba Telecom Services Inc. prior to March 2006.
- Dean L. Prevost was Chief Corporate Officer of MTS Allstream Inc. prior to December 2008, Chief Strategy Officer of MTS Allstream Inc. prior to September 2007, Chief Marketing Officer of MTS Allstream Inc. prior to March 2006, Executive Vice-President Customer Operations/Service Delivery of MTS Allstream Inc. prior to November 2005, and Executive Vice-President and President IT Services of MTS Allstream Inc. prior to January 2005.
- Kelvin A. Shepherd, P.Eng. was President MTS (Manitoba) of MTS Allstream Inc. prior to March 2006, and Chief Operating Officer, MTS Communications division of MTS Allstream Inc. and Chief Technology Officer of Manitoba Telecom Services Inc. prior to February 2006.
- Peter J. Falk, Q.C. was Chief Legal Officer & Corporate Secretary of each of Manitoba Telecom Services Inc. and MTS Allstream Inc. prior to January 2009, and Executive Vice-President Business Development, General Counsel & Corporate Secretary of Manitoba Telecom Services Inc. prior to March 2006.
- Christopher W. Peirce was Chief Regulatory Officer of MTS Allstream Inc. prior to January 2009, Executive Vice-President Regulatory & Government Affairs of MTS Allstream Inc. prior to February 2006, and Senior Vice-President Government & Regulatory Affairs of MTS Allstream Inc. prior to January 2005.
- Brenda M. McInnes, CA was Treasurer of Manitoba Telecom Services Inc. prior to June 2005.

Our directors and senior officers as a group own, directly or indirectly, or exercise control or direction over approximately 0.10% of the issued and outstanding Common Shares of MTS.

## AUDIT COMMITTEE

### Composition

Our Audit Committee is comprised of five directors appointed by our Board of Directors. Each member of the Audit Committee is independent as defined in Multilateral Instrument 52-110 *Audit Committees*.

Each Audit Committee member is financially literate. The following is a description of the education and experience of each member that is relevant to his or her responsibilities as an Audit Committee member.

- Donald H. Penny, C.M., FCA, LL.D. has been the Chairman of the Audit Committee since January 1997. Mr. Penny is a chartered accountant, and in 1983, he was elected as a Fellow of the Chartered Accountants by the membership of the Institute of Chartered Accountants of Manitoba. This distinction was awarded in recognition of his service to the chartered accountancy profession. In November 2005, Mr. Penny received a Lifetime Achievement award from the Institute of Chartered Accountants of Manitoba. He also was the recipient of the Order of Canada in August 2005. From November 1998 to May 2005, Mr. Penny was Chairman of Meyers Norris Penny LLP, which is a professional firm of chartered accountants and business advisors, and prior to serving as Chairman, he was the firm's Managing Partner for 21 years. He now serves as special counsel to the firm's Board of Directors. Mr. Penny has extensive experience with respect to accounting principles, financial reporting, auditing and internal controls. Mr. Penny has served on the Board of Governors of the Canadian Institute of Chartered Accountants, and from 1995 to 1998 he held the position of Chairman. Mr. Penny has served as a director of Fort Garry Brewing Company Ltd., Jazz Golf Equipment Inc. and Inventronics Limited, which are publicly traded corporations. He currently is Chairman of the board of directors of Jovian Capital Corporation.
- Jocelyne M. Côté-O'Hara has been a member of the Audit Committee since January 1997. She received a Bachelor of Arts from the University of Ottawa and completed the Advanced Management Program at Harvard

Business School. For over 25 years, Ms. Côté-O'Hara has been involved in the telecommunications industry. Ms. Côté-O'Hara has extensive experience as a director of public and private companies and in senior roles with both the federal and provincial governments. She served in the Federal Public Service earlier in her career and continues to contribute to public policy development as a member of the RCMP Reform Implementation Council, the Internal Audit Committee of the Office of the Federal Privacy Commissioner and The Network Centre of Excellence in the Mathematics of Information Technology and Complex Systems (MITACS). She is currently a director of Xerox Canada Inc., serving as Chair of its Audit Committee for 10 years, The BEST Funds, Ryerson University and the Commonwealth Games of Canada.

