
Notice of Annual General and Special Meeting of Shareholders and Management Proxy Circular 2010

Notice Of Annual General and Special Meeting Of Shareholders

Dear Shareholders:

We will be holding our annual general and special meeting (the "Meeting") of the shareholders of Manitoba Telecom Services Inc. (the "Corporation"):

Date: May 6, 2010

Time: 11:00 am (Central Time)

Place: Provencher Room, 1st Floor
Hotel Fort Garry
222 Broadway Avenue
Winnipeg, Manitoba

The Meeting will cover the following items:

1. Receiving of the consolidated financial statements for the year ended December 31, 2009 and the auditors' report;
2. Election of the Board of Directors (the "Directors") who will serve until the next annual general meeting;
3. Appointment of the auditors of the Corporation who will serve until the next annual general meeting and providing the Directors with the authority to fix the auditor's remuneration;
4. Considering and, if supported, passing of a resolution amending the By-Laws of the Corporation, as described in the Management Proxy Circular; and
5. Considering any other business that may properly come before the Meeting.

You are entitled to notice of and to attend the Meeting, and vote on items 2, 3, 4, and (if applicable and properly before the Meeting) 5, if you were a shareholder of Common Shares of the Corporation as at 5:00 pm (Central Time) on March 17, 2010. You may vote either by proxy or in person at the meeting. The following pages will explain how to exercise your right to vote.

If you cannot attend the meeting in person, please complete the enclosed form of proxy and return it in the postage prepaid envelope. **If you cannot attend and you would like to vote, your proxy must be received by Computershare Investor Services Inc. by 11:00 a.m. (Central Time) on May 4, 2010.**

BY ORDER OF THE BOARD OF DIRECTORS



Peter J. Falk, Q.C.
Corporate Secretary

Winnipeg, Manitoba
March 17, 2010

Management Proxy Circular

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Manitoba Telecom Services Inc. Management Proxy Circular

This Management Proxy Circular is provided by management of Manitoba Telecom Services Inc. (the "Corporation") to solicit your proxy for use at the annual general and special meeting (the "Meeting") of the shareholders of the Corporation to be held on May 6, 2010 at 11:00 a.m. (Central Time), the details of which are set out in the Notice of Annual General and Special Meeting of Shareholders.

The solicitation of proxies will be made primarily by mail, but proxies also may be solicited by officers, Directors and regular employees or agents of the Corporation personally, in writing or by telephone. The cost of any such solicitation will be borne by the Corporation.

In this Management Proxy Circular, the terms *you*, *your* or *shareholder* refers to a shareholder of Manitoba Telecom Services Inc. as more specifically described in Section 1 below and the terms *we*, *us*, *MTS* or *Corporation* refers to Manitoba Telecom Services Inc.

The information provided in this Management Proxy Circular is given as at March 17, 2010, unless otherwise stated.

VOTING INFORMATION

1. WHO CAN VOTE?

If you were a shareholder of the common shares of the Corporation (the "Common Shares") on March 17, 2010 (the "Record Date") you are entitled to one vote for each Common Share that you beneficially own as at the Record Date.

If you become a shareholder after the Record Date, you may vote if you produce a properly endorsed share certificate or otherwise establish ownership of the Common Shares, and you request, at least ten (10) days prior to the Meeting, that your name be included in the list of shareholders entitled to vote at the Meeting.

Registered Shareholders

You are a registered shareholder if your name appears on the register for the Common Shares maintained by Computershare Investor Services Inc. and the Common Shares are held directly in your name. Your proxy form will indicate whether you are a registered shareholder. A registered shareholder may vote in person at the Meeting, or may give another person authority to vote at the Meeting on their behalf by appointing a proxyholder, as described below in Section 2 "How to Vote – Registered Shareholders".

Non-Registered Shareholders

You are a non-registered shareholder if an intermediary such as a securities broker or financial institution holds your Common Shares on your behalf. In such case, the intermediary holds your shares and its name will be registered with the depository. Your intermediary is obliged to forward materials pertaining to the Meeting to you, unless you have instructed the intermediary otherwise.

Employee Shareholders

You are an employee shareholder if Computershare Trust Company of Canada (the "Trustee") holds your Common Shares (the "Employee Shares"). If you are an employee shareholder, you are treated in the same manner as non-registered shareholders for the purpose of voting.

2. HOW TO VOTE – REGISTERED SHAREHOLDERS

a. In Person

If you are a registered shareholder you may vote in person at the Meeting, or give another person authority to vote at the Meeting on your behalf by appointing them as your proxyholder in accordance with the instructions below.

b. By Proxy

i. By mail or personal delivery

- You may vote by mailing or personally delivering a completed paper proxy, which proxy form is enclosed. Complete the enclosed form of proxy, sign and return in accordance with the instructions in the form of proxy.

ii. By telephone

- You may vote by telephone by calling the toll-free number specified in the form of proxy. Using a touch-tone telephone, follow the instructions which will ask you to provide your control number that is specified in the form of proxy provided to you.

iii. By Internet

- You may vote by Internet by accessing the Web site address specified in the form of proxy. Follow the online voting instructions which will ask you to provide your control number that is specified in the form of proxy provided to you.

iv. By appointing a proxyholder to attend the Meeting in person

- You may appoint a proxyholder (who may or may not be a shareholder) to act on your behalf at the Meeting. You may notify us that you are appointing a proxyholder by Internet proxy, or by inserting the name of such proxyholder in the blank space provided in the enclosed form of proxy and returning it to Computershare within the time frame specified below. You may give voting directions to your appointed proxyholder or allow your proxyholder to exercise his or her discretion. In order to provide directions the appropriate boxes in the form of proxy must be marked.

Regardless of the method selected, proxies must be received by Computershare Investor Services Inc. no later than two business days

before the commencement of the Meeting or any adjournment thereof. The last date to receive proxies is May 4, 2010 at 11:00am (Central Time).

3. HOW TO VOTE – NON- REGISTERED and EMPLOYEE SHAREHOLDERS

a. Non-Registered Shareholders

- i. As a non-registered shareholder you must follow the directions of your intermediary with respect to the procedures to be followed for voting. An intermediary generally will provide either (i) a voting instruction form for you to complete and execute, or which will enable you to vote by alternate means such as by telephone or the Internet, or (ii) a form of proxy that is executed by the intermediary and restricted to the number of Common Shares you own, but otherwise uncompleted. These procedures permit you to direct the voting of your Common Shares.
- ii. Only registered shareholders or their proxyholders are permitted to vote at the Meeting. As a non-registered shareholder, if you wish to attend and vote in person at the Meeting, you must insert your own name in the space provided for the appointment of a proxyholder in the proxy form or voting instruction form provided by your intermediary, and you must follow your intermediary's instructions for the return of the executed form.

b. Employee Shareholders

- i. You may vote by completing the voting instruction form for employees provided by the Corporation or the Trustee, or by using the telephone or Internet voting as indicated in the voting instruction form. The method for voting by telephone or Internet will be the same as the method followed by a registered shareholder, which is described above in Section 2.b. The Trustee will vote your Employee Shares in accordance with any instructions you provide. If you have not provided instructions, the Trustee will vote the Employee Shares in the manner specified below in Section 4 "Voting Discretion of Proxyholder."
- ii. Only registered shareholders or their proxyholders are permitted to vote at the Meeting. As an employee shareholder, if you wish to attend and vote in person at the Meeting, you must insert your own name in the space provided for the appointment of a proxyholder in the voting instruction form and you must follow the Trustee's instructions for the return of the executed form.

4. VOTING DISCRETION OF PROXYHOLDER

A proxyholder must vote in accordance with the directions of the shareholder as specified in the proxy. If a direction is not specified with respect to any matter in the proxy, the Common Shares will be voted in favour of the matters listed on the form of proxy for registered shareholders.

You should be aware that the form of proxy confers discretionary authority upon the proxyholder with respect to amendments, variations to matters identified in the Notice of Annual General and Special Meeting of Shareholders and the Management Proxy Circular, or any other matter that may properly come before the Meeting or any adjournment thereof. The Common Shares represented by the proxy will be voted on such matters, in the discretion of, and in accordance with the best judgment of, the proxyholder.

