

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Unless otherwise indicated, this Management's Discussion and Analysis ("MD&A") of our financial results for the interim period ended March 31, 2010 is as at May 5, 2010. In this MD&A, "we", "our", and "us" refer to Manitoba Telecom Services Inc. (the "Company" or "MTS Allstream"). This interim MD&A should be read in conjunction with our interim consolidated financial statements for the period ended March 31, 2010 and the discussion and analysis that accompanies our audited consolidated financial statements for the year ended December 31, 2009. This interim MD&A for the three months ended March 31, 2010 updates the information contained in our 2009 annual MD&A. Unless otherwise stated, all amounts are expressed in Canadian dollars.

Regarding forward-looking statements

This interim MD&A includes forward-looking statements and information (collectively, the "statements") about our corporate direction, business opportunities, operations, 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 this interim MD&A, as well as our 2009 annual MD&A which is available on SEDAR at www.sedar.com.

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

NON-GAAP MEASURES OF PERFORMANCE

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

- **Continuing operations** – We provide information that refers to our performance from continuing operations to assist investors in understanding the performance of our company.

Continuing operations in 2010 excludes our non-telecommunications information technology (“IT”) consulting business, which has been classified as discontinued operations; restructuring costs; costs related to our high-speed packet access (“HSPA”) deployment and related billing implementation; and certain costs associated with our transition from Canadian GAAP to International Financial Reporting Standards (“IFRS”).

Continuing operations in 2009 excludes our non-telecommunications IT consulting business, which has been classified as discontinued operations; restructuring costs; the costs to transition certain wireless service requirements away from Bell Mobility to new suppliers and to our wireless platform; costs related to our HSPA deployment and related billing implementation; costs related to certain regulatory proceedings; certain costs associated with our transition from Canadian GAAP to IFRS; a rebate related to use of deferral account funds pursuant to Telecom Decision CRTC 2008-1 (“Decision 2008-1”); the impact of changes in statutory income tax rates and other rate adjustments on our tax asset; and solvency funding to our pension plans.

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

OVERVIEW

MTS Allstream is a leading national communications provider in Canada and the market leader in Manitoba. Our company is organized into two principal business segments, the MTS unit (“MTS”) operating in Manitoba and the Allstream unit (“Allstream”) operating nationally. Our common shares are listed on the Toronto Stock Exchange (trading symbol: MBT) and our Web site is www.mtsallstream.com.

MTS leads every telecommunications market segment in Manitoba, delivering a full suite of wireless, high-speed Internet and data, digital television, converged IP, wireline voice services, unified communications and security services, as well as alarm monitoring services through AAA Alarm Systems Ltd., a subsidiary of MTS Allstream. This complete range of products is unmatched by any other provider in the province. MTS serves both residential and business customers in Manitoba.

Allstream is a leading competitor in the national business and wholesale markets, offering small, medium and large businesses and government organizations a portfolio of telecommunications solutions tailored to meet their needs. Allstream’s main products are Internet protocol (“IP”)-based communications, unified communications, voice and data connectivity, and security services. Allstream operates an extensive national broadband fibre optic network that spans almost 30,000 kilometres, and provides international connections through strategic alliances and interconnection agreements with other international service providers.

STRATEGIC IMPERATIVES UPDATE

In summary, in the first quarter of 2010, we made the following progress on our four strategic imperatives:

1. *Drive profitable increases in our growth services including converged IP, wireless, high-speed Internet and digital TV.*

In the first three months of 2010, MTS's converged IP revenues were up strongly by 7.8% and digital television revenues increased by 6.9%. MTS's wireless services revenues in the first quarter of 2010 were up by 3.8%, after adjusting for the impact of a one-time \$3.4 million sale of handsets to the City of Winnipeg in the first quarter of 2009. Our high-speed Internet, digital television and wireless subscriber bases rose by 3.7%, 5.9% and 4.8%, respectively. Allstream's converged IP revenues continued to increase, climbing by 6.1% in the first quarter.

2. *Continue to focus on delivering superior customer service while achieving further cost reductions.*

Building on the considerable progress we made in 2009 improving our cost structure, we are targeting an additional \$30 million to \$40 million in 2010 in annualized cost reductions through operational efficiency and restructuring initiatives. We remain on track to meet our target having achieved \$17.3 million in annualized cost savings from these initiatives within the first three months of the year. In 2009, we met and exceeded our customer experience targets as measured through independent surveys. We remain focused on achieving the same result in 2010.

3. *Drive innovation in product and service development to exceed customer expectations.*

In 2009, we launched one of the most advanced television product in Canada, our MTS Ultimate TV service, which provides customers with unique whole home personal video recorder functionality as well as access to our fastest Internet speeds. Through the first quarter of 2010, we continued to roll out the service to more areas of Winnipeg, which is now available to 74% of Winnipeg households, up from 70% at the end of 2009, as well as Brandon and Portage la Prairie. We are continuing to enhance the attractiveness of our premium television offering. For example, in February, at the same time as the 2010 Winter Olympic Games, we started to offer a feature, which allows for multi-picture viewing of sports channels.

Towards the end of the first quarter, Allstream deployed multicast technology on its national Multiprotocol Label Switching network. Multicast is a bandwidth-conserving technology that reduces traffic by simultaneously delivering a stream of information to thousands of users. This new capability will optimize our customers' network performance and enable them to efficiently deploy and scale distributed group applications, such as distance learning and videoconferencing.

4. *Selectively and prudently investing in strategic initiatives to broaden market reach and enhance leadership position.*

We are making a number of targeted, focused investments in 2010 to broaden our market reach and enhance our leadership position, both in MTS in Manitoba and Allstream nationally.

In Manitoba, the deployment of our regional wireless HSPA network is proceeding according to schedule. We continue to expect the network to be operational by the end of 2010. We are also continuing the evolution of our broadband network in Manitoba with a fibre-to-the-home ("FTTH") build in the Waverley West neighbourhood of Winnipeg in January, and through the balance of this year and 2011, in Selkirk and adjoining communities north of Winnipeg. Customers on our new FTTH network will have access to the most advanced consumer telecommunications services that we offer today, including local telephone service and high speed-Internet services with speeds up to 25 megabits per second and future speeds of over 100 megabits per second. This project will also allow for the future deployment of our MTS Ultimate TV service in these areas.

Our business plan for 2010 includes the expansion of our national IP fibre network, an investment we are making to improve the profitability of Allstream and support future growth. We planned to spend up to \$15 million to expand Allstream's IP fibre network in 2010 in a targeted manner. This investment is part of a

three-year plan to extend fibre to 675 select multi-tenant buildings that are within 200 metres of our existing national network and enhance our Ethernet capabilities in our colocation areas. This investment will extend our on-net reach and provide us with significant incremental high margin revenue opportunities. In 2010, using a success-based approach, we are targeting to extend fibre to approximately 185 buildings.

While it is still early, the results of this initiative are coming in ahead of plan. After three months of marketing to customers in the targeted buildings, we won 24 new contracts. Based on the sales cycle for enterprise customers, however, we anticipate the benefits from this program should not begin to impact our financial results positively until 2011.