- Kishore Kapoor has been a member of the Audit Committee since May 2006. Mr. Kapoor received a Bachelor of Science from the University of Manitoba. He is a chartered accountant and a former tax partner with the international accounting firm of KPMG LLP. Mr. Kapoor is currently President of Wellington West Holdings Inc., the parent company of a number of subsidiaries that provide wealth management and corporate finance services to retail and institutional clientele in Canada. Mr. Kapoor was a founder of Assante Corporation, an organization providing wealth and asset management services through a network of financial advisors, and served as its Executive Vice-President Corporate Development from 1994 to 2003. From 2003 to 2005, Mr. Kapoor was Executive Vice-President Corporate Development of Loring Ward International Ltd., a public company formed to hold the U.S. operations of Assante Corporation.
- David G. Leith has been a member of the Audit Committee since May 2009. He received a Bachelor of Arts from University of Toronto and a Masters of Arts from Cambridge University. Mr. Leith brings more than 25 years of experience at CIBC World Markets, and has extensive expertise in mergers and acquisitions and financing. Mr. Leith was Deputy Chairman and Managing Director of CIBC World Markets and Head of the firm's Investment, Corporate and Merchant Banking activities until February 2009. Mr. Leith held

various senior executive positions at CIBC World Markets in Toronto and London, England. His leadership roles at CIBC World Markets spanned various functions, including Government Finance and Debt Capital Markets. Mr. Leith's longstanding relationship with MTS dates back to the Company's privatization in 1997. He currently is retained as adviser to the Minister of Natural Resources on the restructuring of Atomic Energy of Canada Limited (AECL). He is also active in a number of charitable endeavours and is a Director of the Children's Aid Foundation.

- Samuel Schellenberg has been a member of the Audit Committee since January 1997. He is a graduate of the University of Manitoba with a Bachelor of Arts. Mr. Schellenberg has many years of experience in business as Chief Executive Officer of Pembina Valley Water Co-operative Inc. He also has operated independent businesses, and served in an advisory role to the Government of Manitoba. Mr. Schellenberg has a variety of board experience. He currently serves as a director of the Red River Basin Commission, and has served as a director of Red River Trade Inc., International Flood Mitigation Initiative and the International Water Institute, as well as a number of non-profit organizations, including the Pembina River Advisory Board and Pembina Valley Adult Education.

#### **Policy on engagement of external auditors**

The mandate of our Audit Committee includes the responsibility to monitor and strengthen the independence of the external audit function.

Accordingly, we established an *Auditor Independence Policy* to ensure that the external auditors remain independent, both in fact and in appearance. We acknowledge that maintaining the independent and objective viewpoint of the independent external auditors is critical to the external financial reporting process and our access to the capital markets. Our *Auditor Independence Policy* applies in all cases where we intend to engage the external auditors.

The external auditors are appointed annually by vote of the shareholders based on the recommendation of our Board of Directors. The external audit firm's compensation is approved based on the recommendation of our Audit

Committee. All other services to be provided by the external auditors and related fees require the prior approval of our Audit Committee. Our Audit Committee also reviews a quarterly report from management describing the services that have been provided by external auditors and related fees.

Our *Auditor Independence Policy* outlines services that the external auditors may not be engaged to provide. These services include:

- bookkeeping or other services related to accounting records or financial statements;
- appraisal or valuation services fairness opinions;
- actuarial services;
- management functions or human resources services;
- broker-dealer, investment advisor or investment banking services;
- legal services or expert services unrelated to the audit;
- internal audit outsourcing services; and
- financial information systems design and implementation services.

### External auditor service fees

The aggregate amounts paid or accrued with respect to fees payable to our external auditors for services related to the fiscal years ended December 31, 2009 and 2008 are as follows:

<i>(in millions \$)</i>	<b>2009</b>	<b>2008</b>
Audit fees	0.9	0.9
Audit related fees <sup>(1)</sup>	0.6	0.7
Tax fees	0.1	--
All other fees <sup>(2)</sup>	0.2	0.2
Total	1.8	1.8

(1) Audit related fees include fees associated with regulatory audits, pension plan audits and other specified procedures audits.

