2013 ANNUAL REPORT

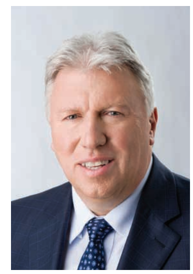
MOVING FORWARD STRONGER

MANITOBA TELECOM SERVICES INC.




MTS allstream

MOVING FORWARD **STRONGER** AS A TEAM



"We have taken significant steps in 2013 to build on our strengths including streamlining our leadership teams, lowering our cost structure, strengthening our balance sheet, enhancing our networks regionally and nationally, and improving our customers' experience. With the changes we have made, we are moving forward stronger in 2014."

PIERRE BLOUIN Chief Executive Officer

MTS Allstream is one of Canada's leading national communications companies, providing innovative solutions for the way Canadians live and work today. In Manitoba, MTS is the leading full-service telecommunications provider for residential and business customers with a comprehensive suite of services including the latest in wireless technology, broadband services, IPTV, voice services, home security, and an extensive range of business solutions. Allstream is the only national provider of competitive, innovative, end-to-end IP communication solutions exclusively for business customers, supported by our 30,000+ route kilometre national high-performance IP fibre-optic network.

MIKE STROPLE President, Allstream

PAUL BEAUREGARD Chief Corporate and Strategy Officer & Corporate Secretary

PIERRE BLOUIN Chief Executive Officer

WAYNE DEMKEY Chief Financial Officer

KELVIN SHEPHERD President, MTS

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FINANCIAL HIGHLIGHTS

Consolidated financial results

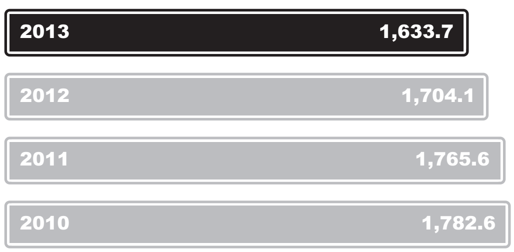
(in millions $, except EPS and capital expenditures)	**2013**	2012	variance
Revenues	**1,633.7**	1,704.1	(4.1%)
EBITDA[1]	**551.3**	585.2	(5.8%)
EPS[2]	**$1.69**	$2.17	(22.1%)
Free cash flow[3]	**121.0**	117.6	2.9%
Capital expenditures/revenues	**18.1%**	19.8%	(1.7 pts)

1 EBITDA (earnings before interest, taxes, depreciation and amortization, and other income (expense)) is a non-IFRS measure of performance. See the section titled "Non-IFRS measures of performance" for further information.

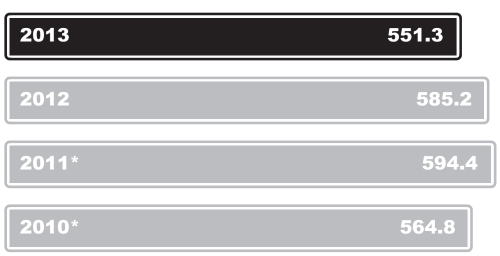
2 Earnings per share ("EPS") is based on weighted average shares outstanding of 68.2 million and 66.6 million for the twelve months ended December 31, 2013 and December 31, 2012, respectively. The increase in the number of weighted average shares outstanding is mainly due to the December 2013 issuance of 8,855,000 common shares and participation in the Company's dividend re-investment program. EPS excludes pension plan decision costs of $1.52 and IFRS – required Allstream impairment loss of $1.41 in 2013.

3 We define free cash flow as cash flows from operating activities, less capital expenditures, and excluding changes in working capital, pre-funded pension solvency payments and spectrum costs. See the section titled "Non-IFRS measures of performance" for further information.

Consolidated revenues *($ millions)*

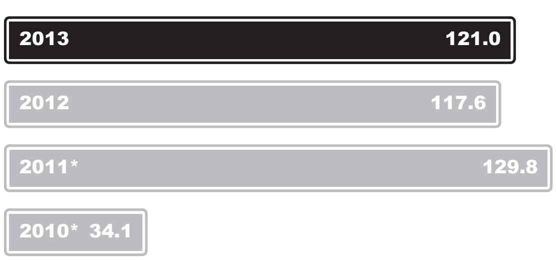


Consolidated EBITDA *($ millions)*



* 2010 and 2011 have not been amended for IFRS International Accounting Standard 19 (IAS 19).

Consolidated free cash flow *($ millions)*



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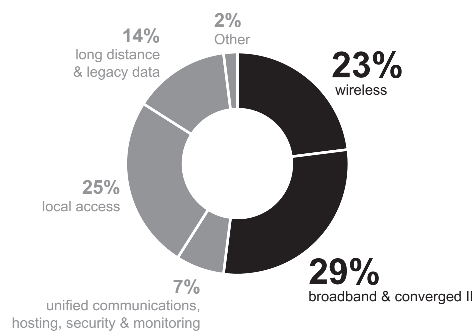
2013 consolidated revenue mix



Revenues from strategic lines of business – wireless, broadband and converged IP – accounted for 52% of consolidated revenues in 2013

Achieved annualized cost reductions of $69.5 million in 2013

Raised $249 million in common share equity in 2013

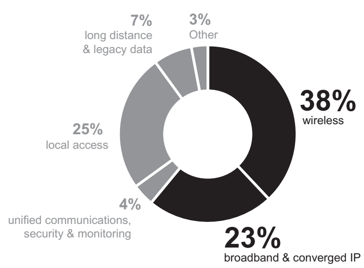
MTS operating highlights

(revenues in millions $)	**2013**	2012	variance
Revenues			
Wireless revenues	**375.3**	362.1	3.6%
Wireless data revenues	**127.7**	105.2	21.4%
Broadband & converged IP revenues	**228.1**	212.9	7.1%
IPTV revenues	**82.0**	78.5	4.5%
Internet revenues	**117.7**	110.1	6.9%
Subscribers			
Total wireless subscribers	**501,388**	497,367	0.8%
Total post-paid subscribers	**407,772**	402,824	1.2%
Post-paid data plans	**275,032**	229,478	19.9%
Total television customers	**109,085**	101,550	7.4%
IPTV subscribers	**104,861**	97,232	7.8%
Residential high-speed Internet subscribers	**192,928**	179,437	7.5%
ARPU			
Wireless ARPU	**$58.37**	$54.52	7.1%
Wireless data ARPU	**$21.44**	$17.80	20.4%
IPTV ARPU	**$66.58**	$66.92	(0.5%)
Residential high-speed Internet ARPU	**$42.92**	$41.65	3.0%

Allstream operating highlights

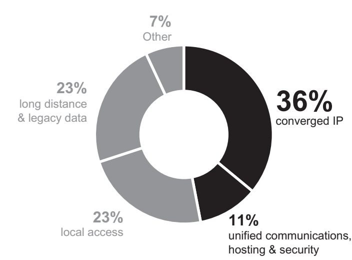
(revenues in millions $)	**2013**	2012	variance
Converged IP revenues	**241.9**	243.6	(0.7%)
Converged IP gross margin	**75.1%**	73.5%	1.6 pts
Fibre-fed buildings	**3,003**	2,723	10.3%

2013 MTS revenue mix



57% of post-paid subscribers now have data plans

2013 Allstream revenue mix



Allstream revenues from converged IP services returned to growth in Q4 2013

2013 Annual Report
This document discusses the financial results and business operations of Manitoba Telecom Services Inc. (TSX: MBT). Within this document we may also refer to ourselves as “the Company”, or “MTS Allstream”.

Non-IFRS measures of performance
In this Annual Report, we provide information concerning 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 International Financial Reporting Standards (“IFRS”) and are not necessarily comparable to similarly titled measures used by other companies.

Regarding forward-looking statements
Our 2013 Annual Report includes forward-looking statements and information (collectively, “statements”) including, but not limited to, statements pertaining to the Company’s corporate direction, business opportunities, operations, financial objectives, future financial results and performance, 4G Long-Term Evolution wireless network expansion, fibre-to-the-home deployment, national IP fibre network expansion, pension funding, the outcome of the negotiations, the time, method, quantum and implementation of any payment obligations, the Company’s future cash flows, liquidity, credit ratings and profitability, and other events that could occur as a result of the Supreme Court of Canada decision, as well as other statements that are not historical facts. 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. All forward-looking statements are made pursuant to the safe harbour provisions of applicable Canadian securities legislation. Please note that forward-looking statements reflect our expectations as at February 6, 2014. Forward-looking statements are subject to risks, uncertainties and assumptions. As a consequence, actual results in the future may differ materially from any forward-looking conclusion, forecast or projection, whether expressed or implied. Therefore, forward-looking statements should be considered carefully and undue reliance should not be placed on them. Factors that could cause anticipated opportunities and actual results to differ materially include, but are not limited to, matters identified in the “Risks and uncertainties” section of our Management’s Discussion and Analysis. 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. Additional information relating to our company, including our Annual Information Form, is available on SEDAR at www.sedar.com. Unless otherwise stated, all amounts expressed in this report are in Canadian dollars.

LETTER TO SHAREHOLDERS

David Leith
Chair

Pierre Blouin
Chief Executive Officer

Dear fellow shareholders,

This year's theme of "Moving Forward Stronger" is an appropriate one.

The last year brought a lot of unexpected developments, including the rejection of the Allstream sale by the Federal Government, an unfavourable ruling from the Supreme Court of Canada and some shifts in our regulatory environment. As we worked our way through these exceptional events, our financial results were indeed mixed – particularly at Allstream which was heavily disrupted through the sale process. Despite the challenges we faced, our two businesses, MTS and Allstream, took significant steps to strengthen themselves, and our employees remained committed to our growth strategies, to our customers and the communities we serve. On behalf of the Board and management, we want to share with you our perspective on last year's events, and reflect on the steps we have taken for 2014 to be a stronger year.

Moving forward stronger at MTS
At MTS, we continued to deliver solid operating results in 2013. MTS remains strong, with leading market shares across nearly all of its business lines and generating strong operating cash flows that support our dividend. This year, we were pleased to see MTS take several steps to position itself for an even stronger future, including the:

- Acquisition of EPIC Information Solutions, the leading IT provider in Manitoba – providing sources of future growth through new product lines and ensuring we remain the one-stop, fully-integrated service provider in our market.
- Announcement of plans to build Manitoba's first commercial large data centre for business customers – responding to strong customer demand and allowing us to capitalize on Manitoba's affordable land and inexpensive sources of renewable energy. The only data centre of its kind in Manitoba, it will position us to become the leading, local provider of server colocation, managed hosting and cloud services.
- Continued expansion of our fibre-to-the-home and VDSL2 networks across Manitoba, all driving faster data speeds and enabling larger suites of services to be offered to a growing customer base. In 2013, we brought fibre-to-the-home technology to three more rural communities and our DSL high-speed Internet service to 16 more rural communities.
- Announcement that MTS will be providing more than 350 Wi-Fi access points in City of Winnipeg facilities over the next two years, in addition to the hundreds we already have.
- Further deployment of our very high-speed wireless LTE network to six more communities across Manitoba and the introduction of LTE wireless data roaming in more than 80 locations in urban Canadian centres and in many international locations.

MTS also made solid improvements in customer service in 2013. We expanded self-serve and online capabilities, simplified customers' bills, and improved our care centre first call resolution for the third year in a row. These enhancements are just the beginning – indeed our wireless network was recognized by PC Magazine as the best and fastest in Manitoba! Improving our customers' experience in Manitoba remains a top priority in 2014.

Moving forward stronger at Allstream

Allstream also entered the New Year as a stronger division than in 2013. There is no question that Allstream's operating results – especially sales – were impacted by the prolonged uncertainty of the sale process. That is now behind us and we look forward to harvesting the benefits of our efforts of the past few months:

- Allstream connected its 3000th building – far surpassing the goals we set three years ago when we announced our "on-net" strategy allowing us to better control our end-to-end customer experience and deliver more profitable services.
- Management has taken significant steps to adjust our cost structure – but in a targeted manner that allowed us to expand the size of our sales force.
- We have also taken steps that may not be visible externally – such as how we direct our sales force and how we change our internal order processing – all to ensure we are more nimble and focused on delivering a more efficient and effective "sales to installation to billing" process.
- We have also allocated funding for strategic investments in the next generation of our IP data network.
- We have solidified our customer commitment adding the Allstream Service Guarantee to the Business Internet product line, which includes specific commitments on performance, service and price for our customers.
- We have recently established a national Technical Support Centre of Excellence in Montreal and increased the size of our team to enhance support to Canadian businesses.
- Finally, Allstream has launched innovative products that are expected to help Canadian businesses achieve significant savings on voice services, such as SIP Gateway.

Going forward, Allstream's strong customer relationships, committed employees, relevant products and expanded network footprint are key strategic advantages for us. We will build on these strengths in 2014 and further differentiate ourselves from other telecommunication providers. The industry is eager for a competitor to challenge the incumbents and every day we hear about the need for more competition in the Canadian communications industry. Allstream is the alternative to the incumbents that Canadian businesses are searching for and we look forward to seizing more of the opportunities before us.

Moving forward stronger in our communities

Last year we also strengthened our commitment to the communities we serve. In Manitoba, we announced an even greater contribution in the province and to the future of Manitoba. We launched our new community investment strategy that makes a commitment to helping Manitoba's young people overcome barriers to their success and build a better future for us all. The new program, aptly named MTS *Future First: Connecting Today's Youth to Tomorrow*, reflects a multi-faceted community investment vision encompassing sponsorships, grants, donations, scholarships, employee volunteerism and fundraising programs designed to create opportunity for the advancement of our young people. We extend a heartfelt thank you to our employees who helped, and continue to help, bring *Future First* to life.

We are also exceptionally proud of our MTS Volunteers organization, who this year reached two important milestones: celebrating their 75th anniversary and acknowledging more than one million hours of volunteer commitment over the organization's history.

Nationally, we also established a variety of new community partnerships at Allstream, including one with the Canadian Engineering Memorial Foundation. Together with the Foundation, we announced the Allstream Information and Communications Technology Scholarship supporting Canadian women in engineering. In addition, as the Canadian leader in IP-based communications solutions, Allstream is proud to be an official supplier of the 2015 Pan Am/Parapan Am Games in Toronto. We look forward to showcasing the Company's network and expertise in managing complex technology environments to this world-class event.

Our philanthropic efforts also included our annual United Way campaign and a readiness to support disaster relief efforts both at home and across the globe. In 2013, we raised more than $1 million nationwide for the United Way and made donations to the Canadian Red Cross to support relief efforts following natural disasters in both Alberta and the Philippines. Our employees pulled together during the Alberta flood and Toronto ice storm, working night and day to support our customers ensuring that our network performed without any major interruptions.

Moving forward stronger in 2014

We also continue to work hard for our shareholders. We reorganized across the entire company and have reduced our executive team by about a third, driving a leaner, more nimble culture with lower operating costs. We also completed a successful offering of common shares late in 2013, reflecting the market's support in the Company and at the same time strengthening our balance sheet to allow us more flexibility in the future.

Finally – a few words in respect of the Allstream sale process that was rejected by the Federal Government last fall. Obviously, we were disappointed by this unexpected result, especially after all of the hard work and energy that management, members of the Strategic Committee and the entire Board put into supporting this process. Notwithstanding this setback, this process taught us all a lot about Allstream's business, how we operate it and it validated that we are on the right path. Indeed, we are moving forward stronger with Canada's only national competitor to incumbents in the business market.

On behalf of the Board and management, we would like to thank our employees for their hard work and perseverance through 2013. Your dedication is appreciated. We would also like to thank our Board of Directors and management team for their support and guidance, and to you, our fellow shareholders, for your investment and faith in MTS Allstream. With the changes we have made, we are moving forward stronger in 2014.

David Leith
Chair

Pierre Blouin
Chief Executive Officer

March 24, 2014

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February 6, 2014

This Management's Discussion and Analysis ("MD&A") of our financial results comments on our operations, performance and financial condition for the years ended December 31, 2013 and 2012. This MD&A is based on financial statements prepared under International Financial Reporting Standards ("IFRS"). All financial amounts, unless otherwise indicated, are in Canadian dollars and in accordance with IFRS. MTS Allstream implemented changes to its organizational structure on January 1, 2012. Accordingly, segmented information for 2011 has been re-stated.

Unless otherwise indicated, this MD&A for the year ended December 31, 2013 is as at February 6, 2014.

In preparing this MD&A, we have taken into account information available to us up to February 6, 2014. In this MD&A, "we", "our" and "us" refer to Manitoba Telecom Services Inc. ("the Company"). This MD&A should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2013.

About us

For more information about our company, including our Annual Information Form and audited consolidated financial statements for the year ended December 31, 2013, dated February 6, 2014, please visit our website at www.mtsallstream.com or visit SEDAR at www.sedar.com.

Risks and uncertainties

In conjunction with our audited consolidated financial statements and this MD&A, we urge you to read the important risks and uncertainties that are detailed on page 36 of this MD&A.

Non-IFRS measures of performance (EBITDA and free cash flow)

In this MD&A, we provide information concerning earnings before interest, taxes, depreciation and amortization ("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 IFRS, and are not necessarily comparable to similarly-titled measures used by other companies. Please refer to page 46 of this MD&A for a discussion of these terms.

Regarding forward-looking statements

This MD&A and, in particular, but not limited to, the "Risks and uncertainties" section of this MD&A, include forward-looking statements and information (collectively, "statements") including, but not limited to, statements pertaining to the Company's corporate direction, business opportunities, operations, financial objectives, future financial results and performance, 4G Long Term Evolution ("LTE") wireless network expansion, fibre-to-the-home ("FTTH") deployment, national IP fibre network expansion, pension funding, the outcome of the negotiations, the time, method, quantum and implementation of any payment obligations, the Company's future cash flows, liquidity, credit ratings and profitability, and other events that could occur as a result of the Supreme Court of Canada ("SCC") decision, as well as other statements that are not historical facts. 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. All forward-looking statements are made pursuant to the safe harbour provisions of applicable Canadian securities legislation.

Forward-looking statements are subject to risks, uncertainties and assumptions. As a consequence, actual results in the future may differ materially from any forward-looking conclusion, forecast or projection, whether expressed or implied. Therefore, forward-looking statements should be considered carefully and undue reliance should not be placed on them.

Please note that forward-looking statements in this MD&A reflect Management's expectations as at February 6, 2014, and thus, are subject to change thereafter. The Company disclaims 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 MD&A and the financial information contained herein have been reviewed by the Company's Audit Committee and approved by the Company's Board of Directors ("the Board").

Factors that could cause anticipated opportunities and actual results to differ materially include, but are not limited to, matters identified in the "Risks and uncertainties" section of this MD&A.

Subsequent event: Supreme Court of Canada's decision regarding pension lawsuit

The Company announced on January 30, 2014 that the SCC reinstated a lower court ruling on a lawsuit regarding the administration of one of MTS's pension plans following the Company's privatization in 1997. The Company and its outside advisors are reviewing the implications of the ruling, which is complex.

While the total dollar value of the judgment is understood and will not exceed $142.1 million, the cash flow impact is subject to the determination of the implementation details and requires further negotiations with and between the plaintiffs, as well as other potential beneficiaries who are not represented by the plaintiffs. Accordingly, the timing of any funding which may be required for the judgment is not known at this time, and may be impacted by the nature of the specific benefits that will ultimately be negotiated. It is expected that a significant portion of the negotiated benefits will be in the nature of pension benefits which are normally funded over time in accordance with the *Pension Benefits Standards Act*, 1985 (Canada). The Company will disclose the specific implementation plan once they are known, as well as the expected impact on cash flows.

IFRS requires that the Company treat this ruling as a past service cost, which must be expensed immediately, regardless of the timing of any potential cash flow impact. As a result of the SCC's ruling, the Company has recorded a $142.1 million non-cash charge against income in the fourth quarter of 2013, to reflect the total estimated value of the pension benefits and other estimated costs.

During 2013, the Company's pension plans performed strongly and experienced an average return on assets exceeding 18%. These asset returns, combined with a rising interest rate environment, have reduced the Company's solvency deficit from more than $600 million at January 1, 2013 to less than $300 million (estimated) at January 1, 2014, including the full value of the SCC ruling as well as the new mortality tables to be implemented in 2014. As a result, the Company's pension solvency deficit is now only half of what it was one year ago.

In December 2013, the Company pre-funded $55 million of solvency payments into its pension plans. Excluding any impact that may result from the SCC decision, this prefunding is sufficient to cover all required solvency payments in 2014. Further payments into the pension plan, if any are required in 2014, would only be determined once the implementation plan for the SCC's decision becomes clearer.

The Company expects to have sufficient liquidity to satisfy its pension funding obligations, including the impacts which may result from the SCC judgment, using the funds raised in the equity financing that closed in December 2013. The Company will not be using cash flow from operations to meet its pension funding obligations and expects to maintain its current credit rating under any funding scenario. Additionally, the Company continues to generate strong free cash flows, which it expects will be more than sufficient to fund the Company's ongoing cash needs.

EXECUTIVE SUMMARY – CORPORATE PROFILE

THE COMPANY

Manitoba Telecom Services Inc. is the market leader in Manitoba and a leading national communications provider in Canada. We provide innovative communications solutions for the way Canadians live and work today, serving all market segments in Manitoba through our MTS Inc. subsidiary ("MTS") and business customers across Canada through our Allstream Inc. subsidiary ("Allstream"). Our common shares are listed on the TSX (trading symbol: MBT). Our company is headquartered in Winnipeg, with eight other corporate offices across Canada. Our website is www.mtsallstream.com.

LEADERSHIP

Our experienced leadership team, consisting of key senior executives, is accountable for our operations, financial results and strategic focus. Their vision and leadership set the direction for driving us to be the best telecommunications provider in Canada. By leveraging the strength of all of our employees' entrepreneurial spirit and skills and maintaining our close customer relationships, we are building on a strong foundation and network, now and for the future. To view more information on our leadership team, please visit www.mts.ca/leadershipteam.

A STRONG FOUNDATION FOR THE FUTURE

We are focused on continually producing solid revenue and customer growth in strategic areas, along with planning to maintain reliable cash flows and improving our customer experience. We are a leading, socially responsible corporate citizen with a reputation as a great place to work.

CORPORATE GOVERNANCE – BOARD OF DIRECTORS

We are governed by a Board of Directors that consists of 10 members who are business and community leaders. The Board has been carefully chosen for nomination in order to maintain its independence and also to ensure that it has a solid base of experience and expertise. The Board is the highest governing authority within our management structure. The Board's responsibilities include the following items:

- Review and approval of our strategic direction, financial objectives and major policy decisions
- Oversight of executive compensation, performance evaluation and succession plans
- Monitoring financial and operational performance, risks, business conduct and ethics and internal auditing controls
- Effective Board governance and director education, and
- Timely and accurate disclosure of shareholder information.

Key awards and recognitions

2013 **August**
Canadian Society of Corporate Secretaries' First Governance Awards
Honourable Mention for Best Overall Corporate Governance

November
Board ranked in the top six percent in *The Globe and Mail's* Board Games 2013 and the best Telecom company in the report.

The Canadian Society of Corporate Secretaries' First Governance Awards recognizes companies that demonstrate leading-edge approaches to good governance and public disclosure. It was specifically noted by the society's judging panel that we are a leader among smaller and mid-sized Canadian issuers.

The *Globe and Mail*'s corporate ranking reviews Canadian publicly traded companies by board composition, shareholding and compensation, shareholder rights and disclosure. Our high ranking highlights our top-performing Board – one which follows and observes some of the best corporate practices and policies. For more information on our Board, please visit www.mts.ca/bod or review our annual management information circular.

HIGHLY SKILLED NATIONAL WORKFORCE

A key factor in our success is our highly skilled and dedicated workforce of 4,849 employees across Canada. We pride ourselves in providing an environment that promotes creativity and embraces people to think and act beyond the ordinary. Our team of talented people puts us at the top and, along with their drive and desire, positions us for the future.

EXECUTIVE SUMMARY – 2013 IN REVIEW

First quarter

- Allstream achieves Cisco Cloud and Managed Service Master certification.
- MTS receives the prestigious Project Management Institute's 2013 Project of the Year award.
- AAA Alarms launches a new interactive home and business monitoring solution called "Take Control".
- Allstream employee appointed Chair of the Canadian telecom cyber-protection working group for 2013.
- MTS pre-paid wireless devices now available at all 7-Eleven Stores in Manitoba.

Second quarter

- Allstream helps Canadian companies defend against cyber-crime.
- Allstream establishes, together with the Canadian Engineering Memorial Foundation, a scholarship supporting Canadian women in engineering.
- MTS adds the Samsung Galaxy S4™ to its handset line-up.
- MTS celebrates 25 years as Manitoba's leading wireless provider.
- MTS invests over $40 million in rural Manitoba networks in 2013.
- Manitoba Telecom Services Inc. concludes strategic review process with agreement to sell Allstream to Accelero Capital.
- MTS celebrates 75 years of caring in Manitoba – more than 50,000 volunteer hours annually.
- MTS enhances wireless service through extended network sharing agreement with Rogers.
- Dauphin's Countryfest partners with MTS to offer fans enhanced wireless services.
- The Company supports flood relief efforts in Alberta with a $25,000 donation.

Third quarter

- Allstream wins NAV CANADA's Supplier Recognition Award of Excellence – two years in a row.
- MTS and the Winnipeg Football Club launch a new Winnipeg Blue Bombers mobile app.
- Allstream sponsors the 101st Calgary Stampede.
- MTS and TEAM union negotiations reach positive conclusion, with new collective agreement.
- Introduction of Allstream Business Internet – Guaranteed.
- Allstream increases IP network access into and out of Canada.
- MTS supports Manitoba filmmakers at Gimli Film Festival.
- Allstream's president elected to Board of Metro Ethernet forum.
- MTS to offer iPhone 5s and iPhone 5c.
- Allstream receives eighth consecutive Customer Satisfaction Excellence Gold Star from Cisco.
- The Company acquires EPIC Information Solutions.

Fourth quarter

- Government of Canada ("the Government") rejects MTS sale of Allstream.
- Allstream employee honoured with Bronze Stevie award – category of *Women helping Women*.
- Allstream presented with United Way's Exemplary Award for leadership in fundraising excellence.
- MTS pledges three-year $150,000 funding commitment support to help break the cycle of domestic violence in Manitoba.
- MTS partners with City of Winnipeg to bring MTS Wi-Fi to community facilities.
- MTS recognized by *PC Magazine* as having the fastest mobile network in Winnipeg.
- The Company donates $20,000 to support relief efforts in the Philippines.
- MTS launches domestic and international LTE roaming.
- MTS enhances customer experience with implementation of Canadian Radio-television and Telecommunications Commission ("CRTC") wireless code of conduct.
- The Company raises approximately $249 million in equity.
- The Company pre-funded an additional $55 million of solvency payments into its pension plans.
- MTS FTTH network now available in Winnipeg, Brandon and 12 other communities.
- MTS 4G LTE network is now available in eight communities.
- MTS launches new community investment initiative, Future First.
- MTS to build world-class data centre in Manitoba.
- The Company changes auditors.

January 2014

- Dean Prevost steps down as Allstream President; Mike Strople named new Allstream President.
- Allstream named the official managed IP communications supplier and official hosted collaboration solutions supplier for the Toronto 2015 Pan Am/Parapan Am Games.
- The Company receives SCC's decision regarding MTS pension plan lawsuit.

February 2014

- Allstream to establish Technical Support Centre of Excellence in Montreal.

EXECUTIVE SUMMARY – MTS

MTS – THE UNDISPUTED MARKET LEADER IN MANITOBA

MTS is the leading full-service telecommunications provider for residential and business customers. We have the strongest in-region distribution and the richest bundling capabilities among our peers, all supported by our pervasive infrastructure and exceptional brand recognition. Listed below are the services we offer, key subscriber statistics, our strategic objectives and the benefits of choosing MTS.

Services

- Wireless (4G LTE, 4G HSPA+, CDMA and Wi-Fi)
- High-speed Internet
- IPTV
- Wireline voice
- Home and commercial security
- Business services (Data, converged IP and unified communications)

501,388
Wireless subscribers
53% MB market share

208,331
High-speed Internet subscribers
53% MB market share

109,085
Television subscribers
34% Winnipeg market share

212,276
Business network access lines

274,557
Residential network access lines

43,181
Security and monitoring customers

We offer a full suite of wireless, high-speed Internet, Internet Protocol television ("IPTV"), wireline voice and home security services together with a complete package of business telecommunications services. Our Manitoba operations rank among the most profitable in Canada, with a 2013 EBITDA margin of 47.9%.

MTS STRATEGIC OBJECTIVE

At MTS, we intend to strengthen our market-leading position by:

- Continuing to invest substantial resources to bring the latest technology and services to Manitoba
- Expanding our coverage of key broadband and wireless services across the province
- Improving the way that services can be purchased cost-effectively within a bundle and
- Strengthening our brand recognition through active participation in many important community initiatives.

MTS COMPETITIVE ADVANTAGES

Our 4G LTE network sets the standard

MTS was the first provider of 4G LTE high-speed mobile data in Manitoba. LTE is recognized as the gold standard in wireless technologies. This network is currently capable of delivering download speeds of up 150 Mbps and upload speeds of up to 50 Mbps, ensuring our customers can use their smartphones to the fullest. With the expectation of ever-increasing data traffic on our networks, MTS is constantly evolving our LTE technology, offering the benefits of these advancements to our customers.

Market-leading network and data reach

Broad and fast wireless networks: Our combined 4G LTE, 4G HSPA+, CDMA and Wi-Fi network coverage to 97% of Manitoba gives us the best wireless network reach in Manitoba. Our network coverage is available to 97% of Manitobans. MTS customers, when traveling outside of Manitoba, can connect to LTE in over 80 locations in Canada, and we are one of only two Canadian carriers to announce the launch of international LTE roaming.

IPTV provides exceptional quality, varied choices, flexibility and value

Broadband and converged IP services include revenues earned from providing high-speed Internet and IPTV services to residential customers, as well as IP-based connectivity to business customers. It is a priority to expand our FTTH network, providing Manitobans with the connections to experience whatever they choose online. We have a multi-year program to deploy our FTTH network to over 20 communities in Manitoba.

MyBundle service – unique and unrivaled bundles

MTS "owns the home" in Manitoba, with unmatched bundling that brings our most attractive offers to our higher-value customers. MTS customers are able to mix and match the services they want, including wireless, television, Internet, home phone and security services. With our industry-leading five-service bundling option, our customers receive the best value. Our bundles are the gold standard in Manitoba. As at December 31, 2013, we had a total of 99,456 bundled customers, which is a 3.1% increase over 2012.

2013 Bundled services – 99,456 bundled customers

Exceptional brand recognition, unwavering commitment to Manitoba

MTS has been serving Manitobans for more than a century, supported by our market-leading brand recognition. With this comes a responsibility to support our province through community involvement. Together with our employees and retirees, we are making a difference across Manitoba, sponsoring initiatives that include the Winnipeg Art Gallery centennial celebrations and the MTS Digital Media Camp at the Gimli Film Festival, among many other programs. MTS also continued its ongoing sponsorship of educational institutions across the province, including the Canadian Museum for Human Rights. We continue to be a proud sponsor of the MTS Centre in Winnipeg, home of the Winnipeg Jets, and the exclusive provider of telecommunications services at the Investors Group Field, home of the Winnipeg Blue Bombers.

2013 Prairie research associate survey – According to 800 Manitobans surveyed, MTS is the second-most recognized brand in Manitoba.

KEY MTS DEVELOPMENTS

MTS has long been recognized as an industry innovator, often being the first to introduce services in areas such as wireless, digital television, the Internet and electronic commerce. Listed below are some of our key achievements in 2013.