RESULTS OF OPERATIONS

Quarterly metrics for the most recent five quarters

	2010		2009		
(in millions \$, except EPS)*	Q1	Q4	Q3	Q2	Q1
Revenue	442.0	453.8	452.3	452.8	469.8
EBITDA	145.3	146.8	157.7	159.5	163.3
EPS	0.46	0.59	0.68	0.66	0.71
Free cash flow	54.9	43.4	62.3	59.6	68.2
Capital expenditures/ revenue	12.8%	16.1%	14.9%	14.0%	11.9%

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

In 2009, MTS consistently achieved solid results and growth, driven by strong performance in our wireless, high-speed Internet and digital television services in Manitoba. MTS benefitted from Manitoba's resilient economy, which outperformed the Canadian economy as a whole last year. Converged IP, Allstream's most profitable revenue line also delivered continued strong growth last year. Beginning in the second quarter of 2009, however, we started to see the impact of the global recession and slow pace of economic recovery affect our financial results, primarily the performance of Allstream. In 2009, this economic deterioration contributed to a sharper than originally expected decline in our long distance and legacy data services portfolios, as well as lower revenues from our unified communications line of business. Importantly, our principal growth services, such as wireless, digital television, high-speed Internet and converged IP, performed well despite the economy. We took action when our results were negatively impacted by the economy and reduced our level of capital expenditures, and further focused on cost reductions. We achieved annualized cost savings of \$58.4 million through various initiatives, reaching the higher end of our increased targeted cost reduction range for 2009.

Our financial results in the first quarter of 2010 continue to reflect the lingering impacts of the recession and the slow pace of economic recovery, which contributed to the year-over-year declines in the financial metrics, listed in the above table. Additionally, aggressive price competition in the Manitoba market from our main cable competitor has impacted revenues, even though market shares for our digital television and high-speed Internet services have remained relatively stable. Our results in the first quarter of 2010, however, were in line with third and fourth quarters 2009, which we believe represents a more meaningful comparison than the first quarter of 2009, given the change in economic conditions that occurred in the second half of last year. While our first quarter 2010 results are trending towards the lower end of the financial outlook range we established on February 4, 2010, we have plans in place that we expect will drive growth through the balance of the year. We remain well positioned to competitively deliver communications services to customers in Manitoba and across Canada, and to further improve our cost structure. Our strategy this year continues to focus on driving growth in our IP-based services, aggressive cost reductions, and success-based capital spending.

Revenues by business segment (continuing operations)

(in millions \$)	Q1/10	Q1/09	% change
MTS revenues	227.7	233.2	(2.4)
Allstream revenues	214.3	236.6	(9.4)
Total revenues	442.0	469.8	(5.9)

Total revenues from continuing operations decreased by \$27.8 million in the first quarter of 2010 as compared to the first quarter of 2009. These results reflect continuing strong growth in our wireless, converged IP and digital TV lines of business which were offset by declines in our unified communications, security and monitoring, local access, long distance and legacy data lines of business as well as a one-time \$3.4 million sale of FleetNet 800™ (“FleetNet”) handsets to the City of Winnipeg in 2009, and lower Canadian Radio-television and Telecommunications Commission (“CRTC”) mandated contribution revenue. Further details on each of our main businesses’ revenue performance (MTS and Allstream) are described below.

MTS Revenues

Operating revenues (continuing operations)

(in millions \$)	Q1/10	Q1/09	% change
Wireless services	76.6	77.2	(0.8)
Broadband and converged IP services	44.5	43.6	2.1
Unified communications, security and monitoring services	8.5	8.1	4.9
Local access services	72.6	76.7	(5.3)
Long distance and legacy data services	25.5	27.6	(7.6)
Total MTS operating revenues	227.7	233.2	(2.4)

Revenues from continuing operations at MTS were lower by \$5.5 million as compared to the first quarter of 2009. These results reflect continued strong growth in our wireless, broadband, converged IP and unified communications services, which was partly offset by declines from our long distance, legacy data, local access, a one-time FleetNet sale in 2009, and lower CRTC-mandated contribution revenue.

As an incumbent local exchange carrier (“ILEC”) in the province of Manitoba, we receive a monthly subsidy per network access line for basic local access services we provide to customers in rural and remote parts of the province where the costs of providing service are higher. The CRTC reviews and adjusts ILEC subsidy rates annually. For 2010, the CRTC used a negative inflation rate in their calculation of subsidy rates, which had the effect of reducing our contribution revenue by \$1.2 million in the first quarter of 2010. Excluding the impact of the one-time FleetNet sale and lower CRTC-mandated contribution revenue, MTS’s revenues in the first quarter would have only been down by 0.4%.

Wireless services

(in millions \$)	2010	2009	% change
Q1	76.6	77.2	(0.8)

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

Our wireless services revenues decreased by \$0.6 million in the first quarter of 2010. The decrease is mainly attributable to the fact our wireless results in the first quarter of 2009 included a \$3.4 million sale of FleetNet handsets to the City of Winnipeg. After adjusting for this sale, our wireless services revenues increased by \$2.8 million or 3.8% in the first quarter of 2010 as compared to the same period in the prior year; driven by growth in our subscriber base and higher wireless data usage. At March 31, 2010, we had 459,554 wireless subscribers, up by 4.8% from the first quarter of 2009. Revenues from our wireless data services were also up strongly, by 36.5%.

Our average revenue per user of \$54.78 decreased by 1.1% or \$0.63 for the quarter ended March 31, 2010. This reflects the continued strong growth in our wireless data services and calling-feature utilization, which

was offset by lower airtime usage and lower network charges resulting from the removal of system access fees on new plans.

Broadband and converged IP services

(in millions \$)	2010	2009	% change
Q1	44.5	43.6	2.1

Broadband and converged IP services include revenues earned from providing high-speed Internet and digital television services to residential customers in Manitoba, as well as IP-based connectivity to business customers based in Manitoba.

Revenues from our broadband and converged IP services were up by \$0.9 million in the first quarter of 2010. This increase is mainly attributable to growth in revenues from our digital television and converged IP lines of business, partially offset by lower high-speed Internet revenues.

Our digital television services revenues were ahead by 6.9% or \$0.9 million in the first quarter of 2010 as compared to the first quarter of 2009. This growth reflects increased sales of our MTS Ultimate TV service together with increased purchases of pay-per-view events and video-on-demand services. At the end of the first quarter, we had more than 21,000 subscribers on our MTS Ultimate TV service, as compared to 14,000 at the end of 2009. This newer service, launched in March 2009 and rolled out gradually through the year, produces higher average revenue per subscriber and provides premium revenue potential for us compared to our basic television service, MTS Classic TV. At March 31, 2010, our MTS Ultimate TV service was available to 74% of Winnipeg households as well as residents in Brandon and Portage la Prairie. As we extend the service to more areas in Winnipeg we expect it to drive growth in our overall subscriber base. In total, we had 89,459 digital television subscribers at March 31, 2010, representing a 5.9% increase year-over-year.

