
2nd Quarter Report

For the period ending June 30, 2010



News Release

Manitoba Telecom Services Inc. reports Second Quarter 2010 results

Company Modifies Quarterly Dividend Rate on Reduced Outlook and Announces Plan for \$125 Million Multi-Year Investment In Fibre-to-the-Home In Manitoba

Stock Symbol: MBT

This news release contains forward-looking statements and information. For a description of the related risk factors and assumptions, please see the section entitled "Forward-looking Statements Disclaimer" later in this news release. This release discusses results from Manitoba Telecom Services Inc.'s continuing operations. The results, and the definitions of continuing operations and free cash flow, should be read in conjunction with Manitoba Telecom Services Inc.'s second quarter 2010 interim management's discussion and analysis dated August 5, 2010 (available at the Investors section of www.mtsallstream.com), which is incorporated by reference in this release.

The financial information contained herein has been reviewed by our Audit Committee and should be read in conjunction with the disclaimer "Regarding Forward-Looking Statements" and the "Risks and Uncertainties" sections contained in our interim MD&A for the first and second quarters of 2010, as well as our 2009 annual MD&A.

WINNIPEG, MB, August 6, 2010 – Manitoba Telecom Services Inc. (the "Company" or "MTS Allstream"), including its two primary operating units "MTS" and "Allstream", today reported its financial results for the second quarter ended June 30, 2010.

As discussed in greater detail below, MTS Allstream's results for the second quarter of 2010 were up marginally from the first quarter of 2010 and are consistent with the second half of 2009, but were lower for several key metrics when compared with the second quarter of 2009 and lower than management initially expected for 2010. These results continue to reflect the impact of the economic downturn on Allstream's operations and ongoing aggressive price competition from the main cable competitor in Manitoba.

MTS Allstream's Board of Directors has approved an update to the Company's 2010 financial outlook. Consistent with its statements made in February that the prior dividend level was based on the business performing according to its expectations, the Board of Directors set a new dividend payout ratio target of 70% to 80% of free cash flows¹ from its highly profitable MTS telecom operations in Manitoba, which have delivered stable and solid results over the last 10 years. As a result of the updated outlook and payout target, the Board revised the quarterly dividend to \$0.425 per outstanding common share. This represents an annual dividend of \$1.70 and a yield of 6.2%, based on the Company's closing share price August 5, 2010.

Commenting on the change in the Company's dividend policy, Pierre Blouin, Chief Executive Officer, said, "The change to the dividend reflects the Company's current outlook and provides important funds for reinvestment in the Company's highly profitable Manitoba operations. The Board took great care to set the new dividend rate at a level that it believes is fully sustainable based on today's revised financial outlook and importantly leaves room for potential increases when major strategic investments are completed and/or business

conditions improve. For now, MTS Allstream will continue to pay a very attractive dividend that is more in line with our peers, while significantly strengthening the Company's long-term strategic advantages in Manitoba."

MTS plans to invest \$125 million over the next five years to accelerate its strategic investment in fibre-to-the-home technology across the province of Manitoba. By year-end 2015, the Company expects to provide fibre-to-the-home to close to 120,000 homes in many Manitoba communities, including areas of Winnipeg.

More importantly, this plan when completed would cover 65% of Manitoba households with either VDSL or fibre-to-the-home technology. This will enable MTS to provide customers with access to the most advanced high-speed Internet and television services. Based on announced plans across the industry, this would place MTS in a unique position with the greatest penetration of VDSL and FTTH services in Canada. The Company also plans to invest surplus cash flows to fund the next phase of its integrated billing platform initiative during this time frame to consolidate its remaining TV, Internet and wireline customers. This is expected to result in significant future cost savings as well as an improved ability to serve and sell.

Over the past several years, MTS has proven to be one of the best equipped, and most successful telecommunications companies in Canada at defending its core business against cable competition and gaining share in the television market. This is in large part due to MTS's decision in 2003 to proactively build its broadband infrastructure in Manitoba and quintuple play offering. Today's announcement follows the same principle of market and technical leadership in Manitoba.

More details on this announcement can be found in the Company's news release on its fibre-to-the-home investment in Manitoba also issued today.

Updated 2010 Outlook

MTS Allstream's updated 2010 financial outlook is intended to provide stakeholders with more clarity and transparency on its expectations for the second half of 2010. The updated outlook incorporates second

quarter results and assumes a continuation of aggressive promotional pricing by MTS's main cable competitor in Manitoba for the remainder of 2010 and the slow recovery of the national enterprise market.

2010 Financial Outlook – Continuing Operations²

	Updated 2010 outlook	Original 2010 outlook
Revenues	\$1.740 billion to \$1.790 billion	\$1.780 billion to \$1.880 billion
EBITDA ³	\$570 million to \$600 million	\$585 million to \$635 million
EPS ⁴	\$1.80 to \$2.15	\$2.00 to \$2.50
Free cash flow	\$160 million to \$190 million	\$175 million to \$225 million
Capital expenditures	14% to 16% of revenues	14% to 16% of revenues

The Company expects its financial results to improve over time as competitive conditions stabilize in Manitoba and as enterprise customers begin to reinvest in telecommunications and information technology. Management continues to take action to drive better near term performance. The Company achieved \$11.6 million in annualized savings in the second quarter from its cost reduction efforts. This brings the Company's total annualized cost savings to \$29.2 million for the first six months of the year against a 2010 target of \$30 million to \$40 million.

In addition, in 2009, the federal government outlined a series of reform proposals intended to help federally regulated pension plan sponsors better manage their funding obligations, while also providing member benefit security. Although the enabling legislation has been passed, certain new regulations were not finalized and these proposals were not enacted by June 30, 2010 as had been expected. As a result the Company made a solvency funding payment of \$7.3 million in July 2010. If the regulations are in place before the next quarterly payment is due, the Company expects to have no further solvency funding in 2010.

Allstream's long-term prospects are another key element of the Company's 2010 and multi-year outlook.

"We believe there is an achievable path to bring Allstream to a cash neutral position over the next few years," said Mr. Blouin. "We have been surprised by the slow pace of recovery in the national

enterprise market, but continue to believe Allstream is well-positioned to benefit from increasing demand for IP-based services. In the near-term, we are seeing promising returns on our strategy of extending fibre in select urban markets. We also believe the removal of foreign investment restrictions has significant potential to open up valuable new opportunities for Allstream."

With more than 25% of its business generated from converged IP and a cumulative average growth rate in converged IP revenues of about 10% over the past three years, Allstream is actively positioning itself as a strong competitor in the fastest growing portion of Canada's \$10 billion telecom enterprise market. Allstream's 2010 reported converged IP revenues have been below prior growth rates because they reflect sales made during the recession in 2009. This past June and July, however, sales returned to the level required to hit double-digit revenue growth rates, which bodes well for 2011.

Allstream's converged IP business, which today represents over \$200 million of its annual revenues, is projected to grow by 10% to 12% over the next three years, while its legacy suite of products (long distance and legacy data services), which had 2009 annual revenues of about \$300 million, is expected to decline by 9% to 11% over the same period. Other Allstream products are expected to remain relatively stable.

Q2 2010 Financial Results and Divisional Highlights

QUARTERLY FINANCIAL HIGHLIGHTS*

(in millions \$, except EPS)	2010			2009	
	Q2	Q1	Q4	Q3	Q2
Revenue	443.1	442.0	453.8	452.3	452.8
EBITDA	149.3	145.3	146.8	157.7	159.5
EPS	0.54	0.46	0.59	0.68	0.66
Free cash flow	62.3	54.9	43.4	62.3	59.6
Capital expenditures/revenue	13.3%	12.8%	16.1%	14.9%	14.0%

*All financial metrics in this table are from continuing operations

MTS

The aggressive promotional pricing actions from MTS's main cable competitor reduced margins in the second quarter and through the first six months of 2010, compared with a year earlier. Despite this competition, in the second quarter of 2010 MTS has grown its customer base in key strategic products, such as wireless, high-speed Internet and TV which grew by 5.3%, 3.1% and 7.0%, respectively, year-over-year.

"Our action plans to fight aggressive pricing pressures in Manitoba are delivering the results expected. We achieved strong results in our most important growth product lines and the number of customers utilizing our bundled services climbed by 10%," said Kelvin Shepherd, President of MTS. "Our Ultimate TV services continue to grow in popularity reflecting our product superiority over cable. We now have more than 25,000 customers using MTS Ultimate TV. Our wireless results were also very strong in the quarter, with revenues growing by more than 7% driven by growth in our subscriber base and a 58% increase in wireless data revenues."