(2) All other fees consist primarily of fees for services related to French translation of documents filed with securities regulatory authorities.

## TRANSFER AGENT AND REGISTRAR

Our transfer agent and registrar is Computershare Investor Services Inc., which maintains our register of shareholders at its offices located in Winnipeg, Calgary, Vancouver, Toronto, Montreal and Halifax.

## ADDITIONAL INFORMATION

Additional information relating to our company may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of securities and securities authorized for issuance under equity compensation plans, is contained in our Management Proxy Circular for our most recent annual meeting of shareholders that involved the election of directors.

Additional information is provided in our financial statements and management's discussion and analysis for our most recently completed financial year.

## **APPENDIX A: AUDIT COMMITTEE CHARTER**

Our Audit Committee has a written Charter, which sets out its mandate and responsibilities. The text of this Charter follows.

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### **Audit Committee Charter**

(A Committee of the Board of Directors (the "Board") of Manitoba Telecom Services Inc. (the "Corporation"))

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#### **Overall Responsibilities of the Committee**

1. The Audit Committee ("Committee") shall assist the Board in carrying out the following responsibilities, including those expressly set out in the Board Mandate:
  - (a) monitoring the Corporation's financial reporting functions and related internal control and management information systems;
  - (b) ensuring the implementation of appropriate systems and processes to identify and manage the principal risks of the Corporation;
  - (c) adopting a communications policy for the Corporation regarding the distribution of financial information to the public;
  - (d) governance and administration of employee pension plans; and
  - (e) co-ordination of special studies and reviews.

For greater detail with respect to these Overall Responsibilities, see "Specific Responsibilities of the Committee" commencing in section 12.

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#### **Composition of the Committee**

2. The Committee shall be comprised of four (4) or more directors appointed by the Board on the recommendation of the Governance & Nominating Committee, none of whom shall be officers (as the term "officer" has meaning in securities regulations) or employees of the Corporation or any of its affiliates.
  3. The Chairman of the Committee shall be determined by the Board. The Chairman's responsibilities are attached hereto as Schedule "A". The Committee may appoint a Vice-Chairman.
  4. Each member of the Committee shall be a director and, in the business judgment of the Board, shall satisfy the applicable independence, experience, and financial literate qualification requirements of the laws governing the Corporation and the applicable stock exchanges on which the Corporation's securities are listed, as well as the guidelines of applicable securities regulatory authorities and the Canadian Securities Administrators.
  5. The appointment of members of the Committee shall be made immediately following each annual meeting of shareholders of the Corporation. Members of the Committee may be reappointed annually and shall serve at the pleasure of the Board for such term(s) as the Board may determine.
  6. The Committee shall determine whether any of its members serve on the audit committee of 3 or more public corporations, and if any member does, the Committee may request that such member not continue to serve on the Committee.
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#### **Meetings, Quorum, Minutes and Procedures**

7. Meetings shall be held at the call of the Chairman or a majority of the members of the Committee, or with the consent of the Chairman, by the independent auditor. Notice of the time and place of every meeting may be given by telephone or in writing, and be delivered by hand, mail, facsimile or electronically to each member of the Committee at least 24 hours prior to the time fixed for such meeting. A meeting of the Committee may be held and duly constituted at any time without notice if all the Committee members are present or, if any of them are absent, those absent have waived notice or provided their consent in writing to the meeting being held in their absence, or thereafter, have ratified and approved the proceedings thereof or action taken and any resolution passed thereat. Meetings of the Committee shall be held at least quarterly.

8. The independent auditor of the Corporation is entitled to receive notice of every meeting of the Committee and, at the expense of the Corporation, to attend and be heard at the meeting. If so requested by a member of the Committee, the independent auditor shall attend any or every meeting of the Committee.
  9. A quorum for meetings shall be not less than a majority of the members of the Committee, present in person or by telephone or other telecommunications device that permits all persons participating in the meeting to communicate adequately with each other. A majority shall include either the Chairman or an interim Chairman, as the case may be, or the Vice-Chairman, if any.
  10. The Chairman of the meeting shall appoint a person to act as a recording secretary to keep minutes of each meeting. The recording secretary need not be a member of the Committee.
  11. Decisions at meetings of the Committee shall be determined by a vote of the majority of those present and eligible to vote. Decisions may also be effected by a resolution in writing signed by all members of the Committee. The Chairman shall not have a second or casting vote. All matters considered, decisions, and recommendations of the Committee from each of its meetings shall be reported by the Committee to the next meeting of the Board.
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### **Specific Responsibilities of the Committee**