Our high-speed Internet services revenues were down by 2.1% in the first quarter of the year. This decrease reflects the effects of promotional pricing, partially offset by an increase in subscribers. At March 31, 2010, our high-speed Internet subscriber base totaled 184,559, up 3.7% from last year.

In the face of aggressive price competition in first quarter of 2010, we maintained our broadband market share and have remained disciplined on price, relying instead on our innovative products and bundles to win in the market place.

We continue to experience strong demand for our converged IP services within the enterprise market in Manitoba. Our converged IP revenues grew by 7.8% as compared to the first quarter of 2009. At March 31, 2010, we were supporting 34 IP-virtual private network ("IP-VPN") customers in Manitoba, a 13.3% increase over last year.

Unified communications, security and monitoring services

(in millions \$)	2010	2009	% change
Q1	8.5	8.1	4.9

Unified communications, security and monitoring services consist of revenues earned from the provision of IP telephony products and services to business customers in Manitoba. This line of business also includes revenues earned from the installation and monitoring of alarm services to residential and business customers in Manitoba.

Unified communications, security and monitoring services revenues grew by \$0.4 million in the first quarter of 2010 compared to first quarter of 2009. This improvement reflects growth in unified communications revenues, partially offset by lower revenues from our security and monitoring operations.

Local access services

(in millions \$)	2010	2009	% change
Q1	72.6	76.7	(5.3)

Local access services include revenues earned for the provision of both residential and business voice connectivity including calling features, payphone revenue, and wholesale revenue within Manitoba.

Local access services revenues decreased marginally by \$4.1 million as compared to the first quarter of 2009. Year-over-year, lower local access services revenues reflect decreased residential network access lines due to local competition and substitution, as well as lower CRTC-mandated contribution revenue relating to high-cost serving areas.

As an ILEC in the province of Manitoba, we receive a monthly subsidy per network access line for basic local access services we provide to customers in rural and remote parts of the province where the costs of providing service are higher. The CRTC reviews and adjusts ILEC subsidy rates annually. For 2009, the CRTC used a negative inflation rate in their calculation of subsidy rates, which had the effect of reducing our contribution revenue by \$1.2 million in the first quarter of 2010.

Our year-over-year residential line loss continues to be among the lowest of ILECs facing cable competition in Canada at 5.6%, demonstrating the success of our service bundling strategies in Manitoba. As the market leading full service telecommunications provider in Manitoba with the ability to bundle up to five services, we believe we have positioned ourselves for long-term success in our markets. Our popular residential service bundles, which can include wireline, wireless, Internet, digital television and alarm monitoring services continue to provide a unique value proposition for our customers and cannot be matched by our competitors. Customers utilizing our bundled service offerings grew by 8.4% in the first quarter of 2010 as compared to the first quarter of 2009.

Long distance and legacy data services

(in millions \$)	2010	2009	% change
Q1	25.5	27.6	(7.6)

Long distance and legacy data services include revenues earned from the provision of long distance calling along with traditional data services, such as dial-up Internet connectivity, frame-relay networks, and private line networks we offer to residential and business customers in Manitoba.

Revenues from our long distance and legacy data services were lower by \$2.1 million for the first quarter of 2010 as compared to the first quarter of 2009. Long distance service revenues declined mainly due to customer migration to lower-priced long distance plans, customer losses, and reduced volumes. Our legacy data services revenues were also lower in the first quarter of 2010 resulting from customers transitioning to broadband or other IP-based services.

Allstream Revenues

Operating revenues (continuing operations)

(in millions \$)	Q1/10	Q1/09	% change
Converged IP services	53.6	50.5	6.1
Unified communications and security services	23.3	33.9	(31.3)
Local access services	50.7	52.6	(3.6)
Long distance and legacy data services	86.7	99.6	(13.0)
Total Allstream operating revenues	214.3	236.6	(9.4)

Revenues from continuing operations at Allstream in the first quarter of 2010 were lower by \$22.3 million as compared to the first quarter of 2009. These results reflect continuing strong growth in converged IP services, which was offset by declines in revenues from unified communications, security, local access and long distance and legacy data services.

Converged IP services

(in millions \$)	2010	2009	% change
Q1	53.6	50.5	6.1

Converged IP services include revenues earned from the provision of IP-based networking and related products and services to business customers nationally.

We continue to experience strong demand for our converged IP services, which grew by \$3.1 million in the first quarter of 2010, compared to the same quarter last year. The capabilities of the suite of data products offered by Allstream continued to be demonstrated by solid growth in our IP-VPN customer base. As at March 31, 2010, Allstream had 344 IP-VPN customers, a 17.0% increase over last year.

Building on the strong growth we achieved in our Converged IP line of business in 2009, we are investing for future growth in 2010 and expanding our metropolitan Allstream IP fibre network in a targeted manner. This investment is part of a three-year plan to extend fibre to 675 select multi-tenant buildings that are within 200 metres of our existing national network and enhance our Ethernet capabilities in our colocation areas. This investment will extend our on-net reach and provide us with significant incremental high margin revenue opportunities.

While it is still early, the results of this initiative are coming in ahead of plan. In the first quarter of 2010, after two months of marketing to customers our targeted buildings, we won 24 new contracts which will see us extend fibre to 16 new locations. It is anticipated that by the end of the second quarter, our continuing sales wins will result in the extension of fibre to an additional 42 locations. We expect this investment to contribute to continuing strong revenue growth in converged IP revenues in 2011.

Unified communications and security services

(in millions \$)	2010	2009	% change
Q1	23.3	33.9	(31.3)

Unified communications and security services include revenues earned from the provision of IP telephony products and services along with revenues from our IP-based security offerings to national business customers.

Unified communications and security services revenue declined by \$10.6 million in the first quarter of 2010 as compared to the first quarter of 2009. This decrease reflects lower revenues from both unified communications and security services, which is attributable to reductions in equipment and product sales. Revenues from this line of business, however, were in line with the third and fourth quarters of 2009, which we believe is a more meaningful comparison than the first quarter of 2009, given the impact of the recessionary economic conditions we experienced in the second half of last year. Beginning with the second quarter of 2009, Allstream's unified communications and security services have been affected by the recession and slow pace of economic recovery as many enterprise customers experienced lower business volumes and postponed capital investment decisions. We expect this line of business to start growing again with the recovery of the economy and we started to see some positive momentum late in the first quarter.

Local access services

(in millions \$)	2010	2009	% change
Q1	50.7	52.6	(3.6)

Local access services include revenues earned for the provision of business voice connectivity including calling features to national business and wholesale customers.

In the local business markets across Canada, Allstream continues to perform well and to achieve relatively stable revenues in the markets where it competes. Local access services revenues for the first quarter declined marginally by \$1.9 million as compared to the same quarter in 2009. The decrease reflects lower line count and lower pricing, which was partially offset by growth in the number of small and medium sized business customers taking bundled services.

Long distance and legacy data services

(in millions \$)	2010	2009	% change
Q1	86.7	99.6	(13.0)

Long distance and legacy data services include revenues earned from the provision of long distance calling along with traditional data services, such as primary rate interfaces, frame-relay networks, and private line networks to business customers nationally.