During the quarter, MTS expanded the availability of its Ultimate TV service to more than 80% of Winnipeg households, and further advanced its HSPA network build and fibre-to-the-home deployment. MTS has already started its deployment of its fibre-to-the-home network in the City of Selkirk to the north of Winnipeg, and is on track to migrate 2,200 subscribers to its new fibre optic network by the end of 2010.

Allstream

Through the second quarter of 2010, Allstream continued to show signs of stabilizing in a market that is recovering slowly. Revenues and EBITDA in the second quarter were lower than a year ago, reflecting the stronger economy in the second quarter of 2009, prior to the full impact of the recession. On a sequential basis compared to the first quarter of 2010, Allstream's revenues declined slightly and EBITDA improved by 2.3%. The sequential EBITDA improvement reflects the impact of cost cutting programs as well as the Company's focus on IP services where margins are the highest and on attracting and retaining customers that generate on-net revenues.

"Business conditions remain challenging for Allstream but we were pleased with the sales momentum we generated in June and July, and the success we are experiencing from our strategic investment in our national IP fibre network. We are confident that converged IP will return to delivering double-digit growth rates to support bringing back Allstream to a cash neutral position over the next few years," said Dean Prevost, President of Allstream.

Through the first half of 2010, Allstream continued to advance its three-year plan to extend fibre to 675 multi-tenant buildings where opportunities exist for multiple sales. This is an important part of a cost-effective strategy to expand Allstream's IP on-net capability to address a larger share of Canada's \$10 billion enterprise market. The investment is intended to drive growth in higher-margin, on-net IP revenues in markets where Allstream has a proven track record of success. The results of this targeted, success-based investment continue to come in on plan. At the end of the second quarter, Allstream has earned 54 new IP contracts through this initiative, including multiple sales in the same connected buildings as well as a further 35 wins in Allstream's collocation footprint. Based on the sales cycle for enterprise customers, the Company anticipates the benefits from this program should begin to positively impact financial results in 2011.

MTS Allstream has submitted its position to Industry Canada as part of the national consultation on foreign investment restrictions supporting the removal of the restrictions in the Canadian telecom market.

Settlement Agreement with Bell Mobility

On August 5, 2010 the Company executed a comprehensive settlement agreement with Bell Mobility in respect of various historical disputes, including an arbitration proceeding relating to the provision of wireless services in Manitoba. Under this confidential settlement agreement, the Company is pleased to announce that it is receiving over \$20 million of value from Bell Mobility and its affiliates, including a \$10 million one-time cash payment received August 5, 2010.

Quarterly Dividend

The Company's Board of Directors declared a cash dividend of \$0.425 per share for the third quarter of 2010, which is payable on October 15, 2010 to shareholders of record on September 15, 2010.

Dividend Reinvestment Plan

In June 2010, the Company launched a dividend reinvestment plan ("DRIP") which provides shareholders with the option to have dividends automatically reinvested in additional common shares without incurring brokerage fees. The DRIP also provides shareholders with the option to make cash payments to purchase additional common shares. Since its launch, participation levels for the DRIP plan have been in line with the Company's peers, with the number of shares participating approximating about 3.3%.

OTHER DEVELOPMENTS

The following are various announcements made recently by the Company.

Corporate Announcements

- On July 30, 2010, MTS Allstream filed its submission in the federal government's consultation on how the commitment in the Speech from the Throne to open up the telecommunications industry to global investment can best be met. In its submission, MTS Allstream endorses removal of the existing foreign investment restrictions which continue to represent an impediment to investment, competition and innovation and to Canadian leadership in the digital economy. MTS Allstream recommends the government accept the advice it has received from expert panels like the Competition Policy Review Panel and act quickly to lift the restrictions.
- On June 22, 2010, MTS Allstream announced that it was the sole telecommunications company to be named among the Best 50 Corporate Citizens in Canada by Corporate Knights Inc. in its annual ranking survey. Companies who made the list were evaluated and ranked based on pension health and quality, board and executive diversity, executive compensation, community investment, and carbon footprint.
- On June 8, 2010, Pierre Blouin, CEO, MTS Allstream addressed the 2010 Canadian Telecom Summit in Toronto, ON where he discussed the importance of removing foreign investment restrictions which would remove barriers to global investment in Canadian telecommunications and present an opportunity for Canada to lead in the digital economy.
- On May 17, 2010, Manitoba Telecom Services Inc. announced that the Toronto Stock Exchange approved the establishment of its Dividend Reinvestment and Share Purchase Plan for qualified holders of its common shares.

MTS Announcements

- On August 6, 2010, MTS announced its plans to invest \$125 million over the next five years as part of an accelerated deployment of its fibre-to-the-home network named FiON in Manitoba.
- On July 30, 2010, MTS announced that it had been awarded a ten-year, \$100 million contract by the Government of Manitoba to provide IP network services to government, health and other public sector organizations. MTS will evolve the government from its current Provincial Data Network to a suite of enhanced next generation network services called the "Manitoba Network".
- On July 27, 2010, MTS announced that it had started the deployment of its brand new fibre optic network FiON in the City of Selkirk and is on track to migrate 2,200 subscribers by the end of the year.
- On May 31, 2010, MTS announced that it had renewed its sponsorship of Manitoban athlete Adam Speirs, one of Canada's top professional golfers.
- On May 13, 2010, MTS announced a three-year contract renewal with Manitoba-based company New Flyer Industries Canada ULC, North America's leading manufacturer of heavy-duty buses. MTS will support New Flyer's wireless devices, voice and data services and long distance calling.

Allstream Announcements

- On June 15, 2010, Allstream announced that its contract with NAV CANADA, Canada's civil air navigation services provider, had been renewed for the next three years, with an option to renew for an additional three years. The contract includes the enhancement of business communication solutions and will allow NAV CANADA to take full advantage of the latest WAN technology, such as managed multi protocol label switching.
- On June 3, 2010, Allstream announced that the expansion of the Allstream IP fibre network in targeted cities across Canada had been gaining positive momentum and generating solid new sales with more than 20 new contracts signed with enterprise customers such as Williamson-Dickie Canada Co., First Financial Underwriting Services Inc., Hibernia Atlantic, Delmar and OneConnect Services Inc.
- On May 11, 2010, Allstream announced that it had attained Vendor of Record status with the Ontario Ministry of Government Services for the provision of videoconferencing products, services and support.

Note

MTS Allstream's interim Management's Discussion and Analysis ("MD&A") for the three and six months ended June 30, 2010 and supplementary financial information are available in the Investors section of the MTS Allstream Web site at www.mtsallstream.com.

About Manitoba Telecom Services Inc.

Manitoba Telecom Services Inc., through its wholly-owned subsidiary MTS Allstream Inc., is one of Canada's leading national communication solutions companies, providing innovative communications for the way Canadians live and work today. The Company has more than 100 years of experience, with 6,000 employees across Canada dedicated to a mission of delivering true value as seen through the eyes of our customers. MTS Allstream has nearly two million customer connections spanning business customers across Canada and residential consumers throughout the province of Manitoba. The Company's extensive national broadband and fibre optic network spans almost 30,000 kilometres. Manitoba Telecom Services Inc.'s common shares are listed on Toronto Stock Exchange (trading symbol: MBT). Customers, stakeholders and investors who want to learn more about MTS Allstream services are encouraged to visit: www.mtsallstream.com.

Forward-looking Statements Disclaimer

This news release includes forward-looking statements and information (collectively, the "statements") about our corporate direction, business opportunities, operations, financial objectives, future financial results and performance and future cash flows and distributions to shareholders 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 and elsewhere in our interim MD&A for the first quarter and second quarter of 2010, as well as our 2009 annual MD&A, and our Annual Information Form, all of which are available on SEDAR at www.sedar.com. In addition, any future declaration of dividends is at the sole discretion of the Board of Directors and is subject to applicable law.

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 news release and the financial information contained herein have been reviewed by our Audit Committee and approved by our Board of Directors.

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- 1 Refer to MTS Allstream's second quarter 2010 interim MD&A for the definition of free cash flow.
 - 2 Refer to MTS Allstream's second quarter 2010 interim MD&A for the definition of continuing operations.
 - 3 EBITDA is 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 generally accepted accounting principles) as a measure of liquidity.
 - 4 EPS is earnings per share.
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Management's Discussion and Analysis

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Unless otherwise indicated, this Management's Discussion and Analysis ("MD&A") of our financial results for the interim period ended June 30, 2010 is as at August 5, 2010. In preparing this MD&A, we have taken into account information available to us up to August 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 June 30, 2010. We also encourage you to read the discussion and analysis that accompanies our audited consolidated financial statements for the year ended December 31, 2009 (MTS Allstream's 2009 annual MD&A dated March 4, 2010), as well as our first quarter 2010 interim MD&A dated May 5, 2010. You will also find more information about us, including our annual information form for the year ended December 31, 2009 dated March 4, 2010, on our Web site at www.mtsallstream.com or on SEDAR at www.sedar.com.