12. The Committee shall make assessments and determinations as the Committee considers necessary or desirable to assist the Board in carrying out those areas of the Board's Mandate that deal generally with financial matters of the Corporation, identified summarily in section 1 above. In carrying out such assessments and determinations, the Committee shall consider all matters necessarily incidental to the Overall Responsibilities set out in section 1, including without limitation, the matters identified in sections 13 to 17 inclusive below.
13. **Monitoring the Corporation's Financial Reporting Functions and Related Internal Control and Management Information Systems:** With respect to monitoring the Corporation's internal control and management information systems, the Committee shall ensure the quality and integrity of financial information, establish and ensure compliance with disclosure and internal controls over financial reporting of the Corporation and its Subsidiaries. Specifically, with respect to the:
  - (a) **Annual Audited Financial Statements and Financial Reporting**, the Committee shall:
    - (i) review the annual (consolidated) financial statements of the Corporation and its Subsidiaries, including a review of the adequacy of disclosure and content, significant changes in accounting policies (including the impact of alternative accounting policies), the significant risks and uncertainties, material year-end adjustments, and significant estimates and judgments made by Executives that can be material to the financial statements, and, if considered appropriate, recommend the approval of such annual (consolidated) financial statements to the Board and the boards of directors of Subsidiaries;
    - (ii) review the independent auditor's reports and management letters, together with any response by Executives, and advise the Board and the board of directors of a Subsidiary, as applicable, with respect thereto;
    - (iii) review the financial content of the Corporation's Annual Report to Shareholders, including management's discussion and analysis; and, if considered appropriate, recommend its approval to the Board;
    - (iv) review the Annual Information Form; and, if considered appropriate, recommend its approval to the Board;
    - (v) review with Executives, the independent auditors and, if necessary, with legal counsel, any litigation, claim or other contingency, including tax policy that could have a material effect upon the financial position or operating results of the Corporation, and the manner in which these matters have been disclosed in the financial statements; and
    - (vi) review certifications of annual financial information required to be filed with applicable regulatory authorities.

- (b) **Interim Unaudited Financial Statements and Financial Reporting**, the Committee shall:
- (i) review the unaudited quarterly consolidated interim financial statements of the Corporation; and, if considered appropriate, recommend the approval of such financial statements of the Corporation to the Board, and also review the unaudited interim financial statements of one or more of the Subsidiaries; and, if considered appropriate, recommend approval of such financial statements to the board of directors of that Subsidiary;
  - (ii) review the interim management's discussion and analysis and, if considered appropriate, recommend its approval to the Board; and
  - (iii) review certifications of interim financial information to be filed with the applicable securities regulatory authorities.
- (c) **Independent Audit Function**, the Committee shall:
- (i) recommend to the board of directors, the independent auditor to be nominated for appointment by the shareholders;
  - (ii) determine the compensation of the independent auditor in advance of preparing the annual audit;
  - (iii) engage at least quarterly the independent auditor to perform a review of the interim financial statements of the Corporation and the Subsidiaries;
  - (iv) review and approve the independent auditor's letter(s) of engagement;
  - (v) review the proposed scope of the independent audit and interim reviews with the independent auditor and identify areas of concern of the Board, and request that such areas be considered by the independent auditor in the finalization of the audit or review plan;
  - (vi) review any problems identified in performing the audit or review, such as a limitation or restriction imposed by any Executive or a disagreement with any Executive that, if not satisfactorily resolved, would have caused the independent auditor to issue a non-standard report on the financial statements of the Corporation or the Subsidiaries;
  - (vii) promote effective and timely resolution of audit issues by facilitating communication between Executives, the auditors and the Board;
  - (viii) review in-camera with the independent auditors, the quality of the Corporation's financial and accounting personnel, and any recommendations that the independent auditors may have; and
  - (ix) monitor and strengthen the independence of the independent audit function, including the audit function's independence from Executives, by:
    - (aa) ensuring that a direct reporting relationship exists between the independent auditor and the Committee;
    - (bb) providing a forum for communicating findings to the Board;
    - (cc) maintaining a governance process over the employment of the independent auditor for any services other than the audit of the annual financial statements, or the review of the interim financial statements;
    - (dd) receiving from the independent auditor a written statement describing all relationships and service arrangements between the independent auditor and the Corporation and the Subsidiaries, and discussing with the independent auditor any relationships or service arrangements that have been disclosed that may impact the independent auditor's objectivity and independence, and, where necessary, taking such action as may be appropriate to ensure the independence of the independent auditor; and
    - (ee) reviewing the hiring of any current or former partners or employees of the independent auditor by the Corporation or any of the Subsidiaries; and;
  - (x) pre-approve all audit services and permitted non-audit services (including the fees, terms and conditions for the performance of such services) to be performed by the independent auditor.