Revenues from Allstream's long distance and legacy data services declined by \$12.9 million in the first quarter of 2010 compared to the first quarter of 2009. We experienced decreases in both of our long distance and legacy data service portfolios. The decline in Allstream's long distance services revenues is mainly attributable to lower volumes in the cross-border and domestic markets along with lower international rates. Reduced business activity by our customers that are based or have operations in the U.S. continue to result in lower domestic and cross-border long distance volumes. We have launched sales and marketing initiatives designed to identify new customers, retain our existing customer base, and encourage higher long distance usage to counter these impacts. Our legacy data services revenues continue to be affected by customers' transition to broadband and other IP-based services. In addition, the continuing migration of long distance and legacy data communications traffic by Rogers and AT&T to their respective networks has further impacted the year-over-year declines in these lines of business. Long distance and legacy data services revenues from these customers in the first quarter of 2010 totalled \$15.7 million as compared to \$17.6 million in the first quarter of 2009.

Consolidated Results

EBITDA

(in millions \$)	Q1/10	Q1/09	% change
MTS EBITDA	119.8	128.2	(6.6)
Allstream EBITDA	26.0	34.9	(25.5)
EBITDA* (continuing operations)	145.3	163.3	(11.0)
Restructuring and other costs	12.6	6.1	n.m.
National wireless & wireless transition costs	-	7.4	n.m.
EBITDA	132.7	149.8	(11.4)

**Contains EBITDA from corporate operations.*

Our EBITDA from continuing operations for the first quarter of 2010, at \$145.3 million, was lower by \$18.0 million when compared to the first quarter of 2009. The decline in EBITDA from continuing operations year-over-year is attributable to a \$27.8 million decrease in revenues and an increase in non-cash pension expense of \$4.7 million, which was partially offset by lower direct costs and other operating expenses. In addition to these items, consolidated EBITDA for the three months ended March 31, 2010 was also impacted by higher restructuring costs.

On a sequential basis, however, our EBITDA from continuing operations in the first quarter at \$145.3 million was in line with the fourth quarter EBITDA of \$146.8 million, which we believe is a more meaningful comparison than the first quarter the prior year, given the impact of the recessionary economic conditions we experienced in the second half of 2009. The first quarter of 2009 was also a strong quarter. On a segmented basis, MTS's EBITDA from continuing operations in the first quarter of 2010 was \$119.8 million compared to \$123.8 million in the fourth quarter of 2009 with most of this decrease due to non-cash pension expense. MTS's EBITDA margin in the first quarter of 2009 continues to be strong, exceeding 52%. Allstream's EBITDA from continuing operations in the first quarter of 2010 improved by \$2.1 million to \$26.0 million compared to Allstream's 2009 fourth quarter EBITDA of \$23.9 million.

EPS

(in \$)	Q1/10	Q1/09	% change
EPS (continuing operations)	0.46	0.71	(35.2)
Restructuring and other costs	(0.13)	(0.06)	n.m.
Discontinued operations	(0.01)	-	n.m.
National wireless and wireless transition costs	-	(0.08)	n.m.
Basic EPS	0.32	0.57	(43.9)

Note: EPS for the three months ended March 31 is based on weighted average shares outstanding of 64.6 million for 2009 and 64.7 million for 2010.

On a year-over-year basis, EPS from continuing operations decreased by \$0.25 to \$0.46 for the three months ended March 31, 2010. Lower EBITDA accounts for \$0.19 of the difference with most of the balance due to the impact of higher debt charges. Basic EPS in the first quarter of 2010 decreased by \$0.25 to \$0.32 as compared to \$0.57 in the prior year. This change reflects a number of items detailed in the preceding table.

Operating expenses

Operations expense (continuing operations)

(in millions \$)	2010	2009	% change
Q1	296.7	306.5	(3.2)

Operating expenses from continuing operations declined in the first quarter of 2010 as compared to the same quarter in the prior year by \$9.8 million. This decrease reflects lower direct costs resulting from lower revenues as well as savings from our ongoing cost reduction initiatives, which was partially offset by higher non-cash pension expense in the amount of \$4.7 million and higher costs to fund certain growth lines of business.

We continue to work on removing costs from our business. For 2010, we set a target of achieving \$30 million to \$40 million in annualized savings from our operational efficiency programs. We are on track to reach this target, having achieved \$17.3 million of annualized savings in the first three months of the year.

Restructuring and transition costs

(in millions \$)	2010	2009	% change
Q1	12.6	13.5	(6.7)

We incurred restructuring costs in the amounts of \$12.6 million in the first quarter of 2010. In the first quarter, we reduced the number of positions at Allstream by an incremental 72 positions. Please refer to Note 2 to our consolidated financial statements for further details on our restructuring and transition expenses.

Amortization expense

(in millions \$)	2010	2009	% change
Q1	82.0	81.8	0.2

Amortization expense increased marginally by \$0.2 million in the first quarter of 2010 compared to the same quarter last year, reflecting a slight increase in depreciable assets.

Other income (expense)

(in millions \$)	2010	2009	% change
Q1	(1.1)	0.9	n.m.

Other expenses for the first quarter were \$1.1 million as compared to other income of \$0.9 million for the same quarter in 2009. The primary reason for the increase in expense is the losses we incurred in connection with foreign exchange contracts.

Debt charges

(in millions \$)	2010	2009	% change
Q1	16.8	13.1	28.2

Debt charges were higher by \$3.7 million in the first quarter of 2010 compared to the same quarter in 2009. This increased interest expense is primarily associated with our higher levels of outstanding debt and higher average coupon rates, which is reflective of a greater proportion of our debt being long-term compared to the prior year.

Income tax expense

(in millions \$)	Q1/10	Q1/09	% change
Income tax on continuing operations	15.7	23.4	(32.9)
Tax effect on one-time items	(4.3)	(4.4)	(2.3)
Total income tax	11.4	19.0	(40.0)

Total income tax expense for the three months ended March 31, 2010 declined by \$7.6 million compared to the same period in 2009 due to the decrease in net income from continuing operations.

We utilized the last of our available tax losses associated with the acquisition of Allstream during the first half of 2009 by deferring the use of our substantial capital cost allowance ("CCA") pools. By utilizing our deferred CCA deductions, we expect to fully offset our taxable income and not pay cash taxes before 2017 with the present value of our tax asset being approximately \$340 million.