As at the date of this Management Proxy Circular, management of the Corporation knows of no matters to come before the Meeting other than the matters identified in the Notice of Annual General and Special Meeting of Shareholders. If any matters that are not now known

should properly come before the Meeting or any adjournment thereof, the proxyholders will vote on such matters in their discretion in accordance with their best judgment.

5. REVOKING A PROXY

If you would like to revoke your proxy, you may do so by depositing another proxy, or in the case of an employee shareholder, a voting instruction form, bearing a later date or a revocation of proxy, signed by you, at the registered office of the Corporation at any time up to and including the last business day preceding the date of the Meeting. You also may revoke the proxy and vote in person by depositing a revocation of proxy with the Chair of the Meeting at the Meeting. Any votes that have been cast on your behalf prior to you revoking your proxy will remain and you will be bound by any such vote.

6. MAJORITY VOTE

Unless otherwise specified in this Management Proxy Circular, a simple majority of the votes cast at the Meeting, in person or by proxy, will constitute approval of any matter submitted to a vote.

7. OUTSTANDING VOTING SHARES

As March 17, 2010, the Corporation has 64,672,817 Common Shares issued and outstanding. The by-laws of the Corporation require that not less than 10% of all issued and outstanding shares of the Corporation be represented in person or by proxy in order to constitute a quorum for the Meeting.

To the best of the knowledge of the Directors and senior officers of the Corporation, no person or company beneficially owns, directly or indirectly, or exercises control or direction over, more than 10% of the issued and outstanding Common Shares.

8. VOTING RESTRICTIONS

The Articles of the Corporation provide the following restrictions concerning the ownership of the Common Shares:

- a. Each person or members of any group of associated persons (other than by way of security) may not beneficially own more than 20% of the total number of issued and outstanding Common Shares. This limit does not apply to any Common Shares that may be beneficially owned by the Crown in right of the Province of Manitoba or its agents;
- b. The number of non-residents of Canada that beneficially own Common Shares (other than by way of security) may not exceed, in the aggregate, the maximum percentage of the total number of issued and outstanding Common Shares of the Corporation permitted by applicable law from time to time; and
- c. A government or government agency other than the Crown in the right of the province of Manitoba and its agents, is not permitted to own any Common Shares. However, a person or corporation or any other entity established or maintained to invest funds under a pension plan or an insurance or annuity arrangement as described in the Articles of the Corporation is excluded from this restriction.

The Corporation has the right to refuse to register a transfer of Common Shares if the transfer would result in a contravention of the limits or restrictions described above. The Articles also state that if any of these limits or restrictions are contravened, the Corporation has the right to require the registered holder of the Common Shares to dispose of the Common Shares that are in excess of the limit or restriction within a prescribed period. If the excess Common Shares

have not been disposed of within such prescribed period, then, during the period of contravention, no voting rights attached to the Common Shares may be exercised, and the Corporation or its nominee may purchase for cancellation from the shareholder, who will be required to sell, the number of Common Shares beneficially owned in contravention of any of the limits or restrictions described above.

BUSINESS OF THE MEETING

9. FINANCIAL STATEMENTS

The consolidated financial statements for the year ended December 31, 2009 and the auditors' report thereon, including management's discussion and analysis, are included in the 2009 Annual Report of the Corporation. The consolidated financial statements and the auditors' report will be placed before the shareholders at the Meeting.

Registered shareholders, and non-registered shareholders who have requested a copy of the 2009 Annual Report, will receive the Annual Report by mail. If you are a non-registered shareholder who did not request a copy of the Annual Report, it may be viewed at the investors section of the Corporation's Web site at www.mtsallstream.com. Alternatively, a copy may be obtained upon request to the Corporation's Investor Relations department, which may be contacted by mail at:

PO Box 6666, Room MP20B
333 Main Street
Winnipeg, Manitoba
R3C 3V6

e-mail at investor.relations@mtsallstream.com
telephone at (204) 958-3549 or 1-888-544-5554 (toll-free)

10. ELECTION OF DIRECTORS

The Corporation's Articles and By-laws provide for a minimum of nine (9) and a maximum of fifteen (15) Directors. The Board of Directors has fixed the number of Directors at ten (10). Each Director elected at the Meeting will hold office until the next annual meeting of shareholders, unless the Director resigns or the Director's office becomes vacant for any reason.

The information set out below shows the date on which each nominee first became a Director of the Corporation. All of the nominees are currently Directors of the Corporation who were elected by the shareholders at the annual meeting of shareholders held on May 6, 2009.

Unless instructed otherwise, the persons designated in the enclosed form of proxy intend to vote for these nominees.

Management has no reason to believe that any of the nominees will be unable to serve as a Director, but if this should occur for any reason prior to the Meeting, the persons designated in the enclosed form of proxy will vote in their discretion for a substitute nominee, unless the shareholder has directed otherwise in the proxy or has indicated that the proxyholder may not vote on the election of Directors.

Majority Voting for Directors

The Board of Directors has adopted a policy providing that if the votes in favour of the election of a Director nominee at an annual meeting of shareholders represent less than a majority of the votes voted and withheld, the nominee will promptly submit his or her offer to resign to the Governance & Nominating Committee. The nominee will not participate in any deliberations of the Governance & Nominating Committee or the Board of Directors respecting this resignation offer. The Governance & Nominating Committee will make a recommendation to the Board of Directors after reviewing the matter, and the Corporation will disclose the final outcome by way of a press release. If the offer of resignation is accepted, the Board may appoint a new Director to fill any vacancy created by the resignation or may reduce the size of the Board. This policy does not apply in circumstances involving contested Director elections.

Director Nominees



Pierre J. Blouin

Winnipeg, Manitoba, Canada / Director since: March 10, 2006 / Age: 52 / Not Independent ⁽¹⁾
(Management)

Pierre J. Blouin was appointed Chief Executive Officer of each of Manitoba Telecom Services Inc. and MTS Allstream Inc. on December 7, 2005. Prior to this appointment, Mr. Blouin spent over 20 years at BCE Inc. and Bell Canada, most recently as Group President – Consumer Markets of Bell Canada from May 2003 to October 2005, and Chief Executive Officer of Emergis Inc. (formerly known as BCE Emergis Inc.) from May 2002 to May 2003. In addition to being a Director of MTS Allstream Inc., and Manitoba Telecom Services Inc., he is also a Director of the Conference Board of Canada, the Business Council of Manitoba, and various non-profit organizations related to healthcare, education and amateur sports.

Board and Committee Membership During 2009

Board of Directors

Attendance During 2009

9 of 9 100%

Securities Held

Common Shares ⁽²⁾: 16,864

PSUs ⁽³⁾: 60,907

RSUs ⁽³⁾: 21,251

Total Common Shares, PSUs and RSUs: 99,022

Total Market Value of Common Shares, PSUs and RSUs ⁽⁴⁾: \$3,189,788.34

Options Held ⁽⁵⁾

Date Granted	Expiry Date	Number Granted	Exercise Price ⁽⁶⁾	Total Unexercised	Value of Unexercised Options ⁽⁷⁾
December 7, 2005	December 6, 2015	450,000	\$40.44	450,000	Nil
March 10, 2009	March 9, 2019	155,440	\$32.93	155,440	Nil
February 4, 2010	February 3, 2020	685,715	\$33.67	685,715	Nil



Jocelyne M. Côté-O'Hara

Toronto, Ontario, Canada / Director since: January 7, 1997 / Age: 64 / Independent ⁽¹⁾

Jocelyne M. Côté-O'Hara is a Corporate Director. Ms. Côté-O'Hara was a Principal of C²0 & Company, a telecommunications consulting firm, from 1997 to 2002. Ms. Côté-O'Hara is a Director of a number of companies, including Xerox Canada Inc. and The Business, Engineering, Science & Technology Discoveries Fund Inc. In 2008, she was appointed to the Royal Canadian Mounted Police Reform Implementation Council.

Ms. Côté-O'Hara currently is a member of the Audit Committee.