- (d) **Internal Audit Function**, the Committee shall:
    - (i) review and assess annually the scope and objectives of the internal audit function, including the adequacy of staff resources and budget as well as the appropriateness of audit emphasis;
    - (ii) review annually the responsibilities of the internal auditor;
    - (iii) review and approve the internal auditor's annual audit plan;
    - (iv) receive directly from the internal auditor for review at least annually a report of the internal auditor, including initiatives on areas of major audit efforts;
    - (v) periodically arrange and participate in meetings with the internal auditor to review the results of the internal audit practices of the Corporation;
    - (vi) review in-camera with the internal auditors any recommendations made by the internal auditors; and
    - (vii) monitor and strengthen the independence of the internal audit function, including the audit function's independence from Executives, by establishing a direct reporting relationship between the internal auditors and the Committee.
  - (e) **Internal Control Environment**, the Committee shall:
    - (i) promote an appropriate control environment, which emphasizes accountability of employees for the effective and efficient management of business operations;
    - (ii) review the process to monitor the operations of the Corporation and its Subsidiaries, in accordance with the corporate and financial objectives established by the Corporation's strategic direction, annual consolidated business plan and the annual operating and capital budgets approved by the Board;
    - (iii) obtain assurance that the Corporation has implemented appropriate systems of internal controls over financial reporting;
    - (iv) review with the Executives and independent auditors the systems of internal controls and overall policies and procedures of the Corporation and the Subsidiaries with respect to controlling and safeguarding corporate assets;
    - (v) review spending limits and other similar authorizations and authority, including execution of contracts;
    - (vi) review matters relating to any potential conflict of interest or breach of ethical conduct, whether or not contemplated by any policy pertaining to conflict of interest or ethics;
    - (vii) obtain assurance that the Corporation has established procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters, and the confidential anonymous submission of employees of concerns regarding questionable accounting or auditing matters;
    - (viii) obtain assurance that the Corporation and the Subsidiaries have implemented policies and procedures to ensure compliance with legal and regulatory and environmental requirements and discuss with management, and if necessary with the independent auditor, any correspondence or reports which raises material issues regarding the Corporation's financial statements or accounting; and
    - (ix) review any annual or interim certifications relating to disclosure controls and procedures or internal control over financial reporting required to be filed with applicable securities regulatory authorities.
  - (f) **Internal Transactions**, the Committee shall review and is authorized to approve any internal transaction undertaken for financial purposes such as an amalgamation, merger or other form of consolidation of one or more affiliates of the Corporation.
14. Ensuring the implementation of appropriate systems and processes to identify and manage the principal risks of the Corporation. Review at least annually and oversee the Corporation's risk management program for the identification and management of the principal risks of the Corporation and the mitigation of such principal risks. The Committee shall ensure, working with internal Enterprise Risk Management & Audit, that each principal risk and related mitigation initiative(s) identified through this program is assigned to a specific Committee of the Board, or directly to the Board, for oversight and monitoring.