Consolidated quarterly financial data

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

(in millions \$, except EPS)	Q1/10	Q4/09	Q3/09	Q2/09
Operating revenues	442.0	453.8	438.8	452.8
Operating income	50.7	59.4	52.5	59.5
Net income before discontinued operations	21.4	9.0	28.1	30.0
Net income and comprehensive income	20.4	6.7	27.9	30.1
EPS before discontinued operations	0.33	0.14	0.43	0.47
Diluted EPS before discontinued operations	0.33	0.14	0.43	0.47
EPS	0.32	0.10	0.43	0.47
Diluted EPS	0.32	0.10	0.43	0.47
(in millions \$, except EPS)	Q1/09	Q4/08	Q3/08	Q2/08
Operating revenues	469.8	465.5	468.9	473.9
Operating income	68.0	52.6	69.3	80.2
Net income before discontinued operations	36.8	14.8	39.4	38.5
Net income and comprehensive income	37.0	13.7	38.1	38.0
EPS before discontinued operations	0.57	0.23	0.61	0.60
Diluted EPS before discontinued operations	0.57	0.23	0.61	0.60
EPS	0.57	0.21	0.59	0.59
Diluted EPS	0.57	0.21	0.59	0.58

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

- Restructuring costs for our ongoing cost reduction initiatives in the first quarter of 2010 were \$11.7 million. For each of the four quarters of 2009 the amounts of restructuring costs were \$5.4 million, \$12.3 million, \$8.6 million, and \$5.3 million, listed chronologically. We also recorded restructuring costs of \$7.1 million and \$13.7 million in the third and fourth quarters of 2008, respectively.

- A \$2.3 million loss in the fourth quarter of 2009 associated with discontinued operations of our non-telecommunications IT consulting business.
- Charges of \$13.5 million for the deferral account rebate in relation to Decision 2008-1 in the third quarter of 2009.
- Costs in relation to the transition of certain wireless service requirements away from Bell Mobility and to new suppliers and to our wireless platform in the first, second, third and fourth quarters of 2009, in the amounts of \$7.4 million, \$6.3 million, \$0.7 million, and \$3.7 million, respectively. We recorded costs in the amounts of \$10.3 million, \$7.5 million and \$9.3 million in the second, third and fourth quarters of 2008, respectively, for this transition and costs associated with the AWS spectrum auction.
- Charges to reflect decreases in the value of our income tax asset as a result of reductions in future income tax rates or rate differential on temporary differences, consisting of \$23.4 million in the fourth quarter of 2009 and \$7.5 million and \$9.0 million in the second and fourth quarters of 2008, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operating activities

(in millions \$)	2010	2009	\$ change
Q1	99.9	46.8	53.1

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

Cash flows from operating activities were \$99.9 million in the first quarter of 2010 as compared to \$46.8 million in the first quarter of 2009. The increase of \$53.1 million is mainly due to changes in working capital.

Cash flows used in investing activities

(in millions \$)	2010	2009	\$ change
Q1	(77.7)	(57.2)	(20.5)

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

In the first quarter of 2010, we used \$77.7 million for investing activities as compared to \$57.2 million in the first quarter of 2009. The increase reflects higher capital expenditures for the deployment of our HSPA network in Manitoba.

Capital expenditures (continuing operations)

(in millions \$)	2010	2009	\$ change
Q1	56.4	56.0	0.4

We continue to allocate our capital to fund our higher growth segments. Our capital expenditures from continuing operations in the first quarter of 2010 were comparable to the expenditures we made in the first quarter of 2009.

Free cash flow

(in millions \$)	Q1/10	Q1/09	% change
Free cash flow (continuing operations)	54.9	68.2	(19.5)
Pension solvency funding	-	8.7	n.m.
HSPA and related billing capital expenditures	18.3	-	n.m.
Restructuring and other costs	12.6	6.1	n.m.
Restructuring capital expenditures	2.3	0.6	n.m.
National wireless & wireless transition costs	-	7.4	n.m.
Consolidated free cash flow	21.7	45.4	(52.2)

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

Free cash flow from continuing operations in the first quarter of 2010 was \$54.9 million as compared to \$68.2 million last year. The decrease is mainly attributable to lower EBITDA from continuing operations and higher debt charges. Consolidated free cash flow declined to \$21.7 million in the first quarter of 2010 as compared to \$45.4 million in the same quarter last year. Details of the items not included in continuing operations are included in the preceding table.

Cash flows (used in) from financing activities

(in millions \$)	2010	2009	\$ change
Q1	(41.3)	1.1	(42.4)

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

Cash flows used in financing activities totaled \$41.3 million in the first quarter in 2010 as compared to cash flow from financing activities of \$1.1 million in the first quarter of 2009. In the first quarter of 2009, we issued notes payable in the amount of \$112.0 million and paid down \$70.0 million in long-term debt which resulted in net cash flow from financing activities. There were no similar issuances or repayments of debt in the first quarter of 2010. In both years, our cash outflows included dividend payments of \$42.0 million.

Credit facilities

(in millions \$)	capacity	utilized at March 31, 2010
Medium term note program	500.0	200.0
Revolving credit facility	350.0	137.3
Accounts receivable securitization	150.0	-
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 we utilized \$200.0 million of this facility to issue debt in December 2009. We also have a \$350.0 million revolving credit facility, of which \$150.0 million is available to back-stop our commercial paper program. At March 31, 2010, 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 \$150.0 million accounts receivable securitization program which was unutilized at March 31, 2010.

Capital structure

(in millions \$)	March 31, 2010	December 31, 2009
(Cash and cash equivalents)	(100.5)	(110.2)
Capital lease obligations, including current portion	17.8	17.6
Long-term debt, including current portion	1,051.8	1,051.5
Total debt	969.1	958.9
Shareholders' equity	1,295.8	1,316.9
Total capitalization	2,264.9	2,275.8
Debt to capitalization	42.8%	42.1%

Our capital structure illustrates the amount of our assets that are financed by debt versus equity. Our debt to total capitalization ratio of 42.8% at March 31, 2010 continues to represent financial strength and flexibility.

Credit ratings

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

Two leading rating agencies, Standard & Poor's ("S&P") and DBRS Limited ("DBRS"), analyze us and assign ratings based on their assessments. We consistently have been assigned solid investment grade credit ratings. 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.

Outstanding share data as at April 27, 2010

Authorized:

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

Issued:

Shares	Number	Book value (in millions \$)
Common	64,676,817	\$1,267.1

Stock options:

Options	Number	Weighted average exercise price per share
Outstanding	3,139,890	\$38.78
Exercisable	1,500,028	\$41.27

Contractual obligations, financial instruments, off-balance sheet arrangements, and other financial arrangements

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

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

CHANGES IN ACCOUNTING POLICIES, INCLUDING INITIAL ADOPTION

International financial reporting standards (“IFRS”)

The Canadian Accounting Standards Board (“AcSB”) adopted a strategic plan in 2006, outlining plans for the convergence of Canadian GAAP with IFRS over a five-year period. In February 2008, the AcSB confirmed January 1, 2011 as the date IFRS will replace current Canadian GAAP for publicly accountable enterprises. As a Canadian reporting issuer, we will begin reporting our financial results under IFRS in the first quarter of 2011, which will include the 2010 comparative period.

Our IFRS changeover plan

We started our IFRS changeover activities in 2008 with the development of a detailed IFRS changeover plan. Our plan consists of four phases, which represent the activities we are undertaking from 2008 until 2011 to ensure we have the systems, business processes and controls in place to report our financial results on an IFRS basis effective January 1, 2011, with comparative information for 2010. A description of each of the four phases of our plan is set out on page 26 of our 2009 Annual Report.