This MD&A comments on our operations, performance and financial conditions for the three months ("Q2") and six months ("YTD") ended June 30, 2010 and 2009. 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, future financial results and performance and future cash flows and distributions to shareholders 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, our first quarter 2010 interim MD&A as well as our 2009 annual MD&A, all of which are available on SEDAR at www.sedar.com. In addition, any future declaration of dividends is at the sole discretion of the Board of Directors and is subject to applicable law.

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.

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 International Financial Reporting Standards ("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, broadband (high-speed Internet and digital television), converged IP, unified communications, security, home alarm monitoring services, local access, as well as long distance and legacy data services. 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 six months 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 six months of 2010, MTS's converged IP revenues were up by 5.4% and digital television revenues increased by 7.5%. MTS's wireless services revenues in the first half of the year were up by 5.6%, 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 3.1%, 7.0% and 5.3%, respectively. Allstream's converged IP revenues continued to increase, climbing by 3.0% in the first six months of 2010.

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 are on track to reach the high end of our target having achieved \$29.2 million in annualized cost savings from these initiatives within the first six 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 products 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 six months of 2010, we continued to roll out the service to more areas of Winnipeg, which is now available to 80% of Winnipeg households, up from 70% at the end of 2009, as well as 91% of households in Brandon and also in Portage la Prairie. We expect to reach 96% coverage of Winnipeg by the end of 2010. We are continuing to enhance the attractiveness of our premium television offering. For example, at the end of April, we introduced TV Call display to our MTS Ultimate TV customers. TV Call Display gives customers the ability to see the name and number of all incoming calls on their television screen. In addition, this feature allows customers to view recent calls, personalize their display settings and access the last call received.

Recently a leading global provider of business communications applications, systems and services, Avaya, named Allstream a Platinum-level Avaya Connect Channel Partner. The Avaya Connect Platinum status is Avaya's endorsement that Allstream has the comprehensive ability to help small-to-large size businesses transform their operations with industry-leading unified communications, collaboration and contact centre solutions. Achieving Platinum status recognizes Allstream's solid track record for providing business customers with top communications solutions. Allstream continues to provide customers with the highest levels of service and support.

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 more than 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 co-location 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.

At the mid point of the year, the results of this initiative are coming in ahead of plan. At the end of the second quarter, Allstream has earned 54 new IP contracts through this initiative, including multiple sales in the same connected buildings as well as a further 35 wins in Allstream's collocation footprint. Based on the sales cycle for enterprise customers, we anticipate the benefits from this program should begin to positively impact our financial results in 2011.

SUBSEQUENT EVENT

On August 5, 2010, the Company executed a comprehensive settlement agreement with Bell Mobility in respect of various historical disputes, including an arbitration proceeding relating to the provision of wireless services in Manitoba. Under this confidential settlement agreement, the Company is pleased to announce that it is receiving over \$20 million of value from Bell Mobility and its affiliates, including a \$10 million one-time cash payment received on August 5, 2010.

2010 OUTLOOK UPDATE

This outlook and the financial information contained herein have been reviewed by our Audit Committee and should be read in conjunction with the "Disclaimer Regarding Forward-Looking Statements" and the "Risks and Uncertainties" sections in this interim MD&A, as well as similar sections of our interim MD&A for the first quarter of 2010, our 2009 annual MD&A and our 2009 Annual Information Form.

On August 5, 2010, our Board of Directors approved an update to our 2010 financial outlook after our results in the second quarter came in lower than initially expected and based on our revised forecasts for the balance of 2010. Through the first six months of the year, our financial results reflect the impact of the economic downturn on Allstream's operations and ongoing aggressive price competition by

our main cable competitor in Manitoba. As such, we have decided to update the ranges to provide stakeholders with more clarity and transparency on our expectations for the second half of 2010.

In addition, consistent with statements we made on February 4, 2010 that our prior dividend level was based on the business performing to our expectations, our Board of Directors also set a new dividend payout ratio target of 70% to 80% of free cash flows from our highly profitable MTS telecom operations in Manitoba, which have delivered stable and solid results over the last 10 years.

Our updated 2010 financial outlook is detailed in the following table:

2010 Financial Outlook – Continuing Operations

	Updated 2010 outlook	Original 2010 outlook
Revenues	\$1.740 billion to \$1.790 billion	\$1.780 billion to \$1.880 billion
EBITDA	\$570 million to \$600 million	\$585 million to \$635 million
EPS	\$1.80 to \$2.15	\$2.00 to \$2.50
Free cash flow	\$160 million to \$190 million	\$175 million to \$225 million
Capital expenditures	14% to 16% of revenues	14% to 16% of revenues

We expect our financial results will improve over time as competitive conditions stabilize in Manitoba and as enterprise customers begin to reinvest in telecommunications and information technology.

We continue to take action to drive better near-term performance, achieving \$11.6 million in annualized savings in the second quarter from our cost reduction efforts. This brings our total annualized cost savings to \$29.2 million for the first six months of the year against a 2010 target of between \$30 million and \$40 million.

On February 4, 2010, we indicated that our business plan contemplated a quarterly dividend payout of \$0.65 per share in 2010, assuming the business performed to our expectations. Given our updated outlook and multi-year forecasts as well as our new payout target, our Board revised the quarterly dividend to \$0.425 per outstanding common share. This represents an annual yield of 6.2%, based on the Company's closing share price August 5, 2010. The change to the dividend reflects our current outlook and provides important funds for investment in our Manitoba operations. Our dividend policy and payout ratio are now more in line with our incumbent telecom peers.

We plan to invest \$125 million over the next five years to accelerate MTS's strategic investment in fibre-to-the-home technology across the province of Manitoba. By year-end 2015, we expect to provide fibre-to-the-home to close to 120,000 homes in many Manitoba communities, including areas of Winnipeg.

More importantly, this plan when completed would cover 65% of Manitoba households with either VDSL or fibre-to-the-home technology. This will enable MTS to provide customers with access to the most advanced high-speed Internet and television services. Based on announced plans across the industry, this would place MTS in a unique position with the greatest penetration of VDSL and FTTH services in Canada. We also plan to invest surplus cash flows to fund the next phase of MTS's integrated billing platform initiative during this time frame to consolidate our remaining TV, Internet and wireline customers. This is expected to result in significant future cost savings as well as an improved ability to serve and sell. More details on MTS's fibre-to-the-home investment in Manitoba can be found in a press release we issued August 6, 2010.

Allstream's long-term prospects are another key element of our 2010 and multi-year outlook. We believe there is an achievable path

to bring Allstream to a cash neutral position over the next few years. We continue to believe Allstream is well-positioned to benefit from increasing demand for IP-based services. With more than 25% of Allstream's business generated from converged IP and a cumulative average growth rate in converged IP revenues of about 10% over the past three years, Allstream is actively positioning as a strong competitor in the fastest growing portion of Canada's \$10 billion telecom enterprise market.

Starting in February this year, we also initiated a program to extend fibre into buildings with the goal of increasing Allstream's on-net revenues and improving profitability. This investment is intended to position Allstream to capture more of the opportunity in the business market IP space. Allstream's converged IP business, which today represents over \$200 million of its annual revenues, is projected to grow by a range of 10% to 12% over the next three years while its legacy suite of products (long distance and legacy data), which had 2009 annual revenues of about \$300 million is expected to decline by between 9% to 11% over the same period. Other product lines are expected to remain relatively stable.

We have been transitioning Allstream to an IP company for several years and we have a solid track record of delivering growth in IP. To date in 2010, our reported converged IP revenues have been below prior growth rates because they reflect sales made during the recession in 2009. This past June and July, however, sales returned to the level required to hit a double-digit revenue growth rate, which bodes well for 2011. We also expect to reduce Allstream's operating costs, with a focus on its legacy and telco costs.

In addition, in 2009, the federal government outlined a series of reform proposals intended to help federally regulated pension plan sponsors better manage their funding obligations, while also providing member benefit security. Although the enabling legislation has been passed, certain new regulations were not finalized and these proposals were not enacted by June 30, 2010 as had been expected. As a result, we made a solvency funding payment of \$7.3 million in July 2010. If the regulations are in place before the next quarterly payment is due, we expect to have no further solvency funding in 2010.