Board and Committee Membership During 2009

Board of Directors

Audit Committee

Selection Committee ⁽⁸⁾

Attendance During 2009

9 of 9 100%

8 of 8 100%

5 of 5 100%

Securities Held

Common Shares ⁽²⁾: 1,000

DCUs ⁽³⁾: 9,244

Total Common Shares and DCUs: 10,244

Total Market Value of Common Shares and DCUs ⁽⁴⁾: \$325,144.56

Options Held ⁽⁵⁾

Date Granted	Expiry Date	Number Granted	Exercise Price ⁽⁶⁾	Total Unexercised	Value of Unexercised Options ⁽⁷⁾
June 23, 2000	June 22, 2010	2,000	\$26.64	2,000	\$10,200
April 24, 2001	April 23, 2011	1,300	\$38.81	1,300	Nil
April 30, 2002	April 29, 2012	1,500	\$33.58	1,500	Nil
April 29, 2003	April 28, 2013	1,400	\$35.81	1,400	Nil



N. Ashleigh Everett

Winnipeg, Manitoba, Canada / Director since: January 7, 1997 / Age: 53 / Independent ⁽¹⁾

N. Ashleigh Everett is Chair of Royal Canadian Properties Limited, a company owning and managing various properties, and President of Royal Canadian Securities Limited, the holding company of Royal Canadian Properties Limited and of Domo Gasoline Corporation, which operates gas stations in western Canada. Ms. Everett is a Director of The Bank of Nova Scotia.⁽⁹⁾

Ms. Everett currently chairs the Governance & Nominating Committee, is a member of the Human Resources & Compensation Committee ("HRCC") and was a member of the Strategic Planning Committee.

Board and Committee Membership During 2009

	Attendance During 2009	
Board of Directors	9 of 9	100%
Governance & Nominating Committee ⁽¹⁰⁾ (Chair)	5 of 5	100%
Human Resources & Compensation Committee	5 of 5	100%
Strategic Planning Committee ⁽¹¹⁾	2 of 2	100%
Selection Committee ⁽⁸⁾⁽¹²⁾	2 of 2	100%

Securities Held

Common Shares ⁽²⁾: 1,600
DCUs ⁽³⁾: 9,366

Total Common Shares and DCUs: 10,966
Total Market Value of Common Shares and DCUs ⁽⁴⁾: \$348,060.84

Options Held ⁽⁵⁾

Date Granted	Expiry Date	Number Granted	Exercise Price ⁽⁶⁾	Total Unexercised	Value of Unexercised Options ⁽⁷⁾
June 23, 2000	June 22, 2010	2,000	\$26.64	2,000	\$10,200
April 24, 2001	April 23, 2011	1,300	\$38.81	1,300	Nil
April 30, 2002	April 29, 2012	1,500	\$33.58	1,500	Nil
April 29, 2003	April 28, 2013	1,400	\$35.81	1,400	Nil



The Honourable Gary A. Filmon, P.C., O.C., O.M.

Winnipeg, Manitoba, Canada / Director since: April 29, 2003 / Age: 67 / Independent ⁽¹⁾

The Honourable Gary A. Filmon is a Corporate Director and Business Consultant. Mr. Filmon was the Premier of the Province of Manitoba from May 1988 to October 1999. Mr. Filmon is a Director and trustee of Arctic Glacier Income Fund, Chair of Exchange Income Corporation and FWS Construction Limited, and a Director of Wellington West Capital Inc. and of Canadian Natural Resources Limited. He also is the Chair of Canada's Security Intelligence Review Committee and was appointed an Officer of the Order of Canada in December 2009.

Mr. Filmon currently chairs the Human Resources & Compensation Committee, is a member of the Governance & Nominating Committee and was a member of the Strategic Planning Committee.

Board and Committee Membership During 2009

	Attendance During 2009	
Board of Directors	9 of 9	100%
Governance & Nominating Committee	5 of 5	100%
Human Resources & Compensation Committee (Chair)	5 of 5	100%
Strategic Planning Committee ⁽¹¹⁾	2 of 2	100%

Securities Held

Common Shares ⁽²⁾: Nil
DCUs ⁽³⁾: 13,754

Total Common Shares and DCUs: 13,754
Total Market Value of Common Shares and DCUs ⁽⁴⁾: \$436,551.96

Options Held ⁽⁵⁾

Date Granted	Expiry Date	Number Granted	Exercise Price ⁽⁶⁾	Total Unexercised	Value of Unexercised Options ⁽⁷⁾
April 29, 2003	April 28, 2013	1,400	\$35.81	1,400	Nil



Gregory J. Hanson, FCA, FCIP, FLMI

Winnipeg, Manitoba, Canada / Director since: May 8, 2007 / Age: 58 / Independent ⁽¹⁾

Gregory J. Hanson is a Corporate Director. From November 1992 to May 2007, Mr. Hanson was President and Chief Executive Officer of The Wawanesa Mutual Insurance Company. Mr. Hanson is a Director of each of The Wawanesa Mutual Insurance Company, The Wawanesa Life Insurance Company, Wawanesa General Insurance Company, James Richardson & Sons Limited, and The Winnipeg Foundation. He is also the 2010 Chair of the United Way Campaign for Winnipeg, Manitoba.

Mr. Hanson currently is a member of the Governance & Nominating Committee and the HRCC.

Board and Committee Membership During 2009

Board of Directors
Governance & Nominating Committee
Human Resources & Compensation Committee

Attendance During 2009

9 of 9 100%
5 of 5 100%
5 of 5 100%

Securities Held

Common Shares ⁽²⁾: Nil
DCUs ⁽³⁾: 6,975

Total Common Shares and DCUs: 6,975
Total Market Value of Common Shares and DCUs ⁽⁴⁾: \$221,386.50

Options Held ⁽⁵⁾

Nil



Kishore Kapoor, CA

Winnipeg, Manitoba, Canada / Director since: May 2, 2006 / Age: 53 / Independent ⁽¹⁾

Kishore Kapoor is President of Wellington West Holdings Inc. From November 2003 to June 2005, Mr. Kapoor was Executive Vice-President Corporate Development of Loring Ward International Ltd., which was formed to hold the U.S. operations of Assante Corporation, a company which provides wealth and asset management services. As one of the founders of Assante Corporation, Mr. Kapoor was its Executive Vice-President Corporate Development from March 1994 to November 2003.

Mr. Kapoor currently is a member of the Audit Committee and was the Chair of the Strategic Planning Committee.

Board and Committee Membership During 2009

Board of Directors
Audit Committee
Strategic Planning Committee (Chair) ⁽¹¹⁾

Attendance During 2009

9 of 9 100%
8 of 8 100%
2 of 2 100%

Securities Held

Common Shares ⁽²⁾: 1,000
DCUs ⁽³⁾: 16,752

Total Common Shares and DCUs: 17,752
Total Market Value of Common Shares and DCUs ⁽⁴⁾: \$563,448.48

Options Held ⁽⁵⁾

Nil



David G. Leith

Toronto, Ontario, Canada / Director since: May 6, 2009 / Age: 50 / Independent ⁽¹⁾

David G. Leith is Chair of each of Manitoba Telecom Services Inc. and MTS Allstream Inc. Mr. Leith is a Director of the Children's Aid Foundation, is a member of the Economic Advisory Panel of the Government of Ontario, and is currently retained as adviser to the Minister of Natural Resources on the restructuring of Atomic Energy of Canada Limited.

Mr. Leith has 25 years of equity, debt, government finance and mergers and acquisitions experience with CIBC World Markets and its predecessors. Until February 2009, Mr. Leith was Deputy Chair of CIBC World Markets and Managing Director and Head of CIBC World Markets' Investment, Corporate and Merchant Banking activities.

Mr. Leith was a member of the Audit Committee until January 8, 2010 when he was appointed Chairman of the Board of Directors, after which he is an ex officio member of all Committees of the Board.

Board and Committee Membership During 2009

Board of Directors (Chair) ⁽¹³⁾
Audit Committee

Attendance During 2009

5 of 5 100%
2 of 2 100%

Securities Held

Common Shares ⁽²⁾: 5,000
DCUs ⁽³⁾: 1,113

Total Common Shares and DCUs: 6,113
Total Market Value of Common Shares and DCUs ⁽⁴⁾: \$ 194,026.62

Options Held ⁽⁵⁾

Nil



Donald H. Penny, C.M., FCA, LL.D.