Bringing the latest technology and services

- **Plans to build Manitoba's only custom-built data centre** – Our plan to build and run a $50-million data centre facility positions us to become a local leading provider of server colocation, managed hosting and cloud services. Groundbreaking is scheduled for 2014 and the centre is scheduled to open in 2015.
- **Acquires EPIC Information Solutions ("EPIC")** – Acquiring EPIC represented a significant expansion by the Company into the IT space in 2013. EPIC will provide the skills and expertise needed to operate our new data centre.
- **Partnership program** – MTS and The Accurate Technology Group ("ATG") plan to launch the ATG Connect Home Program, *Powered by MTS*. This unique and exclusive partnership enables ATG to equip newly built single-dwelling homes with MTS services in Winnipeg and many surrounding communities – including locations served by our state-of-the-art MTS FiON® Network.
- **Ongoing handset line-up expansion** – Addition of the Samsung Galaxy S4™, the iPhone 5s and the iPhone 5c, and providing pre-paid wireless devices for purchase in all 7-Eleven stores in Manitoba.

More advanced services, in more areas – over $40 million invested

As part of our overall 2013 network spending program, more than $40 million was spent on rural infrastructure upgrades and enhancements. Along with normal operating investments to add capacity and to serve new and existing customers, part of the 2013 network program included investments to make the latest wireless and broadband technology available to more Manitobans living in rural areas.

Wireless networks – 2013 LTE expansion plan completed

- MTS was the first carrier in Manitoba to launch a 4G LTE wireless network, initially supporting download speeds of up to 75 Mbps, and introduced a selection of LTE-capable devices. Our 4G LTE wireless network is now available in Winnipeg, Brandon, Portage la Prairie, Victoria Beach, Grand Beach, Selkirk, Steinbach and Ste. Anne. MTS plans to cover more than 90 per-cent of Manitoba's population with 4G LTE wireless service over the next five years.

2013 4G LTE wireless network reach
– 8 Manitoba communities have access to the 4G LTE network, and
– LTE roaming is offered in urban Canadian centres (over 80 locations) and in several international locations, including most major urban centres in the U.S.A.

Broadband networks

- Our MTS FiON® Network expansion continued in 2013, providing customers in 14 communities with the most advanced services MTS currently offers, including MTS Ultimate TV® and ultra-fast high-speed Internet. The MTS Ultimate TV® service is currently available to 94% of Winnipeg households, to 99% of Brandon households, to 97% of Portage la Prairie households and to a growing number of homes in connected communities.
- Started in 2013 and planned for the next two years, MTS intends to invest nearly $2 million to bring Wi-Fi to 350 City of Winnipeg locations. MTS currently has over 400 Wi-Fi hotspots throughout Manitoba, including the MTS Centre, the largest Wi-Fi hotspot in the province.
- MTS provided our DSL-based high-speed Internet service – a technology that transforms a regular telephone line into a high-capacity data highway – to 20 new rural communities in 2013. Across Manitoba, 215 communities now have access to our high-speed Internet service using DSL and/or fibre technology.

2013
Broadband network reach – 87% of Manitoba homes have access to our high-speed Internet services
FTTH market reach – Winnipeg, Brandon and 12 other communities now have access to FTTH
FTTH coverage – Over 37,480 Manitoba homes passed by FTTH
MTS Ultimate TV® channels – 146 high-definition channels, with nearly 500 channels in total

In the community – unlimited possibilities

As one of the country's leading national communications providers, our goal is to contribute to the welfare of the communities in which we operate and serve. Our aim is to continuously have a positive impact on the lives of our employees, customers and other stakeholders through our products and services, as well as through our actions in our workplace, communities and environment.

We are committed to a brighter future for our young people through the new MTS Future First program. Future First, a program we launched in December 2013, is a multi-faceted community investment strategy that includes sponsorships, grants, donations, scholarships, employee volunteerism and fundraising programs to help in the advancement of Manitoba's young people.

2013 community support – More than 50,000 volunteer hours in support of local organizations

New community initiatives

Future First – $100,000 in grants each year to youth-serving organizations

Red Road to Healing and Traditional Teachings – $150,000 funding commitment to help Aboriginal women overcome the effects of family violence

EXECUTIVE SUMMARY – ALLSTREAM

ALLSTREAM – THE LEADING COMPETITOR IN THE CANADIAN BUSINESS SECTOR

Allstream is the largest national communications provider that works exclusively with business customers. A Canadian industry leader in innovative IP-based solutions, Allstream leverages its nationwide high-performance IP network to help businesses of all sizes unify the many ways they connect – to better serve their customers, to improve efficiency and productivity, and to maximize their payback.

IP-based solutions
- IP connectivity
- Unified communications
- Security and hosting services

1 of only 3
Truly national providers in business markets

3,003
IP fibre-connected buildings

30,000 km+
National IP fibre network with 9 U.S. network access points

Allstream is a strong competitor in the Canadian telecommunications market, with converged IP revenues of $241.9 million in 2013. We connect businesses across our nation with our extensive national IP network. As at December 31, 2013, the network spans over 30,000 kilometers and has a presence in a total of 3,003 buildings (up 280 buildings from 2012). To view our IP network map, go to www.allstream.com/about-us/ipnetwork/.

ALLSTREAM STRATEGIC OBJECTIVES

Our key strategic objectives are to:

- Continue to leverage our national IP fibre network, facilitating high-margin IP growth
- Improve our profitability and margins by exiting low-margin legacy business and shifting to high-margin businesses, such as IP-based products that are delivered on our network
- Continue to improve the customer experience by the use of our service guarantees, increased training of sales staff and strong customer support, and
- Improve operational efficiencies through simplification.

ALLSTREAM COMPETITIVE ADVANTAGES

Network structure and reach

Allstream is the only national communications provider focused exclusively on serving Canadian business. We are able to leverage our multi-billion-dollar investment in our extensive IP fibre network, along with the popularity of IP-based products in the Canadian business marketplace. Our IP grid allows us to drive growth in high-margin on-net IP-based services.

Deliver superior customer service – service guarantees

What our Allstream customers receive is a commitment for predictable and personalized service, with a guarantee that we will stand behind this promise. To support this claim, Allstream offers an Allstream Service Guarantee, an industry-first customer service commitment. If we falter in this assurance to our clients, we will give the client a month of free service – proof that we keep our promises and are accountable. In 2013, Allstream launched a guarantee for Internet services that it provides over its national IP-based network. Allstream Business Internet – Guaranteed includes specific commitments on performance, service and price. For example, Allstream guarantees 100% availability Internet service. To learn more about Allstream's guarantees, visit www.allstream.com/about-us/.

KEY ALLSTREAM DEVELOPMENTS

Re-structuring

Allstream Inc. – As a result of the strategic review process and the anticipated sale, provision of services between Allstream Inc. and MTS Inc. is on an arms-length basis.

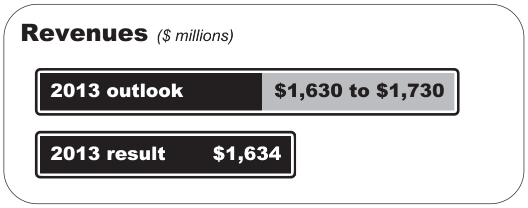
National fibre footprint growth – 280 new buildings connected in 2013

Strategy to expand our on-net footprint – Allstream's targeted expansion approach maximizes momentum created by the popularity and growth of IP-based products in the Canadian business marketplace. We have 3,003 buildings now connected to our fibre network. This focused smart growth approach has supported our drive to deliver value to all business markets, while growing our target market.

Cost structure

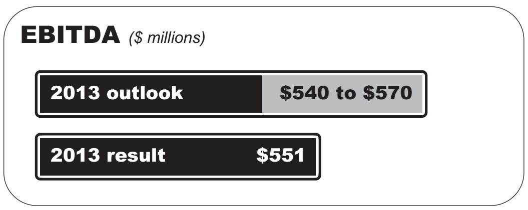
Reduce cost structure – Our mandate is to keep costs in check. Our operating approach – to optimize and grow the business while having a strong handle on our cost structure – saw us realize annualized savings of $46.6 million (for Allstream only) in 2013.

EXECUTIVE SUMMARY – 2013 CONSOLIDATED FINANCIAL SCORECARD



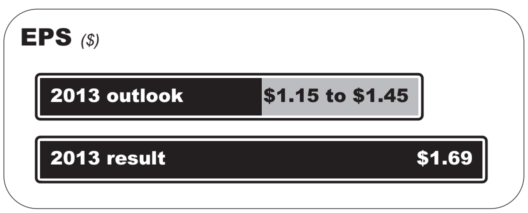
2013 Outlook **$1,630 to $1,730 million**
2013 Result **$1,634 million**
2013 Score **Met**
2012 Result **$1,704 million**

- Reflecting the disruption of the rejected Allstream transaction, revenues were down $70.4 million, or 4.1%, in comparison to 2012.
- Strategic lines of business revenues[1] were up $26.7 million, or 3.3%.
- Legacy lines of business revenues[2] were down $75.2 million, or 10.6%.
- Wholesale wireless revenues were down $11.2 million, or 32.6%.
- Wireless revenues, excluding wholesale, were up $24.4 million, or 7.4%.



2013 Outlook **$540 to $570 million**
2013 Result **$551 million**
2013 Score **Met**
2012 Result **$585 million**

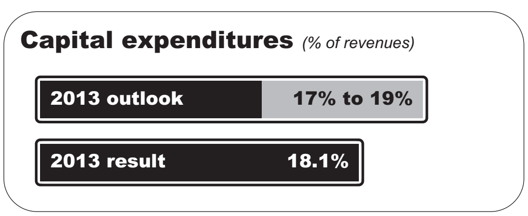
- Consolidated EBITDA was down $33.9 million, or 5.8%, when compared to 2012, reflecting the negative impact of $35.2 million in costs associated with the proposed sale of Allstream.
- MTS EBITDA down $0.4 million, or 0.1%.
- Allstream EBITDA down $27.7 million, or 25.4%.



2013 Outlook **$1.15 to $1.45***
2013 Result **$1.69***
2013 Score **Met**
2012 Result **$2.17**

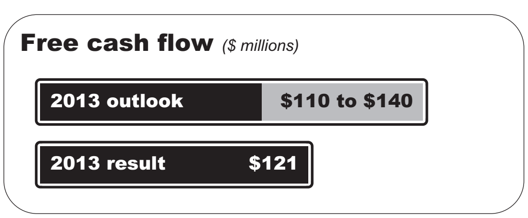
** Earnings per share ("EPS") exclude pension plan decision costs of $1.52 and IFRS-required Allstream impairment loss of $1.41 in 2013.*

- EPS exceeded our updated 2013 guidance, due to Allstream's assets not being depreciated while held for sale, as required by IFRS.



2013 Outlook **17% to 19% of revenues**
2013 Result **18.1% of revenues**
2013 Score **Met**
2012 Result **19.8% of revenues**

- Capital expenditures were down by $42.0 million, or 12.4%, when compared to 2012.
- There were lower capital expenditures in 2013, due to the 2012 completion of our wireless billing system upgrades and the Winnipeg and Brandon 4G LTE network builds.



2013 Outlook **$110 to $140 million**
2013 Result **$121 million**
2013 Score **Met**
2012 Result **$118 million**

- Free cash flow was up $3.4 million, or 2.9%, over 2012.
- Higher FCF from lower capital expenditures, partly offset by lower EBITDA resulting from transaction and re-structuring costs relating to the proposed Allstream sale, and higher deferred wireless costs of acquisitions.

1 Wireless, broadband and converged IP
2 Local access, long distance and legacy data

DISCUSSION OF OPERATIONS

CONSOLIDATED STATEMENTS OF NET INCOME AND OTHER COMPREHENSIVE INCOME

($ millions, except EPS and weighted average shares outstanding)	**2013**	2012	% variance
MTS operating revenues	**995.0**	980.6	1.5
Allstream operating revenues	**673.6**	758.2	(11.2)
Intersegment eliminations	**(34.9)**	(34.7)	0.6
Consolidated operating revenues	**1,633.7**	1,704.1	(4.1)
Operations expense	**1,047.2**	1,118.9	(6.4)
MTS EBITDA before transaction costs	**478.9**	477.5	0.3
Allstream EBITDA before transaction and re-structuring costs	**107.3**	109.2	(1.7)
Other EBITDA before transaction costs	**0.3**	(1.5)	n.a.*
Consolidated EBITDA before transaction and re-structuring costs	**586.5**	585.2	0.2
MTS transaction costs	**1.8**	—	n.a.
Allstream transaction and re-structuring costs	**25.8**	—	n.a.
Other transaction costs	**7.6**	—	n.a.
Total transaction and re-structuring costs	**35.2**	—	n.a.
MTS EBITDA	**477.1**	477.5	(0.1)
Allstream EBITDA	**81.5**	109.2	(25.4)
Other EBITDA	**(7.3)**	(1.5)	n.a.
Consolidated EBITDA	**551.3**	585.2	(5.8)
Depreciation and amortization	**(309.1)**	(322.8)	(4.2)
Other expense	**(0.8)**	(1.1)	27.3
Impairment loss – Allstream	**(130.4)**	—	n.a.
Pension plan decision costs	**(142.1)**	—	n.a.
Finance costs	**(81.1)**	(78.3)	3.6.
(Loss) income before income taxes	**(112.2)**	183.0	n.a.
Income tax recovery (expense)	**27.8**	(38.5)	n.a.
Net (loss) income for the year	**(84.4)**	144.5	n.a.
Other comprehensive income (loss) for the year, net of tax	**202.4**	(46.0)	n.a.
Total comprehensive income for the year	**118.0**	98.5	19.8
Weighted average shares outstanding[1] (in millions)	**68.2**	66.6	2.4
EPS	**($1.24)**	$2.17	n.a.

1 The increase in the number of weighted average shares outstanding is mainly due to the December 2013 issuance of 8,855,000 common shares and participation in the Company's dividend re-investment program.

* not applicable

Operating revenues

Total operating revenues were down by $70.4 million, when compared to 2012, mostly due to declines in wireless wholesale and legacy lines of business and softness in Allstream converged IP revenues due to the negative impact of a prolonged regulatory process relating to the proposed Allstream transaction, partly offset by revenue gains from our strategic lines of business (wireless, broadband and converged IP). A more thorough review of MTS and Allstream operating revenues in 2013 can be found on pages 18 to 25.

Operations expense

Operations expense decreased by $71.7 million in 2013 in comparison to 2012, due to targeted cost structure improvements at Allstream and operational efficiency initiatives completed in previous periods.

In 2013, we realized a total of $69.5 million in annualized cost reductions resulting from operational savings throughout the year, transaction-related Allstream restructuring and lower salaries and benefits costs from staff retirements. Our costs savings exceeded our 2013 guidance range of $30 million to $40 million.

EBITDA

Consolidated EBITDA was down $33.9 million, mainly due to transaction-related costs and re-structuring amounting to $35.2 million in 2013. In the fourth quarter, MTS received a retro-active CRTC decision which reduced local contribution revenues by $3.4 million, on a one-time basis. Excluding transaction and re-structuring costs, as well as the retro-active CRTC decision, 2013 consolidated EBITDA would have increased 0.8% over that of 2012, reflecting MTS's continued steady growth and margin improvements at our Allstream operations. Allstream is focusing its efforts on a return to the performance levels achieved prior to the transaction. By growing our on-net IP services and managing costs, Allstream's strategy is to quickly return to EBITDA growth in 2014.

Depreciation and amortization expense

When compared to 2012, our depreciation and amortization expense decreased by $13.7 million, mainly due to Allstream being held for sale during the period between May 24, 2013 and October 7, 2013. IFRS does not allow assets held for sale to be amortized while classified as held for sale. The decrease in depreciation and amortization expense was partly offset by increased assets in service and higher amortization of wireless costs of acquisition related to increased demand for smartphones.

Finance costs

The Company's finance costs increased $2.8 million, resulting from lower capitalized interest.

Income tax expense

Our income tax expense decreased by $66.3 million in 2013, mainly due to lower income resulting from pension plan costs relating to the SCC's ruling amounting to $142.1 million, an IFRS-required write-down of Allstream's long-term assets, resulting in an impairment loss of $130.4 million, associated with the proposed Allstream transaction, and transaction and re-structuring costs of $35.2 million. The tax impact of these three items is $82.4 million.

We continue to have substantial capital cost allowance pools, tax losses and investment tax credits, which we expect will fully offset our taxable income and eliminate cash income taxes until 2020 at the earliest, due to the negative impact of the proposed Allstream transaction, updated assumptions for future taxable income as well as expected income tax and Scientific Research and Experimental Development ("SR&ED") investment tax credit audit outcomes. The present value of these items is approximately $305 million.

Net income and EPS

Net income and EPS were down $228.9 million and $3.41 in 2013, respectively, due to the SCC's MTS pension plan decision, an IFRS-required write-down of Allstream assets, and transaction and re-structuring costs, partly offset by a lower operations expense and a lower depreciation and amortization expense. Excluding the effect of the pension plan decision and the impairment loss, EPS would have decreased $0.48 to $1.69 in 2013.

Net income and EPS adjusted for one-time items

($ millions, except EPS)	Before taxes	After taxes	Impact on EPS*
Net loss for the year	(112.2)	(84.4)	($1.24)
Add back:			
Impairment loss – Allstream	130.4	95.9	$ 1.41
Pension plan decision costs	142.1	103.7	$ 1.52
Adjusted income for the year	160.3	115.2	$ 1.69

* EPS is based on weighted average shares outstanding of 68.2 million for the twelve months ended December 31, 2013

Other comprehensive gain (loss)

Other comprehensive income represents net actuarial gains and losses arising from changes in the present value of the obligations of our defined-benefit plans and in the fair value of the assets of our defined-benefit plans. These items are recognized in other comprehensive income net of tax, and therefore do not have an impact on net income or EPS.

The increase in other comprehensive income was due to increasing long-term interest rates and strong returns on pension assets.

MTS LINES OF BUSINESS

Described below are MTS's six business lines. The following pages then provide an analysis of the results for each line of business, on an annual basis.

Wireless services

Steady, constant demand for high-speed wireless data supports wireless revenue growth

MTS's wireless portfolio for residential and business customers consists of cellular, wireless data, paging and group communications. Our market share and combined 4G LTE, 4G HSPA+, CDMA-EVDO and Wi-Fi hotspot networks demonstrate that we are the market leader, with the best wireless network reach in the province. Our network coverage is available to 97% of Manitobans. We were the first 4G LTE provider in Manitoba – this advanced network is currently capable of delivering download speeds of up to 150 Mbps and upload speeds of 50 Mbps, ensuring our customers can use their smartphones to the fullest. To view the map of our wireless network coverage, visit www.mts.ca/mts/personal/wireless/coverage+and+roaming.

Broadband and converged IP services

Top priority to grow broadband

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

Unified communications, security and monitoring services

Seamless integration

Revenues for this line of business are earned from the sale of IP telephony products and services to business customers in Manitoba, along with our IP-based security offerings to national business customers. For certain customers, the ability to offer integrated security and equipment services is important for winning their business. This business line includes revenues earned by AAA Alarms, which involves the installation and monitoring of alarm services to residential, business and industrial customers. This business line also includes revenues earned by EPIC, which specializes in customized information technology solutions for business customers in Manitoba and Saskatchewan.

Local access services

Quality sets us apart

Our local access services include revenues earned from the sale of residential and business voice connectivity, including calling features (such as call answer, call display, call waiting and 3-way calling), payphone revenue, wholesale revenues from services provided to third parties and contribution revenues. The quality of our local wireline connection remains a competitive differentiator in the success of our voice service operations.

Long distance and legacy data services

Enhanced services and features

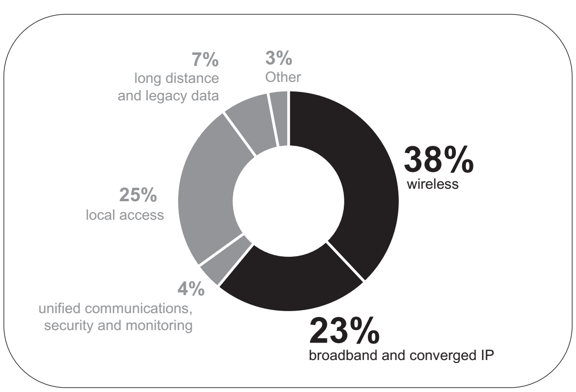
Long distance and legacy data services include revenues earned from long distance calling charges, along with the marketing of networking and related products and services to our business customers. Long distance services enable residential and business customers in Manitoba to communicate with destinations outside their local exchange, and include services such as outbound long distance, toll-free services, calling cards, dial-around service and audio conferencing, and other services and features. Legacy data services support businesses in sharing information between multiple office locations by providing them with, and connecting them to, a local area network.

Other

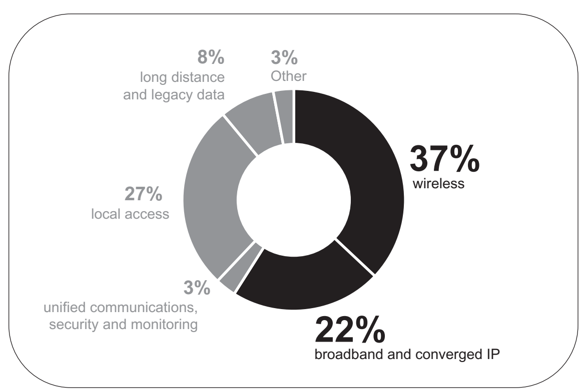
Other services include revenues earned from intersegment transactions, customer late-payment charges, charges from the routing and exchange of long distance network traffic nationally, and the sale and maintenance of terminal equipment such as telephone switches and hardware to business customers, both in Manitoba and nationally.

MTS FINANCIALS

2013 MTS revenue mix

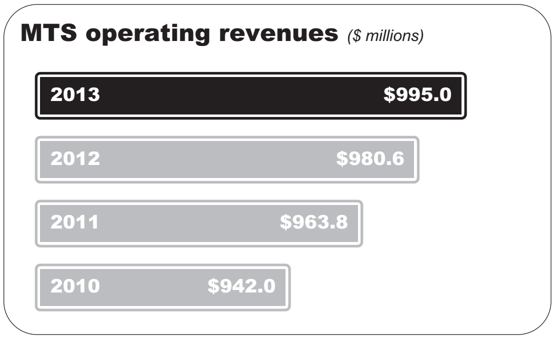


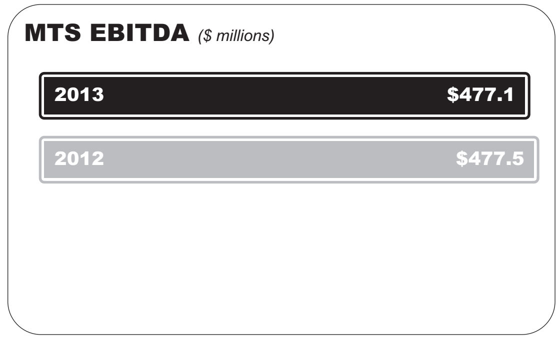
2012 MTS revenue mix



MTS OPERATING REVENUES

($ millions)	**2013**	2012	% variance
Wireless services	**375.3**	362.1	3.6
Broadband and converged IP services	**228.1**	212.9	7.1
Unified communications, security and monitoring services	**40.3**	36.2	11.3
Local access services	**251.9**	266.5	(5.5)
Long distance and legacy data services	**71.0**	76.1	(6.7)
Other services	**28.4**	26.8	6.0
Total MTS operating revenues	**995.0**	980.6	1.5

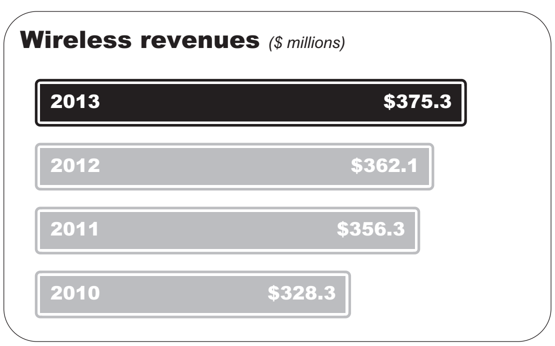


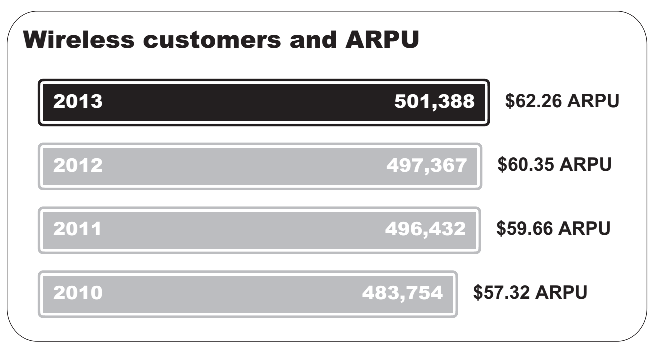


2010 and 2011 EBITDA are not shown as it has not been amended for IFRS International Accounting Standard 19 (IAS 19).

Wireless services

Wireless subscriber revenues were up $24.4 million, or 7.4%, in 2013 when compared to 2012, driven by a 21.4% increase in wireless subscriber data revenues. 67.4% of our growing post-paid subscriber base now has data plans, driven by demand for smartphones and corresponding data usage. Strong growth in data revenues contributed to a 20.4% increase in data average revenue per user ("ARPU") and a 7.1% increase in blended subscriber ARPU. MTS's wireless blended subscriber ARPU is one of the highest in Canada. In 2013, our wireless services attracted an additional 4,948 post-paid customers, or 1.2%, which was partly offset by the industry trend of declining pre-paid subscribers. Wireless results were dampened by the reduction in wholesale roaming revenues, as other carriers move their customers from MTS's CDMA network to their own HSPA networks. MTS expects this decline to be less pronounced in future years and will be partly offset by increased wholesale HSPA revenues. Including wireless wholesale revenues, wireless subscriber revenues were up $13.2 million, or 3.6%.





Wireless revenues

($ millions)	**2013**	2012	% variance
Voice and other revenues	**224.4**	222.5	0.9
Data revenues	**127.7**	105.2	21.4
Subscriber revenues	**352.1**	327.7	7.4
Wholesale revenues	**23.2**	34.4	(32.6)
Total wireless revenues	**375.3**	362.1	3.6

Wireless subscriber statistics

	2013	2012	% variance
Post-paid subscribers with data plans	**275,032**	229,478	19.9
Total post-paid subscribers	**407,772**	402,824	1.2
Pre-paid subscribers	**68,379**	69,659	(1.8)
Total subscribers	**476,151**	472,483	0.8
Other customers	**25,237**	24,884	1.4
Total wireless customers	**501,388**	497,367	0.8

Wireless ARPU statistics

	2013	2012	% variance
Subscriber data ARPU	**$21.44**	$17.80	20.4
Subscriber cellular ARPU	**$36.93**	$36.72	0.6
Blended subscriber ARPU	**$58.37**	$54.52	7.1
Other ARPU	**$3.89**	$5.83	(33.3)
Blended wireless ARPU	**$62.26**	$60.35	3.2

Other wireless statistics

	2013	2012
Post-paid churn (excluding wholesale)	**0.99%**	0.90%
Blended churn	**1.67%**	1.66%
Penetration rate	**75%**	74%

Broadband and converged IP services

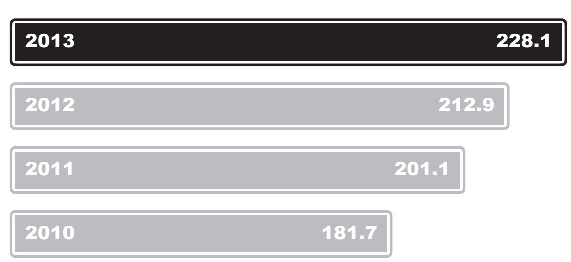
Strong growth from our IPTV, high-speed Internet and converged IP services drove the increase in broadband and converged IP revenues.

Revenues from high-speed Internet increased $7.6 million in 2013, due to a growing subscriber base and greater ARPU resulting from price increases.

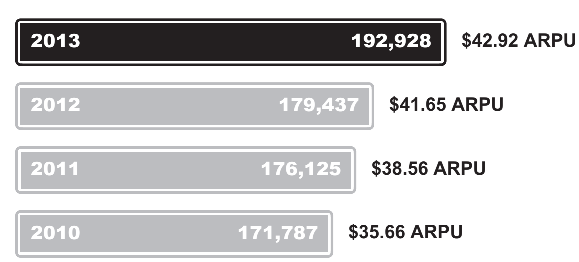
IPTV revenues increased $3.5 million in 2013 as a result of a 7.8% increase in new IPTV customers, Classic TV subscribers migrating to higher-ARPU MTS Ultimate TV® and a price increase. Subscriber statistics include a 19.0% increase in higher-ARPU MTS Ultimate TV® subscribers, mostly due to lower-ARPU Classic TV subscribers migrating to MTS Ultimate TV®. Despite operating in a continued competitive environment, our superior product enables us to maintain our market share and industry-leading low churn rates. As at December 31, 2013, 85% of our increasing IPTV subscriber base subscribed to our premium IPTV service – MTS Ultimate TV®.

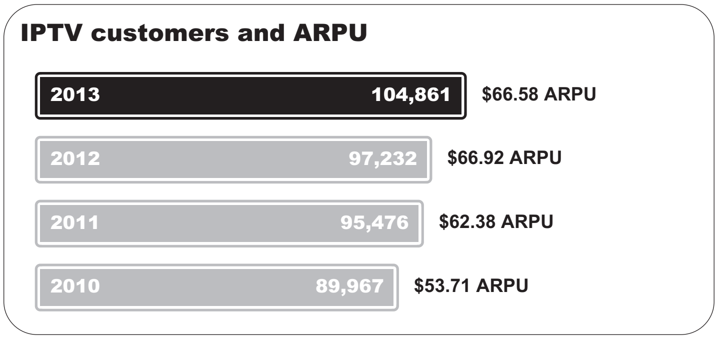
Revenues from converged IP increased $4.1 million in 2013, driven by strong demand for IP services in Manitoba and migration from legacy data services.

Broadband and converged IP revenues *($ millions)*



Residential HSI customers and ARPU





Broadband and converged IP revenues

($ millions)	**2013**	2012	% variance
Internet revenues	**117.7**	110.1	6.9
IPTV revenues	**82.0**	78.5	4.5
Converged IP revenues	**28.4**	24.3	16.9
Total broadband and converged IP revenues	**228.1**	212.9	7.1

Internet statistics

	2013	2012	% variance
Dial-up Internet subscribers	**6,390**	8,779	(27.2)
Business high-speed Internet subscribers	**15,403**	14,253	8.1
Residential high-speed Internet subscribers	**192,928**	179,437	7.5
Residential high-speed Internet ARPU	**$42.92**	$41.65	3.0

Television statistics

	2013	2012	% variance
Ultimate TV subscribers	**89,223**	75,008	19.0
Classic TV subscribers	**15,638**	22,224	(29.6)
Total IPTV subscribers	**104,861**	97,232	7.8
Other TV subscribers	**4,224**	4,318	(2.2)
Total TV subscribers	**109,085**	101,550	7.4
IPTV ARPU	**$66.58**	$66.92	(0.5)

Unified communications, security and monitoring services

The decrease in unified communications revenues in 2013 reflects fewer hardware sales. This has been a market trend for unified communications in general through 2013, and is expected to continue into 2014, as government and enterprise spending on unified communications remains soft.

Security and monitoring service revenues for 2013 increased slightly when compared to 2012, reflecting a price increase and loyalty from our 43,181 customers.

2013 marked the acquisition of EPIC, which contributed $4.5 million in revenues.

Unified communications, security and monitoring revenues

($ millions)	**2013**	2012	% variance
Unified communications revenues	**23.1**	23.9	(3.3)
Security and monitoring revenues	**12.7**	12.3	3.3
Epic Information Solutions	**4.5**	—	n.a.*
Total unified communications, security and monitoring revenues	**40.3**	36.2	11.3

* not applicable

Local access services

Local access service revenues were down in 2013, reflecting a 5.3% decline in residential local access lines resulting from wireless substitution and a 2.2% reduction in business local access lines. Although some customers are choosing a wireless-only household, MTS, with the highest wireless market share in Manitoba, has a partly offsetting gain arising from this trend. On the competitive front, our offering is resonating with customers who choose a home phone. In six of the past eight months, our marketing efforts have resulted in a net gain in new home phone subscribers from cable.