**15. Adopting a Communications Policy for the distribution of financial information to the public:**

With respect to adopting a communications policy for the distribution of financial information to the public, the Committee shall:

- (a) review appropriate measures and processes that will facilitate appropriate communications between the Board and its shareholders, including:
  - (i) ensuring that there is a department of Investor Relations which receives and responds in a timely manner as permitted by law to comments from all shareholders;
  - (ii) reviewing, prior to any release or distribution to the public, news releases containing financial information based on the Corporation's financial statements, and recommending to the Board for approval, earnings guidance, quarterly earnings news releases including interim and annual financial statements and interim and annual management's discussion and analysis; and
  - (iii) reviewing and recommending to the Board for approval all responses to proposals from shareholders; and
- (b) review the appropriateness of the Corporation's 'Corporate Disclosure Policy and Practices' ('Disclosure Policy') from time to time, ensure that the Corporation's practices relating to the timely continuous disclosure of appropriate information to the public comply with all applicable securities regulations, and if considered necessary, recommend to the Board amendments to the Disclosure Policy.

**16. Governance and Administration of Employee Pension Plans:** With respect to governance and administration of the Corporation's employee pension plans, the Committee shall conduct the annual review of the policies and procedures directed towards the governance, performance, and the funding and administrative activities of all pension plans of the Corporation. Specifically, the Committee shall receive, review and, if considered appropriate by the Committee approve, or make recommendations to the Board for approval regarding:

- (a) annual and other reports relating to the governance, performance, and administration of all pension plans of the Corporation;
- (b) any process undertaken respecting the appointment or termination of investment managers, the trustee and auditors, as well as the appointment of members to the Investment Committee and the appointment of non-elected members to the Pension Committee;
- (c) amendments to the Statement of Investment Policies and Goals and amendments to each pension plan of the Corporation;
- (d) obtain assurance that the Corporation and its Subsidiaries have implemented appropriate systems of internal control over the administration of all pension plans;
- (e) proposals to amend, terminate, merge or consolidate the pension plan with a new or existing pension plan;
- (f) the transfer of assets or liabilities of a pension plan as a result of the amendment, termination, merger or consolidation of a pension plan as described in subsections (c) and (d) above;
- (g) any amendments to pension plan benefits; and
- (h) funding of one or more of the pension plans.

The responsibility of the Committee pursuant to this section shall be construed in relation to the responsibilities of the Human Resources & Compensation Committee relating to the Corporation's Pension Plans described in the Charter of the Human Resources & Compensation Committee.

The responsibilities of the Committee set out above shall be subject to the Committee working together with the Human Resources & Compensation Committee with respect to the initiation of a substantial amendment to an existing pension plan (determined in the sole discretion of the Chairman of the Committee) or the establishment of a new pension plan.

The Audit Committee shall also serve as the audit committee of MTS Allstream Inc. and shall have the same authority and perform the same function with respect to the pension plans of MTS Allstream Inc.

**17. Coordination of Special Studies and Reviews:** The Committee may:

- (a) conduct, or cause to be conducted, any special studies and reviews to obtain appropriate and sufficient evidence to satisfy its purpose and objectives;
- (b) receive and consider reports related to special studies and reviews and recommend appropriate actions to the Board for approval; and
- (c) ensure that Executives carry out any recommended and approved actions in a timely manner.



## **Role of Committee, Management, Board, Independent and Internal Auditors**

18. The Committee has the oversight role set out in this Charter. Each of management, the Board, the independent auditor, and the internal auditor, has an important role in respect of risk management, compliance, and the preparation and presentation of financial information, which may be summarized as follows:
- (a) management is responsible for risk management, compliance, and preparation of financial statements and periodic reports, and for ensuring that the Corporation's financial statements and disclosures are complete, accurate and in accordance with Canadian generally accepted accounting principles and applicable laws;
  - (b) the Board in its oversight role is responsible for ensuring that management fulfills its responsibilities;
  - (c) the independent auditor, following the completion of its annual audit, is responsible for issuing opinions on the presentation, in all material respects, of the financial position and results of operations of the Corporation in accordance with Canadian generally accepted accounting principles; and
  - (d) the internal auditor is responsible for assessing the Corporation's systems of internal controls on an ongoing basis.
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## **Adequacy of Charter and Performance Evaluation of Committee**