Wasagaming, Manitoba, Canada / Director since: January 7, 1997 / Age: 70 / Independent ⁽¹⁾

Donald H. Penny is a Corporate Director. Mr. Penny was Chair of Meyers Norris Penny LLP, a professional firm of chartered accountants and business advisors, prior to June 2005. Mr. Penny is Chair of Jovian Capital Corporation.

Mr. Penny currently chairs the Audit Committee.

Board and Committee Membership During 2009

Board of Directors
Audit Committee (Chair)

Attendance During 2009

9 of 9 100%
8 of 8 100%

Securities Held

Common Shares ⁽²⁾: 1,600
DCUs ⁽³⁾: 16,311

Total Common Shares and DCUs: 17,911
Total Market Value of Common Shares and DCUs ⁽⁴⁾: \$ 568,495.14

Options Held ⁽⁵⁾

Date Granted	Expiry Date	Number Granted	Exercise Price ⁽⁶⁾	Total Unexercised	Value of Unexercised Options ⁽⁷⁾
April 24, 2001	April 23, 2011	1,300	\$38.81	1,300	Nil
April 30, 2002	April 29, 2012	1,500	\$33.58	1,500	Nil
April 29, 2003	April 28, 2013	1,400	\$35.81	1,400	Nil



D. Samuel Schellenberg

R.M. of Montcalm, Manitoba, Canada / Director since: August 18, 1989 ⁽¹⁴⁾ / Age: 65 / Independent ⁽¹⁾

D. Samuel Schellenberg is Chief Executive Officer of Pembina Valley Water Cooperative Inc., one of the largest regional water supply systems in Manitoba. Mr. Schellenberg is a member of the board of the Red River Basin Commission.

Mr. Schellenberg currently is a member of the Audit Committee.

Board and Committee Membership During 2009

Board of Directors
Audit Committee
Selection Committee ⁽⁸⁾

Attendance During 2009

9 of 9 100%
8 of 8 100%
5 of 5 100%

Securities Held

Common Shares ⁽²⁾: 2,600
DCUs ⁽³⁾: 9,244

Total Common Shares and DCUs: 11,844
Total Market Value of Common Shares and DCUs ⁽⁴⁾: \$ 375,928.56

Options Held ⁽⁵⁾

Date Granted	Expiry Date	Number Granted	Exercise Price ⁽⁶⁾	Total Unexercised	Value of Unexercised Options ⁽⁷⁾
June 23, 2000	June 22, 2010	2,000	\$26.64	2,000	\$10,200
April 24, 2001	April 23, 2011	1,300	\$38.81	1,300	Nil
April 30, 2002	April 29, 2012	1,500	\$33.58	1,500	Nil
April 29, 2003	April 28, 2013	1,400	\$35.81	1,400	Nil



Carol M. Stephenson, O.C.

London, Ontario, Canada / Director since: May 22, 2008 / Age: 59 / Independent ⁽¹⁾

Carol M. Stephenson is the Dean of the Richard Ivey School of Business at The University of Western Ontario, a position she has held since July 2003. Prior to this appointment, she worked for more than 30 years in the telecommunications and technology industries, most recently as President and Chief Executive Officer of Lucent Technologies Canada from July 1999 to February 2003. Ms. Stephenson serves as a Director of Intact Financial Services Inc., General Motors Company and was appointed an Officer of the Order of Canada in December 2009. Ms. Stephenson is the 2010 Chair of the United Way Campaign for London & Middlesex, Ontario.

Ms. Stephenson currently is a member of the Governance & Nominating Committee and the HRCC.

Board and Committee Membership During 2009

Board of Directors
Governance & Nominating Committee
Human Resources & Compensation Committee

Attendance During 2009

9 of 9 100%
5 of 5 100%
5 of 5 100%

Securities Held

Common Shares ⁽²⁾: 1,000
DCUs ⁽³⁾: 6,012

Total Common Shares and DCUs: 7,012
Total Market Value of Common Shares and DCUs ⁽⁴⁾: \$ 222,560.88

Options Held ⁽⁵⁾

Nil

- (1) "Independent" refers to the standards of independence established under section 1.2 of National Instrument 58-101 *Disclosure of Corporate Governance Practices* adopted by the Canadian securities regulatory authorities.
- (2) "Common Shares" refers to the number of Common Shares of the Corporation beneficially owned, or over which control or direction is exercised, by the nominee as at March 17, 2010.
- (3) "DCUs" refers to the number of deferred compensation units held by the nominee as at March 17, 2010 under the Directors Share Appreciation Plan as described in "Directors' Share Ownership". In the case of Pierre J. Blouin, "PSUs" refers to the number of performance share units held by Mr. Blouin under the Corporation's

Performance Share Unit Plan, and “RSUs” refers to the number of restricted share units held by him under the Corporation’s Restricted Share Unit Plan as at March 17, 2010. Mr. Blouin does not participate in the Directors Share Appreciation Plan.

- (4) “Total Market Value of Common Shares and DCUs” is determined by multiplying the number of Common Shares and DCUs held by each nominee as at March 17, 2010 by the closing price of the Common Shares on The Toronto Stock Exchange (“TSX”) on that date (\$31.74). In the case of Pierre J. Blouin, “Total Market Value of Common Shares, PSUs and RSUs” is the sum of (i) the number of Common Shares held by him as at March 17, 2010 multiplied by the closing price of the Common Shares on the TSX on that date (\$31.74), and (ii) the number of PSUs and RSUs held by him as at March 17, 2010 multiplied by the weighted average of the trading prices of the Common Shares on the TSX on the five consecutive trading days preceding March 17, 2010 (\$32.31).
- (5) “Options” refers to the number of unexercised options held by the nominee. The granting of options to Directors under the Stock Option Plan, other than to the Chief Executive Officer, was discontinued in 2004.
- (6) “Exercise Price” is equal to the weighted average of the trading prices of the Common Shares on the TSX on the five consecutive trading days preceding the date of grant.
- (7) “Value of Unexercised Options” is calculated by multiplying the number of unexercised options held by the nominee as at March 17, 2010 by the positive difference between the closing price of the Common Shares on the TSX on March 17, 2010 (\$31.74) and the exercise price of such options, if any.
- (8) The Selection Committee was established to review the governance and establish the criteria and process for selecting a successor Chair, as well as execute the process to select a Chair. The Chair was selected in December 2009 and accordingly the Committee was disbanded effective December 2, 2009.
- (9) N. Ashleigh Everett was, prior to April 2005, a Director and officer of Tereve Holdings Ltd., which filed for creditor protection under the *Companies’ Creditors Arrangement Act* (Canada) in August 2005.
- (10) N. Ashleigh Everett was appointed Chair of the Governance & Nominating Committee effective January 9, 2010.
- (11) The Strategic Planning Committee was disbanded effective September 30, 2009. The matters typically requiring consideration by this Committee were assumed by the appropriate existing Committees and the Board.
- (12) N. Ashleigh Everett was appointed to the Selection Committee effective May 6, 2009 (see Note 8).
- (13) David G. Leith was elected as a Director on May 6, 2009. He was elected by the Directors as Chair of the Board effective January 8, 2010.
- (14) D. Samuel Schellenberg was a member of the Board of Commissioners of The Manitoba Telephone System prior to January 7, 1997, the date on which The Manitoba Telephone System ceased to be a Crown corporation and was continued as a publicly-traded company under the name Manitoba Telecom Services Inc. The date specified for Mr. Schellenberg becoming a Director is the date when he first became a member of the Board of Commissioners.

Attendance Record for Directors Not Standing for Re-election

Thomas E. Stefanson retired as Chairman of the Board, effective January 8, 2010. He attended all meetings in 2009 of the Board of Directors and all meetings of the HRCC, the Governance & Nominating Committee, the Strategic Planning Committee and the Selection Committee of which he was a member.

Arthur R. Sawchuk retired from the Board May 6, 2009. He attended all meetings held in 2009 during which he was a Director of the Board of Directors and all meetings of the Governance & Nominating Committee and the HRCC.

James S.A. MacDonald retired from the Board May 6, 2009. He attended all meetings in 2009 (except for two which were held March 10, 2009 and May 5 and 6, 2009) during which he was a Director of the Board of Directors and all meetings of the Audit Committee and Strategic Planning Committee.