Local access revenues

($ millions)	**2013**	2012	% variance
Local access revenues	**251.9**	266.5	(5.5)

Local access statistics

	2013	2012	% variance
Residential network access services lines	**274,557**	289,915	(5.3)
Business network access services lines	**212,276**	217,092	(2.2)

Long distance and legacy data services

Long distance revenues were down, due to customer migration to lower-priced long distance plans and reduced volumes, as customers continue to replace long distance calling with alternative methods of communication, such as email, text messaging and social networking. This ongoing trend is expected to continue, but with only 4% of MTS revenues being generated by long distance services, this decline is having an increasingly negligible impact on the Company.

Legacy data service revenues decreased as customers continue to migrate towards MTS's converged IP services, which are seeing revenue gains.

Long distance and legacy data revenues

($ millions)	**2013**	2012	% variance
Long distance revenues	**40.4**	44.4	(9.0)
Legacy data revenues	**30.6**	31.7	(3.5)
Total long distance and legacy data revenues	**71.0**	76.1	(6.7)

Other services

Other service revenues were up $1.6 million in 2013, mostly due to increased late-payment charges.

Other revenues

($ millions)	**2013**	2012	% variance
Other revenues	**28.4**	26.8	6.0

ALLSTREAM LINES OF BUSINESS

Allstream has five lines of business, each of which is described below. The following pages then provide an analysis of the results for each line of business on an annual basis.

Converged IP services

Demand for on-net IP services continues to drive sales

Converged IP services include revenues earned from the provision of IP-based networking and related products and services to business customers nationally. Allstream's Business IP virtual private network ("VPN") service provides business organizations with a connectivity solution that enables growth and expansion to any location, while reducing costs and increasing productivity. To read more about our national IP fibre network, visit www.allstream.com/about-us/ipnetwork.

Unified communications, hosting and security services

Helping customers share vital data and expertise

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

Local access services

Keeping your business properly connected

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

Long distance and legacy data services

Providing telecommunications links to the people you need to stay in touch with – wherever they are

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

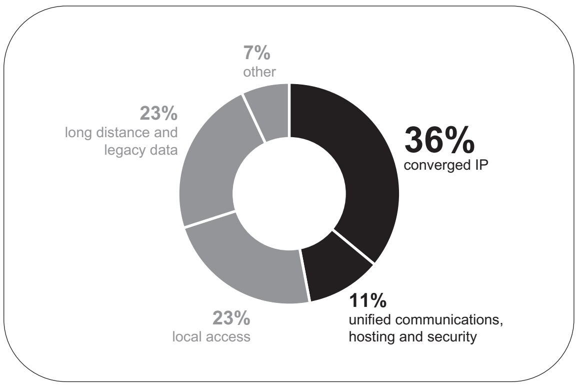
Other

Offering easy access and reliable service

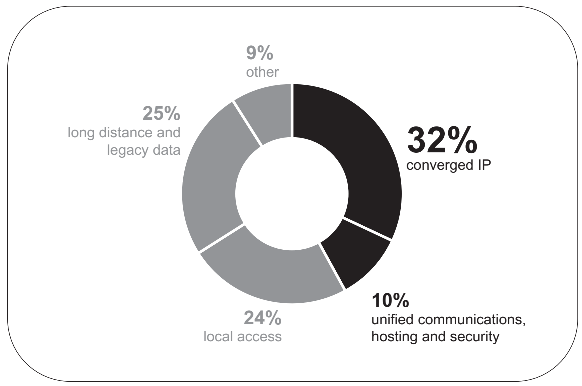
Other services include revenues earned from MTS, the routing and exchange of wholesale long distance network traffic, customer late-payment charges and other miscellaneous items.

ALLSTREAM FINANCIALS

2013 Allstream revenue mix

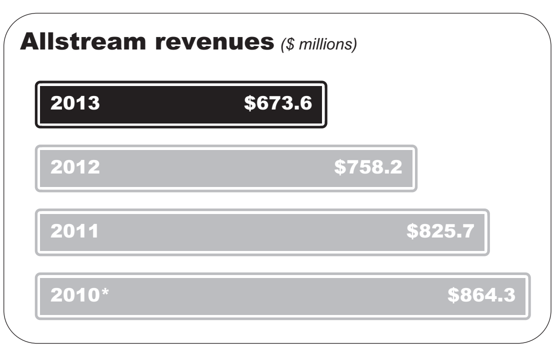


2012 Allstream revenue mix



ALLSTREAM OPERATING REVENUES

($ millions)	**2013**	2012	% variance
Converged IP services	**241.9**	243.6	(0.7)
Unified communications, hosting and security services	**76.0**	78.3	(2.9)
Local access services	**154.7**	179.7	(13.9)
Long distance and legacy data services	**155.5**	186.0	(16.4)
Other services	**45.5**	70.6	(35.6)
Total Allstream operating revenues	**673.6**	758.2	(11.2)



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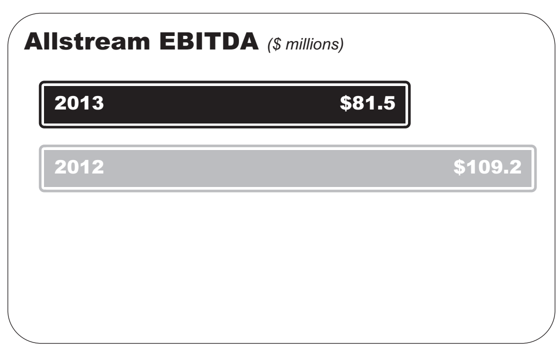


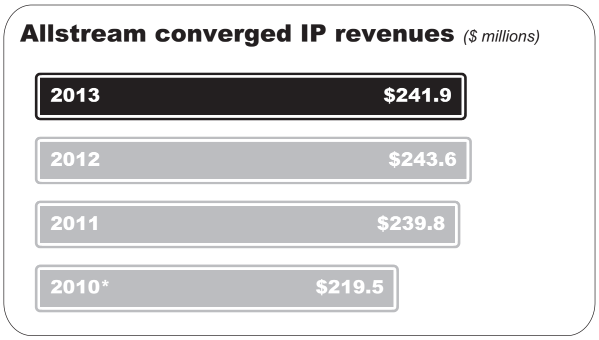
2010 and 2011 EBITDA is not shown as it has not been amended for IFRS International Accounting/Standard 19 (IAS 19).

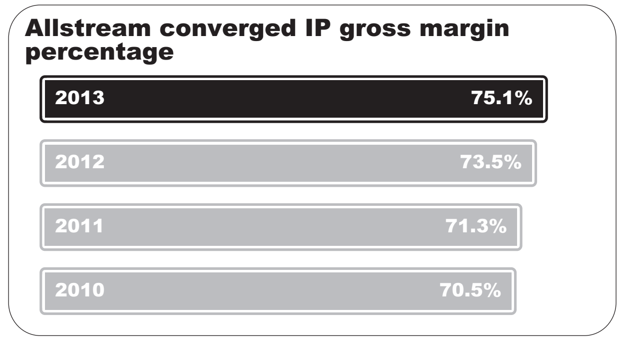
Converged IP services

The softness in converged IP revenues experienced by Allstream in 2013 reflects the negative impact of a prolonged regulatory process relating to the proposed Allstream transaction, and the delay in installing Shared Services Canada ("SSC") circuits. Allstream is focused on continuing to drive growth in on-net IP-based services, a strategy that was validated through the strategic review process. Converged IP revenues continue to be negatively affected by disconnects related to a Government of Ontario department's decision to change its policy on the procurement of telecommunications services for individual doctors' offices and clinics. Adjusting for the impact of this contract, converged IP revenues would have grown 3.6% in 2013. At its peak in 2009, this contract generated revenues of $33.3 million per year. This contract generated $5.2 million in revenues in 2013. The bulk of the decline is behind us, with only a moderate impact expected in 2014.

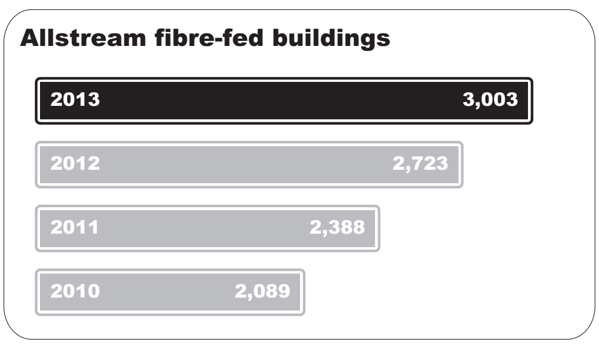
Record sales in Q4 2012 included the three-year $55-million SSC contract, for which we began installations in the third quarter of 2013, with expected completion in Q4 2014. Once circuits are fully installed, this contract is expected to contribute to IP growth in 2014.

Converged IP gross margins also continued to grow, now reaching 75.1% in 2013, compared to 73.5% in 2012. In 2013, Allstream added 280 buildings to its proprietary fibre network, bringing its on-net total to 3,003 at December 31, 2013.





* Estimated



Converged IP statistics

($ millions, unless otherwise stated)	**2013**	2012	% variance
Revenues	**241.9**	243.6	(0.7)
Cost of goods sold	**60.2**	64.5	(6.7)
Gross margin	**181.7**	179.1	1.5
Gross margin percentage	**75.1%**	73.5%	1.6 pts
Fibre-fed buildings (#)	**3,003**	2,723	10.3%

Unified communications, hosting and security services

Unified communications, hosting and security service revenues declined due to a decrease in one-time product sales and churn, which was partly offset by an increase in service revenues.

Unified communications, hosting and security statistics

($ millions, unless otherwise stated)	**2013**	2012	% variance
Unified communications revenues	**56.0**	56.0	—
Hosting revenues	**15.8**	16.5	(4.2)
Security revenues	**4.2**	5.8	(27.6)
Total unified communications, hosting and security revenues	**76.0**	78.3	(2.9)
Cost of goods sold	**55.7**	57.2	(2.6)
Gross margin	**20.3**	21.1	(3.8)
Gross margin percentage	**26.7%**	26.9%	(0.2 pts)

Local access services

Local access revenues declined, primarily due to decreases in re-sold wholesale voice lines, as per Allstream's strategy of focusing on services delivered on its network and exiting low-margin lines of business. Revenues from this line of business are expected to continue to decline in 2014.

Local access statistics

($ millions, unless otherwise stated)	**2013**	2012	% variance
Revenues	**154.7**	179.7	(13.9)
Cost of goods sold	**58.2**	74.3	(21.7)
Gross margin	**96.5**	105.4	(8.4)
Gross margin percentage	**62.4%**	58.7%	3.7 pts

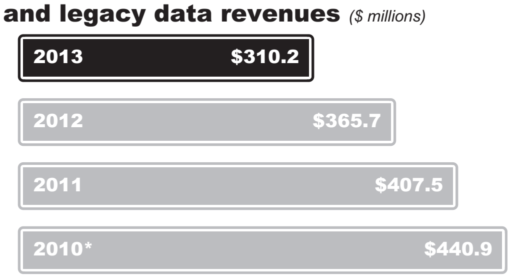
Long distance and legacy data services

Revenues from long distance services decreased, mainly due to reduced volumes and rates. The legacy data revenue decrease was due to a combination of competitive churn, customer migration to IP-based services and re-pricing of services. Allstream continues to implement its strategy of improving profitability by reducing costs and transitioning customers to IP-based service.

Long distance and legacy data statistics

($ millions, unless otherwise stated)	**2013**	2012	% variance
Long distance revenues	**76.7**	91.8	(16.4)
Legacy data revenues	**78.8**	94.2	(16.3)
Total long distance and legacy data revenues	**155.5**	186.0	(16.4)
Cost of goods sold	**55.0**	62.5	(12.0)
Gross margin	**100.5**	123.5	(18.6)
Gross margin percentage	**64.6%**	66.4%	(1.8 pts)

Allstream local access, long distance and legacy data revenues *($ millions)*



* Estimated

SELECTED ANNUAL AND QUARTERLY FINANCIAL INFORMATION

Selected annual information – consolidated

($ millions, except EPS and cash dividends declared per share)	**2013**	2012	2011*
Operating revenues	**1,633.7**	1,704.1	1,765.6
Net (loss) income	**(84.4)**	144.5	167.1
Total assets	**2,682.4**	2,731.8	2,681.5
Total long-term debt, including current portion	**923.1**	921.9	1,020.8
Basic and diluted EPS	**($1.24)**	$2.17	$2.55
Cash dividends declared per share	**$1.70**	$1.70	$1.70

* 2011 information has not been re-stated to reflect the implementation of International Accounting Standard 19 ("IAS 19"), Employee Benefits, which was adopted on January 1, 2013. 2012 information reflects implementation of IAS 19. IAS 19 affects net income and EPS.

Over the past three years, operating revenues have reflected improvements in our strategic growth areas, which include wireless, high-speed Internet, IPTV and converged IP, offset by declines in legacy telecommunications services. Since 2011, our revenue mix has changed favourably through our focus on generating revenues from high-margin lines of business and on deliberately exiting low-margin lines of business. Revenues from strategic lines of business now represent 51.7% of total consolidated revenues.

From 2012 to 2013, net income and EPS decreased due to pension plan decision costs of $142.1 million, an IFRS-required write-down of Allstream assets amounting to $130.4 million, and transaction and re-structuring costs of $35.2 million, partly offset by a lower operations expense and a lower depreciation and amortization expense. Prior to re-stating 2012 information for IAS 19, net income and EPS increased from 2011 to 2012, mainly due to EBITDA growth and decreased finance and income tax costs, partially offset by higher depreciation and amortization expense, and increased other expenses.

Total assets decreased from 2012 to 2013, mostly due to the IFRS-required write-down of Allstream's long-term assets, resulting in an impairment loss of $130.4 million. Total assets increased slightly from 2011 to 2012, due to an increase in intangible software capital in 2012.

Long-term debt remained constant between 2012 and 2013. Long-term debt declined from 2011 to 2012, due to the repayment of a $100-million medium-term note.

The Company's Board has set a dividend payout ratio target of 70% to 80% of free cash flows from its Manitoba operations. The Board declared the quarterly dividends of $0.425 per outstanding common share for each quarter of 2011, 2012 and 2013.

Selected quarterly financial results – consolidated

($ millions, except EPS and weighted average shares outstanding)	**Q4 2013**	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Operating revenues	**408.5**	408.4	410.1	406.7	413.1	424.3	431.6	435.1
EBITDA	**128.0**	142.7	132.0	148.6	144.2	145.7	147.4	147.9
Net (loss) income	**(87.8)**	25.4	(52.9)	30.9	29.3	33.2	36.6	45.4
EPS	**($1.25)**	$0.38	($0.78)	$0.46	$0.44	$0.50	$0.55	$0.69
Weighted average shares outstanding[1]	**70.3**	67.7	67.5	67.2	67.0	66.7	66.4	66.2

1 The increase in the number of weighted average shares outstanding is mainly due to participation in our dividend re-investment program. The Q4 2013 increase in the number of weighted average shares outstanding is due to the December 2013 issuance of 8,855,000 common shares and participation in the Company's dividend re-investment program.

Our consolidated financial results for the last eight quarters (Q1 2012 to Q4 2013) reflect the following significant transactions and trends:

- The Company announced on January 30, 2014 that the SCC reinstated a lower court ruling on a lawsuit regarding the administration of one of MTS's pension plans following the Company's 1997 privatization. IFRS requires that the Company treat this ruling as a past service cost, which must be expensed immediately, regardless of the timing of any potential cash flow impact. As a result of the SCC's ruling, the Company has recorded a $142.1 million non-cash charge against income in the fourth quarter of 2013, to reflect the total estimated value of the pension benefits and other estimated costs.
- On December 6, 2013, we announced that we had closed our previously announced "bought deal" financing agreement of 8,855,000 common shares, issued at a purchase price of $28.10 per common share, for gross

proceeds of $248.8 million. The net proceeds were approximately $238 million, determined after deducting the underwriters' commission and expenses. The Company has used a total of $55 million of the net proceeds to make a pre-funded solvency payment into its pension plans. In addition, the Company used $70 million of the proceeds to repay the short-term debt incurred in February 2013 to prefund the pension plans. The remaining funds will be used to fund any spectrum purchase, for general corporate purposes and to fund pension plan decision costs.

- On May 24, 2013, we announced the sale of Allstream to Accelero Capital Holdings S.à r.l. On October 7, 2013, the Government denied the transaction. Transaction and re-structuring costs associated with the transaction amounted to $35.2 million in 2013. An IFRS-required write-down of Allstream's long-term assets resulted in an impairment loss of $130.4 million in 2013, recognized in the second and third quarters of 2013, which negatively impacted EPS by $0.24 and $1.17 in Q3 2013 and Q2 2013, respectively.
- Over the last eight quarters, operating revenues reflected growth in revenues from strategic services and declines in revenues from legacy services. We have seen an increase in demand for wireless data, IP-based services, faster high-speed Internet and feature-rich MTS Ultimate TV®.
- Over the past several years, we have continued to improve our cost structure through operational efficiencies and re-structuring initiatives. Since 2005, MTS and Allstream have achieved approximately $470 million in combined cost savings. Re-structuring costs related to these ongoing cost reduction initiatives resulted in in-year decreases in EBITDA, offset by the annualized savings from these initiatives.
- In the first quarter of 2012, a change in the expected tax rate applicable to deferred tax assets resulted in a one-time $10.2-million decrease in the income tax expense.

Fourth quarter in review

Fourth-quarter financial results – consolidated

($ millions, except EPS)	**Q4 2013**	Q4 2012	% variance
Revenues	**408.5**	413.1	(1.1)
EBITDA	**128.0**	144.2	(11.2)
Earnings per share[1]	**($1.25)**	$0.44	n.a.*
Capital expenditures	**87.7**	73.6	(19.2)
Free cash flow	**3.6**	37.1	(90.3)

[1] EPS is based on weighted average shares outstanding of 68.2 million and 66.6 million for the twelve months ended December 31, 2013 and December 31, 2012, respectively. The increase in the number of weighted average shares outstanding is due to the December 2013 issuance of 8,855,000 common shares and participation in the Company's dividend re-investment program.

* not applicable

Fourth-quarter financial results – consolidated description

Revenues

Fourth-quarter consolidated revenues were in line with expectations, down $4.6 million or 1.1% when compared to the fourth quarter of 2012.

EBITDA

Fourth-quarter EBITDA of $128.0 million decreased $16.2 million from 2012, mainly due to transaction-related costs and restructuring in Q4 2013. Excluding these transaction and re-structuring costs, Q4 2013 consolidated EBITDA remained consistent with that of Q4 2012, reflecting MTS's continued steady growth and cost structure improvements at our Allstream operations.

At MTS, the $2.6-million, or 2.2%, decrease in EBITDA reflects $1.8 million in legal and professional fees relating to the Allstream transaction, and a one-time $3.4-million retroactive adjustment from a CRTC ruling. At Allstream, the $13.5-million, or 48.4%, decrease in EBITDA reflects $10.0 million in additional transaction and re-structuring costs.

Net income and EPS

Net income and EPS were down $117.1 million, or $1.69, in Q4 2013, due to pension plan decision costs of $142.1 million, as well as transaction and re-structuring costs amounting to $13.5 million, partly offset by a lower operations expense.

Capital expenditures

Capital expenditures increased $14.1 million in the fourth quarter of 2013 over the prior year, mainly due to investments in our broadband network in Manitoba.

Free cash flow

Free cash flow decreased $33.5 million in 2013, mainly due to lower EBITDA resulting from transaction and re-structuring costs relating to the proposed Allstream sale and greater capital expenditures in Q4 2013.

Fourth-quarter free cash flow

	MTS[1]		Allstream		Consolidated		
($ millions)	**2013**	2012	**2013**	2012	**2013**	2012	% variance
EBITDA	**113.6**	116.3	**14.4**	27.9	**128.0**	144.2	(11.2)
Add back (deduct):							
Other income (expense)	**(0.4)**	(0.1)	**(0.6)**	(0.5)	**(1.0)**	(0.6)	66.7
Finance costs	**(17.4)**	(18.3)	**(2.8)**	(1.7)	**(20.2)**	(20.0)	1.0
Current income tax recovery (expense)	**0.4**	0.5	**0.1**	0.7	**0.5**	1.2	(58.3)
Loss on disposal of assets	**0.2**	0.3	**1.0**	0.7	**1.2**	1.0	20.0
Deferred wireless costs	**(21.2)**	(19.2)	**—**	—	**(21.2)**	(19.2)	10.4
Normal pension funding and net pension expense	**2.6**	3.1	**1.6**	0.6	**4.2**	3.7	13.5
Capital expenditures	**(61.4)**	(43.4)	**(26.3)**	(30.2)	**(87.7)**	(73.6)	19.2
Other non-cash items	**(0.2)**	(0.3)	**—**	0.7	**(0.2)**	0.4	n.a.*
Free cash flow for the period	**16.2**	38.9	**(12.6)**	(1.8)	**3.6**	37.1	(90.3)

1 MTS includes MTS and Other
* not applicable

MTS fourth-quarter operating revenues

($ millions)	**Q4 2013**	Q4 2012	% variance
Wireless services	**93.6**	89.9	4.1
Broadband and converged IP services	**59.0**	53.3	10.7
Unified communications, security and monitoring services	**15.4**	9.2	67.4
Local access services	**59.7**	65.4	(8.7)
Long distance and legacy data services	**17.4**	18.9	(7.9)
Other services	**6.3**	6.8	(7.4)
Total MTS operating revenues	**251.4**	243.5	3.2

MTS fourth-quarter financial highlights

Wireless services

Wireless revenues at MTS increased by $3.7 million in the fourth quarter due to strong growth in subscriber data revenues, partly offset by declines in revenues from wireless voice and wholesale wireless.

Broadband and converged IP services

Revenues for broadband and converged IP were up $5.7 million over the same quarter last year. The increase was largely due to higher subscriber counts and price increases.

Allstream fourth-quarter operating revenues

($ millions)	**Q4 2013**	Q4 2012	% variance
Converged IP services	**61.6**	61.0	1.0
Unified communications, hosting and security services	**20.0**	18.9	5.8
Local access services	**37.1**	41.6	(10.8)
Long distance and legacy data services	**35.9**	44.3	(19.0)
Other services	**11.7**	12.5	(6.4)
Total Allstream operating revenues	**166.3**	178.3	(6.7)

Allstream fourth-quarter financial highlights

Converged IP services

Converged IP services revenues increased by $0.6 million, or 1.0%, in the fourth quarter of 2013. Converged IP revenues continue to be affected by disconnections related to a decision by a Government of Ontario department to change its telecommunications services procurement policy for individual doctors' offices and clinics. Adjusting for the impact of this contract, converged IP revenues would have grown 3.9% in the fourth quarter of 2013 when compared to the same period of 2012.

LIQUIDITY AND CAPITAL RESOURCES

SUMMARY OF CASH FLOWS

($ millions)	**2013**	2012	% variance
Cash flows from (used in):			
Operating activities	**306.7**	439.4	(30.2)
Investing activities	**(306.1)**	(342.5)	10.6
Financing activities	**99.8**	(126.3)	n.a.*
Change in cash and cash equivalents for the period	**100.4**	(29.4)	n.a.

* not applicable

Operating activities

"Cash flows from operating activities" refers to cash we generate from our business activities.

The decrease of $132.7 million in cash flows from operating activities was mainly due to $125.0 million in pre-funded pension solvency payments in 2013 and $33.9 million in EBITDA due to the $35.2 million in transaction and re-structuring costs associated with the proposed Allstream sale, partly offset by an increase in cash flows from working capital mainly due to lower accounts receivable.

Investing activities

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

Cash flows used in investing activities decreased by $36.4 million in 2013. This decrease was primarily due to the completion of various capital projects in 2012, such as our wireless billing system upgrades and our 4G LTE network build in Winnipeg and Brandon.

Financing activities

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

Increased cash flows from financing activities were mainly the result of cash received from our issuance of share capital in 2013, as compared to 2012. $54.5 million in notes payable issued in 2012 was subsequently repaid in 2013. On December 6, 2013, the Company announced that it had closed its previously announced "bought deal" financing agreement of 8,855,000 common shares. The Company has used a total of $55 million of the net proceeds to make a pre-funded solvency payment into its pension plans. In addition, the Company used $70 million of the proceeds to repay the short-term debt incurred in February 2013 to prefund the pension plans. The remaining funds will be used to fund any spectrum purchase, for general corporate purposes and to fund pension plan decision costs.

In each quarter of 2013, cash dividends of $0.425 per common outstanding share were paid to shareholders, as approved by the Board.

Free cash flow

Free cash flow increased $3.4 million in 2013, mainly due to reduced capital spending resulting from the completion of major capital projects in 2012, partly offset by lower EBITDA resulting from transaction and re-structuring costs relating to the proposed Allstream sale, which amounted to $35.2 million in 2013.

Consolidated free cash flow

($ millions)	**2013**	2012	% variance
Cash flows from operating activities	**306.7**	439.4	(30.2)
Add back (deduct):			
Pre-funded pension solvency	**125.0**	—	—
Changes in non-cash working capital	**(14.7)**	16.2	n.a.*
Capital expenditures	**(296.0)**	(338.0)	12.4
Free cash flow for the period	**121.0**	117.6	2.9

* not applicable

Consolidated free cash flow

	MTS[1]		Allstream		Consolidated		
($ millions)	**2013**	2012	**2013**	2012	**2013**	2012	% variance
EBITDA	**469.8**	476.0	**81.5**	109.2	**551.3**	585.2	(5.8)
Add back (deduct):							
Other income (expense)	**—**	(0.3)	**(0.8)**	(0.8)	**(0.8)**	(1.1)	(27.3)
Finance costs	**(74.8)**	(72.0)	**(6.3)**	(6.3)	**(81.1)**	(78.3)	3.6
Current income tax recovery (expense)	**0.4**	0.4	**0.1**	—	**0.5**	0.4	25.0
Loss on disposal of assets	**0.9**	0.9	**2.2**	0.7	**3.1**	1.6	93.8
Deferred wireless costs	**(72.2)**	(64.7)	**—**	—	**(72.2)**	(64.7)	11.6
Normal pension funding and net pension expense	**17.5**	10.3	**(0.6)**	2.1	**16.9**	12.4	36.3
Capital expenditures	**(197.4)**	(219.0)	**(98.6)**	(119.0)	**(296.0)**	(338.0)	(12.4)
Other non-cash items	**(0.4)**	(1.5)	**(0.3)**	1.6	**(0.7)**	0.1	n.a.*
Free cash flow for the period	**143.8**	130.1	**(22.8)**	(12.5)	**121.0**	117.6	2.9

[1] MTS includes MTS and Other

* not applicable

CAPITAL MANAGEMENT

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 re-finance maturing debt, to fund new initiatives and to manage cash flow fluctuations.

Credit facilities

($ millions)	Utilized at December 31, 2013	Capacity
Medium-term note program	**—**	500.0
Revolving credit facility	**161.8**	400.0
Additional credit facility	**180.1**	250.0
Accounts receivable securitization	**—**	110.0
Total	**341.9**	1,260.0

We renewed our medium-term note ("MTN") program on September 30, 2013 for $500.0 million. As at December 31, 2013, the MTN program was not utilized. We also have a $400.0-million revolving credit facility, of which we had utilized $161.8 million at December 31, 2013 for undrawn letters of credit. We also have a $250.0-million credit facility, which is used solely for the issuance of letters of credit. As at December 31, 2013, we utilized $180.1 million of this facility for undrawn letters of credit. In addition to these programs and facilities, we have a $110.0-million accounts receivable securitization program, which was not utilized as at December 31, 2013.

Capital structure

($ millions)	**December 31, 2013**	December 31, 2012
Bank indebtedness (cash and equivalents)	**(87.8)**	12.6
Notes payable	**—**	54.5
Long-term debt, including current portion	**923.1**	921.9
Total debt	**835.3**	989.0
Shareholders' equity	**1,092.7**	821.6
Total capitalization	**1,928.0**	1,810.6
Debt to capitalization	**43.3%**	54.6%

Our capital structure illustrates the amount of our assets that is financed by debt versus equity. Our debt-to-total-capitalization ratio of 43.3% at December 31, 2013 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 October 15, 2013, S&P confirmed its credit ratings on our long-term corporate credit and senior unsecured debt at "BBB", and also confirmed our commercial paper rating of "A 2". S&P also confirmed its outlook as stable. DBRS confirmed its ratings on May 27, 2013, with our senior debentures at "BBB" and our commercial paper rating of "R 2 (high)". DBRS's outlook remained stable.

Pension funding

Supreme court of Canada decision

The Company announced on January 30, 2014 that the SCC reinstated a lower court ruling on a lawsuit regarding the administration of one of MTS's pension plans following the Company's privatization in 1997. The Company and its outside advisors are reviewing the implications of the ruling, which is complex.

While the total dollar value of the judgment is understood and will not exceed $142.1 million, the cash flow impact is subject to the determination of the implementation details and requires further negotiations with and between the plaintiffs, as well as other potential beneficiaries who are not represented by the plaintiffs. Accordingly, the timing of any funding which may be required for the judgment is not known at this time, and may be impacted by the nature of the specific benefits that will ultimately be negotiated. It is expected that a significant portion of the negotiated benefits will be in the nature of pension benefits which are normally funded over time in accordance with the *Pension Benefits Standards Act*, 1985 (Canada). The Company will disclose the specific implementation plan once they are known, as well as the expected impact on cash flows.

Accounting treatment of SCC decision

IFRS requires that the Company treat this ruling as a past service cost, which must be expensed immediately, regardless of the timing of any potential cash flow impact. As a result of the SCC's ruling, the Company has recorded a $142.1 million non-cash charge against income in the fourth quarter of 2013, to reflect the total estimated value of the pension benefits and other estimated costs.

Solvency deficit

During 2013, the Company's pension plans performed strongly and experienced an average return on assets exceeding 18%. These asset returns, combined with a rising interest rate environment, have reduced the Company's solvency deficit from more than $600 million at January 1, 2013 to less than $300 million (estimated) at January 1, 2014, including the full value of the SCC ruling as well as the new mortality tables to be implemented in 2014. As a result, the Company's pension solvency deficit is now only half of what it was one year ago.

Plan funding

In December 2013, the Company pre-funded $55 million of solvency payments into its pension plans. Excluding any impact that may result from the SCC decision, this prefunding is sufficient to cover all required solvency payments in 2014. Further payments into the pension plan, if any are required in 2014, would only be determined once the implementation plan for the SCC's decision becomes clearer.

The Company expects to have sufficient liquidity to satisfy its pension funding obligations, including the impacts which may result from the SCC judgment, using the funds raised in the equity financing that closed in December 2013. The Company will not be using cash flow from operations to meet its pension funding obligations and expects to maintain its current credit rating under any funding scenario. Additionally, the Company continues to generate strong free cash flows, which it expects will be more than sufficient to fund the Company's ongoing cash needs.

Outstanding share data

	As at January 27, 2014	As at December 31, 2013
Common shares outstanding	**77,121,278**	76,821,497
Stock options outstanding	**2,762,778**	2,816,913
Stock options exercisable	**2,137,806**	2,137,806

Contractual obligations

($ millions)	**Less than one year**	**1-2 years**	**2-3 years**	**3+ years**	**Total**
Long-term debt	275.0	—	250.0	400.0	925.0
Operating leases	58.1	53.6	47.9	241.7	401.3
Purchase obligations	116.3	83.4	73.2	20.8	293.7
Total	449.4	137.0	371.1	662.5	1,620.0

FINANCIAL INSTRUMENTS, OFF-BALANCE SHEET ARRANGEMENTS AND OTHER FINANCIAL ARRANGEMENTS

Foreign currency forward contracts

We use foreign currency forward contracts to manage the foreign currency exposure. These instruments hedge anticipated transactions and are not recorded on our balance sheet. As at December 31, 2013, we had outstanding foreign currency forward contracts to purchase $30.3 million U.S. On January 2, 2014, we entered into additional foreign currency forward contracts to purchase $13.0 million U.S. During the year ended December 31, 2013, the Company recognized $0.1 million of income in other income related to the adjustment of outstanding foreign currency forward contracts to fair value.