Progress towards completion of our IFRS changeover plan

Our progress to date on key activities of our changeover plan is summarized in the following table:

	Key Activities	Progress to Date
Financial Statement Preparation	<ul style="list-style-type: none">• Identify accounting and disclosure differences between IFRS and our existing policies.• Evaluate accounting policy options and select IFRS accounting policies, including policy choices under IFRS 1, First-time Adoption of International Financial Reporting Standards (“IFRS 1”).• Develop IFRS-compliant financial statements and note disclosure.• Quantify the impact of changeover to IFRS.	<ul style="list-style-type: none">• We have identified accounting and disclosure differences.• We evaluated accounting policy alternatives and our senior management has selected initial IFRS accounting policies, including IFRS 1 policy choices. The Audit Committee of our Board of Directors reviewed these selections.• We continue to monitor the effects of new or amended IFRSs.• We have made significant progress developing our IFRS financial statements and note disclosure and are continuing this work through 2010.• Quantification of the impact of our IFRS changeover is in progress.

	Key Activities	Progress to Date
Systems and Processes	<ul style="list-style-type: none"> • Identify impacts of IFRS conversion on IT systems and accounting and business processes. • Design, test, and implement IT solutions and changes to accounting and business processes. • Design, test, and implement a dual reporting system to maintain parallel records throughout 2010. 	<ul style="list-style-type: none"> • We completed design and development activities related to IT system and process changes resulting from differences in accounting standards for property, plant, and equipment. We tested and implemented this solution. • We identified a dual reporting IT solution, and tested and implemented the first phase of this solution. Testing of the second phase is currently underway. • We designed changes to our accounting and business processes and are implementing these changes during 2010.
Controls and Procedures	<ul style="list-style-type: none"> • Assess impact of changeover on disclosure controls and procedures (“DC&P”) and internal control over financial reporting (“ICFR”). • Design and implement new or revised controls, as considered necessary, resulting from implementation of ongoing IFRS accounting policies and our one-time transition adjustments. • Evaluate the operating effectiveness of new and revised DC&P and ICFR for certification requirements in 2010 and 2011. 	<ul style="list-style-type: none"> • We have assessed the impact of changeover on our DC&P and ICFR. • We are designing and implementing new and revised controls throughout 2010. • We have developed plans to evaluate the operating effectiveness of our DC&P and ICFR.
Communication and Training	<ul style="list-style-type: none"> • Communicate progress of IFRS changeover plan and impacts of changeover to internal and external stakeholders. • Provide specific training to employees affected by our IFRS changeover. • Provide general IFRS training to finance employees. 	<ul style="list-style-type: none"> • We provide updates on our changeover plan and related impacts in our MD&A on an ongoing basis. • We provide regular updates to the Audit Committee of our Board of Directors, our IFRS Steering Committee and senior management on the progress made on our IFRS changeover plan. • We have completed detailed training for employees involved with our IFRS changeover.

Differences between Canadian GAAP and IFRS and first-time adoption of IFRS

We have identified differences between Canadian GAAP and IFRS that may impact our consolidated financial statements. On adoption of IFRS, companies are required to implement IFRS-compliant accounting policies on a retrospective basis. IFRS 1 includes certain mandatory exceptions and certain optional exemptions to this retrospective application. The key areas where we expect changes in our accounting policies and the significant optional exemptions we expect to apply are set out on pages 26 to 27 of our 2009 Annual Report. The differences in accounting policies we have identified are based on the accounting standards we expect to be in place in the year of our changeover to IFRS. The International Accounting Standards Board, however, has projects in progress that could have an impact on the differences we have currently identified. Changes in accounting standards and our assessments of the estimated impacts may affect our final accounting policy selection. We have activities underway to quantify the financial impacts of the differences we have currently identified, and while the financial impacts may be material, we expect them to be similar to those of our peers.

We will provide further information regarding the quantification of the impacts as we move closer to the changeover date.

OUR REGULATORY ENVIRONMENT

The telecommunications and broadcast industries in which we operate are federally regulated pursuant to both the Telecommunications Act and the Broadcasting Act. The primary regulatory agency we are subject to is the CRTC. The Government of Canada ("the Government") through the Departments of Industry and Canadian Heritage, exercises legislative oversight of the CRTC. We are subject to policy decisions taken by the Government from time to time as well as any amendments to applicable legislation or regulatory instruments. We operate as an ILEC in Manitoba and as a competitive local exchange carrier outside of Manitoba. We also operate as a licensed broadcasting distribution undertaking ("BDU") in parts of Manitoba, including Winnipeg and the surrounding area. The following are significant updates to the *Regulatory Environment* section described in our 2009 annual MD&A, which is set out on pages 27 and 28 of our 2009 Annual Report.

Competitor access to DSL and broadband

In response to a Government directive, on December 23, 2009 the CRTC expanded a proceeding previously initiated to review the appropriate service structure and pricing of wholesale DSL services to include the review of high-speed access services and the regulatory framework needed to ensure investment in broadband infrastructure and competition sufficient to protect the interests of users. We are participating in this proceeding, which will include a hearing at the end of May 2010. A decision is expected by September 2010.

Broadcasting policy

On March 22, 2010 and March 23, 2010 the CRTC issued decisions on two broadcast policy consultations described in our 2009 annual MD&A determining that BDUs like MTS Allstream and the cable companies should pay broadcasters a fee for carriage of local over the air signals and the level of said fee should be negotiated between individual BDUs and broadcasters. The fees, however, will not go into effect immediately (or potentially at all) since the CRTC referred the issue of whether it actually has the authority to impose a fee for carriage on BDUs to the Federal Court of Appeal. The CRTC's referral of this matter to the Federal Court of Appeal is in response to legal arguments raised by the BDUs during the consultations. In this decision, the CRTC also determined that the contribution that BDUs should make to support local programming is 1.5% of BDU revenues. We will monitor the Federal Court of Appeal referral process and support the view put forth by the larger BDU's that imposing a fee for carriage for over the air signals is beyond the jurisdiction of the CRTC.

Proposed unbundled local loop rate increases

On June 2, 2009, Bell Canada and Bell Aliant filed tariff notices with the CRTC that propose to increase monthly and one-time charges for unbundled local loops. We filed an intervention requesting that the CRTC either dismiss the applications or establish a proceeding to validate the cost study methodology utilized in support, and assess the implications of the applications on local exchange services, local competition, price caps, the forbearance framework, and the contribution regime. In response, the CRTC has given notice it will review the tariff application, which will include a number of procedural steps, submissions, and interrogatories. We will be making submissions during this process. Previously we had expected a decision by the end of the third quarter of 2010; we now do not expect a decision before the end of the fourth quarter of 2010. In the meantime, the existing unbundled loop rates have been made interim.