11. APPOINTMENT OF AUDITORS

You are being requested to vote for the appointment of Deloitte & Touche LLP, Chartered Accountants of Winnipeg, Manitoba, as auditors of the Corporation until the next annual meeting of shareholders, at remuneration to be determined by the Board of Directors. Deloitte & Touche LLP have been the auditors of the Corporation for more than five years.

Unless instructed otherwise, the persons designated in the enclosed form of proxy intend to vote for the appointment of Deloitte & Touche LLP, Chartered Accountants, as auditors of the Corporation.

All services provided by the Corporation's auditors are pre-approved by the Audit Committee and comply with the Corporation's *Auditor Independence Policy*. The aggregate amounts paid or accrued with respect to fees paid to Deloitte & Touche LLP for services related to the financial years ended December 31, 2009 and 2008 are as follows:

(In thousands \$)	2009	2008
Audit Fees	900	900
Audit related fees ⁽¹⁾	600	700
Tax fees	100	0
All other fees ⁽²⁾	200	200
Total	1,800	1,800

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

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

12. AMENDMENT OF BY-LAWS

By-Laws No 1, 2 and 3 of the Corporation (collectively the "By-Laws"), which were last amended in 2007, require housekeeping updates to ensure they remain consistent with changes to statutory and regulatory requirements implemented over the last few years and to reflect the current organizational structure of the Corporation.

These updates are reflected in an amendment to the By-Laws, a comprehensive description of which is provided in Schedule "A" to this Management Proxy Circular (the "By-Law Amendments"). By resolution passed by the Board of Directors on March 4, 2010, the By-Law Amendments were approved. The Board of Directors believes that the By-Law Amendments are in the best interests of the shareholders and the Corporation. The Corporation believes that none of these changes are material, and that all of these changes support the objective of good governance and best practices. The Corporation recommends that you vote in favour of the By-Law Amendments.

To be effective, the majority of the votes cast by shareholders present in person or by proxy at the Meeting must be in favour of this resolution. If the shareholders do not confirm the By-Law Amendments at the Meeting, the amended By-Laws will revert to their original language.

Unless otherwise instructed, the persons designated in the enclosed form of proxy intend to vote for the confirmation of the By-Law Amendments.

COMPENSATION AND OTHER INFORMATION

13. COMPENSATION OF DIRECTORS

Standard Director Compensation Arrangements

The Chair and the Directors, other than the Chief Executive Officer, are compensated for duties performed as members of the Board of Directors. The Governance & Nominating Committee of the Board reviews and benchmarks the compensation paid to Directors on an annual basis, and makes recommendations to the Board regarding changes when considered appropriate or necessary to attract and retain skilled and qualified Directors, and to recognize the workload and responsibility associated with Directors' duties. The following table sets out the standard compensation arrangements that were in effect during the financial year ended December 31, 2009.

Retainer	Compensation (1) (2) (3) (\$)
Director annual retainer	120,000
Committee Chair annual retainer	
Audit Committee	55,000
Human Resources & Compensation Committee	20,000
Governance & Nominating Committee	20,000
Strategic Planning Committee ⁽⁴⁾	30,000
Selection Committee ⁽⁵⁾	0
Chair annual retainer	275,000
Strategic Planning Committee Member Annual Retainer ⁽⁶⁾	4,500
Strategic Planning Committee Member Meeting Attendance Fee	1,500
Selection Committee Member Annual Retainer ⁽⁷⁾	6,000
Selection Committee Member Meeting Attendance Fee	1,500

(1) Directors are reimbursed for travel and other out-of-pocket expenses incurred in attending Board and Committee meetings.

(2) The Director annual retainer does not apply to the Board Chair. If the Board Chair chairs a Committee, the Committee Chair annual retainer for such position is not payable, and is deemed to be included in the Chair annual retainer.

(3) These amounts include the market value of all DCUs that a Director is required or elects to receive as part of the payment of the Director's compensation.

(4) Compensation for the Chair of the Strategic Planning Committee was set at \$40,000, however the Committee was disbanded effective September 30, 2009, and thus only \$30,000 of the annual retainer was paid as compensation.

(5) The Chair of the Selection Committee was the Chair of the Board and thus did not receive additional compensation.

- (6) The Strategic Planning Committee Member Annual Retainer was set at \$6,000, however the Committee was disbanded effective September 30, 2009, and thus only \$4,500 was paid as compensation for the 9 month period.
- (7) The Selection Committee was disbanded effective December 2, 2009.

The Director compensation arrangements also provide that if a Director is requested to serve on an additional Committee of the Board or if special service is required from time to time, the Governance & Nominating Committee will determine the additional compensation that will be paid to the Director in respect of such service.

Director Compensation Table

The following table sets out the total compensation paid to each Director, excluding the Chief Executive Officer, during the financial year ended December 31, 2009 based on the standard compensation arrangements described above.

Name	Fees earned as Cash ⁽¹⁾ (\$)	Fees earned as DCUs ⁽²⁾ (\$)	Total Cash and DCUs (\$)	All other compensation ⁽³⁾ (\$)	Total ⁽⁴⁾ (\$)
Jocelyne M. Côté-O'Hara	103,500	30,000	133,500	5,467	138,967
N. Ashleigh Everett	105,000	30,000	135,000	5,560	140,560
The Honourable Gary A. Filmon	59,500	88,000	147,500	6,277	153,777
Gregory J. Hanson	30,000	90,000	120,000	6,439	126,439
Kishore Kapoor	0	153,000	153,000	4,852	157,852
David G. Leith ⁽⁵⁾	47,758	35,646	83,404	3,600	87,004
Donald H. Penny	145,000	30,000	175,000	5,710	180,710
D. Samuel Schellenberg	103,500	30,000	133,500	5,522	139,022
Thomas E. Stefanson	125,000	157,500	282,500	10,030 ⁽⁶⁾	292,530
Carol M. Stephenson	0	120,000	120,000	3,600	123,600

- (1) This compensation was paid on the last day of each quarter during the year, except for a portion of Mr. Stefanson's annual retainer in the amount of \$125,000, which was paid in cash on a bi-weekly basis.
- (2) This compensation was credited on the last day of each quarter during the year. The share-based awards are the DCUs that Directors were required or elected to receive as part of the payment of their Director annual retainers and meeting attendance fees. The value of these DCUs is the market value of the DCUs on the dates that they were awarded to the Directors. See "Directors' Share Appreciation Plan" below.
- (3) The other compensation specified consists of the sum of the allowance and value of telecommunications services and products provided at the Corporation's expense to the Directors during 2009, as described in "Provision of Telecommunications Products and Services" below.
- (4) This total compensation does not include travel and other out-of-pocket expenses incurred by a Director in attending meetings of the Board of Directors and its Committees for which the Director receives reimbursement from the Corporation.
- (5) Mr. Leith was elected as a Director on May 6, 2009.
- (6) Includes certain matters in addition to those described in the "provision of Telecommunications Products and Services," below.

Directors' Share Ownership

Directors participated in the Corporation's Stock Option Plan until 2004, at which time the Board of Directors determined that the grant of stock options to Directors would be discontinued. At the same time, the Board of Directors determined that each Director would be required to maintain a minimum ownership level of securities and share-based units of the Corporation. The Board of Directors believes that ownership by Directors is an important component in demonstrating both commitment to the Corporation and alignment with the interests of shareholders. The minimum ownership level applicable to Directors currently is three times the Director annual retainer. This minimum ownership level must be achieved by March 2012 in the case of a Director who was elected to the Board of Directors prior to March 2007, and in the case of a Director who was elected after March 2007, this minimum ownership level must be achieved within five years of becoming a Director. The Directors either hold, or are in the process of satisfying, the required ownership level. However, the market value of the Common Shares, like the market in general, declined significantly during 2008 and 2009 and they have not yet recovered to the pre-2008 levels when Directors' holdings exceeded the required ownership level.