Accounts receivable securitization

Under the terms of our accounts receivable securitization program, we have the ability to sell, on a revolving basis, an undivided interest in our accounts receivable to a securitization trust, to a maximum of $110.0 million. We are required to maintain reserve accounts, in the form of additional accounts receivable over and above the cash proceeds received, to absorb any credit losses on the receivables sold. We are required to maintain certain financial ratios with respect to our accounts receivable, or the cash proceeds must be repaid. We also are subject to certain risks of default which, should they occur, could cause the agreement to be terminated early. As at December 31, 2013, the Company had no amounts outstanding under its accounts receivable securitization program.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of our consolidated financial statements in accordance with IFRS requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. We make these estimates and assumptions based on reasonable methodologies, established processes and comparisons to industry standards. We continuously evaluate these estimates and assumptions, which rely on the use of professional judgment. Because professional judgment involves inherent uncertainty, actual results could differ from our estimates. Each of the accounting estimates and assumptions identified below affects both of our operating segments, except for the estimates relating to our deferred tax assets, which affect our company on a consolidated basis only. Our estimates, assumptions and methods have been applied consistently.

Valuation of accounts receivable

As we expect that a certain portion of receivables from customers will not be collected, we maintain an allowance for doubtful accounts. If circumstances related to specific customers change, economic conditions change or actual results differ from expectations, our estimate of the recoverability of receivables could fluctuate from that provided for in the consolidated financial statements. A change in our estimate could impact bad debt expense and accounts receivable.

Property, plant and equipment

Property, plant and equipment are amortized on a straight-line basis over their estimated period of future benefit. We review these estimates on an annual basis, or more frequently if events during the year indicate that a change may be required. Consideration is given to technological obsolescence, competitive pressures and other relevant business factors. A change in our estimate could impact depreciation expense and the carrying value of property, plant and equipment.

Useful lives of definite-life intangible assets

Intangible assets with a definite useful life are depreciated on a straight-line basis over their estimated period of future benefit. We review these estimates on an annual basis, or more frequently, if events during the year indicate that a change may be required. Consideration is given to customer churn, industry standards and other relevant business factors. A change in estimate could impact amortization expense and the carrying value of definite-life intangible assets.

Goodwill and indefinite-life intangible assets

Goodwill and indefinite-life intangible assets are tested for recoverability on an annual basis, or earlier when events or changes in circumstance indicate that the carrying value might not be recoverable. The recoverable amount of each cash-generating unit is determined based on value in use calculations. These calculations require the use of estimates, including our expectations of revenues and operating costs, and assumptions of growth rates. A change in our estimates could impact the carrying value of goodwill and indefinite-life intangible assets.

Deferred tax assets

We have deferred tax assets resulting from net operating loss carry-forwards and deductible temporary differences, which, to the extent utilized, will reduce future taxable income. Realization of these deferred tax assets is dependent on our ability to utilize the underlying future deductions against future taxable income. In assessing the carrying value of the deferred tax assets, we make estimates and assumptions of future taxable income using internal management projections, the carry-forward period associated with the deferred tax assets, the nature of income that may be used to realize the deferred tax assets, future tax rates, and ongoing audits by the Canada Revenue Agency ("CRA"). A change in our assessment of any of these factors could affect the value of our deferred tax asset and related income tax expense.

Decommissioning provisions
When recognizing decommissioning provisions, we are required to make estimates of the probability of retiring assets, the timing and amount of retirement costs and the discount factor applied to determine fair value. Our estimates of probability and of the timing and amount of costs are subject to change, and are reviewed annually or more frequently if events during the year indicate that a change may be required.

Employee benefits
We provide pension, supplemental pension and other non-pension post-employment benefits to our employees. The determination of benefit expense and benefit obligation associated with post-employment benefits requires the use of certain actuarial and economic assumptions, such as the discount rate to measure defined-benefit obligations, expected future salary increases and future mortality rates. A change in estimate or assumptions could affect benefit expense and the present value of the defined-benefit obligation.

CHANGES IN ACCOUNTING POLICIES

Changes in accounting policies
Our consolidated financial statements have been prepared using the same accounting policies as in the previous year, except for the following standards adopted in 2013:

IFRS 10, *Consolidated Financial Statements*
IFRS 10, *Consolidated Financial Statements*, provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. IFRS 10 replaces IAS 27, *Consolidated and Separate Financial Statements*, and Standing Interpretations Committee ("SIC") 12, *Consolidation – Special Purpose Entities*.

IFRS 11, *Joint Arrangements*
IFRS 11, *Joint Arrangements*, describes the accounting for arrangements in which there is joint control, by focusing on the rights and obligations of the arrangement rather than its legal form. IFRS 11 also removes the ability to use proportionate consolidation for joint ventures. IFRS 11 replaces IAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*.

IFRS 12, *Disclosure of Interests in Other Entities*
IFRS 12, *Disclosure of Interests in Other Entities*, is a new standard that addresses the disclosure requirements for all interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities.

IFRS 13, *Fair Value Measurement*
IFRS 13, *Fair Value Measurement*, replaces the fair value measurement guidance currently dispersed across different IFRS standards with a single definition of fair value and a comprehensive framework for measuring fair value when such measurement is required under other IFRSs. It also establishes disclosure requirements about fair value measurements.

These standards have been adopted and applied in these consolidated financial statements. The application of these standards has not had any impact on the amounts reported for the current or prior year.

Amended IAS 19, *Employee Benefits*
Effective January 1, 2013, we adopted the amended version of IAS 19, *Employee Benefits*, which amends the accounting for pensions and other post-employment benefits. It changes the method of calculating the net interest component of pension expense and also expands disclosure requirements for defined-benefit plans, providing additional information about the characteristics and associated risks of defined-benefit plans. The accounting treatment for termination benefits – specifically, the point in time when an entity would recognize a liability for termination benefits – has also been modified. The amended standard was applied retrospectively.

In comparison to our previous accounting policies and basis of presentation, the primary difference in the amended version of IAS 19 is that the current defined-benefit plan expense components of "interest cost" and "expected return on plan assets" is replaced by the component "net interest". Net interest is determined for each defined-benefit plan by taking the plan's net surplus or deficit, and multiplying it by the liability discount rate. We will now recognize the net interest of its defined-benefit plans as a component of finance costs.

We expect that over the long term, the rate of return on plan assets for its defined-benefit plans will exceed the liability discount rate because a significant component of the defined-benefit plan's assets are invested in equities and real estate. The difference between the actual rate of return on plan assets and the liability discount rate will be recognized in other comprehensive income. As a result, net income will decrease, with a corresponding decrease in other comprehensive loss.

This change in accounting policy has been implemented retrospectively. The amended standard did not affect our statement of financial position. The effect on our consolidated statement of net income and other comprehensive income and on earnings per share is as follows:

($ millions)	**Year ended December 31, 2012**
Operating expense increase	**(24.3)**
Finance cost increase	**(18.1)**
Income tax expense decrease	**11.5**
Net income decrease	**(30.9)**
Other comprehensive loss decrease	**30.9**
Basic and diluted earnings per share decrease ($)	**(0.46)**

Accounting standards issued but not yet effective

We have not yet adopted certain standards or interpretations to existing standards and amendments which have been issued but are not yet effective. The following is an overview of accounting standards and interpretations that we will be required to adopt in future years:

IFRIC 21, *Levies*

IFRIC 21, *Levies*, provides guidance on when to recognize a liability for a levy imposed by a government. IFRIC 21 is to be applied retrospectively and is effective for annual periods beginning on or after January 1, 2014.

IFRS 9, *Financial instruments*

IFRS 9, *Financial Instruments*, introduces new requirements for the classification and measurement of financial assets and liabilities. The mandatory effective date has not yet been determined by the IASB.

REGULATORY DEVELOPMENTS

BACKGROUND

MTS and Allstream are subject to regulations that materially impact how they can conduct business. The telecommunications and broadcast industries in which we operate are federally regulated, pursuant to both the *Telecommunications Act* and the *Broadcasting Act.* We are also subject to other federal and provincial regulations that shape how we conduct our business.

MTS operates as an incumbent local exchange carrier ("ILEC"), whose telecommunications business is regulated primarily by the CRTC and by Industry Canada in areas such as spectrum or ownership. MTS's television business is licensed as a broadcasting distribution undertaking (known as a "BDU"), which is subject to a different regulatory regime. Allstream operates as a competitive local exchange carrier ("CLEC"), which means it is generally subject to less regulation than MTS. However, as a competitive carrier, Allstream is materially reliant on regulation. This allows Allstream to have mandated access to incumbent carriers' networks in order to complete its "last mile". A "last mile" description is provided below.

This regulatory section describes recent developments relating to regulatory and policy proceedings that could materially impact both subsidiaries. Several years ago, the regulatory trend was towards more "forbearance" – meaning telecommunications services were subject to less regulation. Recently, we are seeing an accelerated pace of regulation by federal and provincial governments, as well as increasing intervention by the CRTC, Industry Canada and other regulatory bodies. We are facing a more dynamic environment, which is presenting both new risks and opportunities for each subsidiary.

We mitigate our risks and try to maximize opportunities by actively participating in regulatory and policy proceedings. Having both an incumbent and a competitive network provides us with a unique regulatory voice. We leverage this unique position to drive competition for Canadians, while at the same time benefiting our shareholders.

DEVELOPMENTS IMPACTING MTS AND ALLSTREAM

Essential facilities

In telecommunications, there is a concept called "essential facilities", referring to how certain unregulated services (such as access to fibre, Ethernet or other land-based networks) are made available by incumbent providers (such as MTS) to competitive providers (such as Allstream). This is an important issue for both subsidiaries. For MTS, the consideration is how competitors will be granted access to MTS's networks – in what circumstances, at what costs and with what conditions. For Allstream, the issue is how Allstream can get access (if at all and, if so, at what cost) to other providers' networks to complete the "last mile". The "last mile" concept is of significance to Allstream. Even though it operates the largest competitive fibre network in the country, there are many branches of national customers that require a connection from Allstream's own network to a customer location that may be located some distance away from Allstream's existing fibre network. This distance may make it uneconomical for Allstream to specifically build for that single branch – known in the industry as the "last mile". In a past proceeding, the CRTC has indicated that many such essential facilities would not be subject to regulation. Recently, the CRTC has indicated that it is reviewing the issue again to ensure that Canadian telecommunications markets remain competitive for consumers and business customers. This hearing is important to both MTS and Allstream, as it brings both risks and opportunities that could be material. This is the most material pending proceeding facing the Company and will progress over the next year.

9-1-1 services and lawful request requirements

Since 2012, the CRTC has held inquiries into many aspects of 9-1-1 service, particularly focused on how these are evolving as new technologies are introduced. This consultation process is not completed and the CRTC is expected to issue follow-up determinations or action plans in Q1 2014. In addition, there have been various initiatives by the Government to attempt to require a greater amount of technical support given by phone companies in responding to lawful requests, such as warrants. The current state of these future requirements has not been determined. Given the complexity of our networks and IT infrastructure, these types of developments could impose material costs that are likely not recoverable from our customers.

DEVELOPMENTS IMPACTING MTS

Wireless roaming

The CRTC is initiating various proceedings to evaluate the competitiveness of the Canadian wireless industry. It is reviewing whether some wireless service providers are unjustly discriminating or unduly preferring themselves to the detriment of other carriers. At the same time, the Government announced that it will be introducing legislation that caps the domestic roaming rates that Canadian carriers charge one another. It wants to cap the rates at the level that carriers charge their retail customers. It is unclear how these proceedings and pending legislation will impact MTS. Mandating either higher or lower roaming rates could benefit MTS (by reducing its roaming expenses outside Manitoba). It could also harm MTS, by giving other carriers access to our own network at such a low rate that it materially impacts MTS without forcing the other wireless carriers to incur the same costs MTS incurred when constructing these networks. As MTS has the largest wireless network in Manitoba, as well as a material HSPA/LTE sharing agreement with Rogers, these developments could materially impact MTS's wireless business.

Wireless spectrum

Industry Canada is currently completing its auction of 700-MHz spectrum in Manitoba. In addition, Industry Canada recently announced the rules for the 2500-MHz spectrum auction. As discussed in "Risk factors", spectrum is a valuable and scarce resource for MTS. It not only determines the types of wireless services we can make available to our customers, it also provides the possibility for new competitors to enter our market, or for existing competitors to enhance the services they offer to Manitobans. In addition, auction rules can impose material new conditions on wireless providers, such as requirements to deploy rurally (which is more expensive and generally less profitable). It can also introduce complexities such as compatibility with our existing network/handsets and our other joint network arrangement with Rogers. Industry Canada has also introduced the concept of "spectrum caps", in which individual carriers may be limited in the amount of spectrum they can own or new spectrum they can acquire. These caps could reduce our ability to acquire spectrum and be competitive in future spectrum auctions. Further details in respect of the risks and opportunities associated with spectrum can be found on page 37 of this MD&A.

Pick and pay

The CRTC is producing a report on how MTS and other BDUs provide stand-alone programming and the impact of technology on consumers' choices, specifically, on whether TV subscribers across Canada should have the ability to pick the specific channels they want without being forced to subscribe to larger bundles or channel packages. MTS is a proponent of changes that allow customers to "pick and pay". However, given MTS's existing commitments to suppliers of TV content (many of whom are MTS competitors and subject to pre-existing contractual obligations), it is unclear how these developments could impact MTS's cost structure or its ability to recover these costs (if any) from its customers. The CRTC's decision is important to MTS.

Codes of conduct for wireless service

Both our provincial and federal governments have passed legislation prescribing how we can sell services to our wireless subscribers. We publicly supported the intention of these changes, and are currently in compliance with these new codes. However, these regulations limit our business flexibility in the future. Importantly, these new codes could be further amended in the future in a manner that materially impacts our profitability or costs of carrying on business, as we have seen with some of our industry peers who have had material challenges in complying with these requirements.

Deferral accounts

Deferral accounts are pools of funds collected under CRTC direction that are used to improve accessibility of telecommunications services for, as two examples, persons with disabilities and rural communities. MTS has and intends to use these funds to subsidize its network improvements in several Manitoban communities. There is ongoing interaction with the CRTC to approve MTS's plans. Approval or denial of these applications impacts MTS's expenses, as well as our ability to improve our network and sell more services into impacted markets.

DEVELOPMENTS IMPACTING ALLSTREAM

Usage-based billing and capacity-based billing

In 2013, the CRTC agreed with Allstream that Bell and TELUS had been charging an unjustifiable mark-up for certain legacy wholesale Internet access services. This decision has served to reduce Allstream's costs.

RISKS AND UNCERTAINTIES

Risk evaluation processes

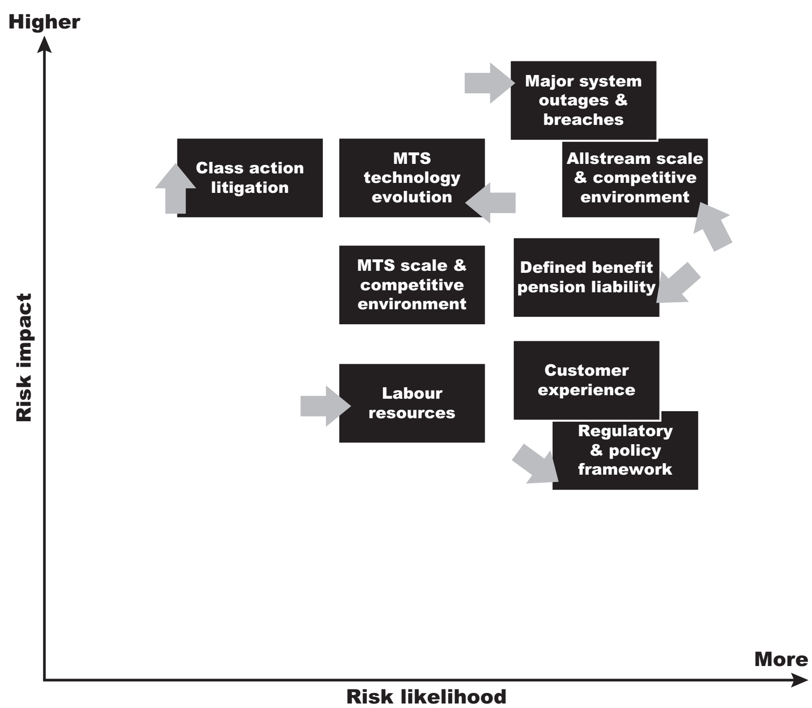
Risk management practices are part of our standard operations, across all of our businesses. Identifying and managing our principal risks forms part of Management's regular business planning process because risks, as well as associated opportunities, form the basis of many aspects of the Company's future business model and opportunities.

Once we set our strategic objectives, our risk management program undertakes to identify and assess the associated principal risks, and considers the activities being taken to mitigate them. The program is managed through an executive-level strategic risk committee, in conjunction with our enterprise risk management ("ERM") team.

Annual risk assessment

We annually conduct a formal "risk assessment" process that is directly linked to our business plan. Regular updates are performed throughout the year to identify potential emerging or previously unidentified risks. Our ERM team plays a key role in ensuring Management follows appropriate processes in completing these risk assessment reviews. The outcomes are formalized into reports, which are reviewed by executive management. Executive management provides its input, the reports are finalized and the results are presented to the Board. Certain categories of similar risks are often grouped together, forming the basis of what we refer to as "principal risks".

While the formal reports contain considerably more detail and analysis on these principal risks, the table following is an indicative representation of how these principal risks are organized and ranked. It illustrates how Management and the Board perceive our risks.



The constituent elements of these principal risks, as well as other risks we face, are explained in greater detail below and are not necessarily always grouped in the same aggregating format.

Role of the Board and the Audit Committee
The Audit Committee charter requires an annual review of our risk management program for the identification and management of our principal risks and respective mitigation strategies. The Audit Committee must be satisfied with two procedural matters. First, it assesses whether our risk management program is appropriate. Second, with the support of the ERM team, it ensures that each of the key risks and associated mitigations identified by Management is delegated for more detailed review, oversight and monitoring by either the full Board or one of the Board's standing committees.

In addition, the Board charter requires all directors be involved in the monitoring of all of the Company's key risks and their respective mitigation plans. Our directors must have a solid and substantive understanding of the principal risks facing the Company. Consequently, a majority of Board and committee meetings have agenda items devoted to risk discussions. Our Board believes that risks and opportunities are related and need to be considered together. When the Board or a committee is asked to approve key strategic matters (such as budgets, outlook or decisions), a discussion surrounding the associated risks and opportunities also occurs. In that sense, risks and the associated mitigations are an integral and necessary part of normal business planning.

Risks relating to the Company
General
Our primary risks come from our competitors. Like all of our industry peers, both MTS and Allstream operate in highly competitive environments. We have many competitors, and technology changes are making it easier for others to enter our markets. Although MTS and Allstream operate in different competitive markets, they face the same primary risk. This risk is that current or future competitors will provide services comparable or superior to those that the Company provides, at the same or at lower prices, adapt more quickly to evolving industry trends or changing market requirements, introduce competing services or execute their business plans better. The products and services we sell have increasingly short "lifecycles", meaning that even when we successfully introduce and compete with a particular product or service, its replacement or the next-generation product or service is either in development or just about to be rolled out.

We have always been exposed to strong competition because many of our competitors are significantly larger and therefore possess a scale advantage, have greater access to financial resources and are better able to enter into exclusive or preferred arrangements with suppliers. All of these factors could adversely affect our market share and results.

We spend considerable time strategizing about how we can best mitigate competitive risks. All of our detailed business plans and "go-to" market strategies are created with the primary objective of sustaining and growing our businesses, notwithstanding these intense competitive pressures.

Risk factors
The risks and uncertainties summarized below highlight the more important and relevant factors that could significantly affect our financial results and operations. Our executive management has reviewed these risk factors. They believe these factors are a fair and comprehensive summary of principal risks facing the Company and the mitigation plans in place to manage them. Sometimes, however, risks manifest themselves in ways that are not expected. As such, the following is not intended to represent an exhaustive list of all potential issues that could significantly affect our financial results.

COMPETITION – MTS
Wireless competition
We successfully deployed a joint 4G HSPA+ network with Rogers Wireless, which currently remains the most comprehensive mobile wireless network in Manitoba. MTS was the first wireless carrier to deploy 4G LTE in Manitoba. 4G LTE offers faster mobile data speeds than those of our existing 4G HSPA+ network and, over time, is expected to further evolve, to offer even higher data speeds and support for voice services. In June of 2013, we announced that we had agreed to jointly expand and operate the 4G LTE network in Manitoba with Rogers Wireless, to form part of our shared network.

Our primary competitors in the Manitoba wireless market are Rogers Wireless and, to a lesser extent, TELUS and Bell Mobility, including Bell's Virgin Mobile and PC Mobile brands. In the past year, we have seen significant and aggressive promotional discounts offered by our competitors in the Manitoba market, specifically aimed at taking market share away from MTS. In 2008, Shaw and Globalive, two "new entrant" companies, acquired spectrum within Manitoba. Shaw has since announced it does not currently intend to deploy mobile wireless services. In January 2013, Shaw announced that Rogers had purchased an option to buy Shaw's spectrum, although this transfer has not been approved. Globalive has not disclosed plans to launch wireless operations in Manitoba. Shaw has deployed a series of wireless "hot spots" in Manitoba, using unlicensed Wi-Fi spectrum. In addition, TELUS continues to expand its network footprint in Manitoba, which it shares with Bell Canada, including a new and large LTE network. It now covers approximately 73% of the Manitoba population, compared to our coverage of approximately 97%.

Many of our other current or potential future mobile wireless competitors have announced their intention to deploy, or have started the deployment of, 4G LTE networks in major Canadian urban centres, which we anticipate would include Winnipeg over time. The speed and scope of the 4G LTE deployment, as well as the general rapid evolution of mobile wireless technologies, create substantial risks and opportunities for MTS's wireless business, which is material to our consolidated results.

Deployment of new wireless networks is capital-intensive. Expanding the scope of our wireless services contains risks associated with technological issues, and with access to cost-effective wireless roaming outside Manitoba and to new advanced wireless devices. In addition, the growing number of substitutes for wireless services, with more smartphones operating on Wi-Fi, could have a negative impact on our wireless business.

Demand for wireless data continues to increase at an exponential rate. Our ability to meet this demand in the future is not certain, and even if we can meet it, we cannot predict the cost to do so. The inability to keep up with the demand for wireless data capacity could have an adverse effect on our business and financial results.

Spectrum is a finite and scarce resource that can be expensive to obtain, if it is available at all. The failure to acquire or maintain spectrum could affect our ability to deploy new mobile wireless technologies or to service existing customers with existing technologies. All of this could materially affect our operations and consolidated profitability. On September 17, 2013, we made an application to Industry Canada to participate in the 700-MHz spectrum auction. On November 7, 2013, we submitted our complete auction deposit. We are currently participating in the 700-MHz wireless spectrum auction, which started on January 14, 2014. There is no guarantee that the Company will obtain spectrum. If we are successful in obtaining this spectrum, it could require us to make a material one-time payment for spectrum that was not contemplated in our financial plans. Finally, there is also a risk that 700-MHz spectrum is acquired by a wireless service provider that is not currently in our market, or is in our market with limited spectrum resources. The acquisition of this spectrum by such party or parties could cause overall competition in the Manitoba wireless market to intensify.

Ensuring our Manitoba wireless consumers have access to wireless devices (such as smartphones) and roaming partners can be challenging. Our roaming partners need to be technologically compatible with our network, the spectrums we use and our wireless devices. In the past, we have been successful in securing such devices and roaming partners. However, if we cannot continue this trend, our wireless business could be negatively affected and existing or future revenue and profitability could be reduced.

Finally, we have seen a growing trend of governments passing "consumer protection" legislation that could impact our flexibility in marketing our services or requiring longer-term contractual commitments from consumers. In 2012, such legislation was introduced in Manitoba. While we have adapted our plans accordingly, this legislation can always be amended to further limit our flexibility. On June 3, 2013, the CRTC issued a national wireless code of conduct that applies to all wireless service providers as of December 2, 2013. The code generally complements and aligns with Manitoba provincial legislation, under which MTS already operates, with some additional components that could cause the Company to incur unexpected financial costs. MTS supports a prevailing national code but has joined with some other wireless service providers in appealing, to the Federal Court of Appeal, aspects of the code that would retrospectively amend wireless contracts that are already in place. MTS is in the process of taking all the steps necessary, with the goal of implementing all material aspects of the new Wireless Code within the prescribed timeframe, although there are no assurances that it will be able to do so. To date, several major wireless carriers have indicated that they may be unable to comply with all aspects of the new code within the prescribed timelines. The Government of Manitoba has also indicated a consultation process that could result in new "consumer protection" legislation, conceivably impacting other lines of MTS's business, such as TV or Internet, which in turn could adversely affect our business.

We have the most comprehensive wireless network in Manitoba (including CDMA, 4G HSPA+, 4G LTE and Wi-Fi hotspots) and the largest market share. We are also able to leverage other services in our consumer bundle offers (home phone, Internet, television and home alarm monitoring) as part of our strategy to continue our successes in the wireless market.

Wireline competition

Our primary competitors in the consumer and small business wireline market are the incumbent cable providers in Manitoba – Shaw and Westman Communications Group. Cable competition and ongoing technology substitutions (including increasingly viable wireless solutions, as wireless providers are also competitors here) have contributed to the erosion of our residential network access line. This erosion is expected to continue over time. It creates significant financial pressure that needs to be offset with cost reduction strategies and revenues from other lines of business capable of producing profitable growth. There is no guarantee we will have the ability to continue to successfully implement these strategies in the future.

Broadband competition

Our primary competitors in urban broadband markets are the incumbent cable providers (Shaw and Westman Communications Group) and wireless Internet service providers in smaller communities and rural areas. Shaw now offers some of its customers Internet speeds that are faster than what we currently offer most of our customers. This development could adversely affect our ability to retain our market share. In addition, new wireless technologies, such as 4G LTE, could become increasingly viable substitutions for our wireline broadband offerings, putting further pressure on our business results. Our broadband business continues to perform well, despite these competitive pressures. Our broadband services form an important part of MTS's "bundle" strategy. We are also continuing to deploy more fibre (FTTH and "fibre-to-the-node") to help maintain the competitiveness of our speeds and service offerings. These deployments, however, are very capital-intensive.

Television competition

Our primary competitors in the television market are the incumbent cable providers (Shaw and Westman Communications Group) and satellite television providers (Shaw and Bell TV). There is also a growing base of other new content providers, such as Netflix, that offer substitute products. Streaming of "over-the-top" content via the Internet has now extended to wireless TV distribution platforms over smartphones. It is offered by some of our competitors such as Bell Mobility. Our IPTV is currently available in Winnipeg and Brandon, as well as in several other urban centres. Through our FTTH deployment, we will be increasingly able to provide residents in the largest rural Manitoba communities with our digital television service. While we have an advanced television offering, there are no assurances that our past successes will continue. In addition, our acquisition costs for programming, particularly sports programming, continue to increase. We generally have a limited ability to pass these increasing costs onto our consumers, which could affect our overall profitability. Much of this content is created and/or owned by our competitors (Bell, Rogers and Shaw), who could have conflicting interests when we negotiate for their content. To date, the CRTC has offered broadcasting distributors such as MTS limited protection against attempts by our competitors who own this content (for use in both traditional television and mobile applications) to charge us unfair rates or deny us access to this content altogether. In addition, the Government has suggested passing legislation that could require broadcasting distributors to offer more individual choice and selection of their channels without a requirement to obtain a "package" of channels. It is unclear how this would impact the Company and how this could be achievable, given certain existing contractual arrangements pursuant to which we acquire such content.

Competitive carriers and service providers

Within Manitoba, we operate as the incumbent carrier and as a provider of wholesale services to other competitive carriers and service providers. In this market, we face competition from competitors operating within Manitoba. Some of these competitors, such as Bell and TELUS, while not incumbent network providers within Manitoba, have a national scope and larger incumbent operations in other geographic areas. These competitors have always been much larger than us, with significantly more scale and financial resources. Most, but not necessarily all, of these national competitive carriers target our business customers. Sometimes these national/larger competitors are better positioned to acquire business customers such as banks and other national customers that have some locations in Manitoba but make national purchasing decisions. In addition, there is an increasing number of smaller competitors and competitive network alternatives, ranging from larger competitors such as Westman Communications Group and Manitoba Hydro Telecom to wireless Internet service providers, Voice over Internet protocol service providers and municipal/public dark fibre and wireless networks. Several of these smaller competitors are non-profit cooperatives, crown agencies or publicly funded agencies, or are subsidized by government broadband programs. These smaller competitors primarily compete with MTS in the small and mid-market business and public service organization markets. We also face loss of customers and business revenues when our larger customers (such as public agencies or school boards) seek to acquire dark fibre and build their own networks. As the incumbent carrier within Manitoba, we have the network infrastructure that ensures we are well positioned to compete against both larger national carriers and smaller regional competitors.

Certain dependency on key customers

We have several large government and business customers (such as the Province of Manitoba and the City of Winnipeg) that account for a noticeable percentage of our revenues. The loss of one or more of these key customers could adversely impact our financial results.

COMPETITION – ALLSTREAM

Highly competitive markets

Allstream serves business customers nationally. This market is highly competitive, with both revenues and margins for some of the services we offer declining across the industry. Our largest competitors are the incumbent Canadian telecommunications companies that operate in the major urban centres: Bell and TELUS. We also compete with non-incumbent telecommunications companies, such as various cable and hydro companies, that are re-sellers and/or have a more limited network.

Few non-incumbent telecommunications companies serving business customers have been successful in generating a sustained record of profitability and taking meaningful market share from the incumbent carriers. Our current strategy aims to mitigate this by focusing on high-growth products such as IP and more on the "mid-market" segment. This segment is subject to strong competitive pressures, but we believe it is less competitive than the large business customer market.

Reliance on third parties

Business customers require services in a broad range of geographic locations. Allstream has a national wireline network across Canada that also covers most large urban centres. There are many locations where we rely on third parties (often the incumbent phone company) for "last mile" access. In areas where we offer services using our own network, we believe we face significantly less risk in our ability to offer competitive services to our customers. As a result, we adopted our on-net strategy, where we focus on selling higher-margin services to customers that are served utilizing our own network. This reduces the need to rely on the services of other providers. In areas where we offer our services outside of our footprint, we face greater risks because we have limited control over the service levels provided to us by the incumbent carriers, who are also our direct competitors. We are also subject to the risks associated with changes to the regulatory framework, which can alter our rights to access such networks at reasonable prices, if at all. There is also a risk that, where we operate outside of our network footprint, the incumbent carriers will increase the prices they charge us for forborne services or impose other non-price conditions of use that could materially impact our ability to service our customers and affect our profitability. A CRTC decision allowed incumbent carriers to do this for some services commencing in 2011, which resulted in price increases. A number of additional services are now forborne, which we expect to lead to further increases in the rates we pay to other carriers, or even potentially prevent us from acquiring services on terms that meet our customers' requirements. Some of our contracts also include a clause enabling us to pass on third-party network price increases to our customers, thus providing some protection to Allstream. Our recent network expansion and on-net strategy are expected to reduce our dependency on these carriers and make us less vulnerable to price increases. A large percentage of our services is delivered to our customers using aspects of other carriers' networks. Our profitability is highly sensitive to such charges. In addition to being vulnerable to price increases by incumbents, we could be entirely denied access to third-party facilities. To reduce this risk, we have expanded our network over the past years and are continuing efforts to sign multi-year agreements with certain incumbent providers.

The CRTC has announced a large review of these access rights over the coming year, which could significantly impact both MTS and Allstream, although in different ways (i.e., while Allstream could benefit from the regulatory framework of these access services, the same could increase competition within the Manitoba marketplace for MTS).