Basic service objective and obligation to serve

On January 28, 2010 the CRTC issued a notice of consultation to examine whether, given the changing competitive dynamic in the local residential market, ILEC providers like MTS Allstream within Manitoba should continue to have an obligation to serve and a requirement to meet the basic service objective and, if so, whether that service objective should be expanded to include access to high-speed Internet. Today the basic service objective applies to all residential customers and includes the obligation for the ILEC to provide local voice service with access to 911, message relay service, and local dial-up access to the Internet. While

approximately 85% of the households in Manitoba already have access to high-speed Internet services many rural customers, particularly those in remote areas, currently do not have such access. The network expansion and ongoing maintenance costs associated with deployment of high-speed Internet access services to these rural and remote communities is extremely high and absent a robust public funding program would be prohibitive for MTS Allstream. We are participating in the proceeding, highlighting both the competitive situation in the residential Manitoba market and the potential utility of a properly balanced subsidy mechanism for the purpose of extension of broadband access to rural and remote areas.

Removal of foreign investment restrictions

On March 3, 2010, the Government announced in the Speech from the Throne that it intended to open up the telecommunications and satellite sectors of the economy to greater foreign investment. As part of the Federal Budget announced March 4, 2010, the Government acted to remove foreign investment restrictions applicable to Canadian satellite carriers. It is also expected that Industry Canada will have a consultation process to examine how, and to what extent, foreign investment restrictions applicable to telecommunications carriers should be removed. As well, the House of Commons Standing Committee for Industry, Science and Technology has initiated a review that commenced in March and is expected to conclude in May to consult industry and other stakeholders on this issue. This is the fourth time the government has formally examined this issue since 2001. The most recent of these reviews was undertaken by the Competition Policy Review Panel established by the Government to determine how to increase Canada's competitiveness. That Panel reported in 2008 and recommended that the restrictions be removed. MTS Allstream has long been an advocate of opening up the market to a broader source of capital, which will facilitate investment in network infrastructure and is key to any strategy to develop the digital economy. We appeared at the Industry Committee hearings to once again advocate this position and will do the same in any consultation initiated by the Government. We view this latest examination of foreign investment restrictions as a positive development for our Company.

RISKS AND UNCERTAINTIES

Our risks and uncertainties remain substantially unchanged from those that were disclosed in our 2009 annual MD&A. For additional details, please consult our 2009 annual MD&A, which is available on our Web site at www.mtsallstream.com.

CONTROLS AND PROCEDURES

Internal control over financial reporting

There have been no changes in our internal control over financial reporting during our most recent interim period ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

SECOND QUARTER DIVIDEND AND ESTABLISHMENT OF DIVIDEND REINVESTMENT AND SHARE PURCHASE PLAN

On May 5, 2010, the Board of Directors of MTS Allstream declared a quarterly cash dividend of \$0.65 per share. The second quarter dividend is payable on July 15, 2010 to shareholders of record at the close of business on June 30, 2010.

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

On May 5, 2010, the Board of Directors of MTS Allstream also approved the establishment of a Dividend Reinvestment Plan and Share Purchase Plan ("the Plan"). The Plan will enable eligible holders of our common shares to automatically reinvest their regular quarterly dividends in additional common shares of the

Company. Participants in the Plan also have the option to make cash payments to purchase additional common shares. The Plan is subject to the approval of the Toronto Stock Exchange.

Under the Plan, dividends by participating shareholders will be reinvested in additional common shares purchased in the open market or will be newly issued by us from treasury at the average market price or at a discount of up to 5% from the average market price. The average market price of shares issued from treasury is the volume-weighted average trading price of the Company's common shares on the Toronto Stock Exchange for the five trading days immediately preceding the relevant dividend payment date. The program will start out with a 3% discount from the average market price with shares issued from treasury.

All holders of our common shares who are residents of Canada may participate in the Plan. No commissions, service charges or brokerage fees will be payable by Plan participants in connection with their purchase of shares under the Plan.

Notes:

1. Supplementary financial information is available in the Investors section of the MTS Allstream Web site at www.mtsallstream.com.
2. MTS Allstream's first quarter 2010 conference call with the investment community is scheduled for 4:00 p.m. Eastern time on May 6, 2010. The dial-in number is 1-888-231-8191. A live audio Webcast of the investor conference call can be accessed by visiting the Investors section of the MTS Allstream Web site (www.mtsallstream.com). A replay of the conference call will be available until midnight May 19, 2010 and can be accessed by dialing 1-800-642-1687 or 1-416-849-0833 (access code 66608921). The audio webcast will be archived on MTS Allstream's Web site.

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

Three months ended March 31

(in millions, except earnings per share)

	2010	2009
Operating revenues	\$ 442.0	\$ 469.8
Operating expenses		
Operations	296.7	306.5
Restructuring and transition (Note 2)	12.6	13.5
Amortization	82.0	81.8
	391.3	401.8
Operating income	50.7	68.0
Other (expense) income	(1.1)	0.9
Debt charges	(16.8)	(13.1)
Income before income taxes	32.8	55.8
Income tax expense		
Current	0.1	0.3
Future	11.3	18.7
	11.4	19.0
Income before discontinued operations	21.4	36.8
(Loss) income from discontinued operations, net of tax (Note 3)	(1.0)	0.2
Net income and comprehensive income for the period	\$ 20.4	\$ 37.0
Basic and diluted earnings per share (Note 4)		
Income before discontinued operations	\$ 0.33	\$ 0.57
Net Income	\$ 0.32	\$ 0.57

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

Three months ended March 31

(in millions)	2010	2009
Retained earnings, beginning of period	\$ 30.4	\$ 96.8
Net income for the period	20.4	37.0
Dividends declared	(42.0)	(42.0)
Retained earnings, end of period	\$ 8.8	\$ 91.8

MANITOBA TELECOM SERVICES INC.
CONSOLIDATED BALANCE SHEETS
(unaudited)

	March 31, 2010	December 31, 2009
(in millions)		
Assets		
Current assets		
Cash and cash equivalents	\$ 100.5	\$ 110.2
Accounts receivable	151.1	166.2
Future income taxes	78.7	79.0
Other current assets	68.6	58.0
Assets held for sale (Note 3)	-	18.6
	398.9	432.0
Capital assets		
Property, plant and equipment	3,776.3	3,749.4
Intangible assets	515.1	505.1
	4,291.4	4,254.5
Accumulated amortization	2,642.7	2,611.2
	1,648.7	1,643.3
Other assets	422.6	417.2
Future income taxes	351.4	362.1
Goodwill	41.8	41.8
	\$ 2,863.4	\$ 2,896.4
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 346.5	\$ 349.1
Advance billings and payments	53.8	52.5
Current portion of long-term debt	11.9	11.9
Current portion of capital lease obligations	5.7	4.2
Liabilities related to assets held for sale (Note 3)	-	9.0
	417.9	426.7
Long-term debt	1,039.9	1,039.6
Long-term portion of capital lease obligations	12.1	13.4
Deferred employee benefits	43.5	43.1
Other long-term liabilities	53.1	55.5
Future income taxes	1.1	1.2
	1,567.6	1,579.5
Shareholders' equity		
Share capital (Note 5)	1,267.1	1,266.9
Contributed surplus	19.9	19.6
Retained earnings	8.8	30.4
	1,295.8	1,316.9
	\$ 2,863.4	\$ 2,896.4