19. The Committee shall:
- (a) review and assess the adequacy of this Charter annually, and when necessary, recommend changes to the Board; and
  - (b) annually undertake a review and performance evaluation of itself with the Board against the responsibilities of the Committee set out in this Charter and to set the goals and objectives of the Committee for the upcoming year.
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## **Authority of the Committee**

20. The authority of the Committee is subject to the provisions of this Charter, the by-laws and other constating documents of the Corporation, the Board Mandate and the Board Charter, such limitations as may be imposed by the Board from time to time, and the laws governing corporations.
21. The Committee is authorized by the Board to undertake any assessment, examination or investigation it determines necessary and such other matters as the Board may request, and to carry out such responsibility in the manner the Committee considers appropriate having regard to the nature of the matter it assesses, examines or investigates. For this purpose, the Committee shall have direct communication channels with the independent and internal auditors.
22. The Committee shall have the authority to consider and make recommendations to the Board regarding such other matters as may be referred to it by the Board or by management from time to time.
23. The Committee may, with the consent of the Board, for the purpose of assisting the Committee to carry out any responsibility set out in this Charter, establish a subcommittee comprised of directors reporting to the Committee.
24. Subject to the provisions of sections 20 and 21, the Committee is authorized, in the case of emergency as determined by the Committee, to deal with any matter within the power of the Board.
25. Notwithstanding any provision in this Charter, the Chairman of the Board may convene on short notice a meeting of the Committee to address any matter that s/he considers to be an emergency and difficult to achieve a quorum of the Board. Decision(s) made at such meeting of the Committee may be acted upon as though they were decision(s) of the Board. All Directors shall promptly be advised of the notice of meeting, be entitled to attend, and the decision(s) at such meeting.
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## Independent Advisors

26. The Committee shall have the authority to engage, establish and pay the compensation of independent counsel and other advisors as it may deem necessary for its purposes. The expenses relating to any engagement shall be borne by the Corporation.
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## Approval of Board

27. The Committee shall function primarily to examine financial issues and aspects of the Corporation and its Subsidiaries with the purposes mandated by this Charter, and to formulate recommendations for consideration by the Board. Accordingly:
- (a) unless the Committee has been provided with express instructions by the Board that the effect of the Committee's decisions, investigations, findings or actions are final, conclusive and binding on behalf of the Board, the Committee shall carry out the responsibilities set out in this Charter as the basis for it making recommendations for consideration by the Board before any action recommended by the Committee is implemented or adopted; and
  - (b) any decision or recommendation of the Committee that requires approval of the Board shall not become effective as a decision of the Board until such decision or recommendation is either confirmed or otherwise extended or amended by the Board, unless the Board has expressly delegated a particular matter to be finalized by the Committee without requiring subsequent confirmation by the Board.
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## Definitions

The following words and terms used in this Charter shall have the following meaning:

**"Executive"** means any employee who is the Chief Executive Officer, a member of management's Executive Committee, or an Officer of Manitoba Telecom Services Inc. or MTS Allstream Inc.

**"Subsidiary"** means a company in which the Corporation owns more than 50% of the securities, the holder of which is entitled to receive notice of, attend, and vote at meetings of shareholders on resolutions electing directors.

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## Schedule "A"

### Committee Chairman Responsibilities

The Chairman of the Audit Committee is responsible for managing the process of the committee to ensure that the committee effectively discharges the responsibilities set out in the Charter of the committee. The responsibility of the committee Chairman includes:

1. Working with the Chairman of the Board to set annual meeting schedules for the committee;
  2. Establishing objectives for the committee;
  3. Establishing the agenda for each meeting and ensuring that appropriate materials are distributed to committee members prior to committee meetings;
  4. Chairing meetings of the committee and ensuring that the committee is working in compliance with its charter and discharging its responsibilities;
  5. Communicating with committee members between meetings, if required;
  6. Managing the services provided by the independent auditors to the Corporation;
  7. Maximizing attendance at meetings;
  8. Ensuring that minutes of each committee meeting accurately reflect the actions and decisions of the committee;
  9. Reporting to the Board as spokesman for the committee; and
  10. Evaluating the contribution of each committee member as well as the effectiveness of the committee.
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