Significant exposure to legacy services

Allstream has financial exposure relating to its legacy services, which are operated on our older voice and data infrastructure. These legacy lines of business, such as long distance and private-line data services, are in decline as our customers migrate to integrated telecommunications products, such as converged IP, that offer a wider range of functionalities. As a result, the revenues for legacy services are generally declining and, indeed, saw significant and unexpected declines through 2013. We work to offset this by focusing on growing the sales of our IP services, which can be sold at attractive margins. Managing the transition away from legacy services can be a complicated and, at times, capital-intensive process. To manage this decline we need to reduce internal resources devoted to operating and maintaining such services. However, we continue to have customers actively using these services and we need to continue to maintain these systems and platforms with fewer resources. Managing this transition is complicated and, if not managed well, could adversely affect our financial position.

Demand generation and market growth

In order to manage the decline in our legacy services, we need to create significant off-setting growth in our IP suite of services. This is a significant challenge, with material operational risk. We have had to change how we focus, motivate our sales force and become more deliberate about what we sell, where we sell it and to whom. We have been successful recently in driving growth. These growth rates may become harder to sustain as the market for IP services becomes more mature and competitive.

Dependency on key customers

We have several large customers that account for a significant percentage of our revenues. This is true for both our IP and legacy services. The loss of one or more of these key customers could adversely impact our financial results. Our recent efforts to focus on sales into the business mid-market will, over time, help to reduce this exposure to one or more larger customers.

Recent history of negative cash flow

Allstream has had negative free cash flow in recent years, which hinders our ability to make necessary re-investments into our business and infrastructure without using new capital. While our current business plan expects Allstream to be cash-flow-neutral, there can be no assurances that Management will be able to deliver on this plan.

CHANGES IN REGULATION OF THE TELECOMMUNICATIONS AND BROADCAST INDUSTRIES

The telecommunications and broadcast industries in which we operate are federally regulated. Our business is directly affected by decisions made by various regulatory agencies of the Government, including the CRTC and Industry Canada. The outcome of regulatory reviews, proceedings, appeals and other regulatory and policy developments could have a material impact (positive or negative) on our financial position.

For MTS, changes in the regulatory environment could affect the terms and conditions under which we are able to continue to use our licensed wireless spectrum, obtain new spectrum, alter the terms under which we are required to allow others to interconnect with our networks or change how we are permitted to sell our services to consumers or at what prices. Changes to these regulations could impose new operating or capital costs, or change the competitive dynamic of this market. Our television offering is also subject to broadcasting regulations. In the Throne Speech of October 2013, the Government announced its intention to mandate unbundling of television offerings. Such a change could alter the manner in which we are able to sell television services to our customers. In October of 2013, the Government of Manitoba announced that it is considering imposing consumer protection legislation applicable to cable television, Internet and home phone. As a result, it is possible that a set of obligations and limitations will be imposed on such industries.

For Allstream, changes in the regulatory environment could affect the terms and conditions under which we are permitted to interconnect with others' networks, if at all. This has a significant impact on our profitability, as the amounts we pay to other (often incumbent) carriers are one of the most significant expenses in our business.

For both divisions, the CRTC has announced a large review of wholesale access rights over the coming year, which could significantly impact both MTS and Allstream, although in different ways (i.e., while Allstream could benefit from the re-regulation of these access services, the same could increase competition within the Manitoba marketplace for MTS).

For a description of the principal regulatory initiatives and proceedings currently affecting the Company, please see the section entitled "Regulatory developments" which is incorporated herein by reference as they form a significant element of the risks we face. We monitor changes in these regulations carefully and are frequent interveners in the regulatory process to ensure our perspective is understood by the regulators prior to their making decisions that will affect us.

MARKET CONDITIONS

Both MTS and Allstream are affected by general economic conditions, including consumer and business confidence as well as spending on, demand for and prices of products and services. During adverse economic conditions, customers and businesses may delay buying our products and services, reduce purchases, seek greater discounts or even discontinue purchases altogether. Our ability to collect receivables could also be affected and our churn rates could increase. It has been our past experience that Allstream's business customers are more sensitive to changes in market conditions than MTS's Manitoba-based consumers. We continuously monitor markets and proactively take steps to adjust our business plans and marketing efforts in light of general economic conditions.

FINANCING AND DEBT REQUIREMENTS

We periodically raise capital through debt and equity offerings in the capital markets, as well as through our DRIP. Our business plans and growth could be negatively affected if existing financing is not sufficient to cover funding requirements, or if we are unable to re-finance maturing debt at favourable rates. We believe that our existing debt levels are manageable, given the profitability of our operations. However, as is the case with many of our peers, our debt levels increase our vulnerability to general adverse economic and industry conditions, limit our flexibility to plan for or react to changes in our business and industry, and could place us at a disadvantage compared to our competitors with less financial leverage.

The cost and availability of any new required capital depend largely on market conditions, the outlook for our business and credit ratings at the time funds are raised. Our credit ratings are not only subject to our operational results, but also depend upon how credit rating agencies view us and the industry in which we operate. Changes to our credit ratings could adversely affect our ability to raise new debt or equity. If we were to cease to maintain our "investment-grade" credit rating, this could have a material adverse effect on our ability to access the credit markets in the manner in which we have done so in the past, and increase the cost of our debt.

FUTURE CASH FLOW REQUIREMENTS

Over the coming years, both the MTS and Allstream subsidiaries (as well as their respective industry peers) could be faced with some significant one-time cash flow requirements to fund investments such as new spectrum, network expansion or enhanced back-office systems. Even though these investments may be associated with positive business cases, the up-front expenses may not be covered by our in-year free cash flow. We may also need to make significant one-time payments as a result of unexpected and unfavourable decisions arising from litigation against us, as well as other payments to fund our pension solvency deficits. Any of these payments could require additional cash not previously planned for and do not form part of our outlook or business plans.

DEBT AND EQUITY REQUIREMENTS

There are inherent risks associated with investing in the debt and equity markets. External factors, over which we may not have any control, could negatively impact the market price of our securities. Differences between our actual or anticipated financial results, and the published expectations of financial analysts could contribute to volatility in our securities. Also, a major decline or lack of liquidity in the capital markets, or an adjustment in the market price or trading volumes of our securities may adversely affect our ability to raise capital, issue debt, retain employees, make strategic acquisitions or enter into joint ventures. Changes in interest rates could, over time, significantly increase our borrowing costs if we were forced to renew maturing debt at higher rates. In addition, some of our revenues and expenses are in U.S. dollars. While we can sometimes hedge some of these obligations, changes in the value of the Canadian dollar relative to the U.S. dollar could adversely affect our cash flow.

PENSION

Pension funding

Pension funding is associated with maintaining our defined-benefit pension plans, in which some of our employees and retirees participate. The MTS subsidiary has a greater exposure to defined-benefit pension plan costs than has the Allstream subsidiary. The costs we face as a result of such plans are driven by various factors, many of which are largely outside of our control. These factors include:

- **Actuarial standards and applicable legislation** – Changes in actuarial standards and government pension regulations can directly increase or decrease the contributions we are required to make to our pension plans. In the past, we had some success in discussions with the Government, which led to changes in federal pension funding requirements, though any future changes could be either positive or negative. We have no meaningful ability to influence any future changes to actuarial standards. For example, in 2013, new "mortality tables" were proposed to be introduced, which in turn are expected to affect the solvency status of our pension plans.
- **Return on plan assets** – Our plans' assets are invested in equity and fixed-income securities, or other at-risk investments. As a result, the ability of our pension plans to earn our projected rates of return depends significantly on the performance of the financial markets. While we are thoughtful and conservative in choosing the types of investments made by our pension plans, and we believe we have effectively managed our pension plans' assets in the past, ultimately, we cannot control the financial markets.
- **Other variables affecting pension valuations** – Our funding obligations depend in part on the value of the liabilities in our pension plans. These valuations depend on actuarial standards and applicable legislation, long-term interest/discount rates and plan member demographics. We cannot control or influence these variables, yet they can significantly affect our pension valuation. For example, the existing solvency deficits under our defined-benefit pension plans as of early 2013 would be turned into solvency surpluses if the applicable discount rate were to increase by a few percentage points.
- **Existing solvency deficits** – As measured on a solvency basis, our defined-benefit pension plans have material deficits. These deficits have been largely caused by recent historically low discount rates. Under federal pension legislation, we are currently allowed to utilize letters of credit to satisfy a portion of our solvency funding obligations. However, there is a need for significant cash contributions into our pension plans, as we have maximized the amounts of letters of credit we are entitled to utilize in our largest pension plan. Such cash contributions adversely affect our free cash flow and also increase the possibility of "stranded capital" in our pension plans, should they subsequently move into a surplus position. It is currently expected that a portion of the net proceeds of the Offering will be used to pre-fund part of our solvency deficits.

OTHER

Operational execution/process risks

The businesses, technologies, processes and systems of both our MTS and Allstream subsidiaries are complex. Failure to properly execute our plans may lead to negative customer experience, network outages and an inability to achieve necessary cost savings, or otherwise impede our ability to effectively carry on our business. We often rely on third parties to help us execute on objectives associated with our business plans. We cannot be assured that such third parties will perform their obligations appropriately. In particular, as both MTS and Allstream operate in very competitive environments, and are constantly required to find new efficiencies and cost savings, there is an increasing amount of operational risk as both subsidiaries are, in effect, forced to do more with significantly less in resources.

Continuous rapid changes in technology

Both our MTS and Allstream subsidiaries operate in markets that are affected by constant and rapid technological change. Network technology continues to evolve at a pace that may enable competitors to enter our markets with increased flexibility, provide more choice for customers and speed up the obsolescence of our core technologies. Some elements of our network and technologies are aging. We periodically face situations in which manufacturers are no longer supporting their technologies. These systems become more prone to failure, which can result in more widespread network failures or operational disruption. At the same time, this provides us with new opportunities to exploit markets that were previously too difficult or costly for us to enter. These changes could result in the displacement of products and services by substitutes, and create a need for accelerated investment in our network evolution. We need to anticipate technological change and continue to invest in or develop new technologies, products and services. We have deployed a joint wireless network with Rogers Wireless. The aspects of this network that are shared introduce new technological complexities as we deploy new services and standards.

Like others in our industry, there can be no assurance that we will be successful in developing, implementing and marketing new technologies, products and services, or fully realize the expected sales, cost savings and efficiencies, or make these necessary investments. Nor can we be assured that we will be able to gain access to such technologies and other business inputs at reasonable terms or prices. New products or services that use new or evolving technologies could reduce demand for our existing offerings or cause prices for those services to decline.

Similarly, the deployment of new internal IT and network technologies (such as expanded networks, billing systems, back-office tools) often entails expensive and complicated projects, particularly as they need to be designed to work with both legacy and next-generation systems. These technologies are critical for us to collect our revenue, serve customers and remain competitive in the market. There are no assurances that such technologies can be deployed on time or on budget, or without causing significant business interruption.

Scale of our operations

Our MTS subsidiary has always been significantly smaller than most other incumbent telecommunications companies in Canada (for example, Bell, TELUS and Bell Aliant). It is smaller than some of its direct competitors within Manitoba (for example, Rogers Wireless). Similarly, our Allstream subsidiary is smaller than many of its direct competitors. It is much smaller than the two large incumbent telecommunications companies serving business customers (Bell and TELUS). In turn, these Canadian-based competitors are significantly smaller than many of their global peers.

This means that both of our subsidiaries operate with considerably lower economies of scale and much less purchasing power than do our larger competitors, and our ability to impose custom technological standards on manufacturers and bargaining power with our larger customers is more limited. While MTS continues to benefit from its incumbent position in Manitoba, and both MTS and Allstream can leverage their positions as smaller players to be more effective and closer to their customers, it does place operational and financial pressures on us that may not be experienced by some of our larger competitors.

We mitigate this type of risk by partnering with others where appropriate and advantageous (for example, we participate in a joint mobile wireless network with Rogers Wireless) and by leveraging our ability to be more agile or offer our customers a more personalized and customer-focused experience.

Security and network failures/cyber-risks

Like all others in our industry, the operations of both our MTS and Allstream subsidiaries depend on how well we and our suppliers protect our networks, equipment, IT systems, software and customer information (including personal information) against damage from a number of threats, including, but not limited to, cable cuts, damage to our physical plant, natural disasters, terrorism, fire, power loss, hacking, computer viruses, vandalism, theft and abuse by our own employees. Our operations also depend on the timely maintenance, upgrade and replacement of our network and our suppliers' networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures (such as expenses we incur as a result of the periodic flooding in Manitoba). Any of these and other events could result in network failures, billing errors, delays in customer service and/or increases in capital expenses. The failure of networks or a component of our networks might, in some circumstances, result in a loss of service for our customers and could adversely impact our reputation, goodwill and results of operations. Any of the above events affecting third parties on which we rely may also result in an interruption in service that would last until the outage is fixed or alternative service delivery options are found, and could also harm our customer relationships.

We understand the importance of network integrity. Both our MTS and Allstream subsidiaries spend a significant amount of time and resources to manage this risk, as many of these risks can be prevented through proper network and system design, maintenance and alternate sources of supply. We regularly consider the probability of cyber-incidents and the quantitative and qualitative magnitude of these risks, including the potential costs and other consequences arising from the misappropriation of assets or sensitive information, corruption of data or operational disruption.

To date, our pro-active and ongoing mitigation and planning efforts have been successful, as we have not experienced any significant network failures or "cyber-security" incidents. However, these types of events are becoming increasingly common and are experienced by many companies, across all types of industries. There are no assurances that our ongoing controls will continue to be effective.

LITIGATION AND LEGAL MATTERS

Litigation

As is the case with any large company, investigations, claims and lawsuits seeking damages and other relief are threatened or pending against us. In addition, plaintiffs within Canada are also able to launch class-action claims on behalf of a large group of persons, with increasing ease. By the nature of its consumer-facing businesses, our MTS subsidiary is more vulnerable to class-action litigation than is our Allstream subsidiary.

By way of indicative examples, we and other major telecommunications service providers are defendants in three large national class-action claims. The first involves a claim relating to a class of subscribers for wireless or cellular services who are seeking recovery of fees that the carriers have categorized as system access fees or system licensing charges, and which the plaintiffs allege have been improperly characterized as government-related charges. The second major class-action claim relates to allegations that customers for both landline and wireless services have paid extra fees in association with 9-1-1 or emergency service access fees that now ought to be repaid, which is now also subject to an industry-wide regulatory review. In the third major class-action claim, we, along with the wireless carriers operating in Canada and the manufacturers of wireless devices sold in Canada, were named in a class-action lawsuit alleging adverse health effects incurred by long-term users of cellular devices. We believe we will be successful in defending against these specific claims. The outcome of any such actions, or of new actions that may arise, however, is uncertain. Judges or juries can, at times, deliver unpredictable decisions. Until any particular matter is resolved, there can be no assurance that our financial position will not be negatively impacted, as the costs associated with losing or defending against such claims could be material. We work hard to mitigate these risks by vigorously defending ourselves when appropriate. Negative financial outcomes associated with certain operational and/or legal risks are mitigated through the purchase of appropriate insurance coverage. We also take steps to minimize the risk of being sued or being subject to such proceedings at first instance, such as by implementing appropriate compliance programs and trying, whenever possible, to negotiate favourable contractual terms that limit our liability.

Civil liability in the secondary market

Securities laws impose potential liability for misrepresentations by public companies in written disclosure and oral statements, or for the failure to make timely disclosure of a material change. We have well-documented processes in place, including a corporate disclosure policy that we believe provides reasonable procedures and controls for all of our public disclosure. We believe that we have appropriate insurance coverage in respect of these risks, and rely on the integrity of our officers and directors. However, there can be no assurance that all of our processes and controls will be followed by employees, officers, third parties and directors at all times.

Legal and regulatory compliance

We necessarily rely on our employees, senior management, the Board and key third-party contractors to conduct themselves according to legal and ethical standards. Situations might occur where individuals do not adhere to our policies or where legal requirements are inadvertently breached. Such events could expose us to damages, sanctions and fines, or negatively affect our financial operating results. We are required to handle our employees' and customers' personal information in a way that is compliant with all applicable privacy laws, which is becoming increasingly more onerous. We believe we have reasonable policies, processes and awareness in place for proper compliance, and that these programs reduce the risks associated with some of these complex obligations.

Applicable legislation and corporate articles

Despite the recent liberalization of foreign ownership requirements applicable to telecommunications companies with less than a 10% market share, we remain subject to foreign ownership requirements that apply to MTS's television business. In addition, the articles of the Company limit the ability of individuals to own and trade our securities. In particular, there are constraints in respect of foreign ownership and ownership by individuals owning more than a specified percentage of our Common Shares. These restrictions could serve to deter a change of control of the Company; limit the market demand, market price or liquidity of our securities, or affect our ability to access capital. Although we support the liberalization of foreign ownership as being in the best interests of our shareholders, this change could result in new foreign competitors or existing competitors benefiting from new foreign investments or partnerships, which could result in increased competition.

Contractual provisions

Technology evolution brings additional legal risks and uncertainties. The intellectual property and proprietary rights of owners and developers of hardware, software, business processes and other technologies may be protected under law, and significant damages may be awarded in property infringement claims advanced by rights holders. In addition, contractual provisions to which we are bound are becoming increasingly complicated and expose us to heightened risks vis-à-vis our customers and vendors, and we are not always able to fully limit our liability in respect of these matters.

Changes to legislation affecting our services

Changes in legislation can affect the ability of customers of both our MTS and Allstream subsidiaries to use the products and services we offer. As an example, in 2010 our Manitoba-based wireless customers became subject to stricter laws limiting the use of handheld wireless devices while driving. Although we supported this change and did not see any adverse effect on our results or on demand for our services, there can be no assurances that this will be the case with future changes in legislation. Similarly, changes to legislation can require us to build new systems or provide functionality that we would not otherwise establish, which could increase our costs. As an example, we may be required to incur unexpected network capital expenses to comply with potential new legislation mandating all telecommunications carriers to provide new methods of "lawful access" to law enforcement agencies.

Radiofrequency

It is suggested that the radio frequency emissions from wireless devices (such as the ones sold by our MTS subsidiary) could be associated with health concerns. As mentioned above in "Risk factors – Risks relating to the Company – Litigation and legal matters", we have been named in a class-action lawsuit related to such allegations. We are not aware of any credible basis on which such risks could be substantiated. In fact, significant government-backed research concludes that there is no basis for such concerns. We comply with all applicable legislation and regulatory requirements. Actual or perceived issues associated with such suggestions, however, could affect our results and operations.

HUMAN RESOURCES

Collective agreements

The collective agreement with Unifor (the former Communications, Energy and Paperworkers Union of Canada, Local 7) expired on December 19, 2013. Unifor also represents operators employed by AAA Alarms, who are covered by a collective agreement that expired on November 20, 2013. Negotiations are currently underway to renew this collective agreement. Unifor Local 7 also represents operators employed by AAA Alarm, who are covered by a collective agreement that expires on November 20, 2016.

A majority of our employees are covered by collective bargaining agreements. Proportionately, a higher percentage of employees in our MTS subsidiary are unionized, compared to employees of our Allstream subsidiary. Re-negotiating collective bargaining agreements carries the risk of resulting in higher labour costs and work disruptions, including work stoppages or slowdowns. While we have not had a labour disruption in over a decade and have had recent successes in concluding a series of collective agreements with several of our unions, there can be no assurance that, should a labour disruption occur, it would not adversely affect the services that we provide to our customers and our operating results. We periodically develop, review and update contingency plans for labour disruption. Similarly, a labour disruption at one of our suppliers (for example, a service provider who carries portions of our traffic, a roaming partner or a content provider) could also harm our business, damage customer relationships and impact our operational results. Further information about our collective agreements is contained in our 2013 AIF, which is available on our website at www.mtsallstream.com or on SEDAR at www.sedar.com.

Reliance on key personnel

Our business depends on the efforts, abilities and expertise of our senior executives and employees. The loss of key individuals could impair our business and development until qualified replacements are found. There is no assurance that these individuals could quickly be replaced with persons of equal experience, skills and capabilities. We are smaller than many of our industry peers and, as a result, we sometimes face greater risks associated with employee retention. To manage this risk, our Board and its Human Resources and Compensation Committee take an active role in reviewing compensation levels to ensure we remain competitive within our peer group, and have a strong succession planning program in place. More details of these plans and mitigations are contained in our latest Management Proxy Circular.

TAX MATTERS

Our business activities are subject to tax legislation and regulations that frequently change. Changes in tax laws or the adoption of new tax laws could result in higher tax rates or new taxes. The calculation of collectable or payable taxes, in many cases, requires significant judgment in interpreting tax rules and regulations. Our tax filings are subject to government audits, which could materially change the amount of current and deferred income tax assets and liabilities, and could, in certain circumstances, result in an assessment of interest and penalties. At present, we have a substantial tax asset and believe that this asset will enable us to offset the payment of cash income taxes until at least 2020.

CONTROLS AND PROCEDURES

Management is responsible for establishing and maintaining disclosure controls and procedures, and internal control over financial reporting. These terms are defined in National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings", as adopted by the Canadian securities regulatory authorities.

Disclosure controls and procedures

Under the direction of our Audit Committee, our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), we evaluated the design and operation of our disclosure controls and procedures as at December 31, 2013. Based on this evaluation, our CEO and CFO have concluded that, as of the evaluation date, our disclosure controls and procedures were effective to provide reasonable assurance that information that is required to be disclosed in prescribed filings and reports that are filed with the Canadian securities regulatory authorities is recorded, processed, summarized and reported on a timely basis. It is also accumulated and communicated to Management, including the CEO and the CFO, as appropriate to allow timely decisions regarding required disclosure.

Internal control over financial reporting

Internal control over financial reporting is a process designed by, or under the supervision of, the CEO and CFO to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Our process includes those policies and procedures that:

i. pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, transactions relating to our assets

ii. provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with IFRS, and that receipts and expenditures are made only in accordance with authorizations of Management and our directors, and

iii. provide reasonable assurance regarding the prevention or timely detection of any unauthorized acquisition, use or disposition of our assets that could have a material effect on our annual financial statements.

Due to its inherent limitations, internal control over financial reporting can provide only a reasonable assurance and may not prevent or detect misstatements. As well, projections to future periods of an evaluation of the effectiveness of internal control over financial reporting are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Under the direction of our Audit Committee and our CEO and CFO, we have evaluated the design and operation of our internal control over financial reporting as at December 31, 2013, based on the criteria set forth in the Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, our CEO and CFO have concluded that, as of the evaluation date, our internal control over financial reporting was effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. No material weaknesses in our internal control over financial reporting were identified.

There have been no changes in our internal control over financial reporting during the three-month period ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

NON-IFRS MEASURES OF PERFORMANCE

In this MD&A, we provide information concerning 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 IFRS, and are not necessarily comparable to similarly titled measures used by other companies.

EBITDA

We define EBITDA as "earnings before interest, taxes, depreciation and amortization, and other income (expense)". EBITDA should not be construed as an alternative to operating income or to cash flows from operating activities (as determined in accordance with IFRS), as a measure of liquidity.

FREE CASH FLOW

We define free cash flow as "cash flows from operating activities, less capital expenditures, and excluding changes in working capital, pre-funded pension solvency payments and spectrum costs". 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.

GLOSSARY

A

Asymmetric digital subscriber line (ADSL)
The technology used to move data quickly on existing copper phone lines.

ARPU
Average return per user, expressed as a dollar amount for a given period of measurement. It is used to demonstrate, in part, a telecom service provider's operating performance.

B

Blended
Refers to a combination of both pre-paid and post-paid wireless customers. This term is used when a metric counts all wireless customers (e.g., blended churn).

Blog
A website on which an individual or a group of users records opinions, information, etc., usually on a regular basis.

Broadband
High-speed transmission. The term is commonly used to refer to communications lines or services at T1 rates (1.544 Mbps) and above. Broadband facilities – fibre optic and coaxial cable, for example – may carry numerous voice, data and video channels at the same time.

Bundling
Refers to grouping two or more telecom services together.

C

CRA
Canada Revenue Agency.

Canadian Radio-television and Telecommunications Commission (CRTC)
The agency responsible for regulating Canadian telecommunications and broadcasting services.

Canadian Securities Administrators (CSA)
A forum in which the 13 securities regulators of Canada's provinces and territories are able to coordinate and harmonize regulation of the Canadian capital markets.

Capital expenditures (CAPEX)
Funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment. This type of outlay is made by companies to maintain or increase the scope of their operations.

Cash flow
The movement of cash in and out of a business from day-to-day direct trading and other non-trading or indirect effects, such as capital expenditure, tax and dividend payments.

Churn
The rate at which existing subscribers cancel their services is called "churn". Churn is calculated as the number of subscribers disconnected in a given period divided by the average subscriber base for that period.

Code division multiple access (CDMA)
A method for transmitting multiple digital signals simultaneously over the same carrier frequency (the same channel). Although used in various radio communications systems, the most widely known application of CDMA is for cell phones.

Compound annual growth rate (CAGR)
The year-over-year growth rate of an investment over a specified period of time.

Committee on Uniform Securities Identification Procedures (CUSIP)
A CUSIP number is used to identify most securities and to facilitate clearing and settling of securities transactions.

Common share
A type of security which represents ownership in a company and entitles the holder to voting rights.

D

Digital subscriber line (DSL)
A technology for bringing high-bandwidth information to homes and small businesses over ordinary copper telephone lines.

Dividend
A distribution of a company's profits to its shareholders, paid in proportion to the number of shares that an individual shareholder owns. The amount and frequency of the dividend payment are approved by the Board. Dividends are normally in the form of cash, but can also be in other forms, such as shares in the issuing company or shares in a subsidiary.

Dividend record date
The date the Board sets as the date of record, to determine which shareholders are eligible to receive a declared dividend. To be eligible to receive a declared dividend, the shareholder must own or have purchased the security at least three market trading days prior to the record date (Trade date +3).

Dividend re-investment plan (DRIP)
A plan in which shareholders of a company can re-invest cash dividend payments into additional shares.

Dividend yield
The return earned on a security, calculated by expressing its dividend, on an annualized basis, as a percentage of the security's market price.

E

Earnings before interest, taxes, depreciation and amortization (EBITDA)
EBITDA is defined as "earnings before interest, taxes, depreciation and 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 International Financial Reporting Standards) as a measure of liquidity.

Earnings per share (EPS)
Earnings per share (EPS) are the portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability.

Employee share ownership plan (ESOP)
MTS employees have the opportunity to share in the success of the Company by investing in shares through the ESOP plan.

Evolution data optimized (EVDO)
A high-speed network protocol used for wireless data communications, primarily Internet access. EVDO is considered a broadband technology, like DSL or cable modem Internet services.

Ex-dividend date
The first date on which a security trades when a purchaser of that security is not entitled to its dividend. The ex-dividend date falls two market trading days prior to the record date.

F

Free cash flow
Free cash flow is a non-IFRS measure of performance. We define free cash flow as "cash flows from operating activities, less capital expenditures and excluding changes in working capital, pre-funded pension solvency payments and spectrum costs". Free cash flow is the amount of discretionary cash flow that the Company has for purchasing additional assets beyond its annual capital expenditure program, paying dividends, buying back shares and/or retiring debt. The term "free cash flow", as it relates to 2013 and 2012 results prepared using IFRS, does not have any standardized meaning according to IFRS. It is therefore unlikely to be comparable to similar measures presented by other companies.

Fibre optic network
The method of transmitting information from one place to another by sending pulses of light through an optical fibre.

Fibre-to-the-home (FTTH)
An arrangement whereby fibre cable runs all the way into a customer's home, instead of just to a box on the street corner. Because the fibre goes all the way into the house, it can carry more bandwidth, which allows us to offer hi-tech integrated services like MTS Ultimate TV®.

G

GAAP
Generally accepted accounting principles.

Goodwill
Any surplus money paid to acquire a company that exceeds its net tangible assets value.

H

HSPA+ (high-speed packet access)
A mobile telephony technology that allows for data transmission speeds of up to 21 Mbps. HSPA+ (also called Evolved HSPA or 4G) is a further evolution of HSPA that offers data speeds of up to 42 Mbps.

I

IFRS
International financial reporting standards.

Internet protocol (IP)
IP is the method by which data are transmitted between computers connected to the Internet. Each computer on the Internet has at least one IP address that uniquely identifies it out of all other computers on the Internet, making it possible for data to be transmitted to a particular destination.

IP connectivity
The access network that provides Internet Protocol (IP) connections.

L

LTE
The MTS LTE (Long Term Evolution) wireless network is the next step in wireless technology. LTE is capable of delivering download speeds of up to 75 Mbps and upload speeds of 25 Mbps.

M

MBT
The TSX trading symbol for Manitoba Telecom Services Inc.

MD&A
Management's discussion and analysis.

Market value
The most recent price for a security at which a transaction has occurred.

MPLS network
A multi-protocol label switching (MPLS) network gives telecommunications companies the ability to provide Internet Protocol (IP) and switched Ethernet services.

N

Non-IFRS measures of performance
In this MD&A, we provide information concerning 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 IFRS, and are not necessarily comparable to similarly titled measures used by other companies.

P

Penetration rate
The number of customers divided by the population of a given area.

Pre-paid wireless customers
Refers to wireless customers who pay before they use the service. They are not on contract – they buy minutes as part of pay-as-you-go plans. Typically, they spend less money and are more likely to switch to a competitor.

Post-paid wireless customers
Refers to wireless customers who pay after they use the minutes – they get a monthly bill and are on contract.

S

System for Electronic Document Analysis and Retrieval (SEDAR)
The SEDAR website provides access to public securities documents and information filed by public companies and investment funds with the Canadian Securities Administrators (CSA).

Share
A unit of ownership in the equity of a company.

Share transfer agent
See "Transfer agent".

SR&ED
Scientific Research & Experimental Development investment tax credit.

Spectrum
The specific part of the electromagnetic spectrum that can be licensed for use by telecommunications service providers. Telecoms can purchase, usually through an auction, a spectrum license that grants them the sole right to use a portion of the radiofrequency spectrum in a given geographical area for communication purposes. A Canadian spectrum auction is expected to take place in January 2014.

Stock exchange
An organization which facilitates the exchange of securities through the matching of buy and sell orders.

Stock symbol
A letter-only symbol used to individually identify each company that trades on an exchange or a market.

Strategic services
Strategic services are wireless, broadband and converged IP services.

Subsidiary
A company in which the Corporation owns more than 50% of the securities.

T

Total shareholder return
The total return on a stock to an investor (capital gain plus dividends).

Transfer agent
A company acting on behalf of a publicly traded company, which maintains a record of its shareholder names and addresses, and the quantities of shares each shareholder holds.

TSX
Toronto Stock Exchange.

U

Unified communications (UC)
The integration of real-time communication services, which can include such services as instant messaging, video conferencing, data sharing, call control and speech recognition with non-real-time communication services such as unified messaging (integrated voicemail, email, SMS and fax). UC is not necessarily a single product, but a set of products that provides a consistent unified user interface and experience across multiple devices and media types.

V

Very high speed digital subscriber line (VDSL)
VDSL transmits data in the 13-to-55-Mbps range, via twisted pair copper wire, over short distances, usually between 300 and 1,500 meters. The shorter the distance, the faster the data are transmitted.

Voice over Internet protocol (VOIP)
Transmitting voice signals in digital form over the Internet, using the Internet Protocol (IP) method.

W

Wireless fidelity (Wi-Fi)
A term used for a high-frequency wireless local area network (WLAN).

Wireless local area network (WLAN)
A local area network to which a mobile user can connect through a wireless (radio) connection.

Y

Yield
The return that an investment provides to an investor. It is a combination of income received and capital appreciation/depreciation.

RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Manitoba Telecom Services Inc. ("MTS") and the information in Management's Discussion and Analysis are the responsibility of management. The information presented in Management's Discussion and Analysis, and elsewhere in the annual report, is consistent with the information contained in the consolidated financial statements.

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards, and necessarily include some amounts that are based on management's best estimates and judgements. In management's opinion, these consolidated financial statements fairly present, in all material respects, MTS's consolidated financial condition, financial performance and cash flows.