MANITOBA TELECOM SERVICES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

Three months ended March 31

(in millions)	2010	2009
Cash flows from operating activities		
Income before discontinued operations	\$ 21.4	\$ 36.8
Add items not affecting cash		
Amortization	82.0	81.8
Future income taxes	11.3	18.7
Deferred wireless costs	(9.3)	(12.1)
Pension funding and net pension credit	(3.9)	(16.8)
Other, net	(2.8)	(6.4)
Changes in non-cash working capital	1.2	(55.2)
Cash flows from operating activities	99.9	46.8
Cash flows from investing activities		
Capital expenditures, net	(77.0)	(56.6)
Other, net	(0.7)	(0.6)
Cash flows used in investing activities	(77.7)	(57.2)
Cash flows from financing activities		
Dividends paid	(42.0)	(42.0)
Repayment of long-term debt	-	(70.0)
Issuance of notes payable, net	-	112.0
Issuance of share capital (Note 5)	0.2	0.8
Other, net	0.5	0.3
Cash flows (used in) from financing activities	(41.3)	1.1
Cash flows before discontinued operations	(19.1)	(9.3)
Cash flows from (used in) discontinued operations (Note 3)	9.4	(1.5)
Change in cash and cash equivalents	(9.7)	(10.8)
Cash and cash equivalents, beginning of period	110.2	6.5
Cash and cash equivalents (bank indebtedness), end of period	\$ 100.5	\$ (4.3)

MANITOBA TELECOM SERVICES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

For the three months ended March 31, 2010 and 2009 (All financial amounts are in \$ millions, except where noted)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements of Manitoba Telecom Services Inc. (the "Company") have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). These interim consolidated financial statements have been prepared using the same accounting policies and methods of their application as the Company's audited consolidated financial statements for the year ended December 31, 2009.

These interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2009.

2. RESTRUCTURING AND TRANSITION

For the three months ended March 31, 2010 and 2009, the Company recorded net restructuring and transition expenses as follows:

	2010	2009
Restructuring		
Workforce	9.6	(0.1)
Other	3.0	6.2
	12.6	6.1
Wireless transition	-	7.4
	12.6	13.5

The liability for restructuring costs as at March 31, 2010 is as follows:

Balance December 31, 2009	13.9
2010 restructuring costs	12.6
Less cash payments	(8.1)
Balance March 31, 2010	18.4

Restructuring activities are aimed at achieving further process improvements and overall expense reductions, and include costs for severance and other employee-related expenses that supported workforce reduction initiatives undertaken throughout the period, as well as costs to review and improve efficiencies in current processes. Also included are other non-recurring amounts associated with the high-speed packet access deployment and related billing implementation, and the transition from Canadian GAAP to International Financial Reporting Standards.

Wireless transition includes costs of transitioning certain wireless service requirements away from Bell Mobility to new suppliers and to the Company's wireless platform.

MANITOBA TELECOM SERVICES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

For the three months ended March 31, 2010 and 2009 (All financial amounts are in \$ millions, except where noted)

3. DISCONTINUED OPERATIONS

On January 31, 2010, the Company sold the majority of its non-telecommunications information technology consulting group, which is a line of business within the Allstream unit, to PricewaterhouseCoopers Canada for a preliminary purchase price of \$14.2 million. The purchase price is subject to adjustments which will be finalized within 120 days of the closing date. The financial results attributable to this line of business have been presented as discontinued operations.

The following table provides further information on the composition of revenues and income (loss) related to discontinued operations for the periods ended March 31:

	2010	2009
Revenue	2.9	14.7
(Loss) income from discontinued operations before income taxes	(1.1)	0.3
Loss on sale of discontinued operations before income taxes	(0.3)	-
Future income tax recovery (expense) related to discontinued operations	0.4	(0.1)
(Loss) income from discontinued operations, net of tax	(1.0)	0.2

The following table provides further information on the composition of assets and liabilities held for sale:

	March 31, 2010	December 31, 2009
Assets		
Current Assets	-	17.7
Property, plant and equipment, net	-	0.9
Assets held for sale	-	18.6
Liabilities		
Current liabilities	-	9.0
Liabilities related to assets held for sale	-	9.0

The following table provides further information on cash flows relating to discontinued operations for the periods ended March 31:

	2010	2009
Cash flows used in operating activities	(1.1)	(1.5)
Cash flows from investing activities	10.5	-
Cash flows from (used in) discontinued operations	9.4	(1.5)

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4. EARNINGS PER SHARE RECONCILIATION

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

	2010	2009
Net income – basic and diluted		
Income before discontinued operations	21.4	36.8
(Loss) income from discontinued operations, net of tax	(1.0)	0.2
Net income	20.4	37.0
Weighted average shares outstanding (in millions)		
Weighted average number of shares outstanding – basic and diluted	64.7	64.6
Earnings per share – basic and diluted (\$)		
Income before discontinued operations	0.33	0.57
Loss from discontinued operations, net of tax	(0.01)	-
Net income	0.32	0.57

5. SHARE CAPITAL

As at March 31, 2010, share capital consists of 64,674,817 issued and outstanding Common Shares (December 31, 2009 – 64,667,817).

During the three months ended March 31, 2010, 7,000 stock options to purchase Common Shares were exercised for cash consideration of \$0.2 million, which was credited to share capital.

6. EMPLOYEE FUTURE BENEFITS

The Company's total net benefit expense for all of its defined benefit and defined contribution pension plans, supplemental pension arrangements, and other non-pension employee future benefits for the three months ended March 31, 2010 is \$2.9 million.

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7. SEGMENTED INFORMATION

On January 1, 2010, the Company announced changes to its organizational structure. Under this new structure, the Company renamed its reportable operating segments as the MTS unit and the Allstream unit. The MTS unit provides a full range of wireless, broadband Internet and data, digital television, wireline voice services, and security and alarm monitoring services to residential and business customers in Manitoba. The Allstream unit provides Internet protocol-based communications, unified communications, voice and data connectivity, and security services to business customers in Canada. Accordingly, segmented information for 2010 and 2009 is provided under this new basis of segmentation.

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

The following table provides further segmented information:

	THREE MONTHS ENDED MARCH 31							
	MTS unit		Allstream unit		Other		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Operating revenue								
External	227.7	233.2	214.3	236.6	-	-	442.0	469.8
Internal	0.1	0.1	-	-	9.5	9.6	9.6	9.7
EBITDA	119.0	120.8	14.3	29.5	(0.6)	(0.5)	132.7	149.8
Restructuring and transition	0.8	7.4	11.7	5.4	0.1	0.7	12.6	13.5

Reconciliation to consolidated net income is as follows:

	Three months ended March 31	
	2010	2009
Total EBITDA	132.7	149.8
Amortization	(82.0)	(81.8)
Other (expense) income	(1.1)	0.9
Debt charges	(16.8)	(13.1)
Income tax expense	(11.4)	(19.0)
Income before discontinued operations	21.4	36.8
(Loss) income from discontinued operations	(1.0)	0.2
	20.4	37.0

8. COMPARATIVE FIGURES

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