Material Assumptions

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

Market Assumptions

We expect our consumer services in Manitoba, such as wireless, Internet, and digital television, to continue at similar levels to the first six months of 2010 for the balance of the year. We are assuming that there will not be any material changes to the continued growth of wireless services in 2010, notwithstanding anticipated changes to relationships and market dynamics. In addition, we continue to anticipate there will be no meaningful new entrant in wireless services in Manitoba in 2010. We expect ongoing competitive pressures in our local and long distance services. Revenues generated by the residential voice telecommunications market will continue to decrease due to competition and substitution. Although we expect competition from incumbent cable operators to continue in the Manitoba residential market, we are confident that we have prudently prepared our operations and strategies to counter these challenges. Through our broadband network and now fibre-to-the-home initiatives, our bundling leadership and our residential service offerings (which include wireless, Internet, digital television, local, long distance and alarm monitoring services), we believe that we are well-positioned to compete successfully. In 2010, we plan to strengthen our competitive advantage

and leadership position in Manitoba by making further improvements to our broadband services, extending the coverage of our MTS Ultimate TV service to 96% of Winnipeg households, deploying fibre-to-the-home in certain areas of Manitoba, and launching our province-wide wireless HSPA network.

We expect Allstream to continue to face the challenges in the marketplace which emerged during the economic recession and we remain cautious after six months of results in 2010. Our updated outlook assumes that we will not see any significant impacts of a national economic recovery on our enterprise customers' revenues in 2010. The competitive pressures experienced in our legacy data connectivity and long distance services are anticipated to continue throughout the balance of the year. We expect that customers will continue to migrate from legacy services to IP-based services. We expect to launch a converged wireless/wireline product suite on a targeted geographic footprint towards the end of 2010. To face the continued competition in the enterprise markets through 2010, we have been refining our market focus, creating innovative IP solutions, reducing our cost structure, refocusing our sales efforts, and investing selectively in higher-margin IP-related opportunities.

Economic Assumptions

MTS consumer services are expected to benefit from a Manitoba economy that is forecast to grow in real gross domestic product ("GDP") by 2.7% in 2010, according to the Manitoba Department of Finance. The Bank of Canada is forecasting real GDP growth for Canada in 2010 to be 3.5% and we expect that the benefit of this return to growth to our enterprise markets will lag several quarters as business customers recover and consolidate from the economic recession before resuming spending to levels prior to the recession.

Financial and Operational Assumptions

Our financial and operational assumptions for the balance of 2010 are discussed above.

Cost Reduction Assumptions

For 2010, we expect to achieve \$30 million to \$40 million in annualized cost reductions through operational efficiency and restructuring efforts. We expect to achieve our cost reductions for the year having reached \$29.2 million in annualized savings in the first six months of 2010. Our restructuring costs for 2010 are anticipated to be between \$35 million and \$45 million.

Capital Resource and Liquidity Assumptions

We continue to invest in our core operations with a focus on our growth products and services to ensure success in the markets in which we operate. We have adopted a prudent expenditure and investment strategy that is scalable and provides flexibility to adjust the pace of investment according to economic conditions. In 2010, our capital program is expected to be 14% to 16% of our revenues from continuing operations (excluding HSPA), with the majority spent on wireless and IP-based services.

Tax Assumptions

We have been able to reduce our taxable income by utilizing our substantial CCA pools and available tax losses. By utilizing our deferred CCA deductions, we project that we will not pay cash taxes before 2019. The present value of our tax asset is approximately \$320 million.

RESULTS OF OPERATIONS

Quarterly Metrics for the Most Recent Five Quarters

	2010			2009	
	Q2	Q1	Q4	Q3	Q2
(in millions \$, except EPS)*					
Revenue	443.1	442.0	453.8	452.3	452.8
EBITDA	149.3	145.3	146.8	157.7	159.5
EPS	0.54	0.46	0.59	0.68	0.66
Free cash flow	62.3	54.9	43.4	62.3	59.6
Capital expenditures/revenue	13.3%	12.8%	16.1%	14.9%	14.0%

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

Our results in the second quarter of 2010 were in line on a sequential basis with the first quarter of 2010 and consistent with the second half of 2009. Our results through the first six months 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 most of 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. We remain well positioned to competitively deliver communications services to customers in Manitoba and across Canada, and to further improve our cost structure. To this end, we have already achieved \$29.2 million in annualized cost reductions, of our target range of \$30 million to \$40 million for the year, by June 30, 2010.

Revenues By Business Segment (continuing operations)

(in millions \$)	Q2/	Q2/	%	YTD/	YTD/	%
	10	09 change		10	09 change	
MTS revenues	233.0	235.1	(0.9)	460.7	468.3	(1.6)
Allstream revenues	210.1	217.7	(3.5)	424.4	454.3	(6.6)
Total revenues	443.1	452.8	(2.1)	885.1	922.6	(4.1)

Total revenues from continuing operations decreased by \$9.7 million in the second quarter of 2010 as compared to the second quarter of 2009. For the first six months of 2010, total revenues from continuing operations declined by \$37.5 million compared to the same period last year. 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 lower Canadian Radio-television and Telecommunications Commission ("CRTC") mandated local contribution revenue. Our results for the first six months of 2009 were also enhanced by a one-time \$3.4 million wireless sale of FleetNet 800™ ("FleetNet") handsets in the first quarter of 2009. Further details on each of our main businesses' revenue performance (MTS and Allstream) are described below.

MTS Revenues

Operating Revenues (continuing operations)

(in millions \$)	Q2/	Q2/	%	YTD/	YTD/	%
	10	09 change		10	09 change	
Wireless	81.0	75.5	7.3	157.6	152.7	3.2
Broadband and converged IP services	45.2	44.2	2.3	89.7	87.8	2.2
Unified communications, security & monitoring	8.0	8.5	(5.9)	16.5	16.6	(0.6)
Local access	73.1	77.3	(5.4)	145.7	154.0	(5.4)
Long distance and legacy data	25.7	29.6	(13.2)	51.2	57.2	(10.5)
Total MTS operating revenues	233.0	235.1	(0.9)	460.7	468.3	(1.6)

Revenues from continuing operations at MTS were lower by \$2.1 million as compared to the second quarter of 2009. These results reflect continued strong growth in our wireless, broadband and converged IP services which were offset by declines in our local access, long distance and legacy data services lines of business, as well as lower local contribution revenues. Total MTS operating revenues for the first six months of 2010 declined \$7.6 million compared to the same period in 2009, reflecting the same factors identified above, as well as the one-time \$3.4 million wireless FleetNet sale that occurred in the first quarter of 2009.

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 local contribution revenue by \$1.2 million and \$1.3 million in the first and second quarters of 2010, respectively. Excluding the impact of the one-time FleetNet sale in the first quarter of 2009 and lower local contribution revenues in 2010, MTS's revenues in the first six months of the year would have only been down by 0.4%.

Wireless Services

(in millions \$)	2010	2009	% change
Q2	81.0	75.5	7.3
YTD	157.6	152.7	3.2

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 delivered very strong growth in the second quarter of 2010 with revenues increasing by \$5.5 million. For the first six months of the year, our wireless revenues were up by \$4.9 million. These strong levels of performance were driven mainly by solid growth in our subscriber base and significantly higher wireless data usage. In the first six months of the year, wireless revenue growth was partly offset by the fact that 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 revenues increased by 5.6% in the first six months of 2010. At June 30, 2010, we had 469,744 wireless subscribers, up by 5.3% from June 30, 2009.

Revenues from our wireless data services were also up strongly by 57.8% in the second quarter of 2010 and by 46.8% in the six months ended June 30, 2010.

The average revenue per user ("ARPU") of \$56.06 increased by 0.8% or \$0.47 for the six months ended June 30, 2010. This level of performance is mainly attributable to continued strong growth in our wireless data services and calling-feature utilization, partially offset by lower network charges resulting from the removal of system access fees on new plans, customer migration to these new richer, lower-priced plans, which contribute to lower airtime usage.

Broadband and Converged IP Services

(in millions \$)	2010	2009	% change
Q2	45.2	44.2	2.3
YTD	89.7	87.8	2.2

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 \$1.0 million and by \$1.9 million in the second quarter and first six months of 2010, respectively. These increases are mainly attributable to growth in revenues from our digital television and converged IP services, partly offset by lower high-speed Internet revenues.