Directors' Share Appreciation Plan

Directors are required to receive part of the payment of their Director annual retainer and meeting attendance fees in the form of DCUs that are credited to a Director in accordance with the provisions of a plan designed to link Directors' compensation with the value of the Corporation's Common Shares (the "Directors' Share Appreciation Plan"). Effective January 1, 2009, Directors agreed that they would be required to receive at least \$30,000 of their retainer fees in the form of DCUs but could elect to receive DCUs in excess of this amount. For the purpose of determining the number of DCUs to be credited to a Director as part of the Director compensation, the calculation is based on the weighted average of the trading prices of the Common Shares on the TSX on the five consecutive trading days preceding the date on which the DCU is credited. DCUs attract dividends in the form of additional DCUs at the same rate as dividends on the Common Shares.

A Director may not convert DCUs received as part of his or her compensation to cash until the Director ceases to be a member of the Board of Directors. Prior to February 2009, the cash value of a Director's DCUs on the Director's termination date was calculated on the basis of the weighted average of the highest trading prices of the Common Shares on the TSX on any five trading days during the period commencing 20 days prior to the Director's termination date and ending on the tenth day following the termination date. In February 2009, effective May 1, 2009, the formula for calculating the value of the DCUs held by a Director who ceases to be a member of the Board of Directors was amended. Under the new formula the cash value of the DCUs is the weighted average of the highest trading prices of the Common Shares on the TSX on any five trading days during a 30-day period that falls within one year from the Director's termination date and that is designated by the Director by way of a notice provided to the Corporation prior to the commencement of the designated 30-day period. Where the Director does not designate a 30-day period, the applicable period will be the last 30 days in the one-year period following the Director's termination date.

In 2009 following their respective retirements from the Board of Directors, Arthur Sawchuk and James MacDonald converted their DCUs to cash.

The following table sets out all outstanding option-based awards and share-based awards of each current Director (excluding the Chief Executive Officer) as at December 31, 2009.

Name	Option-based Awards				Share-based Awards	
	Number of Securities Underlying Unexercised Options ⁽¹⁾ (#)	Option Exercise Price ⁽²⁾ (\$)	Option Expiration Date	Value of Unexercised in-the-money Options ⁽³⁾ (\$)	Number of Shares or Units that have not Vested ⁽⁴⁾ (#)	Market or Payout Value of Share-based Awards that have not vested ⁽⁵⁾ (\$)
Jocelyne M. Côté-O'Hara	2,000	\$26.64	June 22, 2010	13,720		
	1,300	\$38.81	April 23, 2011	Nil		
	1,500	\$33.58	April 29, 2012	Nil	9,244	309,674
	1,400	\$35.81	April 28, 2013	Nil		
N. Ashleigh Everett	2,000	\$26.64	June 22, 2010	13,720		
	1,300	\$38.81	April 23, 2011	Nil		
	1,500	\$33.58	April 29, 2012	Nil	9,366	313,761
	1,400	\$35.81	April 28, 2013	Nil		
The Honourable Gary A. Filmon	1,400	\$35.81	April 28, 2013	Nil	13,754	460,759
Gregory J. Hanson ⁽⁶⁾	Nil	Nil	Nil	Nil	6,975	233,663
Kishore Kapoor ⁽⁶⁾	Nil	Nil	Nil	Nil	16,752	561,192
David G. Leith ⁽⁶⁾	Nil	Nil	Nil	Nil	1,113	37,285
Donald H. Penny	1,300	\$38.81	April 23, 2011	Nil		
	1,500	\$33.58	April 29, 2012	Nil	16,311	546,419
	1,400	\$35.81	April 28, 2013	Nil		
Samuel D. Schellenberg	2,000	\$26.64	June 22, 2010	13,720		
	1,300	\$38.81	April 23, 2011	Nil		
	1,500	\$33.58	April 29, 2012	Nil	9,244	309,674
	1,400	\$35.81	April 28, 2013	Nil		
Thomas E. Stefanson	Nil	Nil	Nil	Nil	29,357	983,459
Carol M. Stephenson ⁽⁶⁾	Nil	Nil	Nil	Nil	6,012	201,402

(1) Each option entitles the holder to acquire one Common Share of the Corporation.

(2) The exercise price of an option is equal to the weighted average of the trading prices of the Common Shares of the Corporation on the TSX on the five consecutive trading days preceding the date of grant.

(3) An option is in-the-money at year end if the market value of the underlying securities as at that date exceeds the exercise price of the option. The closing price on the TSX of the Common Shares as at December 31, 2009 was \$33.50.

(4) The number of share-based awards specified represents the aggregate DCUs held by each Director as at December 31, 2009, including DCUs that were earned in prior years and including accrued dividend equivalents that were earned on the DCUs.

(5) The market value shown is calculated by multiplying the number of DCUs held as at December 31, 2009 by the closing price of the Common Shares on the TSX as at that date, which was \$33.50.

(6) The Director was elected after the date the Board of Directors ceased granting options in 2004.

The following table describes the aggregate value that would have been realized by those persons who were Directors in 2009 (excluding the Chief Executive Officer) if option-based awards that vested during the year had been exercised on the vesting date. This table also shows the value that would have been realized if the share-based awards consisting of DCUs earned during 2009, had been converted to cash.

Name	Option-based Awards Value Vested during the Year ⁽¹⁾ (\$)	Share-based Awards Value Vested during the Year ⁽²⁾ (\$)
Jocelyne M. Côté-O'Hara	Nil	52,057
N. Ashleigh Everett	Nil	52,360
The Honourable Gary A. Filmon	Nil	118,518
Gregory J. Hanson	Nil	104,729
Kishore Kapoor	Nil	190,444
David G. Leith	Nil	36,970
James S.A. MacDonald	Nil	59,992
Donald H. Penny	Nil	69,570
Arthur R. Sawchuk	Nil	29,709
Samuel D. Schellenberg	Nil	52,057
Thomas E. Stefanson	Nil	225,820
Carol M. Stephenson	Nil	131,492

- (1) Stock options vest in increments of 20% per year commencing on the first anniversary of the date of grant. The amounts specified represent the value, on the vesting date, of the 20% increment of the stock options that vested during 2009, where the market value of such vested stock option increment on the vesting date exceeds the exercise price of the option. There were no options that vested in 2009.
- (2) The amounts specified represent the market value of the DCUs earned as part of the Directors annual retainer and the accrued dividend equivalents on the dates that the DCUs and the accrued dividend equivalents were earned during 2009. Although the DCUs cannot be converted to cash until the Director ceases to be a Director, the amounts specified have been calculated as though the DCUs had vested and been converted to cash as at the dates on which they were earned.

Provision of Telecommunications Products and Services to Directors

The Board of Directors adopted a replacement telecommunications policy that entitles non-management Directors to receive cash allowance of \$7,200 per annum for the purposes of obtaining required telecommunications services and certain other products and services. Those Directors who are unable to obtain such services from the Corporation or its subsidiaries because they are unavailable or the Director resides outside the area services by the Corporation may obtain their telecommunication services from other providers. This entitlement is available to all Directors while serving on the Board of Directors. Those Directors, who have retired from the Board of Directors after serving three or more years, will continue to be entitled to this benefit for a period equal to one year of benefits for each three full years of service on the Board of Directors. This policy implementing the

cash payment became effective July 1, 2010. The value of the entitlement received by the Directors for the period January 1 to June 30, 2009 was equal to the cost of services actually used by such Directors during that period.

Director Meeting Attendance

An annual schedule is established in advance of each year which outlines the meetings of the Board and its Committees that will be held throughout the next calendar year. Directors are expected to attend these scheduled meetings in person, and if a Director fails to do so, the Director will be penalized unless excused from attending by the Chair for reasons such as health, or if the Director had indicated that he or she will be unable to attend a particular meeting at the time that the annual schedule of Board and Committee meetings is established.

14. REPORT OF THE HUMAN RESOURCES & COMPENSATION COMMITTEE

In keeping with best practices, the Human Resources & Compensation Committee ("HRCC") is composed entirely of independent Directors who, under the HRCC's Charter, must be knowledgeable about issues related to human resources and compensation, particularly executive compensation. All committee members are knowledgeable in these areas. Their experience is described in Section 10, Director Nominees.

The HRCC met five times during the fiscal year ended December 31, 2009 and the following individuals served as members during this period:

The Honourable Gary A. Filmon (Chair)	Carol M. Stephenson
N. Ashleigh Everett	Thomas E. Stefanson
Gregory Hanson	

The HRCC's agenda for each meeting is set at the beginning of the year. The following table highlights some of the key agenda items discussed during fiscal 2009.