In fulfilling its responsibilities, management, under the direction of the Chief Executive Officer and the Chief Financial Officer, is responsible for developing and maintaining a system of internal controls, including systems and processes, policies and procedures, and segregation of duties and responsibilities. The system of internal controls is supported by an internal audit function that reports to the Audit Committee. This system is designed to provide reasonable assurance that the financial statements are accurate and complete in all material respects, that assets are adequately accounted for and safeguarded, transactions are properly authorized and recorded, and that the financial records are reliable for preparing the financial information included in Management's Discussion and Analysis.

MTS also maintains a *Guide for Business Conduct & Ethics*, which requires adherence to high ethical business standards, and *Corporate Disclosure Policy & Practices*, which requires the public disclosure of all material information in accordance with securities regulations.

The Board of Directors is responsible for overseeing management's responsibility for financial reporting and for reviewing and approving the consolidated financial statements. It carries out its responsibility for the consolidated financial statements and Management's Discussion and Analysis principally through its Audit Committee.

The Audit Committee, which is comprised of independent directors, monitors MTS's financial reporting functions and related internal control and management information systems. The Audit Committee has responsibility for establishing a governance process over the engagement of the external auditors; including the establishment of an *Auditor Independence Policy* and the requirement for pre-approval of all audit and non-audit services to be provided by the external auditors. The text of the Audit Committee's Charter and a summary of the *Auditor Independence Policy* are disclosed in MTS's Annual Information Form.

The Audit Committee meets periodically with management, and with the internal and external auditors, to discuss the results of audit examinations with respect to the adequacy of internal controls and to review and discuss the consolidated financial statements and other filings. The Audit Committee has recommended the consolidated financial statements and Management's Discussion and Analysis to the Board for approval, and the Board has approved these documents.

The consolidated financial statements have been audited by Deloitte LLP, Chartered Accountants, who have full access to the Audit Committee, with and without the presence of management. The accompanying auditor's report outlines the scope of their examination and their opinion.

Pierre Blouin
Chief Executive Officer

Wayne Demkey, CA
Chief Financial Officer

Kishore Kapoor, CA
Chair of the Audit Committee

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Manitoba Telecom Services Inc.

We have audited the accompanying consolidated financial statements of Manitoba Telecom Services Inc., which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, and the consolidated statements of net income and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Manitoba Telecom Services Inc. as at December 31, 2013 and December 31, 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Accountants
February 6, 2014
Winnipeg, Manitoba

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

Years ended December 31 *(in millions of Canadian dollars, except earnings per share)*	Note	**2013**	2012 (restated - Note 2)
Operating revenues	6	**$ 1,633.7**	$ 1,704.1
Operating expenses			
Operations	7	**1,047.2**	1,118.9
Transaction costs and restructuring	5 & 7	**35.2**	—
Depreciation and amortization	7	**309.1**	322.8
		1,391.5	1,441.7
Operating income		**242.2**	262.4
Other expense		**(0.8)**	(1.1)
Impairment loss	5	**(130.4)**	—
Past service costs	25	**(142.1)**	—
Finance costs	8	**(81.1)**	(78.3)
(Loss) income before income taxes		**(112.2)**	183.0
Income tax (recovery) expense	9	**(27.8)**	38.5
Net (loss) income for the year		**$ (84.4)**	$ 144.5
Other comprehensive income			
Items never subsequently reclassified to net income			
Net actuarial gains (losses) from defined benefit plans and other employee benefits	17	**$ 276.7**	$ (65.8)
Deferred taxes on items in other comprehensive income	9	**(74.3)**	19.8
Other comprehensive income (loss) for the year, net of tax		**202.4**	(46.0)
Total comprehensive income for the year		**$ 118.0**	$ 98.5
Basic and diluted (loss) earnings per share	10	**$ (1.24)**	$ 2.17

MANITOBA TELECOM SERVICES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in millions of Canadian dollars)	Note	**Share capital**	**Contributed Surplus**	**Deficit**	**Total**
Restated balance as at December 31, 2012		**$ 1,337.2**	**$ 21.2**	**$ (536.8)**	**$ 821.6**
Net loss for the year		**—**	**—**	**(84.4)**	**(84.4)**
Other comprehensive income for the year		**—**	**—**	**202.4**	**202.4**
Total comprehensive income for the year		**—**	**—**	**118.0**	**118.0**
Share-based compensation		**—**	**0.2**	**—**	**0.2**
Issuance of shares	19	**271.5**	**—**	**—**	**271.5**
Dividends declared	19	**—**	**—**	**(118.6)**	**(118.6)**
Balance at December 31, 2013		**$ 1,608.7**	**$ 21.4**	**$ (537.4)**	**$ 1,092.7**
Restated balance as at December 31, 2011		$ 1,303.7	$ 20.6	$ (522.1)	$ 802.2
Net income for the year, as restated	2	—	—	144.5	144.5
Other comprehensive loss for the year, as restated	2	—	—	(46.0)	(46.0)
Total comprehensive income for the year		—	—	98.5	98.5
Share-based compensation		—	0.6	—	0.6
Issuance of shares	19	33.5	—	—	33.5
Dividends declared	19	—	—	(113.2)	(113.2)
Balance at December 31, 2012		$ 1,337.2	$ 21.2	$ (536.8)	$ 821.6

MANITOBA TELECOM SERVICES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in millions of Canadian dollars)	Note	**December 31 2013**	December 31 2012 (restated - Note 2)
Assets			
Current assets			
Cash and cash equivalents	16	**$ 87.8**	$ —
Accounts receivable	16	**147.1**	165.7
Prepaid expenses		**27.0**	30.1
Inventories	11	**17.5**	20.1
		279.4	215.9
Property, plant and equipment	12	**1,486.6**	1,559.5
Intangible assets	13	**371.8**	368.7
Other assets	14	**73.4**	71.9
Deferred tax assets	9	**471.2**	515.8
Total assets		**$ 2,682.4**	$ 2,731.8
Liabilities and shareholders' equity			
Current liabilities			
Bank indebtedness	16	**$ —**	$ 12.6
Accounts payable and accrued liabilities	16	**293.3**	308.6
Advance billings and payments		**57.3**	58.2
Current provisions	15	**41.4**	23.9
Current portion of long-term debt	16	**275.0**	—
Notes payable	16	**—**	54.5
		667.0	457.8
Long-term debt	16	**648.1**	921.9
Long-term provisions	15	**2.9**	5.5
Employee benefits	17	**227.8**	477.1
Other long-term liabilities	16 & 18	**42.9**	47.0
Deferred tax liabilities	9	**1.0**	0.9
Total liabilities		**1,589.7**	1,910.2
Shareholders' equity			
Share capital	19	**1,608.7**	1,337.2
Contributed surplus	20	**21.4**	21.2
Deficit		**(537.4)**	(536.8)
		1,092.7	821.6
Total liabilities and shareholders' equity		**$ 2,682.4**	$ 2,731.8

Approved on behalf of the Board

David Leith
Chair

Kishore Kapoor, CA
Director

MANITOBA TELECOM SERVICES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31 *(in millions of Canadian dollars)*	Note	**2013**	2012 (restated - Note 2)
Cash flows from operating activities			
Net (loss) income		**$ (84.4)**	$ 144.5
Add items not affecting cash			
Depreciation and amortization		**309.1**	322.8
Deferred income tax (recovery) expense	9	**(27.3)**	38.9
Loss on disposal of assets		**3.1**	1.6
Impairment loss		**130.4**	—
Past service costs	25	**142.1**	—
Deferred wireless costs		**(72.2)**	(64.7)
Pre-funded pension solvency payments		**(125.0)**	—
Pension funding and net pension expense		**16.9**	12.4
Other, net		**(0.7)**	0.1
Changes in non-cash working capital		**14.7**	(16.2)
Cash flows from operating activities		**306.7**	439.4
Cash flows from investing activities			
Capital expenditures		**(296.0)**	(338.0)
Acquisition		**(7.8)**	—
Other, net		**(2.3)**	(4.5)
Cash flows used in investing activities		**(306.1)**	(342.5)
Cash flows from financing activities			
Dividends paid		**(114.4)**	(112.7)
(Repayment) issuance of notes payable, net	16	**(54.5)**	54.5
Repayment of long-term debt	16	**—**	(100.0)
Issuance of share capital	19	**268.7**	33.5
Other, net		**—**	(1.6)
Cash flows from (used in) financing activities		**99.8**	(126.3)
Change in cash and cash equivalents		**100.4**	(29.4)
(Bank indebtedness) cash and cash equivalents, beginning of year		**(12.6)**	16.8
Cash and cash equivalents (bank indebtedness), end of year		**$ 87.8**	$ (12.6)

MANITOBA TELECOM SERVICES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
All amounts are in millions of Canadian dollars, unless otherwise indicated

1. CORPORATE INFORMATION

Manitoba Telecom Services Inc. (the "Company") is incorporated in Manitoba, Canada, and its Common Shares are listed on the Toronto Stock Exchange ("TSX"). The Company's head and registered office is located at 333 Main Street, P.O. Box 6666, Winnipeg, Manitoba, Canada, R3C 3V6. The principal activities of the Company are described in note 22.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") and the accounting policies described below. The policies used are based on the standards as issued by the International Accounting Standards Board ("IASB") applicable as at December 31, 2013, and which have been incorporated by the Canadian Accounting Standards Board into current generally accepted accounting principles for publicly accountable enterprises.

The consolidated financial statements were approved by the Board of Directors on February 6, 2014.

(b) Basis of presentation

The consolidated financial statements have been prepared on a historical cost basis, which is generally based on the fair value of the consideration at the time of the transaction. The consolidated financial statements are presented in Canadian dollars and all values are rounded to the nearest million unless otherwise indicated.

(c) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, which includes its principal operating subsidiaries MTS Inc. and Allstream Inc. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. The Company has a joint arrangement for the deployment and operation of its high-speed packet access and long-term evolution network, which is accounted for as a joint operation. The Company recognizes its share of assets, liabilities, revenues and expenses related to this arrangement in its consolidated financial statements. All intercompany transactions and balances are eliminated on consolidation.

(d) Revenue recognition

Revenue is recognized when it is probable that the associated economic benefits of the transaction will flow to the Company and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable from customers for the provision of telecommunications services and sale of equipment, net of discounts and sales taxes collected. More specifically, the Company applies the following revenue recognition policies:

- Revenues from the provision of local voice, wireless, data connectivity, Internet, Internet protocol television ("IPTV"), security and alarm monitoring services are recognized in the period in which services are provided.
- Monthly network access fees, which are billed in advance, are deferred and recognized on a straight-line basis over the contracted period.
- Revenues from long distance, wireless airtime and other pay-per-use services are recognized in the period in which services are delivered.
- Revenues related to interconnection of voice and data traffic between telecommunication operators are recognized in the period in which network usage occurs. These revenues are reported gross of any amounts charged by other telecommunications carriers for interconnection services. The costs of interconnection services received from other carriers are expensed in the period in which services are received.
- Revenues from the provision of maintenance services are recognized on a straight-line basis over the period of the customer contract.
- Revenues from the sale of equipment are recognized when the significant risks and rewards of ownership are transferred to the buyer, which is normally at the time the equipment is delivered to and available for use by the customer, in accordance with contractual arrangements.
- Advance payments received from customers are deferred and recognized in the period in which the services are provided or the goods are delivered.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

- Revenues related to contributions from customers for the construction of assets are deferred and recognized as revenue as the related service is provided.
- The Company enters into arrangements with customers in which services and products may be sold together. When the components of these multiple element arrangements have stand-alone value to the customer, the components are accounted for separately, based on the relative selling prices, using the appropriate revenue recognition criteria as described above.
- Revenues are disclosed net of discounts and rebates, as the Company does not receive an identifiable benefit in exchange for the discount given to the customer.

(e) Cash and cash equivalents

Cash and cash equivalents include cash on hand, net of bank overdrafts, and money market instruments, which are readily converted into known amounts of cash and have a maturity of three months or less.

(f) Inventories

The Company's inventory balance consists of wireless handsets, parts and accessories, and communications equipment held for resale. The Company values its inventory at the lower of cost or net realizable value, with cost being determined on an average cost basis.

(g) Property, plant and equipment

Property, plant and equipment is recorded at historical cost, net of accumulated depreciation and accumulated impairment losses, if any. For construction projects, historical cost includes materials, direct labour, other directly attributable expenditures, and borrowing costs associated with construction projects that take a substantial period of time to get ready for their intended use. Historical cost is presented net of any related investment tax credits, which are recognized when the Company has reasonable assurance that they will be realized. The present value of estimated costs for decommissioning an asset after its intended use, representing a provision, is also included in the historical cost of property, plant and equipment.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. When significant parts of property, plant and equipment are required to be replaced in intervals, the Company recognizes such parts as individual assets and depreciates them over their estimated useful lives. The estimated useful lives are reviewed annually, with any changes in estimate accounted for prospectively. Land is not depreciated. The estimated useful lives of property, plant and equipment are as follows:

	Estimated useful life
Network assets	
Plant assets	5 to 40 years
Wireless site equipment	4 to 12 years
General equipment and other	2 to 20 years
Buildings and leasehold improvements	9 to 40 years

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset, which is calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is included in the consolidated statement of net income in the period in which the asset is derecognized.

(h) Intangible assets

Intangible assets are recognized when the Company controls the asset, it is probable that future economic benefits attributable to the asset flow to the Company, and the cost of the asset can be reliably measured. Intangible assets are initially recognized at cost and subsequently measured at cost less accumulated amortization and impairment. Intangible assets, other than goodwill and indefinite life intangible assets, are amortized on a straight-line basis over their estimated periods of future benefit. The estimated periods of future benefit and amortization methods are reviewed annually, with any changes in estimate accounted for prospectively. The Company's intangible assets include the following:

(i) Computer software

Computer software, which is purchased from third parties, is amortized over the estimated period of benefit ranging from five to 10 years. Internal use software is recorded at historical cost and includes materials, direct labour and other directly attributable costs and is amortized over the estimated period of benefit ranging from five to 10 years.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Subscriber acquisition costs

Subscriber acquisition costs are capitalized and amortized over the average contractual life of the customer, which is currently 24 months for wireless costs and 36 months for alarm costs.

(iii) Spectrum licences and broadcast certificate

The wireless spectrum licences and broadcast certificate are indefinite life intangible assets and are therefore not amortized. The wireless spectrum licences were issued by Industry Canada on December 15, 2008, for an initial 10 year term expiring December 14, 2018. The broadcast certificate was issued by the Canadian Radio-television Telecommunications Commission for a seven year term expiring on August 31, 2015. The Company has determined that there are no legal, regulatory, contractual, economic or other factors which would prevent the renewals or limit the useful lives of its spectrum licences or broadcast certificate.

(iv) Customer contracts and relationships

Customer contracts and relationships acquired in business combinations are initially recognized at their fair value at the date of acquisition and are amortized on a straight-line basis over the estimated periods of benefit ranging from two to 10 years.

(v) Other

Other intangible assets, which include non-competition agreements and other service contracts, were acquired in business combinations. These items are initially recognized at their fair value at the date of acquisition and are amortized on a straight-line basis over the estimated periods of benefit ranging from two to 10 years. Other intangible assets are subsequently measured at cost less accumulated amortization.

(vi) Goodwill

Goodwill represents the excess of the aggregate purchase price over the fair value of the identifiable net tangible assets and intangible assets acquired in business combinations at the dates of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

(i) Impairment of property, plant and equipment, and intangible assets

At each reporting date, the Company reviews the carrying amounts of its property, plant and equipment, and intangible assets to determine whether there is any indication that their carrying amount may not be recoverable. If such an indication of impairment exists, the recoverable amount of the asset is estimated and compared to its carrying amount to determine if the asset is impaired. If the recoverable amount of the individual asset cannot be determined, recoverability is tested on the basis of the cash-generating unit to which the asset is allocated.

The recoverable amount of an asset is the higher of its fair value less costs to sell or its value in use. Value in use is determined using discounted cash flow calculations. Estimated future cash flows of the asset or cash-generating unit are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is considered impaired and is reduced to its recoverable amount. An impairment loss is recognized immediately in income. Impairment losses, other than those related to goodwill, are reversed if the reasons for recognizing the original impairment loss no longer apply, and the asset is recognized at a value that would have been applied if no impairment losses had been recognized in prior periods.

Intangible assets with indefinite useful lives are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Goodwill is tested for impairment annually and whenever there is an indication that the asset may be impaired. If the carrying amount of the cash-generating unit to which goodwill is allocated exceeds its recoverable amount, an impairment loss is recognized. Goodwill impairment losses cannot be reversed in future periods.

(j) Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, current income taxes reflect the estimated income taxes payable for the current year. Deferred tax assets and liabilities are measured using substantively enacted tax rates, and are based on:

- the differences between the tax base of an asset, or liability and its carrying amount for accounting purposes; and
- the benefit of unused tax losses available to be carried forward to future years for tax purposes.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax assets and liabilities are determined using the tax rates that are expected to apply when the temporary difference is reversed. Deferred tax assets are recognized only to the extent that it is probable that taxable income will be available against which the deductible temporary differences or loss carryforwards can be utilized. Deferred tax assets and liabilities are not discounted.

Current and deferred taxes are recognized in the consolidated statement of income except when the tax relates to items charged or credited to other comprehensive income or equity, in which case the tax is recognized in other comprehensive income or equity, respectively. The Company establishes provisions for uncertain tax positions for possible consequences of audits and differing interpretations by the taxation authorities. These provisions are based upon the likelihood and then best estimate of amounts expected to be paid.

The Company recognizes investment tax credits on its research and development activities using the cost reduction method, under which credits are deducted from the assets or expenses to which they relate. Credits are only recorded when it is probable that they will be realized.

(k) Provisions

The Company recognizes a provision when it has a present legal or constructive obligation that is the result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are measured based on the best estimate of the amount required to settle the obligation. If the effect of the time value of money is material, the amount of the provision is determined using a pre-tax discount rate that reflects the risks specific to the obligation. The Company reviews its provisions at the end of each reporting period and, if required, an adjustment to reflect the current best estimate is made. In instances where it is no longer probable that an outflow of resources will be required to settle the obligation, the provision is reversed.

The Company recognizes restructuring provisions related to efficiency programs aimed at achieving process improvements and cost reductions. Restructuring provisions are recognized when we have announced or implemented a detailed formal plan that changes either the scope of our business or the manner in which the business is conducted. Facility exit costs are recognized as a liability and expensed when the Company exits a lease prior to the lease expiration date. The liabilities recognized are based on the remaining lease rentals reduced by the actual or estimated sublease rentals at the cease-use date. Decommissioning provisions are initially recognized at the best estimate of the amount required to settle the obligation, the resulting costs are added to the carrying amount of the related asset and the cost is amortized over the economic life of the asset. The carrying amount of the provision is adjusted for the passage of time and any changes in the market-based discount rate, amount or timing of the underlying future cash flows required to settle the obligation.

(l) Financial instruments

(i) Recognition and derecognition of financial assets and liabilities

Financial assets and liabilities are recognized on the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument. The Company's financial assets and liabilities are recorded initially at fair value. Financial assets are derecognized when the Company no longer has rights to cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are derecognized when the obligation under the liability is discharged or cancelled or it expires.

(ii) Financial assets

Cash and cash equivalents

Cash and cash equivalents (bank indebtedness) include cash on hand, net of bank overdrafts, and money market instruments, which are readily convertible into known amounts of cash. Cash and cash equivalents (bank indebtedness) are classified as fair value through profit or loss ("FVTPL"), and represent a financial asset (liability) measured at fair value, with changes in fair value recognized in net income.

Accounts receivable

Accounts receivable are classified as loans and receivables, and are measured at amortized cost less any allowance for doubtful accounts. The Company maintains an allowance for doubtful accounts for potential credit losses. This allowance is based on management's best estimates and assumptions regarding current market conditions, customer analysis and historical payment trends. These factors are considered when determining whether past due accounts are allowed for or written-off.

(iii) Financial liabilities

Long-term debt

Long-term debt is classified as other financial liabilities and is measured at amortized cost. The Company accounts for debt issue costs associated with the issuance of long-term debt as a reduction in the carrying value of long-term debt.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

These costs, which are amortized over the life of long-term debt using the effective interest rate method, are included in debt charges.

Other financial liabilities
Accounts payable, notes payable, securitization borrowings and other long-term liabilities are classified as other financial liabilities and are measured at amortized cost.

(iv) Fair value
The fair value of financial assets and liabilities designated as FVTPL is determined based on quoted prices in active markets for identical assets, per Level 1 of the fair value hierarchy.

The fair value of long-term debt, which has fixed interest rates, is estimated by discounting the expected future cash flows using the relevant risk-free interest rate adjusted for an appropriate risk premium for the Company's credit profile.

(v) Accounts receivable securitization
The Company accounts for the transfer of receivables to a securitization trust as a collateralized borrowing. When the receivables are transferred, the Company continues to recognize the receivables on its statement of financial position because the associated risks and rewards, in particular credit risk, have not been transferred. A corresponding financial liability is recognized for the cash consideration received from the trust. All trade receivables transferred have a maturity of less than 90 days. Under this arrangement, the Company continues to manage and service the receivables transferred.

(vi) Impairment of financial assets
At each reporting date, the Company assesses whether there is objective evidence that the carrying value of a financial asset is impaired. If impairment occurs, the loss is recognized in the statement of net income and the carrying value is reduced to its fair value. With the exception of long-term debt, the carrying value of the Company's financial assets and liabilities, which are subject to normal trade terms, approximates the fair value due to the short duration to maturity.

(vii) Derivative financial instruments
The Company purchases foreign currency forward contracts in United States of America ("U.S.") dollars to manage foreign currency exchange exposure, which arises in the normal course of business operations. The Company has elected not to designate any of its foreign currency forward contracts as accounting hedges. Foreign exchange gains and losses on these foreign currency forward contracts are recorded in the consolidated statement of financial position as an asset or a liability, with changes in fair value recognized in the consolidated statement of net income. The resulting asset or liability is designated as FVTPL and is valued using observable market data as per Level 2 of the fair value hierarchy.

(m) Leases
The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement, and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets, and whether the arrangement conveys the right to use that asset.

Leases that do not transfer the risks and rewards of ownership are classified as operating leases. Payments are recorded in the statement of net income on a straight-line basis over the lease term.

(n) Employee benefits
The Company's cost of providing benefits under its defined benefit pension plans and other non-pension post-employment benefits is determined annually by independent actuaries using the projected unit credit method. These actuarial valuations require the use of assumptions, including the discount rate and expected future salary increases to measure defined benefit obligations. The discount rate used to calculate the present values of the defined benefit obligation is determined by reference to market interest rates of high quality Canadian corporate bonds at the end of the reporting period. Past service costs arising from plan amendments are recognized immediately in income. The net defined benefit liability (asset) recognized in the Company's consolidated statement of financial position comprises the present value of the defined benefit obligations less the fair value of plan assets. Remeasurements of the net defined benefit liability (asset) are recognized immediately in other comprehensive income. At each interim reporting period, the Company estimates actuarial gains and losses resulting from changes in the discount rate used to calculate the present value of the defined benefit pension obligations, and recognizes the actual return on plan assets excluding amounts

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

included in net interest on the net defined benefit liability (asset). At year-end, all actuarial gains and losses arising from changes in the present value of the defined benefit obligations, and the changes in the fair value of plan assets are determined in an accounting valuation prepared by an independent actuary. For funded defined benefit plans, when a net defined benefit asset is recognized, it is limited to the present value of the economic benefit in the form of reductions in future contributions to the plan. Any minimum funding requirements are considered in the calculation of the economic benefit. For plans recognized by a net defined benefit liability, minimum funding requirements can also result in an increase in the liability. An economic benefit is available to the Company if it is realizable during the life of the plan, or on settlement of the plan liabilities. The Company recognizes any decrease in an asset or increase in a liability as a result of the above in other comprehensive income. The Company recognizes its payments to the defined contribution plans as an expense in the period the employee service is incurred.

(o) Share-based compensation

The Company has a number of share-based compensation plans, whereby the Company receives services from employees or its Board of Directors in exchange for equity-settled or cash-settled share-based compensation. Equity-settled plans include the Company's stock option program. Cash-settled plans include the Company's employee share ownership plan, performance share unit plan, restricted share unit plan and share appreciation plan.

The cost of equity-settled share-based transactions is measured at the fair value of the stock option at the grant date, using the Black-Scholes option pricing model. The fair value of the stock options, which have graded vesting, is expensed over the respective vesting period of each tranche based on the Company's estimate of stock options expected to vest.

The Company uses a fair value-based methodology to measure the cost of cash-settled share-based transactions. Compensation expense is based on the expected payout amounts net of estimated forfeitures and is recorded over the term of the vesting period. Cash-settled awards are classified as liabilities, which are remeasured at each reporting date. The impact of any changes in the liability as a result of subsequent changes to the estimated payout values for the units expected to vest is recognized in income in the period of change.

(p) Translation of foreign currencies

The Company's consolidated financial statements are presented in Canadian dollars, which is also its functional currency. Foreign currencies have been translated into Canadian dollars at rates of exchange on the following bases:

- monetary assets and liabilities at rates in effect on the date of the statement of financial position;
- non-monetary assets and liabilities at historical exchange rates; and
- revenues and expenses at rates prevailing at the respective transaction dates.

(q) Adoption of new accounting standards

Effective January 1, 2013, the Company adopted the following IFRS standards:

IFRS 10, *Consolidated Financial Statements*

IFRS 10, *Consolidated Financial Statements,* provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. IFRS 10 replaces IAS 27, *Consolidated and Separate Financial Statements,* and Standing Interpretations Committee ("SIC") 12, *Consolidation—Special Purpose Entities*.

IFRS 11, *Joint Arrangements*

IFRS 11, *Joint Arrangements*, describes the accounting for arrangements in which there is joint control by focusing on the rights and obligations of the arrangement, rather than its legal form. IFRS 11 also removes the ability to use proportionate consolidation for joint ventures. IFRS 11 replaces IAS 31, *Interests in Joint Ventures,* and SIC 13, *Jointly Controlled Entities – Non-Monetary Contributions by Venturers.*

IFRS 12, *Disclosure of Interests in Other Entities*

IFRS 12, *Disclosure of Interests in Other Entities,* is a new standard that addresses the disclosure requirements for all interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities.

IFRS 13, *Fair Value Measurement*

IFRS 13, *Fair Value Measurement*, replaces the fair value measurement guidance currently dispersed across different IFRS standards with a single definition of fair value and a comprehensive framework for measuring fair value when such measurement is required under other IFRSs. It also establishes disclosure requirements about fair value measurements.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

These standards have been adopted and applied in these consolidated financial statements. The application of these standards has not had any impact on the amounts reported for the current or prior year.

Amended IAS 19, *Employee Benefits*
Effective January 1, 2013, the Company adopted the amended version of IAS 19, *Employee Benefits* which amends the accounting for pensions and other post-employment benefits. It changes the method of calculating the net interest component of pension expense and also expands disclosure requirements for defined benefit plans, providing additional information about the characteristics and associated risks of defined benefit plans**.** The accounting treatment for termination benefits has also been modified, specifically the point in time when an entity would recognize a liability for termination benefits. The amended standard was applied retrospectively.

In comparison to the Company's previous accounting policies and basis of presentation, the primary difference in the amended version of IAS 19 is that the current defined benefit plan expense components of "interest cost" and "expected return on plan assets" is replaced by the component "net interest". Net interest is determined for each defined benefit plan by taking the plan's net surplus or deficit and multiplying it by the liability discount rate. The Company will now recognize the net interest of its defined benefit plans as a component of finance costs.

The Company expects that over the long term, the rate of return on plan assets for its defined benefit plans will exceed the liability discount rate because a significant component of the defined benefit plan's assets are invested in equities and real estate. The difference between the actual rate of return on plan assets and the liability discount rate will be recognized in other comprehensive income. As a result, net income will decrease, with a corresponding decrease in other comprehensive loss.

This change in accounting policy has been implemented retrospectively. The amended standard did not affect the Company's statement of financial position. The effect on the Company's consolidated statement of net income and other comprehensive income and on earnings per share is as follows:

	Year ended December 31, 2012
Operating expense increase	(24.3)
Finance cost increase	(18.1)
Income tax expense decrease	11.5
Net income decrease	(30.9)
Other comprehensive loss decrease	30.9
Basic and diluted earnings per share decrease ($)	(0.46)

(r) Prior period adjustment
During the first quarter of 2013, the Company reevaluated the assumptions underlying its finance lease for the right to use network infrastructure and determined, in conjunction with the renewal of the lease arrangement, that the liability associated with the prior lease was overstated. As a result, the Company has retroactively adjusted its statements of financial position and statements of changes in equity to reflect the correction of this error. This adjustment has no impact on the current or prior years' statements of net income or statements of cash flows. The adjustment decreases the opening deficit by $12.5 million, increases accounts payable and accrued liabilities by $1.0 million, decreases property, plant and equipment by $0.5 million, and eliminates the current and long-term portions of the finance lease obligations of $6.5 million and $7.5 million, respectively.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

The preparation of our consolidated financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements that affect the reported amounts of assets and liabilities as at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period.

(a) Critical accounting estimates and assumptions
Estimates and assumptions are based on reasonable methodologies, established processes and comparisons to industry standards. The Company continuously evaluates these estimates and assumptions, which rely on the use of professional judgement. Because professional judgement involves inherent uncertainty, actual results could differ from our estimates. Areas involving critical estimates and assumptions are described below:

(i) Valuation of accounts receivable
The Company estimates that a certain portion of receivables from customers will not be collected, and maintains an allowance for doubtful accounts. If circumstances related to specific customers change, economic conditions change

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)

or actual results differ from expectations, the Company's estimate of the recoverability of receivables could fluctuate from that provided for in the consolidated financial statements. A change in estimate could impact bad debt expense and accounts receivable.

(ii) Property, plant and equipment
Property, plant and equipment are amortized on a straight-line basis over their estimated useful life. The Company reviews these estimates on an annual basis, or more frequently if events during the year indicate that a change may be required, with consideration given to technological obsolescence, competitive pressures and other relevant business factors. A change in management's estimate could impact depreciation expense and the carrying value of property, plant and equipment.

(iii) Useful lives of definite life intangible assets
Intangible assets with a definite useful life are amortized on a straight-line basis over their estimated period of future benefit. The estimated periods of future benefit and amortization methods are reviewed on an annual basis, or more frequently, if events during the year indicate that a change may be required, with consideration given to customer churn, industry standards and other relevant business factors. A change in estimate could impact amortization expense and the carrying value of intangible assets.

(iv) Goodwill and indefinite life intangible assets
The Company tests the recoverability of goodwill and indefinite life intangible assets on an annual basis or earlier when events or changes in circumstance indicate that the carrying value might not be recoverable. The recoverable amount of each cash-generating unit to which the asset is allocated is determined based on value in use calculations. These calculations require the use of estimates, including management's expectations of revenues and operating costs, and assumptions on discount and growth rates. A change in estimates could impact the carrying value of goodwill and indefinite life intangible assets.

(v) Deferred tax assets
The Company has deferred tax assets resulting from net operating loss carryforwards and deductible temporary differences, which, to the extent utilized, will reduce future taxable income. Realization of these deferred tax assets is dependent on the Company's ability to utilize the underlying future deductions against future taxable income. In assessing the carrying value of the deferred tax assets, the Company makes estimates and assumptions of future taxable income using internal management projections, the carry forward period associated with the deferred tax assets, the nature of income that may be used to realize the deferred tax assets, future tax rates and ongoing audits by Canada Revenue Agency ("CRA"). A change in the Company's estimates or assumptions of any of these factors could affect the value of the deferred tax asset and related income tax expense.

(vi) Decommissioning provisions
When recognizing decommissioning provisions, the Company makes estimates of the probability of retiring assets, the timing and amount of retirement costs, and the discount factor applied to determine fair value. Management's estimates of probability and the timing and amount of costs, are subject to change and are reviewed annually or more frequently if events during the year indicate that a change may be required.

(vii) Employee benefits
The Company provides pension, supplemental pension and other non-pension post-employment benefits to its employees. The determination of defined benefit cost and the defined benefit obligation associated with post-employment benefits requires the use of certain actuarial and economic assumptions, such as the discount rate to measure the defined benefit obligations, expected future salary increases and future mortality rates. A change in estimate or assumptions could affect defined benefit cost and the present value of the defined benefit obligation.