Our digital television services revenues were ahead by \$1.1 million or 8.1% in the second quarter of 2010 as compared to the second quarter of 2009. For the first six months of 2010, digital television services revenues grew by 7.5% or \$2.0 million. 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. 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 June 30, 2010, our MTS Ultimate TV service was available to approximately 80% of Winnipeg households as well as households 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. At the end of the second quarter, we had more than 25,000 subscribers on our MTS Ultimate TV service, as compared to 21,000 at the end of the first quarter of 2010. In total, we had 89,547 digital television subscribers at June 30, 2010, representing a 7.0% increase year-over-year.

Our high-speed Internet services revenues were down by \$0.3 million in the second quarter of the year and down by \$0.8 million for the first six months of 2010 as compared to the same periods in 2009. These decreases reflect the effects of promotional pricing, partially offset by an increase in subscribers. At June 30, 2010, our high-speed Internet subscriber base totaled 184,525, up 3.1% from last year.

We continue to experience solid demand for our converged IP services within the enterprise market in Manitoba. Our converged IP revenues grew by 3.1% as compared to the second quarter of 2009 and by 5.4% for the first six months of 2010. At June 30, 2010, we were supporting 35 IP-virtual private network ("IP-VPN") customers in Manitoba, a 16.7% increase over last year.

Unified Communications, Security and Monitoring Services

(in millions \$)	2010	2009	% change
Q2	8.0	8.5	(5.9)
YTD	16.5	16.6	(0.6)

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 declined by \$0.5 million and by \$0.1 million in the second quarter and first six months of 2010, respectively. In the second quarter of 2010, this decline reflects slightly lower unified communications revenues and lower security revenues. For the six months ended June 30, 2010, lower unified communications, security and monitoring services revenues is mainly attributable to lower security and monitoring services revenues, almost completely offset by growth in unified communications revenues.

Local Access Services

(in millions \$)	2010	2009	% change
Q2	73.1	77.3	(5.4)
YTD	145.7	154.0	(5.4)

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 by \$4.2 million in the second quarter of 2010 and by \$8.3 million in the first six months of the year. Lower local access services revenues in the second quarter and for the year-to-date mainly reflect decreased residential network access lines due to local competition and substitution, as well as lower local 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 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 and by \$1.3 million in the second quarter of 2010, respectively.

Our year-over-year residential line loss continues to be among the lowest of ILECs facing cable competition in Canada at 5.5%, 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 strongly by 10.1% in the second quarter of 2010. We expect to see improvement in our competitive position as we rollout our new fibre-to-the-home program.

Long Distance and Legacy Data Services

(in millions \$)	2010	2009	% change
Q2	25.7	29.6	(13.2)
YTD	51.2	57.2	(10.5)

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 decreased by \$3.9 million for the second quarter of 2010 and by \$6.0 million for the six months ended June 30, 2010. Long distance service revenues declined mainly due to customer migration to lower-priced long distance plans, and reduced volumes. Our legacy data services revenues were also lower resulting from customers transitioning to broadband or other IP-based services.

Allstream Revenues

Operating Revenues (continuing operations)

(in millions \$)	Q2/ 10	Q2/ 09	% change	YTD/ 10	YTD/ 09	% change
Converged IP	53.2	53.2	–	106.8	103.7	3.0
Unified communications & security	21.7	23.8	(8.8)	45.0	57.7	(22.0)
Local access	50.7	52.2	(2.9)	101.4	104.8	(3.2)
Long distance & legacy data services	84.5	88.5	(4.5)	171.2	188.1	(9.0)
Total Allstream operating revenues	210.1	217.7	(3.5)	424.4	454.3	(6.6)

Revenues from continuing operations at Allstream in the three months ended June 30, 2010 were lower by \$7.6 million as compared to the same period in 2009. These results include stable performance in converged IP services together with lower unified communications & security, local access, long distance and legacy data revenues all reflecting sales made during the recession in 2009. For the six months ended June 30, 2010, Allstream's revenues were down by \$29.9 million reflecting continued growth in converged IP services, offset by declines in revenues from unified communications & security, local access, long distance and legacy data services.

Converged IP Services

(in millions \$)	2010	2009	% change
Q2	53.2	53.2	–
YTD	106.8	103.7	3.0

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

Converged IP revenues in the second quarter of 2010 were flat compared to the first quarter of 2009. This reflects the delayed impact of slower sales during the economic downturn last year. For the first half of 2010, our converged IP revenues were up by \$3.1 million. With the continuing recovery of the economy and enterprise market, our sales team has been more successful in winning service agreements with new customers in June and July of this year, returning our sales levels to the level required to hit double-digit growth rates in the

future. Further, the capabilities of the suite of data products offered by Allstream continued to be demonstrated by growth in our IP-VPN customer base. As at June 30, 2010, Allstream had 344 IP-VPN customers, an 11.7% 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 co-location areas. This investment will extend our on-net reach and provide us with significant incremental high-margin revenue opportunities.

Through the first half of 2010, the results of this targeted, success-based investment continue to come in on plan. At the end of the second quarter, Allstream has earned 54 new IP contracts through this initiative, including multiple sales in the same connected buildings as well as a further 35 wins in Allstream's collocation footprint. 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
Q2	21.7	23.8	(8.8)
YTD	45.0	57.7	(22.0)

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 \$2.1 million in the second quarter and by \$12.7 million for the first six months of 2010. These decreases reflect lower revenues from both unified communications and security services, which is attributable to lower equipment and product sales. Revenues from these lines of business, however, were in line with the second half of 2009, which we believe is a more meaningful comparison than the first six months 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 as enterprise customers begin to reinvest in telecommunications and information technology.

Local Access Services

(in millions \$)	2010	2009	% change
Q2	50.7	52.2	(2.9)
YTD	101.4	104.8	(3.2)

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

Local access services revenues declined by \$1.5 million for the second quarter and by \$3.4 million for the first six months of 2010 as compared to the same periods in 2009. The decrease mainly reflects lower pricing, 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
Q2	84.5	88.5	(4.5)
YTD	171.2	188.1	(9.0)

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 \$4.0 million in the second quarter of 2010 and by \$16.9 million in the first six months of the year. We experienced decreases in both of our long distance and legacy data service portfolios.

The decline in Allstream's long distance services revenues in the second quarter of 2010 is mainly attributable to lower international and domestic rates, partly offset by higher international volumes. Reduced business activity by our customers that are based or have operations in the U.S. continue to result in lower and cross-border long distance volumes. For the year-to-date June 30, 2010, lower long distance revenues primarily reflect lower international and domestic rates together with lower cross-border volumes, which were partly offset by higher international 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 second quarter of 2010 totalled \$14.6 million as compared to \$17.2 million in the second quarter of 2009. For the six months ended June 30, 2010, long distance and legacy data services revenues from these customers were \$30.9 million as compared to \$35.4 million in 2009.

Consolidated Results

EBITDA

(in millions \$)	Q2/10	Q2/09 change	%	YTD/10	YTD/09 change	%
MTS EBITDA	122.9	129.5	(5.1)	242.7	257.7	(5.8)
Allstream EBITDA	26.6	29.8	(10.7)	52.6	64.7	(18.7)

EBITDA*

(in millions \$)	Q2/10	Q2/09 change	%	YTD/10	YTD/09 change	%
EBITDA* (continuing operations)	149.3	159.5	(6.4)	294.6	322.8	(8.7)
Restructuring and other costs	8.2	12.7	(35.4)	20.8	18.8	(10.6)
Wireless transition costs	—	6.3	n.m.	—	13.7	n.m.
EBITDA	141.1	140.5	0.4	273.8	290.3	(5.7)

*Contains EBITDA from corporate operations.

Our EBITDA from continuing operations for the second quarter of 2010 was in line with our results for the last three quarters, but was lower by \$10.2 million when compared to the second quarter of 2009. For the six months ended June 30, 2010, EBITDA from continuing operations, at \$294.6 million, was down by \$28.2 million as compared to the same period in 2009. These decreases are attributable to lower revenues and

increases in non-cash pension expense of \$5.1 million in the second quarter and by \$9.6 million for the year-to-date, which was partially offset by lower direct costs. Excluding the increases in non-cash pension expense, EBITDA from continuing operations for the second quarter would have been down 3.2% and for the first six months of the year would have declined by 5.8%. These levels of EBITDA performance reflect the impact of the economic downturn on Allstream's operations and continuing aggressive price competition from our main cable competitor in Manitoba. Consolidated EBITDA for the three months ended June 30, 2010 benefitted from lower restructuring costs to increase by \$0.6 million over the same period last year.