Agenda Items	February 2009	March 2009	May 2009	November 2009	December 2009
Annual review of HRCC Objectives		✓			
Annual review of HRCC Charter		✓			
Compensation of Senior Management	✓	✓			
CEO and Executive Performance	✓		✓		
Succession Planning of Executives ⁽¹⁾					✓
Proxy Disclosure		✓			
Compensation Framework Review (including benefits)					✓

- (1) Accountability for CEO succession planning rests with the Governance & Nominating Committee and is reviewed periodically by the Board of Directors.

The HRCC can conduct all or part of any meeting in the absence of management and the committee holds an in camera session at each regularly scheduled HRCC meeting. When making compensation decisions, the HRCC considers the following factors:

- Business strategy and achievements;
- Market analysis;
- Reports provided by management;
- Reports provided by the HRCC's external advisor;

- Long-term interests of the Corporation and its shareholders; and
- Best practices and trends in issues relating to human resources, talent management, and compensation.

The HRCC undertook a number of key activities in 2009, including:

- setting performance objectives for the CEO which encourage the Corporation's long term financial success and measure the CEO's performance against these objectives;
- Working with an external advisor to set competitive compensation packages that meet the Corporation's hiring, retention, and performance objectives;
- Determining the recommended compensation for the CEO;
- Approving the executive compensation program for the Corporation's executives;
- Reviewing candidates for CEO and Senior Executive Team succession with the Board as part of the succession planning process; and
- Overseeing the selection, evaluation, development, and compensation of other members of senior management.

For the past several years, an external advisor, Mercer (Canada) Limited ("Mercer"), has been engaged by the HRCC as its advisor on executive compensation and governance issues and has helped keep the HRCC current with best practices and trends in these areas. As the external advisor, Mercer's accountabilities to the HRCC include:

- Provide advice and counsel on meeting content, management's recommendations and governance trends to the Chair of the committee in advance of each meeting;
- Review management's recommendations for Senior Executive's compensation and provide advice to the HRCC on management's recommendations;
- Assist the Chair in developing total direct compensation recommendations for the CEO;
- Proactively raise relevant compensation issues to the attention of the HRCC Chair for discussion;
- Present executive compensation and governance trends to the full HRCC;
- Review compensation-related materials for each meeting;
- Undertake special projects at the request of the HRCC Chair; and
- Be available to attend in person or by conference call HRCC meetings.

15. EXECUTIVE COMPENSATION DISCUSSION AND ANALYSIS

Named Executive Officers

The Corporation's named executive officers (the "NEOs") for the 2009 financial year are:

- Pierre J. Blouin, Chief Executive Officer of each of Manitoba Telecom Services Inc. and MTS Allstream Inc.
- Wayne S. Demkey, CA, Chief Financial Officer of each of Manitoba Telecom Services Inc. and MTS Allstream Inc.
- Kelvin A. Shepherd, PEng., President, MTS, of MTS Allstream Inc.
- Dean L. Prevost, President, Allstream, of MTS Allstream Inc.
- Paul C. Frizado, PEng., Chief Technology & Information Officer of MTS Allstream Inc.

External Human Resources and Compensation Advisor

The Corporation has engaged Mercer as an external advisor to the HRCC, as described in Section 14 above. In addition to this mandate, Mercer provided general health and benefits consulting services to the Corporation. During 2009, the Corporation paid Mercer fees in the amounts of \$60,665 on account of consulting services provided by Mercer in relation to the Corporation's executive and Director compensation programs and \$18,007 for consulting services in relation to health and benefits matters.

Compensation Philosophy and Objectives

The Corporation's executive compensation program is principally performance-based. Incentive plans are reviewed against annual corporate objectives and against the performance of peer companies. Shorter-term cash compensation, such as base salary and annual variable pay incentives, is driven by individual performance as well as by divisional and corporate financial and operating results for the preceding year. Longer-term incentives, such as performance share units ("PSUs"), restricted share units ("RSUs") and stock options, reflect the future value that individuals are expected to contribute to the Corporation, and are awarded in amounts consistent with performance and the Corporation's expectations of their future potential. These incentives also serve as important retention vehicles. Share ownership guidelines further align the interests of executives with shareholder interests.

The compensation program is integrated with the Corporation's talent and succession management program. The Corporation actively tracks and manages its high-potential talent and leadership pool. This allows the Corporation to provide development opportunities and promote common corporate values. Talent management goals are part of the performance objectives of senior executives to ensure that talent development is given meaningful sponsorship within the Corporation.

The objective of the Corporation's compensation program is to attract, retain and motivate high performing executives to create sustainable shareholder value over the long term. To achieve this, the executive compensation program is designed based on the following principles:

- **Align with the Corporation's strategy** – link executive compensation with the achievement of specific strategic business objectives and the Corporation's performance as a whole;
- **Align to shareholder interests** – align the interests of management with those of shareholders through: 1) the use of equity awards which increase or decline in value as the share price changes; and, 2) in the case of executives, maintain minimum share ownership levels;
- **Corporate governance** – as appropriate for the Corporation, adopt executive compensation practices that align to current general industry and peer group best practices;
- **Pay for performance** – align with the Corporation's desire to create a performance and development culture and establish a direct relationship between pay and performance;
- **Pay competitively** – set overall target compensation to ensure it remains relevant to the markets in which the Corporation competes.

Compensation Structure and Mix

The focus of the Corporation's compensation program for NEOs and other executives is total rewards, or the sum of all compensation provided to executives. The main components of the total rewards structure are base salary, annual variable pay plan ("VPP"), PSUs, RSUs, stock options, benefits, perquisites and pensions. Each component is described in detail below.

The policies adopted by the Corporation for determining the allocation of compensation of NEOs and executives between cash and

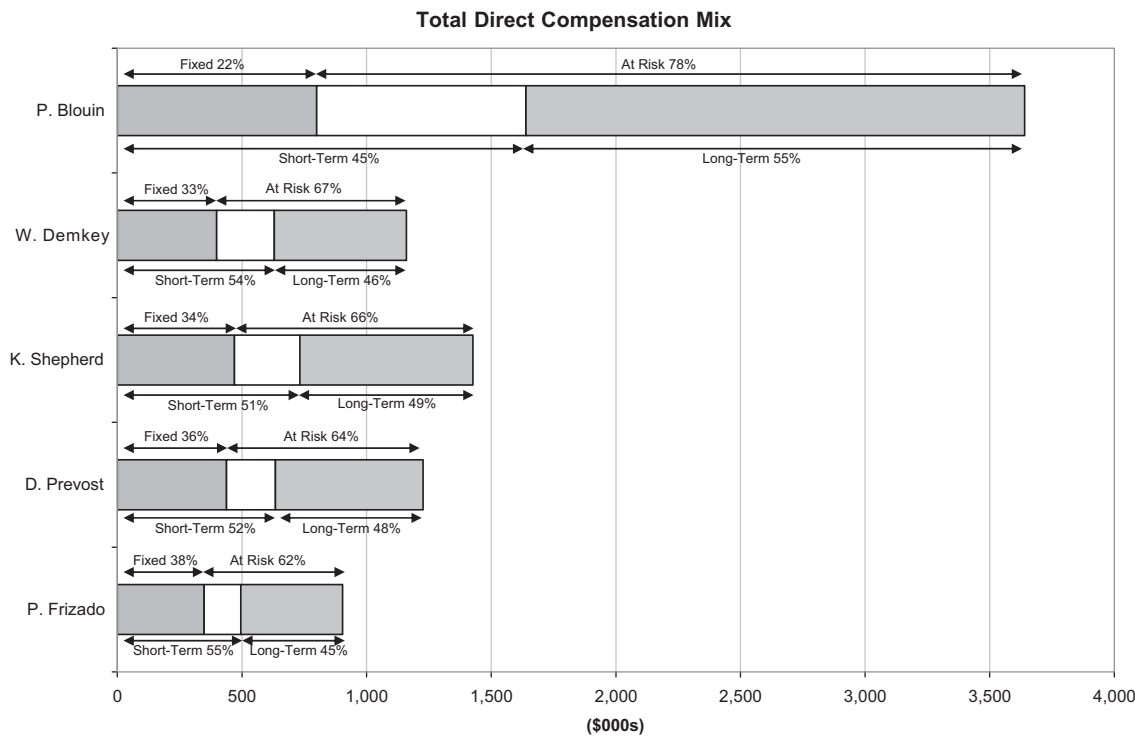
non-cash, short-term and long-term, and fixed and non-fixed components are based on the following:

- (a) Regular reviews of competitive benchmarks and practices with peer groups are undertaken;
- (b) In structuring the compensation programs, the HRCC considers market comparison information provided by multiple independent remuneration surveys conducted by Mercer and other professional compensation firms;
- (c) Regular business performance reviews are completed and compared against competitive benchmarks and peer groups;

- (d) A significant proportion of pay is at risk through incentives such as PSUs, RSUs and stock options and an annual cash variable pay plan; and
- (e) Compensation mix policy guidelines vary by executive level, which reflects the impact that executives can have on the Corporation's results.