(b) Critical accounting judgement
In the normal course of operations, the Company enters into arrangements in which services and products are sold together. In the process of applying the Company's accounting policies for this type of revenue recognition, judgement is often necessary to determine when components can be accounted for separately.

4. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The Company has not yet adopted certain standards, interpretations to existing standards and amendments which have been issued but have an effective date of later than January 1, 2013. Many of these updates are not relevant to the Company and are therefore not discussed. The following standards and interpretations are currently being reviewed to determine the potential impact.

4. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRIC 21, Levies

IFRIC 21, Levies provides guidance on when to recognize a liability for a levy imposed by a government. IFRIC 21 is to be applied retrospectively and is effective for annual periods beginning on or after January 1, 2014.

IFRS 9, Financial Instruments

IFRS 9, Financial Instruments introduces new requirements for the classification and measurement of financial assets and liabilities. The mandatory effective date has not yet been determined by the IASB.

5. ALLSTREAM TRANSACTION

As announced on May 24, 2013, the Company entered into an agreement with Accelero Capital Holdings (“Accelero”) to sell the shares of its wholly owned subsidiaries, Allstream Inc., Allstream Fibre U.S., Inc. and Delphi Solutions Corp. (collectively “Allstream”), subject to certain regulatory approvals. On October 7, 2013 the Federal Government announced that it had rejected the proposed acquisition of Allstream by Accelero. As a result of this announcement the Company was required to remeasure Allstream at the lower of its carrying amount before it was classified as held for sale, and its recoverable amount.

The recoverable amount is based on the higher of the fair value less costs to sell and the value in use calculation for Allstream. The Company prepared the value in use calculation using certain key assumptions. Cash flow projections, which were made over a five-year period, include key assumptions about revenues, expenses and other cash flows. Revenue forecasts were based on management’s estimate of growth in the markets served and are not considered to exceed the long-term average growth rates for those markets. Operating expenses were estimated based upon past experience, adjusted for the increase in activity levels supporting the cash flow projections. Discount rates applied to the cash flow forecasts are derived from the group’s pre-tax weighted average cost of capital, adjusted to reflect managements’ estimate of the specific risk profiles of the Allstream cash-generating unit. The cash flows related to Allstream were discounted using pre-tax rates of 17.8% to 21.1%.

Based on this analysis, the Company determined that the recoverable amount, which was the fair value less costs to sell, was lower than the carrying value of Allstream before it was classified as held for sale. The Company’s total impairment charge for Allstream as a result of the transaction was $130.4 million for the year ended December 31, 2013, and was reflected as decreases in property, plant and equipment ($122.1 million) and intangible assets ($8.3 million).

As a result of the rejected Allstream transaction, the Company incurred a combination of non-recoverable, transaction-related expenses and restructuring costs totaling $35.2 million for the year ended December 31, 2013.

6. OPERATING REVENUES

	2013	2012
Operating revenues from the provision of services	**1,572.8**	1,641.5
Operating revenues from the sale of goods	**60.9**	62.6
Operating revenues	**1,633.7**	1,704.1

7. OPERATING EXPENSES

	2013	2012
Operations:		
Salaries and benefits expense	**410.7**	428.3
Bad debt expense	**8.8**	8.8
Other operations expenses	**627.7**	681.8
	1,047.2	1,118.9
Transaction costs and restructuring (note 5)	**35.2**	—
Depreciation and amortization:		
Depreciation of property, plant and equipment	**194.0**	214.3
Amortization of intangible assets	**115.1**	108.5
Operating expenses	**1,391.5**	1,441.7

8. FINANCE COSTS

	2013	2012
Interest expense on long-term indebtedness	**54.2**	56.1
Interest expense on short-term indebtedness	**7.1**	5.3
Other finance expense	**22.5**	23.5
Capitalized borrowing costs	**(2.7)**	(6.6)
Finance costs	**81.1**	78.3

During the year ended December 31, 2013, the Company paid short-term interest costs of $7.0 million (2012 – $5.1 million) and interest on long-term debt of $54.3 million (2012 – $56.9 million).

Borrowing costs associated with qualifying projects were capitalized at an average rate of 5.47% (2012 – 5.62%).

9. INCOME TAXES

The major components of income tax (recovery) expense for the years ended December 31, 2013 and 2012 are:

	2013	2012
Current income tax:		
Current income tax expense	**—**	0.1
Adjustments in respect of current income tax expense of previous years	**(0.5)**	(0.5)
	(0.5)	(0.4)
Deferred income tax:		
Relating to origination and reversal of temporary differences	**(27.3)**	38.9
Income tax (recovery) expense	**(27.8)**	38.5

Reconciliations between income tax (recovery) expense recognized and the accounting income multiplied by the applicable tax rate for the years ended December 31, 2013 and 2012 are as follows:

	2013		2012	
	%	**$**	%	$
Net (loss) income before income taxes		**(112.2)**		183.0
Income tax at combined federal and provincial statutory tax rate	**27.0**	**(30.3)**	27.0	49.4
Effect of:				
Change in the expected tax rate applicable to deferred tax assets	**—**	**—**	(5.6)	(10.2)
Provincial statutory tax rate increase	**—**	**—**	(0.8)	(1.5)
Other items	**(2.2)**	**2.5**	0.4	0.8
Income tax reported in the consolidated statements of net income	**24.8**	**(27.8)**	21.0	38.5

The tax rate used represents the combined federal and provincial statutory rate applicable to the Company's major operating entity.

The major items giving rise to net deferred tax assets and liabilities, as well as their movement, are summarized below.

Net deferred tax assets (liabilities)	**Non-Capital tax loss carryforwards**	**Property, plant and equipment**	**Employee benefits**	**Other**	**Total**
January 1, 2012	229.3	196.1	110.5	(1.9)	534.0
Income statement	29.0	(65.6)	3.2	(5.5)	(38.9)
Other comprehensive income	—	—	19.8	—	19.8
December 31, 2012	258.3	130.5	133.5	(7.4)	514.9
Income statement	**36.3**	**(15.4)**	**6.9**	**(0.5)**	**27.3**
Other comprehensive income	**—**	**—**	**(74.3)**	**—**	**(74.3)**
Business acquisitions and share capital	**—**	**—**	**—**	**2.3**	**2.3**
December 31, 2013	**294.6**	**115.1**	**66.1**	**(5.6)**	**470.2**

9. INCOME TAXES (continued)

Deferred tax assets of $294.6 million (December 31, 2012 – $258.3 million) on tax loss carryforwards, which arose in certain subsidiaries, were recognized in situations where their utilization is dependent on future taxable profits in excess of the reversal of existing temporary differences of the entities and where there is a history of current and prior year losses, since it is probable that the losses will be utilized through various other tax planning opportunities.

During the years ended December 31, 2013 and 2012, the Company paid no cash income taxes.

As at December 31, 2013, the Company, along with its subsidiaries, had non-capital tax loss carryforwards of $1,093.4 million (December 31, 2012 – $958.3 million) available to reduce future years' taxable income, which expire as follows:

2014	**14.4**
2025 and beyond	**1,079.0**
	1,093.4

In April 2013, the Company received notification from the Canada Revenue Agency ("CRA") that CRA would not accept the Company's proposal to settle all outstanding audit issues related to losses accumulated by Allstream and its predecessor companies prior to its acquisition in 2004. The Company strongly disagrees with CRA and intends to defend its position through the various options open to it. Therefore, it is not possible to quantify any potential impact at this time. An unfavourable resolution of these issues would not result in any immediate cash tax outlays, but could result in the Company becoming cash taxable earlier than previously forecast.

10. EARNINGS PER SHARE

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

	2013	2012
Net (loss) income for the year		
Basic and diluted	**(84.4)**	144.5
Weighted average shares outstanding (in millions)		
Weighted average number of shares outstanding – basic and diluted	**68.2**	66.6
(Loss) earnings per share ($)		
Basic and diluted (loss) earnings per share	**(1.24)**	2.17

The diluted (loss) earnings per share calculation excludes the effect of anti-dilutive options. The number of excluded options was 2,950,672 (2012 – 2,731,589).

11. INVENTORIES

The Company performs periodic reviews of inventory for obsolescence and, during the year ended December 31, 2013, recorded obsolete inventory expense of $0.2 million (2012 – recovery of expense $0.2 million). During the year ended December 31, 2013, the Company expensed $38.4 million of inventory relating to cost of goods sold (2012 – $36.7 million).

12. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are comprised of the following:

	Network assets	General equipment and other	Buildings and leasehold improvements	Assets under construction	Land	Total
Cost						
December 31, 2011	3,043.2	543.8	287.3	175.8	6.6	4,056.7
Additions	233.1	77.0	10.8	(88.7)	—	232.2
Disposals	(8.2)	(9.7)	(0.8)	—	—	(18.7)
December 31, 2012	3,268.1	611.1	297.3	87.1	6.6	4,270.2
Additions	183.6	54.5	7.2	3.8	—	249.1
Additions from business combinations	—	1.9	—	—	—	1.9
Transfers	0.1	—	—	—	—	0.1
Disposals	(5.9)	(13.5)	(4.3)	—	—	(23.7)
December 31, 2013	**3,445.9**	**654.0**	**300.2**	**90.9**	**6.6**	**4,497.6**
Accumulated depreciation and impairment						
December 31, 2011	1,978.1	400.7	135.1	—	—	2,513.9
Depreciation expense	153.0	52.2	9.0	—	—	214.2
Disposals	(7.3)	(9.6)	(0.5)	—	—	(17.4)
December 31, 2012	2,123.8	443.3	143.6	—	—	2,710.7
Additions from business combinations	—	1.4	—	—	—	1.4
Depreciation expense	131.3	56.0	10.3	—	—	197.6
Impairment	106.1	8.3	7.7	—	—	122.1
Disposals	(4.9)	(13.4)	(2.5)	—	—	(20.8)
December 31, 2013	**2,356.3**	**495.6**	**159.1**	**—**	**—**	**3,011.0**
Net book value						
December 31, 2012	1,144.3	167.8	153.7	87.1	6.6	1,559.5
December 31, 2013	**1,089.6**	**158.4**	**141.1**	**90.9**	**6.6**	**1,486.6**

13. INTANGIBLE ASSETS

Intangible assets are comprised of the following:

	Computer software	Subscriber acquisition costs	Spectrum licences and broadcast certificate	Customer contracts and relationships	Other	Goodwill	Total
Cost							
December 31, 2011	375.9	138.6	51.4	10.7	44.9	27.7	649.2
Additions	105.8	65.7	—	—	8.4	—	179.9
Disposals	(2.3)	(46.4)	—	—	(11.7)	—	(60.4)
December 31, 2012	479.4	157.9	51.4	10.7	41.6	27.7	768.7
Additions	46.9	73.2	—	—	7.6	—	127.7
Disposals	(0.7)	(56.9)	—	—	(9.5)	—	(67.1)
Transfers	(0.1)	—	—	—	—	—	(0.1)
Additions from business combinations	—	—	—	2.0	—	5.5	7.5
December 31, 2013	**525.5**	**174.2**	**51.4**	**12.7**	**39.7**	**33.2**	**836.7**
Accumulated amortization and impairment							
December 31, 2011	263.2	59.3	—	4.6	14.9	—	342.0
Amortization expense	47.1	58.5	—	1.0	1.9	—	108.5
Amortization recorded in operations expense	—	—	—	—	9.6	—	9.6
Disposals	(2.0)	(46.4)	—	—	(11.7)	—	(60.1)
December 31, 2012	308.3	71.4	—	5.6	14.7	—	400.0
Amortization expense	45.5	66.5	—	1.1	2.0	—	115.1
Amortization recorded in operations expense	—	—	—	—	8.4	—	8.4
Impairment	8.3	—	—	—	—	—	8.3
Disposals	(0.5)	(56.9)	—	—	(9.5)	—	(66.9)
December 31, 2013	**361.6**	**81.0**	**—**	**6.7**	**15.6**	**—**	**464.9**
Net book value							
December 31, 2012	171.1	86.5	51.4	5.1	26.9	27.7	368.7
December 31, 2013	**163.9**	**93.2**	**51.4**	**6.0**	**24.1**	**33.2**	**371.8**

Allocation of goodwill to cash-generating units for impairment testing

For the purposes of its annual goodwill impairment test, the Company allocates its goodwill to the cash-generating units, which are the smallest identifiable groups of assets that generate cash inflows that have goodwill and are largely independent of the cash inflows from other groups of assets.

The Company's $33.2 million of goodwill has been allocated as follows: $20.6 million to the MTS Unit, excluding AAA Alarms, $7.1 million to AAA Alarms and $5.5 million to Epic Information Solutions ("Epic"). The Company acquired Epic on September 1, 2013 for cash consideration of $9.4 million of which $5.5 million was allocated to goodwill.

The Company also has indefinite life intangible assets of $51.4 million (December 31, 2012 – $51.4 million) which have been allocated to the MTS Unit, excluding AAA Alarms, for purposes of annual impairment testing. The impairment tests performed during the year did not result in the recognition of any impairment losses.

In performing the annual impairment testing for each of the Company's cash-generating units, the Company measured the recoverable amount of the cash-generating unit based on a value in use calculation using certain key management assumptions. Cash flow projections, which were made over a five-year period based on financial budgets approved by the Board, include key assumptions about revenues, expenses and other cash flows. Revenue forecasts were based on management's estimate of growth in the markets served and are not considered to exceed the long-term average growth rates for those markets. Operating expenses were estimated based upon past experience, adjusted for the increase in activity levels supporting the cash flow projections. Discount rates applied to the cash flow forecasts are derived from the group's pre-tax weighted average cost of capital, adjusted to reflect management's estimate of the specific risk profiles

13. INTANGIBLE ASSETS (continued)

of the individual cash-generating units. The cash flows related to the MTS Unit, excluding AAA Alarms, and AAA Alarms were discounted using pre-tax rates of 10.1% to 11.0% and 13.3% to 14.7%, respectively.

Based on the sensitivity analysis performed, the Company has concluded that no reasonably possible changes in the key assumptions on which the recoverable amounts are based would cause any of the carrying amounts of the cash-generating units to exceed their recoverable amounts.

14. OTHER ASSETS

	December 31, 2013	December 31, 2012
Investment tax credits recoverable	**54.3**	52.2
Long-term prepaid costs	**13.7**	13.7
Other long-term assets	**5.4**	6.0
	73.4	71.9

15. PROVISIONS

The composition and changes in provisions are as follows:

	Restructuring	**Tax-related**	**Decommissioning**	**Other**	**Total**
December 31, 2011	11.6	15.9	6.5	4.8	38.8
Provisions recognized	7.6	3.1	0.5	0.3	11.5
Provisions utilized	(5.1)	(7.4)	(0.1)	(0.6)	(13.2)
Provisions reversed	(5.9)	(1.3)	—	(0.7)	(7.9)
Accretion	0.1	—	0.1	—	0.2
December 31, 2012	8.3	10.3	7.0	3.8	29.4
Provisions recognized	**29.4**	**3.6**	**—**	**7.5**	**40.5**
Provisions utilized	**(17.1)**	**(1.3)**	**—**	**(0.9)**	**(19.3)**
Provisions reversed	**—**	**(2.6)**	**(3.9)**	**(0.1)**	**(6.6)**
Accretion	**—**	**—**	**0.3**	**—**	**0.3**
December 31, 2013	**20.6**	**10.0**	**3.4**	**10.3**	**44.3**
Presented as:					
Current provisions	**19.7**	**10.0**	**1.6**	**10.1**	**41.4**
Long-term provisions	**0.9**	**—**	**1.8**	**0.2**	**2.9**
Total provisions	**20.6**	**10.0**	**3.4**	**10.3**	**44.3**

(i) Restructuring
Restructuring activities in 2013 largely related to the Allstream transaction (note 5) as well as ongoing efficiency programs aimed at achieving process improvements and expense reductions. Restructuring costs include costs for severance and other employee-related expenses that supported workforce reduction initiatives undertaken throughout the year and facility consolidation of select real estate. These provisions are expected to be settled over periods ranging from one month to 12 months.

(ii) Tax-related
The Company recognizes tax-related provisions for uncertain tax positions related to sales taxes, capital taxes and property taxes. The provisions reflect the potential obligation for the Company to remit additional taxes, penalties and/or interest as a result of decisions by taxation authorities.

(iii) Decommissioning
Decommissioning provisions arise from legal and constructive obligations that exist for the removal of equipment or the restoration of premises upon the termination of certain agreements. These provisions, which are expected to be settled over periods ranging from two months to 38 years, are associated with underground and above ground cable, microwave towers and related structures, building accesses and leased facilities.

The undiscounted amount of the estimated cash flows required to settle the decommissioning provisions as at December 31, 2013 is approximately $4 million (December 31, 2012 – $12 million).

15. PROVISIONS (continued)

(iv) Other
Other provisions include amounts provided for legal or constructive obligations arising from regulatory decisions and litigation claims.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial assets and liabilities
Financial assets and liabilities in the consolidated statements of financial position are as follows:

December 31, 2013	Financial assets/liabilities at fair value	Loans and receivables at amortized cost	Other financial liabilities at amortized cost	Total
Financial assets				
Cash and cash equivalents	**87.8**	**—**	**—**	**87.8**
Accounts receivable	**—**	**147.1**	**—**	**147.1**
	87.8	**147.1**	**—**	**234.9**
Financial liabilities				
Accounts payable and accrued liabilities	**—**	**—**	**293.3**	**293.3**
Current portion of long-term debt	**—**	**—**	**275.0**	**275.0**
Long-term debt	**—**	**—**	**648.1**	**648.1**
Other long-term liabilities	**—**	**—**	**14.2**	**14.2**
	—	**—**	**1,230.6**	**1,230.6**

December 31, 2012	Financial assets/liabilities at fair value	Loans and receivables at amortized cost	Other financial liabilities at amortized cost	Total
Financial assets				
Accounts receivable	—	165.7	—	165.7
	—	165.7	—	165.7
Financial liabilities				
Bank indebtedness	12.6	—	—	12.6
Accounts payable and accrued liabilities	0.1	—	308.5	308.6
Notes payable	—	—	54.5	54.5
Long-term debt	—	—	921.9	921.9
Other long-term liabilities	—	—	15.5	15.5
	12.7	—	1,300.4	1,313.1

Notes payable
As at December 31, 2013, the Company had a $400 million bank credit facility with a syndicate of financial institutions, which is used for cash management purposes, the issuance of letters of credit, and to support the Company's $150 million commercial paper program. As at December 31, 2013, the Company had $161.8 million in undrawn letters of credit outstanding under this facility. The Company also had a $250 million credit facility with a financial institution, which is used solely for the issuance of letters of credit. As at December 31, 2013, the Company had $180.1 million in undrawn letters of credit outstanding under this facility.

Under the terms of the Company's accounts receivable securitization program, the Company has the ability to transfer, on a revolving basis, an undivided ownership interest in its accounts receivable to a securitization trust, up to a maximum of $110.0 million. The terms of the Company's accounts receivable securitization program require the Company to maintain reserve accounts, in the form of additional accounts receivable over and above the cash proceeds received, to absorb credit losses on the receivables sold.

As at December 31, 2013, the Company had not utilized its accounts receivable securitization program (December 31, 2012 – $54.5 million outstanding). In December 31, 2012, the outstanding amount of receivables was secured by an outstanding undivided ownership interest held by the trust of $69.7 million in trade receivables, including $15.2 million of reserve accounts. The fair value of the reserve accounts approximates carrying value as a result of the short collection cycle and negligible credit losses. The trust has no recourse to the undivided ownership interest in the retained receivables, other than through the reserve accounts.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Long-term debt

Long-term debt is comprised of the following:

	Interest rate	Maturity	December 31, 2013	December 31, 2012
Loan Payable	6.59%	May 14, 2014	**75.0**	75.0
Medium Term Note	6.15%	June 10, 2014	**200.0**	200.0
Medium Term Note	6.65%	May 11, 2016	**250.0**	250.0
Medium Term Note	4.59%	October 1, 2018	**200.0**	200.0
Medium Term Note	5.625%	December 16, 2019	**200.0**	200.0
			925.0	925.0
Less: debt issue costs			**(1.9)**	(3.1)
			923.1	921.9
Less: current portion of long-term debt			**(275.0)**	—
			648.1	921.9

The Company's notes are issued under trust indentures and are unsecured.

Fair value

With the exception of long-term debt, the carrying value of the Company's financial assets and liabilities, which are subject to normal trade terms, approximate fair value. The fair value of long-term debt as at December 31, 2013, including the current portion, was $988.5 million (December 31, 2012 – $1,019.5 million).

Financial risk management

Credit risk

The Company's credit risk is primarily attributable to its accounts receivable. This risk is minimized by the Company's large and diverse customer base. The following table provides an aging analysis of the Company's accounts receivable:

	December 31, 2013	December 31, 2012
0-30 days	**104.8**	115.9
31-60 days	**33.8**	33.0
61-90 days	**8.5**	7.9
Past 90 days	**—**	8.9
Total	**147.1**	165.7

The Company maintains an allowance for doubtful accounts for potential credit losses. This allowance is based on management's best estimates and assumptions regarding current market conditions, customer analysis and historical payment trends. These factors are considered when determining whether past due accounts are allowed for or written off. The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Company's maximum exposure to credit risk.

The Company's allowance for doubtful accounts for large business accounts receivable is calculated as a specific percentage of total large business accounts outstanding plus an additional provision for certain high-risk large business accounts. For all other accounts receivable, the allowance for doubtful accounts represents all accounts over 90 days past due.

The following table provides a continuity of the Company's allowance for doubtful accounts receivable:

	2013	2012
Balance, beginning of the year	**8.5**	7.3
Charge for the year	**8.8**	8.8
Accounts written-off (net of recoveries)	**(12.6)**	(7.6)
Balance, end of the year	**4.7**	8.5

Liquidity risk

The Company is exposed to liquidity risk from its debt. This risk is minimized by the Company's capital structure management policies and by maintaining bank credit facilities. The following table provides a summary of the maturity

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

dates for various financial liabilities, based on contractual undiscounted payments. The table includes both interest and principal cash flows.

2013	**Less than 1 year**	**1 – 2 years**	**2 – 3 years**	**3+ years**
Accounts payable and accrued liabilities	**293.3**	**—**	**—**	**—**
Long-term debt – principal	**275.0**	**—**	**250.0**	**400.0**
Interest on long-term debt	**44.3**	**37.0**	**26.4**	**49.4**
Other long-term liabilities	**2.5**	**2.5**	**2.5**	**11.2**
Forward contracts	**30.3**	**—**	**—**	**—**
	645.4	**39.5**	**278.9**	**460.6**
2012				
Accounts payable and accrued liabilities	308.6	—	—	—
Notes payable	54.5	—	—	—
Long-term debt – principal	—	275.0	—	650.0
Interest on long-term debt	54.3	44.3	37.0	75.8
Other long-term liabilities	2.5	2.5	2.5	13.7
Forward contracts	26.8	—	—	—
	446.7	321.8	39.5	739.5

Market risk

The Company is exposed to market risk from interest rates related to its debt and from foreign exchange rates related to normal business operations in foreign currencies.

Interest rate risk is minimized by the Company's capital structure management policies.

The Company enters into foreign currency forward contracts to manage foreign currency exposure, which arises in the normal course of business operations. The Company's accounting policy is to adjust outstanding foreign currency forward contracts from book value to fair value as at the balance sheet date. As at December 31, 2013, the Company had $30.3 million U.S. of outstanding foreign currency forward contracts (December 31, 2012 – $26.8 million) and a related financial liability recorded in accounts payable and accrued liabilities of nil (December 31, 2012 – $0.1 million). During the year ended December 31, 2013, the Company recognized $0.1 million of income in other income related to the adjustment of outstanding foreign currency forward contracts to fair value. In January 2014, the Company entered into additional outstanding foreign currency forward contracts to purchase $13.0 million U.S.

Reasonable fluctuations in market interest rates and foreign currency exchange rates would not have a material impact on the Company's net income and comprehensive income.

Capital structure management policies

The Company's objectives when managing capital are: (i) to maintain an acceptable level of liquidity, so that the Company can continue to cover its financial obligations and investment requirements under the current business model; and (ii) to enhance shareholder value by maintaining an efficient cost of capital.

The Company manages capital through the monitoring of a number of measures, with the primary one being debt to capitalization. This metric illustrates the amount of assets that are financed by debt versus equity. As part of managing the capital structure, the Company will make adjustments based on changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain an optimal capital structure, the Company may buy back shares to reduce shareholders' equity or sell assets to reduce debt.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

The following table provides information on the Company's debt to capitalization ratio:

	December 31, 2013	December 31, 2012
(Cash and cash equivalents) bank indebtedness	**(87.8)**	12.6
Notes payable	**—**	54.5
Long-term debt, including current portion	**923.1**	921.9
Total debt	**835.3**	989.0
Shareholders' equity	**1,092.7**	821.6
Total capitalization	**1,928.0**	1,810.6
Debt to capitalization	**43.3%**	54.6%

The Company must comply with two types of covenants regarding capital structure. The first is a debt to earnings before interest, taxes, depreciation and amortization, and other income (expense) ("EBITDA") covenant on the Company's bank credit facility that requires the Company to maintain a ratio of debt to EBITDA below a certain threshold. The second is a level of debt covenant on the Company's medium term notes that requires the Company not to exceed a specified debt to total capitalization level. The Company continually monitors these covenants and is in full compliance as at December 31, 2013.

17. EMPLOYEE BENEFITS

Pension benefits

The Company and its subsidiaries provide pension benefits through two contributory and one non-contributory defined benefit best average pension plans, which cover the majority of the employees of the Company and its subsidiaries. The pension plans are registered under the *Pensions Benefits Standards Act, 1985* (Canada) (PBSA). These plans provide pensions based on length of service and best average earnings. Two of the defined benefit plans have provisions for periodic cost of living adjustments to benefit payments for certain members based on a percentage of the increase in the Consumer Price Index. The Company's policy is to fund the plans as determined through periodic actuarial valuations. Contributions reflect actuarial assumptions regarding salary projections and future service benefits. As required by the PBSA, the Company is responsible for making special payments to finance any unfunded liabilities of the plans over a period not exceeding 15 years in the case of a going concern deficiency, and if there is a solvency deficiency, by annual solvency special payments equal to the amount by which the three-year average solvency deficiency divided by five exceeds the amount of going concern special payments that are payable during the plan year. For the two contributory plans, the amount of funding by employees is based on defined formulae.

The defined benefit plans expose the Company to actuarial risks such as longevity risk, currency risk, interest rate risk and investment risk. The present value of the defined benefit plan obligation is calculated by reference to the best estimate of the mortality of plan members. Longevity risk exists because an increase in the life expectancy of plan members will increase the plan liability. A change in the valuation of the plans' foreign assets due to changes in foreign exchange rates exposes the plans to currency risk. A decrease in the bond interest rate used to calculate the present value of the defined benefit obligation will increase the plan liability. This interest rate risk will be partially offset by an increase in return on the plans' fixed income investments. Investment risk occurs if the return on plan assets is lower than the bond interest rate used to determine the discount rate. Currently the plans have a balanced investment mix of 55% equity, 40% fixed income and 5% real estate. Due to the long term nature of plans' defined benefit obligations, the Company considers it appropriate that a reasonable portion of the plans' assets should be invested in equities and real estate to generate additional long term return.

The Company also has two defined contribution pension plans which cover certain employees of the Company. One plan requires the Company to contribute, on behalf of each member, an amount equal to 2.5% of the member's earnings. The second plan requires members to contribute a minimum of 1% to a maximum of 9% of earnings. The Company is required to match member contributions, subject to limits that vary by years of continuous service.

The Company also provides supplemental pension benefits to certain current and retired employees. One of the Company's supplemental pension benefit plans has assets set aside in trust to fund benefits.

The Company measures its defined benefit obligations and the fair value of plan assets as at December 31 each year. The most recent actuarial valuation of the defined benefit pension plans for funding purposes was as at January 1, 2013. The next funding valuations are required to be completed as at January 1, 2014. Future funding requirements will depend on the results of annual actuarial funding valuations, which are affected by various factors such as actuarial experience of the plans, return on plan assets and interest rate fluctuations.

17. EMPLOYEE BENEFITS (continued)

Effective April 1, 2011, new regulations under the *PBSA* provided that letters of credit may be used to meet solvency special payment requirements. The total face value of the letters of credit cannot exceed 15% of the market value of the plan assets as determined on the valuation date. To facilitate solvency special payments, the Company has arranged for $272.2 million (2012 – $235.9 million) in letters of credit to be held by RBC Investor Services Trust, the trustee for the defined benefit pension plans.

Other benefits

The Company provides other non-pension benefits including long term disability and post-employment life, medical and dental insurance, which are unfunded. The Company's costs for medical and dental insurance available for certain retirees are fixed and not subject to changes in medical cost trend rates.

Defined benefit plans

The changes in the net defined benefit liability and its components for the defined benefit pension plans are as follows:

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability (asset)	
	2013	2012	**2013**	2012	**2013**	2012
Balance at January 1	**2,399.1**	2,218.8	**(1,956.8)**	(1,853.7)	**442.3**	365.1
Recognized in net income						
Current service cost	**32.7**	31.0	**—**	—	**32.7**	31.0
Past service cost	**135.1**	—	**—**	—	**135.1**	—
Net interest cost (income)	**102.1**	104.1	**(84.8)**	(86.0)	**17.3**	18.1
Administrative cost	**—**	—	**1.7**	1.6	**1.7**	1.6
	269.9	135.1	**(83.1)**	(84.4)	**186.8**	50.7
Recognized in other comprehensive income						
Remeasurement (gain) loss:						
Actuarial loss due to experience adjustments	**5.8**	16.1	**—**	—	**5.8**	16.1
Actuarial loss due to changes in demographic assumptions	**133.2**	—	**—**	—	**133.2**	—
Actuarial (gain) loss due to changes in financial assumptions	**(199.2)**	141.9	**—**	—	**(199.2)**	141.9
Return on plan assets, excluding amounts included in net interest cost	**—**	—	**(272.4)**	(93.2)	**(272.4)**	(93.2)
Restrictions on asset recognized	**58.4**	—	**—**	—	**58.4**	—
	(1.8)	158.0	**(272.4)**	(93.2)	**(274.2)**	64.8
Other						
Employee contributions	**12.0**	11.8	**(12.0)**	(11.8)	**—**	—
Employer contributions	**—**	—	**(159.8)**	(38.3)	**(159.8)**	(38.3)
Benefit payments	**(145.5)**	(124.6)	**145.5**	124.6	**—**	—
	(133.5)	(112.8)	**(26.3)**	74.5	**(159.8)**	(38.3)
Balance at December 31	**2,533.7**	2,399.1	**(2,338.6)**	(1,956.8)	**195.1**	442.3

Past Service Cost

On January 30, 2014, the Supreme Court of Canada reinstated a lower court ruling on a lawsuit regarding the administration of one of the Company's defined benefit pension plans following the Company's 1997 privatization. Pension benefits are expected to increase by $43.4 million, plus interest calculated at a rate equal to the pension plan's rate of return since 1997, which could increase pension benefits up to $135.1 million. As a result, the Company has recognized a past service cost in 2013.