On a segmented basis, MTS's EBITDA from continuing operations in the second quarter, at \$122.9 million, was down by \$6.6 million when compared to the prior year or by 1.9% when you exclude the \$4.2 million increase in non-cash pension expense. The remaining decrease is primarily attributable to aggressive price competition from our main cable competitor in Manitoba. Although we have maintained our market shares overall, lower pricing has impacted MTS's performance in 2010. MTS's EBITDA margin in the second quarter of 2010 continues to be strong and market leading, at almost 52.7%. Allstream's EBITDA from continuing operations in the second quarter of 2010 was \$26.6 million as compared to \$29.8 million in the same quarter last year. On a sequential basis, Allstream's EBITDA improved by \$0.6 million to \$26.6 million, which is up from the division's first quarter 2010 EBITDA of \$26.0 million. This sequential EBITDA improvement reflects the impact of cost cutting and is evidence, we believe, that Allstream's performance is stabilizing.

EPS

(in \$)	Q2/10	Q2/09 change	%	YTD/10	YTD/09 change	%
EPS (continuing operations)	0.54	0.66	(18.2)	1.00	1.37	(27.0)
Restructuring and other costs	(0.08)	(0.13)	(38.5)	(0.21)	(0.20)	5.0
Discontinued operations	(0.02)	—	n.m.	(0.04)	—	n.m.
Wireless transition costs	—	(0.06)	n.m.	—	(0.13)	n.m.
Basic EPS	0.44	0.47	(6.4)	0.75	1.04	(27.9)

Note: EPS for the three months ended June 30 is based on weighted average shares outstanding of 64.7 million for 2009 and for 2010.

On a year-over-year basis, EPS from continuing operations decreased by \$0.12 to \$0.54 for the three months ended June 30, 2010 and by \$0.37 to \$1.00 for the first half of the year mainly as a result of lower EBITDA and higher debt charges. Basic EPS decreased to \$0.44 and \$0.75 in the second quarter and first six months of 2010, respectively. These basic EPS results reflect the impact of the restructuring and other costs related to our cost savings initiatives, a loss from discontinued operations we incurred in connection with the portion of our non-telecommunications IT consulting business that we sold, as well as the transition of certain wireless service requirements away from Bell Mobility to new suppliers and our wireless platform.

Operating Expenses

Operations Expense (continuing operations)

(in millions \$)	2010	2009	% change
Q2	293.8	293.3	0.2
YTD	590.5	599.8	(1.6)

Operating expenses from continuing operations in the second quarter of 2010 were up by \$0.5 million when compared to the same period in 2009 reflecting lower direct costs as well as savings from our ongoing cost reduction initiatives, which were more than offset by an increase in pension expense, in the amount of \$5.1 million, and higher costs to fund certain growth lines of business.

For the six months ended June 30, 2010, operating expenses from continuing operations were lower by \$9.3 million as compared to the same period last year. This decrease reflects lower direct costs as well as savings from ongoing cost reduction initiatives, partially offset by a non-cash pension expense increase of \$9.6 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 between \$30 million and \$40 million of annualized savings from our operational efficiency programs. We are on track to reach this target, having achieved \$29.2 million of annualized savings in the first six months of the year.

Restructuring and Transition Costs

(in millions \$)	2010	2009	% change
Q2	8.2	19.0	(56.8)
YTD	20.8	32.5	(36.0)

We incurred restructuring costs in the amount of \$8.2 million in the second quarter of 2010, as compared to \$12.7 million last year. For the first six months of 2010, restructuring and transition costs declined by \$11.7 million to \$20.8 million. 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
Q2	83.3	81.0	2.8
YTD	165.3	162.8	1.5

Amortization expense increased by \$2.3 million in the second quarter and by \$2.5 million for the first six months of 2010 when compared to the same periods last year, which is mainly attributable to a slight increase in depreciable assets.

Other Income

(in millions \$)	2010	2009	% change
Q2	4.4	2.4	83.3
YTD	3.3	3.3	–

Other income for the second quarter was \$4.4 million as compared to other income of \$2.4 million for the same quarter in 2009 and is unchanged for the first six months of the year. In the second quarter of 2010, other income was favourably impacted by gains on foreign exchange hedging contracts.

Debt Charges

(in millions \$)	2010	2009	% change
Q2	18.1	15.7	15.3
YTD	34.9	28.8	21.2

Debt charges were higher by \$2.4 million in the first quarter of 2010 and by \$6.1 million for the first six months of 2010. These increased interest expenses are 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 \$)	Q2/10	Q2/09	% change	YTD/10	YTD/09	% change
Income tax on continuing operations	17.1	22.2	(23.0)	32.8	45.6	(28.1)
Tax effect on one-time items	(2.6)	(6.0)	(56.7)	(6.9)	(10.4)	(33.7)
Total income tax	14.5	16.2	(10.5)	25.9	35.2	(26.4)

Total income tax expense for the three months ended June 30, 2010 declined by \$1.7 million compared to the same period in 2009 due to the decrease in net income from continuing operations and lower one-time adjustments. For the first six months of 2010, total income tax was lower by \$9.3 million primarily due to lower 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 2019 with the present value of our tax asset being approximately \$320 million.

Consolidated Quarterly Financial Data

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

(in millions \$, except EPS)	Q2/10	Q1/10	Q4/09	Q3/09
Operating revenues	443.1	442.0	453.8	438.8
Operating income	57.8	50.7	59.4	52.5
Net income before discontinued operations	29.6	21.4	9.0	28.1
Net income and comprehensive income	28.2	20.4	6.7	27.9
EPS before discontinued operations	0.46	0.33	0.14	0.43
Diluted EPS before discontinued operations	0.46	0.33	0.14	0.43
EPS	0.44	0.32	0.10	0.43
Diluted EPS	0.44	0.32	0.10	0.43

(in millions \$, except EPS)	Q2/09	Q1/09	Q4/08	Q3/08
Operating revenues	452.8	469.8	465.5	468.9
Operating income	59.5	68.0	52.6	69.3
Net income before discontinued operations	30.0	36.8	14.8	39.4
Net income and comprehensive income	30.1	37.0	13.7	38.1
EPS before discontinued operations	0.47	0.57	0.23	0.61
Diluted EPS before discontinued operations	0.47	0.57	0.23	0.61
EPS	0.47	0.57	0.21	0.59
Diluted EPS	0.47	0.57	0.21	0.59

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 were \$11.7 million in the first quarter and \$1.8 million in the second quarter of 2010. 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.

- Costs related to our HSPA deployment and related billing implementation were \$0.8 million and \$6.3 million in the first and second quarters of 2010, respectively.
- Losses, net of tax, in the amounts of \$1.0 million, and \$1.4 million in the first and second quarters of 2010, respectively, and 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 \$7.5 million and \$9.3 million in the 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 \$9.0 million in the fourth quarter of 2008.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows from Operating Activities

(in millions \$)	2010	2009	\$ change
Q2	103.7	56.4	47.3
YTD	203.6	103.2	100.4

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

Cash flows from operating activities were \$103.7 million in the second quarter of 2010 as compared to \$56.4 million in the second quarter of 2009. For the six months ended June 30, 2010, cash flows from operating activities totalled \$203.6 million, as compared to \$103.2 million in the same period in 2009. These increases of \$47.3 million and \$100.4 million for each of these periods, respectively, are mainly due to changes in working capital and lower pension funding.

Cash Flows used in Investing Activities

(in millions \$)	2010	2009	\$ change
Q2	(79.4)	(69.9)	(9.5)
YTD	(157.1)	(127.1)	(30.0)

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

In the second quarter of 2010, we used \$79.4 million of cash for investing activities as compared to \$69.9 million in the second quarter of 2009. For the first six months of 2010, cash flows used in investing activities increased by \$30.0 million over the same period in 2009. These increases are primarily attributable to higher capital expenditures for the deployment of our HSPA network in Manitoba.

Capital Expenditures (continuing operations)

(in millions \$)	2010	2009	\$ change
Q2	58.9	63.3	(4.4)
YTD	115.3	119.3	(4.0)

We continue to allocate our capital to fund our higher growth segments and to focus on spending capital prudently. Our capital expenditures from continuing operations in the second quarter of 2010 and first six months of the year were lower by \$4.4 million and \$4.0 million, respectively.

Free Cash Flow

(in millions \$)	Q2/10	Q2/09	% change	YTD/10	YTD/09	% change
Free cash flow (continuing operations)	62.3	59.6	4.5	117.2	127.8	(8.3)
Pension solvency funding	0.9	8.8	(89.8)	0.9	17.5	(94.9)
HSPA & related billing capital expenditures	16.0	7.5	n.m.	34.3	7.5	n.m.
Restructuring and other costs	8.2	12.7	(35.4)	20.8	18.8	10.6
Restructuring capital	3.9	0.4	n.m.	6.2	1.0	n.m.
Wireless transition costs	—	6.3	n.m.	—	13.7	n.m.
Consolidated free cash flow	33.3	23.9	39.3	55.0	69.3	(20.6)

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 second quarter of 2010 was \$62.3 million as compared to \$59.6 million in the second quarter last year. This increase is mainly attributable to lower capital expenditures, lower deferred wireless costs and higher other income, partly offset by lower EBITDA and higher debt charges. For the first six months of 2010, free cash flow from continuing operations was \$117.2 million compared to \$127.8 million for the same period in 2009. The decrease is primarily due to lower EBITDA and higher debt charges, offset by lower capital expenditures and deferred wireless costs.

Consolidated free cash flow was \$33.3 million in the second quarter of this year and \$55.0 million for the first six months of 2010 as compared to \$23.9 million and \$69.3 million in the comparable periods in 2009. 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
Q2	(41.7)	23.1	(64.8)
YTD	(83.0)	24.2	(107.2)

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

Cash flows used in financing activities totalled \$41.7 million in the second quarter of 2010 as compared to cash flow from financing activities of \$23.1 million in the second quarter of 2009. In the first six months of 2009, we issued long-term debt and repaid notes payable which resulted in net cash flow from financing activities. There have not been any similar issuances or repayments of debt in 2010. Our cash outflows include dividend payments of \$42.1 million per quarter.

Credit Facilities

(in millions \$)	capacity	utilized at June 30, 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 June 30, 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 a \$150.0 million accounts receivable securitization program which was unutilized at June 30, 2010.

Capital Structure

(in millions \$)	June 30, 2010	December 31, 2009
(Cash and cash equivalents)	(83.1)	(110.2)
Capital lease obligations, including current portion	18.0	17.6
Long-term debt, including current portion	1,052.0	1,051.5
Total debt	986.9	958.9
Shareholders' equity	1,282.3	1,316.9
Total capitalization	2,269.2	2,275.8
Debt to capitalization	43.5%	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 43.5% at June 30, 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 July 29, 2010, S&P confirmed their credit ratings on our long-term corporate credit and senior unsecured debt at "BBB" and confirmed our commercial paper rating of "A-2". S&P also confirmed its outlook as stable. 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 July 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	64,678,817	\$1,267.2

Stock options:

Options	Number	Weighted Average Exercise Price Per Share
Outstanding	3,100,210	\$38.75
Exercisable	1,491,064	\$41.32

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 drafted our preliminary IFRS financial statement format and note disclosure. Quantification of the impact of our IFRS changeover is in progress.
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 this solution. 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* sections described in our 2009 annual MD&A, and our first quarter 2010 interim MD&A, which are available on our Web site at www.mtsallstream.com.

Broadcasting Policy

On May 6, 2010, the CRTC approved our application to extend our BDU licence to include the community of Selkirk, Manitoba. This will allow us to provide MTS TV service in Selkirk, in addition to our existing service areas in and around Winnipeg, Portage la Prairie and Brandon, Manitoba.

The reference to the Federal Court of Appeal, described in our first quarter 2010 interim MD&A, to determine whether the CRTC has authority to require that cable companies pay broadcasters a fee for the carriage of local over the air signals, is scheduled to be heard on September 13, 2010. We will continue to monitor the Federal Court of Appeal referral process and support the view put forth by the larger BDUs that imposing a fee for carriage for over the air signals is beyond the jurisdiction of the CRTC.

On June 7, 2010 the Federal Court of Appeal issued a decision on a separate broadcasting issue, determining that Internet service providers are not acting as BDUs and are not subject to the Broadcasting Act when they provide Internet access, which includes broadcasting content via the Internet. The CRTC had asked the Federal Court of Appeal to decide this matter in order to determine whether or not it could impose a levy on the retail revenues of Internet service providers to support the production of Canadian broadcasting content for the Internet. The Court's decision means that such a levy cannot be imposed on the retail Internet access revenues of MTS Allstream and others. Opposing parties have until September 30, 2010 to seek leave to appeal this decision to the Supreme Court of Canada and we will continue to monitor and, if necessary, intervene in any further proceedings to argue that ISPs are not BDUs but rather are telecommunications carriers offering access to the Internet.

Removal of Foreign Investment Restrictions

On June 11, 2010, the Government announced a public consultation to examine how, and to what extent, foreign investment restrictions applicable to telecommunications carriers should be removed. In addition, on June 16, 2010, the House of Commons Standing Committee on Industry, Science and Technology issued its report on the foreign investment restrictions, properly characterizing the concentration of market share amongst the three largest service providers and the challenges faced by smaller providers to attract capital at a reasonable cost. Given the diverged views of the individual political parties, the Committee had two consensus views: i) that the government clarify the "control in fact" test; and ii) that the government remove the foreign ownership restrictions for satellite ownership and operation.

On July 30, 2010, we filed our submission in the federal government's consultation on how the commitment in the Speech from the Throne to open up the telecommunications industry to global investment can best be met. In its submission, we endorse removal of the existing foreign investment restrictions which continue to represent an impediment to investment, competition and innovation and to Canadian leadership in the digital economy. MTS Allstream recommends the government accept the advice it has received from expert panels like the Competition Policy Review Panel and act quickly to lift the restrictions.

Government Digital Economy Strategy

On May 10, 2010, the federal government launched a consultation asking for comments and ideas on developing a digital economy strategy for Canada. We are advocating equitable wholesale access to the essential incumbent telecommunications carriers' network infrastructure and the elimination of the foreign direct investment restrictions on telecommunications carriers, which currently limit the ability of competitors to access the capital needed to expand their telecommunications infrastructure. In terms of broadband deployment to rural/remote communities, similar to the CRTC's proceeding on the basic service objective, we have highlighted the potential utility of a properly funded subsidy mechanism for the purpose of extending broadband access to rural and remote areas.

RISKS AND UNCERTAINTIES

Our risks and uncertainties remain substantially unchanged from those that were disclosed in our 2009 annual MD&A and first quarter 2010 interim MD&A. For additional details, please consult our 2009 annual MD&A, and first quarter 2010 interim 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 June 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

THIRD QUARTER DIVIDEND

On August 5, 2010, the Board of Directors of MTS Allstream declared a quarterly cash dividend of \$0.425 per share. The third quarter dividend is payable on October 15, 2010 to shareholders of record at the close of business on September 15, 2010.

Notes:

1. Supplementary financial information as well as slides are available in the Investors section of the MTS Allstream Web site at www.mtsallstream.com.

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

(unaudited)

For the periods ended June 30 (in millions, except earnings per share)	Three months ended		Six months ended	
	2010	2009	2010	2009
Operating revenues	\$ 443.1	\$ 452.8	\$ 885.1	\$ 922.6
Operating expenses				
Operations	293.8	293.3	590.5	599.8
Restructuring and transition (Note 2)	8.2	19.0	20.8	32.5
Amortization	83.3	81.0	165.3	162.8
	385.3	393.3	776.6	795.1
Operating income	57.8	59.5	108.5	127.5
Other income	4.4	2.4	3.3	3.3
Debt charges	(18.1)	(15.7)	(34.9)	(28.8)
Income before income taxes	44.1	46.2	76.9	102.0
Income tax expense				
Current	1.3	(0.1)	1.4	0.2
Future	13.2	16.3	24.5	35.0
	14.5	16.2	25.9	35.2
Income before discontinued operations	29.6	30.0	51.0	66.8
(Loss) income from discontinued operations, net of tax (Note 3)	(1.4)	0.1	(2.4)	0.3
Net income and comprehensive income for the period	\$ 28.2	\$ 30.1	\$ 48.6	\$ 67.1
Basic and diluted earnings per share (Note 4)				
Income before discontinued operations	\$ 0.46	\$ 0.46	\$ 0.79	\$ 1.03
Net Income	\$ 0.44	\$ 0.47	\$ 0.75	\$ 1.04

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

(unaudited)