17. EMPLOYEE BENEFITS (continued)

The changes in the defined benefit obligation and net defined benefit liability for the other non-pension unfunded post-employment benefits are as follows:

	Defined benefit obligation/net defined benefit liability	
	2013	2012
Balance at January 1	**30.9**	29.1
Recognized in net income		
Current service cost	**2.4**	2.4
Net interest cost	**1.4**	1.4
	3.8	3.8
Recognized in other comprehensive income		
Remeasurement (gain) loss:		
Actuarial loss due to experience adjustments	**0.6**	—
Actuarial gain due to changes in demographic assumptions	**(1.0)**	—
Actuarial (gain) loss due to changes in financial assumptions	**(2.1)**	1.0
	(2.5)	1.0
Other		
Benefit payments	**(3.0)**	(3.0)
Balance at December 31	**29.2**	30.9

The major categories of defined pension plans' assets at fair value are as follows:

	2013	2012
Cash and cash equivalents	**72.4**	77.4
Fixed income investments		
Government guaranteed bonds	**301.5**	256.0
Corporate bonds	**208.0**	179.7
Bond funds	**194.8**	191.8
Mortgage fund	**104.5**	98.6
	808.8	726.1
Equity investments		
Financials	**147.7**	113.4
Energy	**76.6**	65.0
Materials	**66.6**	61.1
Information technology	**126.1**	127.5
Consumer discretionary	**147.5**	102.8
Utilities	**3.0**	0.6
Telecommunication services	**27.3**	20.8
Consumer staples	**60.9**	45.5
Industrials	**107.1**	75.6
Health care	**79.9**	53.1
Equity funds	**499.5**	382.5
	1,342.2	1,047.9
Real estate investments		
Real estate fund	**115.2**	105.4
	2,338.6	1,956.8

The defined benefit pension plans' assets are valued based on quoted prices in active markets, except for government guaranteed bonds and corporate bonds, which are valued directly or indirectly based on observable market data. Pooled fund investments are valued at the unit value supplied by the pooled fund administrator, which represents the plans' proportionate share of underlying net assets at fair value determined using year-end closing market prices. The plans' assets do not include any direct investment in the Company's own financial instruments nor any property occupied or other assets used by the Company.

17. EMPLOYEE BENEFITS (continued)

The Company expects to contribute approximately $26.4 million in cash funding and arrange for approximately $63.9 million in new letters of credit to be issued to the defined benefit plans in 2014.

The weighted average duration of the defined benefit obligations at December 31, 2013 was 13.5 years.

Actuarial assumptions

The significant actuarial assumptions used to determine the present value of the defined benefit obligations are as follows:

	Pension benefits		Other benefits	
	2013	2012	**2013**	2012
Discount rate	**4.90%**	4.30%	**4.90%**	4.30%
Future salary increases	**3.25%**	3.25%	**3.25%**	3.25%
Inflation rate	**2.00%**	2.00%	**N/A**	N/A

Assumptions regarding future mortality were based on the UP 94@2020 Mortality Table with future improvements in 2012 and on the RPP 2014 Private Sector Mortality Table (CPM-RPP2014Priv), without adjustments in 2013.

The following table illustrates the impact on the December 31, 2013 defined benefit obligations for the pension benefits and other benefits of an isolated negative change for each of the significant actuarial assumptions:

Assumption	Change	Increase in pension benefits	Increase in other benefits
Discount rate	**1% lower**	**316.9**	**3.1**
Future salary increases	**1% higher**	**54.9**	**N/A**
Inflation rate	**1% higher**	**158.9**	**N/A**
Life expectancy	**1 year longer**	**63.6**	**N/A**

When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognized within the statement of financial position. The sensitivity analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that a change in assumptions would occur in isolation of one another.

Defined contribution plans

During 2013, the Company recognized expense, representing employer contributions to the defined contribution plans, in the amount of $3.1 million (2012 – $3.1 million).

18. OTHER LONG-TERM LIABILITIES

	December 31, 2013	December 31, 2012
Deferred revenue	**19.4**	17.9
Rights-of-way and network access contracts	**0.5**	2.4
Other	**23.0**	26.7
	42.9	47.0

19. SHARE CAPITAL

Authorized

Unlimited number of Preference Shares of two classes
Unlimited number of Common Shares of a single class

Preference Shares

The two classes of Preference Shares are issuable in one or more series, for which the Board of Directors of the Company may fix the number of shares and determine the designation, rights, privileges, restrictions and conditions. One class of Preference Shares of a single series has been designated as Class A Preference Shares. Another class of Preference Shares of a single series has been designated as Class B Preference Shares. There are no Preference Shares outstanding.

19. SHARE CAPITAL (continued)

Class A Preference Shares

The rights, privileges, restrictions and conditions of the Class A Preference Shares are identical in all respects to those of the Common Shares, except for the following:

- The holders of Class A Preference Shares are not entitled to vote at meetings of shareholders on resolutions electing directors.
- The Class A Preference Shares are convertible, at any time, into Common Shares, on a one-for-one basis.

Class B Preference Shares

The rights, privileges, restrictions and conditions of the Class B Preference Shares are identical in all respects to those of the Common Shares, except for the following:

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

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

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

Common Shares

The holders of the Common Shares have the right to receive notice of, and attend and vote at, meetings of shareholders, to receive such dividends as may be declared by the Board of Directors of the Company, and to share in the distribution of the assets of the Company upon liquidation, winding-up or dissolution, subject to the rights, privileges and conditions attaching to any other class of shares ranking in priority thereto. Common shares have no par value.

The Company has a Dividend Reinvestment Plan and Share Purchase Plan (“the Plan”) which enables eligible holders of its Common Shares to automatically reinvest their regular quarterly dividends in additional Common Shares of the Company. Participants in the Plan also have the option to make cash payments to purchase additional Common Shares. The shares are issued from treasury at a discount of 3% from the average market price.

Issued	**2013**		2012	
	Number	**Value**	Number	Value
Common Shares				
Balance, beginning of year	**66,994,852**	**1,337.2**	65,936,973	1,303.7
Issued pursuant to the Plan	**971,645**	**30.2**	1,057,879	33.5
Issued pursuant to the Offering	**8,855,000**	**241.3**	—	—
Balance, end of year	**76,821,497**	**1,608.7**	66,994,852	1,337.2

During the year ended December 31, 2013, 8,855,000 Common Shares were issued as part of a “bought deal” financing agreement (“the Offering”) issued at a purchase price of $28.10 per Common Share, for gross proceeds of $248.8 million, which was credited to share capital, net of share issuance costs, net of tax, of $7.5 million.

During the year ended December 31, 2013, 971,645 Common Shares were issued (2012 – 1,057,879 Common Shares) as a result of participation in the Plan in exchange for $30.2 million (2012 – $33.5 million), which was credited to share capital.

Dividends

On February 6, 2014, the Company’s Board of Directors declared a quarterly cash dividend of $0.425 per share. During 2013, the Company paid $1.70 per share to shareholders of record (2012 – $1.70).

20. CONTRIBUTED SURPLUS

Contributed surplus is used to recognize the value of equity-settled share-based payment transactions provided to employees, as part of their remuneration.

21. SHARE-BASED COMPENSATION

The Company has various share-based compensation arrangements, which are described below. During the year, the Company recognized expense in the amount of $9.7 million (2012 – $12.5 million) related to these plans, of which $0.3 million (2012 – $0.6 million) was for equity-settled share-based plans and $9.4 million (2012 – $11.9 million) was for cash-settled share-based plans. As at December 31, 2013, the liability arising from the cash-settled share-based compensation plans is $17.1 million (2012 – $19.3 million). The vested amount of this liability is $5.8 million (2012 – $5.3 million).

Stock options

The Company has a stock option plan under which the Board of Directors may grant options to purchase Common Shares to employees at a price not less than the weighted average of the prices at which the Common Shares traded on the TSX for the five days immediately preceding the date of grant of the option. The options are exercisable during a period not to exceed 10 years. The right to exercise the options accrues over a period of five years of continuous employment at a rate of 20% per year, effective on the anniversary of the date on which the options were granted. The Company has reserved a maximum of 7.0 million (2012 – 7.0 million) Common Shares to meet rights outstanding under the stock option plan. The Company also has reserved 450,000 Common Shares to meet rights outstanding under an additional security-based compensation arrangement. This compensation arrangement has the same terms and conditions as the stock options granted under the stock option plan described above.

The following tables provide further information on outstanding stock options:

	2013		2012	
	Number of shares	**Weighted average exercise price per share**	Number of shares	Weighted average exercise price per share
Outstanding, beginning of year	**2,950,672**	**37.61**	2,813,294	38.33
Granted	**—**	**—**	355,720	32.36
Forfeited	**(55,095)**	**32.81**	(3,469)	37.49
Expired	**(78,664)**	**35.31**	(214,873)	38.34
Outstanding, end of year	**2,816,913**	**37.63**	2,950,672	37.61
Exercisable, end of year	**2,137,806**	**39.09**	1,838,525	39.83

Range of exercise price	**Options outstanding**	**Weighted Average Remaining Contractual Life (Years)**
$30 – $40	**2,130,133**	**5.17**
$41 – $50	**686,780**	**2.87**
	2,816,913	**4.61**

The fair value of stock options is estimated at the date of grant using the Black-Scholes option pricing model, with the following weighted average assumptions:

	2012
Fair value	$2.78
Risk-free interest rate	1.44%-2.15%
Expected volatility	20.14%
Expected dividend yield	5.27%
Expected life	6 years
Probability of forfeiture	35.13%
Share price	$32.23
Exercise price	$32.36

Volatility is a measure of the amount by which a price is expected to fluctuate during a period. The measure of volatility used in the Company's option pricing model is the natural log of the Company's weekly historical stock prices, adjusted for unusual swings in the stock price due to events that are not expected to occur in the future. No stock options were granted in 2013.

21. SHARE-BASED COMPENSATION (continued)

Employee share ownership plan

The Company has an employee share ownership plan under which eligible employees can purchase Common Shares of the Company. Eligible employees may contribute between 1% and 6% of salary, with the Company contributing an amount equal to 25% of employee contributions. The Company recognizes its contributions as a component of operating expenses. During the year ended December 31, 2013, the Company recognized expenses in the amount of $3.4 million (2012 – $3.2 million) related to this plan. During the year, all Common Shares purchased on behalf of employees under this plan were purchased at fair market value.

Performance share unit plan

The Company has a performance share unit (“PSU”) plan under which the Board of Directors may grant PSUs to specified employees. The performance vesting conditions applicable to PSUs are established each year, with the final payout value subject to the achievement of the predetermined performance objectives. PSUs have a maximum vesting period of three years and require continuous employment throughout the vesting period. Except under certain circumstances requiring Board approval, PSUs that have not vested at the time a participant in the PSU plan ceases to be employed are forfeited. The PSUs, like Common Shares, are entitled to dividend equivalents that are paid in the form of additional PSUs, which are issued at the time dividends are paid on the Company’s Common Shares. The vesting of these additional PSUs is subject to the same performance vesting conditions and vesting date as the original grant of PSUs.

The number of PSUs granted and the accrued dividend equivalents are adjusted as at the vesting date, by a performance factor which takes into account actual performance achieved in relation to specific predetermined corporate objectives. The payout price is calculated based on the market value of the PSUs at the time of vesting and is paid out, at the option of the holder, in cash, in Common Shares of the Company that are acquired on the open market by a trustee on behalf of the Company or a combination thereof. The market value of a PSU is equal to the weighted average of the trading prices of the Company’s Common Shares on the TSX on the five trading days preceding the vesting date.

The following table provides further information on outstanding performance share units:

	2013	2012
Outstanding, beginning of year	**223,983**	206,047
Granted	**121,002**	99,961
Dividend equivalents	**12,653**	11,534
Settled in cash	**(92,351)**	(44,617)
Forfeited	**(36,009)**	(48,942)
Outstanding, end of year	**229,278**	223,983

Restricted share unit plan

The Company has a restricted share unit (“RSU”) plan, under which the Board of Directors may grant RSUs to specified employees. RSUs are granted based on individual performance potential and market competitiveness. The vesting of RSUs is not subject to the achievement of performance vesting conditions.

RSUs have a maximum vesting period of three years, and will vest only if there has been continuous employment throughout the vesting period. Except under certain circumstances requiring Board approval, RSUs that have not vested at the time a participant in the RSU Plan ceases to be employed are forfeited. Similar to PSUs, the RSUs attract dividend units equivalent to the dividends paid on the Company’s Common Shares.

The number of RSUs granted and the accrued dividend equivalents are multiplied by the payout price at the vesting date. The payout price is calculated based on the market value of the RSUs at the time of vesting and is paid out, at the option of the holder, in cash, in Common Shares of the Company that are acquired on the open market by a trustee on behalf of the Company or a combination there of. The market value of a RSU is equal to the weighted average of the trading prices of the Company’s Common Shares on the TSX on the five trading days preceding the vesting date.

The following table provides further information on outstanding restricted share units:

	2013	2012
Outstanding, beginning of year	**392,970**	367,623
Granted	**164,014**	148,317
Dividend equivalents	**19,841**	20,256
Settled in cash	**(166,581)**	(120,543)
Forfeited	**(44,995)**	(22,683)
Outstanding, end of year	**365,249**	392,970

21. SHARE-BASED COMPENSATION (continued)

Directors' share appreciation plan

The Company has a share appreciation plan for its non-executive Directors, requiring Directors to receive a minimum of 25% of their annual compensation in deferred compensation units ("DCU"), which are redeemable only when the Director ceases to be a Board member. Directors may elect to receive up to 100% of their compensation in the form of DCUs. DCUs attract dividends in the form of additional DCUs at the same rate as dividends on the Company's Common Shares.

The following table provides further information on outstanding deferred compensation units:

	2013	2012
Outstanding, beginning of year	**159,519**	154,908
Granted	**17,155**	18,095
Dividend equivalents	**9,031**	7,765
Settled in cash	**—**	(21,249)
Outstanding, end of year	**185,705**	159,519

22. SEGMENTED INFORMATION

As at December 31, 2013, the Company had two reportable operating segments: MTS and Allstream. MTS provides a full range of wireless, broadband, high-speed Internet, IPTV, converged IP, unified communications, security, home alarm monitoring, local access and long distance services to residential and business customers in Manitoba. Allstream provides IP-based communications, unified communications, hosting, voice and data connectivity, and security services to business customers in Canada.

The Company evaluates performance based on EBITDA. 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 tables provide further segmented information:

	MTS		**Allstream**		**Other**		**Intersegment Eliminations**		**Consolidated**	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Operating revenues										
Wireless	**375.3**	362.1	**—**	—	**—**	—	**—**	—	**375.3**	362.1
Broadband and converged IP	**228.1**	212.9	**241.9**	243.6	**—**	—	**—**	—	**470.0**	456.5
Unified communications, hosting, security and monitoring	**40.3**	36.2	**76.0**	78.3	**—**	—	**—**	—	**116.3**	114.5
Local access	**251.9**	266.5	**154.7**	179.7	**—**	—	**—**	—	**406.6**	446.2
Long distance and legacy data	**71.0**	76.1	**155.5**	186.0	**—**	—	**—**	—	**226.5**	262.1
Other	**28.4**	26.8	**45.5**	70.6	**—**	—	**(34.9)**	(34.7)	**39.0**	62.7
Total operating revenues	**995.0**	980.6	**673.6**	758.2	**—**	—	**(34.9)**	(34.7)	**1,633.7**	1,704.1
EBITDA	**477.1**	477.5	**81.5**	109.2	**(7.3)**	(1.5)	**—**	—	**551.3**	585.2
Depreciation and amortization	**257.7**	237.2	**50.8**	85.0	**0.6**	0.6	**—**	—	**309.1**	322.8
Assets	**1,627.0**	1,677.0	**670.9**	704.6	**136.3**	8.4	**(223.0)**	(174.0)	**2,211.2**	2,216.0
Goodwill	**33.2**	27.7	**—**	—	**—**	—	**—**	—	**33.2**	27.7
Capital expenditures	**197.4**	219.0	**98.6**	119.0	**—**	—	**—**	—	**296.0**	338.0

22. SEGMENTED INFORMATION (continued)

Reconciliation to consolidated (loss) income before income taxes is as follows:

	2013	2012
(Loss) income before income taxes		
Total EBITDA	**551.3**	585.2
Depreciation and amortization	**(309.1)**	(322.8)
Other expense	**(0.8)**	(1.1)
Past service costs	**(142.1)**	—
Impairment loss	**(130.4)**	—
Finance costs	**(81.1)**	(78.3)
(Loss) income before income taxes	**(112.2)**	183.0
Assets		
Assets for operating segments	**2,211.2**	2,216.0
Deferred income taxes	**471.2**	515.8
Total assets	**2,682.4**	2,731.8

23. RELATED PARTY TRANSACTIONS

Related parties include the Company's wholly-owned subsidiaries, post-employment benefit plans and key management personnel. Balances and transactions during the year between the Company and its wholly-owned subsidiaries are eliminated on consolidation and, therefore, are not disclosed. Amounts paid to the group's post-employment benefit plans are set out in note 17.

Key management personnel include the members of the Company's Board of Directors and Executive Committee. Compensation expense, related to key management personnel during the year is as follows:

	2013	2012
Short-term employee benefits	**6.5**	6.9
Share-based compensation(1)	**6.2**	5.5
Post-employment benefits	**0.7**	1.3
Termination benefits	**2.5**	—
	15.9	13.7

(1) Share-based compensation expense excludes the impact of fluctuations in market values of the Company's Common Shares and changes in the achieved performance vesting conditions (2013 – $1.3 million recovery of expense; 2012 – $0.9 million expense).

24. COMMITMENTS, GUARANTEES AND CONTINGENCIES

Operating lease commitments

In the normal course of operations, the Company has entered into operating lease agreements for building, operating facilities, construction equipment and other equipment. These leases have an average life of between 1 and 66 years, with renewal options contained within some contracts. The Company recorded rental expense related to operating leases of $45 million in 2013 (2012 – $45 million). The Company's future non-cancellable operating lease commitments as at December 31 are summarized in the following table:

	2013	2012
Not later than 1 year	**58.1**	57.6
Later than 1 year and not later than 5 years	**176.9**	183.2
Later than 5 years	**166.3**	191.6
	401.3	432.4

Capital commitments

The Company has commitments for the purchase of property, plant and equipment in the amount of $9.6 million as at December 31, 2013 (December 31, 2012 – $18.3 million). These commitments are for the acquisition of property, plant and equipment used in the normal course of operations.

24. COMMITMENTS, GUARANTEES AND CONTINGENCIES (continued)

The Company has entered into an arrangement to build a commercial data center in 2015 for approximately $50 million.

Guarantees

In the normal course of business and in connection with the disposition or sale of assets, the Company enters into agreements providing indemnifications that may require the Company to pay for costs or losses incurred by the parties to these agreements. These indemnifications relate to various matters such as intellectual property right infringement, loss or damage to property, claims arising from the provision of services, violation of laws or regulations, and breaches of representations or warranties. The nature of these indemnifications prevents the Company from making reasonable estimates of the maximum potential amount it could be required to pay, and no amount has been recorded in the financial statements relating to these indemnifications. Historically, the Company has not made significant payments related to these indemnifications.

The Company also indemnifies its directors, officers and certain other employees against claims and damages that are incurred in the performance of their service to the Company to the extent permitted by law. The Company has acquired and maintains liability insurance in respect of its directors and officers.

The Company obtains letters of credit with financial institutions for the benefit of third parties. In general, the terms of these letters of credit permit third parties to draw on the letters of credit to recover any loss incurred, as defined in the particular letter of credit. Certain of these letters of credit guarantee future funding of the Company's registered pension plans. As at December 31, 2013, the Company had undrawn letters of credit outstanding in the amount of $341.9 million (2012 – $268.9 million).

Contingencies

The Company's legal department performs an assessment of the legal proceedings and claims which have occurred as a result of regular business activities during the period. Based on the information and estimates available, the outcomes of these contingent liabilities are uncertain and they do not satisfy the requirements to be recognized in the consolidated statement of financial position as liabilities.

25. SUBSEQUENT EVENT

On January 30, 2014, the Supreme Court of Canada reinstated a lower court ruling on a lawsuit regarding the administration of one of the Company's pension plans following the Company's 1997 privatization. The Company and its outside advisors are reviewing the implications of this ruling, and will disclose the specific implementation plan once known. As a result of the ruling, the Company has recognized an additional expense of $142.1 million, and a deferred income tax recovery of $38.4 million for the year ended December 31, 2013.

FOUR YEARS IN REVIEW

(Not subject to Auditors' Report)

FINANCIAL INFORMATION

(in $ millions, except earnings per share & ratios)	**2013**	2012	Shown as not amended for IFRS IAS 19 2011	2010
Consolidated operations				
Total operating revenues	**1,633.7**	1,704.1	1,765.6	1,782.6
Total operating expenses	**1,391.5**	1,441.7	1,470.1	1,508.5
Operating income	**242.2**	262.4	295.5	274.1
Finance costs	**81.1**	78.3	65.5	64.0
Impairment loss	**130.4**	—	—	—
Pension plan past service costs	**142.1**	—	—	—
Net (loss) income	**(84.4)**	144.5	167.1	141.3
Basic earnings per share ($)	**(1.24)**	2.17	2.55	2.18
EBITDA	**551.3**	585.2	594.4	564.8
Dividends	**118.6**	113.2	111.5	139.3
Capital expenditures, net	**296.0**	338.0	288.0	361.9
Free cash flow	**121.0**	117.6	129.8	34.1
Consolidated balance sheet				
Total assets(1)	**2,682.4**	2,731.8	2,681.0	2,630.1
Property, plant and equipment, net book value(1)	**1,486.6**	1,559.5	1,542.8	1,497.1
Long-term debt and notes payable(2)	**923.1**	976.4	1,020.8	1,040.6
Shareholders' equity(1)	**1,092.7**	821.6	802.2	860.5
Debt to capitalization (%)(1)	**43.3**	54.6	55.6	53.5

OPERATIONAL STATISTICS

Wireless customers	**501,388**	497,367	496,432	483,754
High-speed Internet customers	**208,331**	193,690	189,366	183,571
IPTV customers	**104,861**	97,232	95,476	89,967
Number of employees(3)	**4,849**	5,349	5,340	5,418

(1) Prior year figures have been restated for the prior period adjustment as described in Note 2 to the 2013 financial statements.

(2) Includes current portion of long-term debt.

(3) Represents number of regular full-time and regular part-time employees.

BOARD OF DIRECTORS

David G. Leith
Chair of the Board and Corporate Director
Mr. Leith has been a director of the Company since 2009. He became Chair of the Board in January 2010.

Pierre J. Blouin
Chief Executive Officer of the Company
Mr. Blouin has been a director of the Company since 2006.

Jocelyne M. Côté-O'Hara, C.M.
Corporate Director
Ms. Côté-O'Hara has been a director of the Company since 1997. She is a member of the Human Resources & Compensation Committee and the Governance & Nominating Committee.

N. Ashleigh Everett
President and Corporate Secretary, Royal Canadian Securities Limited
Ms. Everett has been a director of the Company since 1997. She is the Chair of the Governance & Nominating Committee and is a member of the Human Resources & Compensation Committee.

The Honourable Gary A. Filmon, P.C., O.C., O.M., LLD
Corporate Director
Mr. Filmon has been a director of the Company since 2003. He is the Chair of the Human Resources & Compensation Committee, and is a member of the Governance & Nominating Committee.

Gregory J. Hanson, FCA, FCIP, FLMI
Corporate Director
Mr. Hanson has been a director of the Company since 2007. He is a member of the Audit Committee.

Kishore Kapoor, CA
Corporate Director
Mr. Kapoor has been a director of the Company since 2006. He is the Chair of the Audit Committee and Chair of the Strategic Committee.

H. Sanford Riley, C.M., J.D.
President and Chief Executive Officer, Richardson Financial Group, Ltd.
Mr. Riley has been a director of the Company since 2011. He is a member of the Audit Committee and the Strategic Committee.

D. Samuel Schellenberg
Corporate Director
Mr. Schellenberg has been a director of the Company since 1989. He is a member of the Audit Committee.

Carol M. Stephenson, O.C.
Corporate Director
Ms. Stephenson has been a director of the Company since 2008. She is a member of the Governance & Nominating Committee and the Human Resources & Compensation Committee.

EXECUTIVE COMMITTEE*

Pierre J. Blouin
Chief Executive Officer

Wayne S. Demkey
Chief Financial Officer

Michael R. Strople
President Allstream

Paul A. Beauregard
Chief Corporate and Strategy Officer & Corporate Secretary

Kelvin A. Shepherd
President MTS

OFFICERS OF MANITOBA TELECOM SERVICES INC.*

Pierre J. Blouin
Chief Executive Officer

Kelvin A. Shepherd
President MTS

Paul A. Beauregard
Chief Corporate and Strategy Officer & Corporate Secretary

Michael R. Strople
President Allstream

Wayne S. Demkey
Chief Financial Officer

Brenda M. McInnes
Vice President & Treasurer

* As at January 17, 2014.

INVESTOR INFORMATION

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333 Main Street
Winnipeg, MB R3C 3V6

OPERATING SUBSIDIARIES

MTS Inc.
Allstream Inc.
AAA Alarm Systems Ltd.
Delphi Solutions Corp.
EPIC Information Solutions Inc.

CONTACT INFORMATION

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MTS customers: (204) 225-5687 (204-CALLMTS) or
Toll-free outside Manitoba: 1-800-883-2054

Allstream customers: 1-888-288-2273
www.allstream.com/customercare

TRANSFER AGENT AND REGISTRAR

For shareholder inquiries or services (including share transfers or dividends, address change, lost certificates), please contact our Transfer Agent and Registrar:

Computershare Investor Services Inc.
600, 530 - 8th Avenue SW
Calgary, Alberta T2P 3S8
1-800-564-6253

SHARE FACTS

Symbol
MBT

Listing
The common shares of Manitoba Telecom Services Inc. are listed on Toronto Stock Exchange.

Common Shares Outstanding
76,821,497 as of December 31, 2013

2014 Expected quarterly earnings release dates*

First quarter	May 13, 2014
Second quarter	July 30, 2014
Third quarter	November 6, 2014
Fourth quarter	February 5, 2015

* Subject to change

Annual General Meeting
May 13, 2014
11 a.m. Central Time
The Metropolitan Entertainment Centre, Winnipeg, MB

Multiple Mailings
If you receive duplicate copies of this Annual Report, please contact Computershare Investor Services Inc. at 1-800-564-6253.

Independent Auditors*
Ernst & Young LLP

* Recommended for appointment on May 13, 2014

CORPORATE OFFICES

MTS

Winnipeg
P.O. Box 6666
333 Main Street
Winnipeg, MB
R3C 3V6

Brandon
517-18th Street
Brandon, MB
R7A 5Y9

ALLSTREAM

Toronto
200 Wellington Street West
Toronto, ON
M5V 2G2

Montreal
625 Rue Belmont
Montreal, QC
H3B 2M1

Quebec City
2710 Rue Einstein
Quebec, QC
G1P 4R5

Ottawa
150 Laurier Street West
Suite 400
Ottawa, ON
K1P 5J4

Calgary
255-5th Avenue SW
Calgary, AB
T2P 3G6

Edmonton
10250-101st Street
Suite 410
Edmonton, AB
T5J 3P4

Vancouver
175 West Cordova Street
Vancouver, BC
V6B 1E1

MOVING FORWARD STRONGER TO BETTER SERVE OUR CUSTOMERS

"MTS has a proud history in Manitoba. For more than 100 years, our customers have relied on us to provide them with the communication services they use every day, be it watching their favourite TV show in Winnipeg or making an important business call in rural Manitoba. We take that responsibility very seriously and continue to focus on finding new ways to enhance our customers' experience."

KELVIN SHEPHERD President, MTS

MTS:

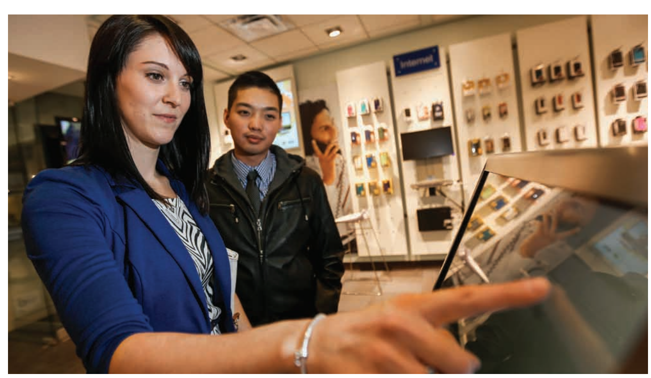
- Invested $200 million in Manitoba infrastructure to provide first class communications services to Manitobans
- Expanded portfolio of business services with acquisition of EPIC Information Solutions, and announced plans to build Manitoba's only large multi-tenant commercial data centre
- MTS's wireless network was recognized by PC Magazine as being the fastest in Winnipeg and the best in Manitoba

"At Allstream, we recognize that customers today want to work with a provider who is easy to do business with and stands behind the commitments they make. Our services and solutions are backed by the Allstream Service Guarantee – which truly sets us apart in the Canadian business communications market."

MIKE STROPLE President, Allstream

ALLSTREAM:

- Independent survey research among Canadian businesses confirms Allstream's industry leading customer satisfaction ratings for the sixth year in a row
- Winner of the latest large contract from the Federal Government for national data services
- Allstream's services and solutions are backed by customer service, performance and pricing guarantees that are unique in the industry



MOVING FORWARD **STRONGER** AS A CORPORATE CITIZEN

MTS Allstream is proud to give back to the communities we serve. In 2013, we launched MTS *Future First: Connecting Today's Youth to Tomorrow*, a multi-faceted community investment program focused on Manitoba youth. MTS *Future First* includes sponsorships, donations, scholarships, employee volunteerism, as well as $100,000 in annual grants to youth-serving organizations in Manitoba. In 2013, MTS donated more than 1% of its pre-tax profit for charitable purposes in Manitoba. As a company, we contributed more than $1 million to the United Way nationally and supported the relief efforts for floods in Alberta and Typhoon Haiyan in the Philippines. Allstream received the United Way's *Exemplary Award* for leadership in fundraising excellence. Allstream is also pleased to provide the Toronto 2015 Pan Am/Parapan Am Games advanced tools for collaboration and sharing.

On the Jantzi Social Index, MTS Allstream has ranked among the top socially responsible and environmentally progressive companies in Canada for more than 13 years. We continue to engage our customers in the "green" potential of innovative communications solutions, such as cell phone recycling and e-billing options. We also offer virtual workplace communication solutions for our business customers to promote teleworking and alternative work arrangements. Corporate Knights ranked MTS Allstream among the top 10 of the "Future 40 Most Responsible Corporate Leaders in Canada" for 2013.

RECOGNITION AND DESIGNATIONS

Honourable Mention for Best Overall Corporate Governance

Proud Signatory of the Catalyst Accord

PROUD PARTNER

Silver Medal Awards for Excellence in Advertising – MTS

Awards for Excellence in Performance Management – Large Centre – MTS

Bronze Medal Awards for expert IP blog – Allstream

Gold Partner

Premier Solution Partner

Premier Partner and Canada's only Canadian Hospitality Specialist Partner

Platinum

Supplier Recognition Award of Excellence

ENVIRONMENTALLY RESPONSIBLE CHOICES

At MTS Allstream, we are committed to reducing our impact on the environment and helping our customers, employees and stakeholders do the same. As part of that commitment, the papers selected for this report are acid-free and elemental chlorine-free, and certified by the Forest Stewardship Council™ (FSC®), which means they come from well-managed forests and known sources, ensuring local communities benefit and sensitive areas are protected. In addition, the cover of this report contains 100% post-consumer fibre, and is manufactured with 100% Certified Renewable Energy. By using these paper choices, we are: saving 4,243 gallons of wastewater/eliminating 558 lbs of solid waste/saving 8.4 million BTUs of energy and preserving 12 trees. In addition, this report has been printed with sustainable ink that is petroleum-free and comprised of soy and/or vegetable oils.

Please consider the environment and recycle this report, which can also be viewed at: **www.mtsallstream.com/annualreport2013**

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This Annual Report includes forward-looking statements and information (collectively, "the statements") about our corporate direction, business opportunities, operations, financial objectives, future financial results and performance, future cash flows and distributions to shareholders, which 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. Therefore, forward-looking statements should be considered carefully and undue reliance should not be placed on them. 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 throughout this Annual Report. Please note that forward-looking statements reflect our expectations as at February 6, 2014. 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. You will also find more information about us, including our annual Management's Discussion and Analysis for the year ended December 31, 2013 and Annual Information Form for the year ended December 31, 2013, on our website at www.mtsallstream.com and on SEDAR at www.sedar.com. Unless otherwise stated, all figures are as of December 31, 2013 and all amounts are expressed in Canadian dollars.