For the periods ended June 30 (in millions)	Three months ended		Six months ended	
	2010	2009	2010	2009
Retained earnings, beginning of period	\$ 8.8	\$ 91.8	\$ 30.4	\$ 96.8
Net income for the period	28.2	30.1	48.6	67.1
Dividends declared	(42.1)	(42.0)	(84.1)	(84.0)
(Deficit) retained earnings, end of period	\$ (5.1)	\$ 79.9	\$ (5.1)	\$ 79.9

MANITOBA TELECOM SERVICES INC.
CONSOLIDATED BALANCE SHEETS

(unaudited)

(in millions)

June 30, 2010

December 31, 2009

Assets

Current assets

Cash and cash equivalents	\$ 83.1	\$ 110.2
Accounts receivable	154.6	166.2
Future income taxes	79.6	79.0
Other current assets	66.0	58.0
Assets held for sale (Note 3)	—	18.6
	383.3	432.0

Capital assets

Property, plant and equipment	3,836.9	3,749.4
Intangible assets	535.2	505.1
	4,372.1	4,254.5
Accumulated amortization	2,716.1	2,611.2
	1,656.0	1,643.3

Other assets

Future income taxes	425.8	417.2
Goodwill	337.9	362.1
	41.8	41.8
	\$ 2,844.8	\$ 2,896.4

Liabilities and shareholders' equity

Current liabilities

Accounts payable and accrued liabilities	\$ 339.8	\$ 349.1
Advance billings and payments	53.6	52.5
Current portion of long-term debt	11.9	11.9
Current portion of capital lease obligations	5.9	4.2
Liabilities related to assets held for sale (Note 3)	—	9.0
	411.2	426.7

Long-term debt

Long-term debt	1,040.1	1,039.6
Long-term portion of capital lease obligations	12.1	13.4
Deferred employee benefits	43.8	43.1
Other long-term liabilities	54.2	55.5
Future income taxes	1.1	1.2
	1,562.5	1,579.5

Shareholders' equity

Share capital (Note 5)	1,267.2	1,266.9
Contributed surplus	20.2	19.6
(Deficit) retained earnings	(5.1)	30.4
	1,282.3	1,316.9
	\$ 2,844.8	\$ 2,896.4

MANITOBA TELECOM SERVICES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

For the periods ended June 30 (in millions)	Three months ended		Six months ended	
	2010	2009	2010	2009
Cash flows from operating activities				
Income before discontinued operations	\$ 29.6	\$ 30.0	\$ 51.0	\$ 66.8
Add (deduct) items not affecting cash				
Amortization	83.3	81.0	165.3	162.8
Future income taxes	13.2	16.3	24.5	35.0
Gain on sale of intangible assets	–	(3.1)	–	(3.1)
Deferred wireless costs	(11.4)	(13.3)	(20.7)	(25.4)
Pension funding and net pension credit	(3.9)	(16.8)	(7.8)	(33.6)
Other, net	1.3	1.0	(1.5)	(5.4)
Changes in non-cash working capital	(8.4)	(38.7)	(7.2)	(93.9)
Cash flows from operating activities	103.7	56.4	203.6	103.2
Cash flows from investing activities				
Capital expenditures, net	(78.8)	(71.2)	(155.8)	(127.8)
Net proceeds from sale of intangible assets	–	1.4	–	1.4
Other, net	(0.6)	(0.1)	(1.3)	(0.7)
Cash flows used in investing activities	(79.4)	(69.9)	(157.1)	(127.1)
Cash flows from financing activities				
Dividends paid	(42.1)	(42.0)	(84.1)	(84.0)
Issuance of long-term debt	–	425.0	–	425.0
Repayment of long-term debt	–	(150.0)	–	(220.0)
Repayment of notes payable, net	–	(207.0)	–	(95.0)
Issuance of share capital (Note 5)	0.1	–	0.3	0.8
Other, net	0.3	(2.9)	0.8	(2.6)
Cash flows (used in) from financing activities	(41.7)	23.1	(83.0)	24.2
Cash flows before discontinued operations	(17.4)	9.6	(36.5)	0.3
Cash flows from discontinued operations (Note 3)	–	1.7	9.4	0.2
Change in cash and cash equivalents	(17.4)	11.3	(27.1)	0.5
Cash and cash equivalents (bank indebtedness), beginning of period	100.5	(4.3)	110.2	6.5
Cash and cash equivalents, end of period	\$ 83.1	\$ 7.0	\$ 83.1	\$ 7.0

MANITOBA TELECOM SERVICES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

For the six months ended June 30, 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

The Company recorded net restructuring and transition expenses as follows:

	Three months ended		Six months ended	
	2010	2009	2010	2009
Restructuring				
Workforce	–	8.2	9.6	8.1
Other	8.2	4.5	11.2	10.7
	8.2	12.7	20.8	18.8
Wireless transition	–	6.3	–	13.7
	8.2	19.0	20.8	32.5

The liability for restructuring costs as at June 30, 2010 is as follows:

Balance December 31, 2009	13.9
2010 restructuring costs	20.8
Less:	
Cash payments	(17.0)
Adjustments to existing real estate facility consolidation reserves	(1.2)
Balance June 30, 2010	16.5

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, real estate facility consolidation charges, 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.

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

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 ("PWC") for a preliminary purchase price of \$14.2 million. The initial purchase price review period of 120 days after the closing date of January 31, 2010 has been extended by the Company and PWC to finalize the purchase price. Additional provisions of \$2.0 million have been recorded to reflect the potential for adjustments to the preliminary purchase price. The Company expects to finalize the purchase price in the third quarter. 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:

	2010	2009
Revenue	2.9	27.6
(Loss) income from discontinued operations before income taxes	(1.1)	0.5
Loss on sale of discontinued operations before income taxes	(2.3)	–
Future income tax recovery (expense) related to discontinued operations	1.0	(0.2)
(Loss) income from discontinued operations, net of tax	(2.4)	0.3

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

	June 30, 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:

	2010	2009
Cash flows (used in) from operating activities	(1.1)	0.2
Cash flows from investing activities	10.5	–
Cash flows from discontinued operations	9.4	0.2

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	51.0	66.8
(Loss) income from discontinued operations, net of tax	(2.4)	0.3
Net income	48.6	67.1
Weighted average shares outstanding (in millions)		
Weighted average number of shares outstanding – basic and diluted	64.7	64.7
Earnings per share – basic and diluted (\$)		
Income before discontinued operations	0.79	1.03
(Loss) income from discontinued operations, net of tax	(0.04)	0.01
Net income	0.75	1.04

5. SHARE CAPITAL

As at June 30, 2010, share capital consists of 64,678,817 issued and outstanding Common Shares (December 31, 2009 – 64,667,817).

During the six months ended June 30, 2010, 11,000 stock options to purchase Common Shares were exercised for cash consideration of \$0.3 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 and six months ended June 30, 2010 is \$3.5 million and \$6.4 million respectively.

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 June 30							
	MTS unit		Allstream unit		Other		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Operating revenue								
External	233.0	235.1	210.1	217.7	–	–	443.1	452.8
Internal	0.1	0.1	–	–	9.5	8.5	9.6	8.6
EBITDA	116.6	123.2	24.8	17.7	(0.3)	(0.4)	141.1	140.5
Restructuring and transition	6.3	6.3	1.8	12.1	0.1	0.6	8.2	19.0

	Six months ended June 30							
	MTS unit		Allstream unit		Other		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Operating revenue								
External	460.7	468.3	424.4	454.3	–	–	885.1	922.6
Internal	0.2	0.2	–	–	19.0	18.1	19.2	18.3
EBITDA	235.6	244.0	39.1	47.2	(0.9)	(0.9)	273.8	290.3
Restructuring and transition	7.1	13.7	13.5	17.5	0.2	1.3	20.8	32.5

Reconciliation to consolidated net income is as follows:

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Total EBITDA	141.1	140.5	273.8	290.3
Amortization	(83.3)	(81.0)	(165.3)	(162.8)
Other income	4.4	2.4	3.3	3.3
Debt charges	(18.1)	(15.7)	(34.9)	(28.8)
Income tax expense	(14.5)	(16.2)	(25.9)	(35.2)
Income before discontinued operations	29.6	30.0	51.0	66.8
(Loss) income from discontinued operations	(1.4)	0.1	(2.4)	0.3
	28.2	30.1	48.6	67.1

8. SUBSEQUENT EVENT

On August 5, 2010, the Company executed a comprehensive settlement agreement with Bell Mobility in respect of various historical disputes, including an arbitration proceeding relating to the provision of wireless services in Manitoba. Included in this confidential settlement agreement, the Company will receive various services and benefits including a \$10 million one-time cash payment received on August 5, 2010.

9. COMPARATIVE FIGURES

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

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