The Corporation's compensation mix for NEOs provides for a significant portion of pay to be at risk and subject to performance.

The following chart outlines the average compensation mix for NEOs in 2009:



Market Positioning and Benchmarking

The Corporation established a compensation philosophy to target the pay of its executives relative to 12 Canadian telecommunications companies and a general industry comparison group of 19 companies for the CEO, Chief Financial Officer (“CFO”) and division Presidents and the CTIO. The market competitiveness of the Corporation’s executive compensation program, and each major component, consisting of base salary, annual incentives and long-term incentives, was assessed, to the extent possible, relative to the comparator groups.

Two relevant comparator groups were formed in 2008: the “Canadian Communications Comparator Group” and the “General Industry Comparator Group”, both as described below. In accordance with best practices, the Corporation will again undertake a benchmarking and market analysis compensation review in 2010. When setting compensation levels, each of these two comparator groups was assigned a 50 / 50 weighting.

Canadian Communications Comparator Group

List of Companies	Description
BCE Inc.; Rogers Communications; Quebecor Inc.; TELUS Corp.; Thomson Corp.; CGI (Groupe) Inc.; Shaw Communications; CanWest Global Com.; Aliant Inc.; Yellow Pages Income Fund; Torstar Corp.; Alliance Atlantis Communications Inc.	Includes 12 companies in the communications industry in Canada. Revenues range from ~ \$1 billion to ~ \$18 billion and enterprise value from ~ \$1 billion to ~ \$30 billion

The companies above were included in the Canadian Communications Comparator Group because the Corporation needs to attract and retain key talent and the Corporation primarily competes for key talent with the Canadian telecommunications companies. Because these companies are larger in size than the Corporation, and the sample size is too small to effectively benchmark compensation, the Corporation added to this group Canadian information technology and media companies that are of the Corporation size with which the Corporation also competes for key talent.

General Industry Comparator Group

List of Companies	Description
Potash Corporation of Saskatchewan Inc.; IPSCO Inc.; Saskatchewan Wheat Pool; Atco Ltd.; IGM Financial Inc.; Fortis Inc.; Transcontinental Inc.; Canadian Utilities; Methanex Corp.; Gaz Metropolitan; WestJet Airlines Ltd.; Penn West Petroleum Ltd.; Dorel Industries; CI Financial Inc.; MDS Inc.; First Quantum Minerals Ltd.; Emera Inc.; Precision Drilling Corp.; Biovail Corp.	Includes 19 companies of similar range in size, revenues and enterprise values to the Corporation in the Canadian marketplace. This group has been supplemented with companies from Western Canada to provide regional context

The companies above were included in the General Industry Comparator Group to provide compensation benchmarking information that has both a national and a western region focus. These companies are also similar in size to the Corporation, and the western region benchmarks provide information that is generally relevant to the Corporation's MTS operations.

Total compensation levels are targeted at the median of the market for median performance, or at the 60th percentile of the market for 60th percentile performance. Sixtieth percentile performance reflects the achievement of internal goals that are above the annual business plan goals. Compensation for high-performing executives is positioned competitively with executives in similar roles at other comparator group companies. However, the pay policy incorporates sufficient flexibility to pay above or below median, as required, to reflect different business needs (such as business unit requirements), talent (such as high potential individuals), and developing skill sets and competencies. Base salary generally will reflect the market median, with individual base salaries established according to both job scope and incumbent qualifications. Guidelines for awards to executives under mid-term and long-term incentive plans are established by the HRCC with input from the CEO and the Chief Human Resources Officer.

The following table summarizes the annual incentive calculation.

Base Salary	x	VPP Target	x	Performance Factors	=	Annual Incentive
Varies by market competitiveness and individual qualifications, experience and performance		Varies by level in the organization		Business <ul style="list-style-type: none"> Weightings vary by level and business Corporate performance = consolidated revenues and EBITDA⁽¹⁾ Divisional performance = divisional revenues, EBITDA and customer satisfaction Adjustment range = 0% to 200% of target Individual <ul style="list-style-type: none"> Varies by individual, and based on strategic, financial, operational and personal development goals Adjustment Range = 0% to 200% of target 		Payout ranges from 0% to specific maximum

(1) Some of the non-GAAP financial terms used herein (such as EBITDA and continuing operations) are defined in the Corporation's Annual MD&A.

Compensation Elements

Base Salary

Compensation Component	Applies to	Performance Period	How Determined
Base Salary	All employees	1 year	Based on market competitiveness and individual qualifications, experience and performance

Base salary compensates employees for the role they perform for the Corporation. Base salaries are benchmarked externally against comparable roles in comparator group companies and internally against similar roles. Salaries then are adjusted for individual employee qualifications, experience and performance. Salaries are reviewed at least once a year, and any salary adjustments are typically implemented effective April 1st.

Shorter-Term Incentive

Compensation Component	Incentive Type	Applies To	Performance Period	How Determined
Annual VPP	Short-term	All executives and various other employees	1 year	Target awards are based on market competitiveness. Actual awards are based on corporate, divisional and individual performance

The annual VPP provides NEOs and other executives with the opportunity to earn cash incentives based on the achievement of predetermined annual corporate, divisional and individual performance objectives. VPP target awards vary as a percentage of base salary, and are benchmarked on a regular basis to ensure that the Corporation's range of possible awards is similar to comparator group companies. Certain minimum corporate, divisional and/or individual performance thresholds must be achieved before any payments under the VPP are made. The maximum incentive that is achievable under the VPP for exceeding business and individual performance objectives varies by level in the organization.

The following table outlines the 2009 VPP target, maximum and business performance weightings for each of the NEOs.

Executive Position	VPP Target (as a % of base salary)	VPP Maximum (as a % of base salary)	Weightings		
			Financial Consolidated	Customer Satisfaction	Strategic & Personal Including Divisional Metrics
Pierre J. Blouin	85%	170%	50%	10%	40%
Wayne S. Demkey	60%	90%	50%	15%	35%
Kelvin A. Shepherd	65%	97.5%	50%	10%	40%
Dean L. Prevost	65%	97.5%	50%	10%	40%
Paul C. Frizado	50%	75%	50%	15%	35%

To encourage cooperation and common priorities across the various businesses, the weightings for the NEOs are based largely on corporate results. Corporate performance measures from continuing operations for the 2009 VPP consisted of EBITDA (which the Corporation defines as earnings before interest, taxes, amortization and other income (expense)) and revenues. Customer satisfaction measures pertaining to the two operating divisions were also a factor. For division Presidents, divisional performance measures from

continuing operations consisted of EBITDA, revenues and customer satisfaction measures pertaining to the Corporation's two operating divisions.

VPP incentives normally are paid to employees in February following the performance year. The Summary Compensation Table sets out further details regarding the VPP incentives paid to the NEOs.

The following table summarizes the forms of longer term incentives issued by the Corporation.

Compensation				
Component	Incentive Type	Applies To	Performance Period	How Determined
PSUs	Mid-term	Vice-Presidents and above	Maximum 3 years with vesting at end of period subject to the Corporation achieving certain financial and operating targets	Awarded annually based on sustained individual performance and potential, market competitiveness and business performance. Final payout value is as described under "PSU Plan" below
RSUs	Mid-term	Vice-Presidents and above, and select director level employees	Maximum 3 years with 100% vesting at end of period	Awarded annually based on sustained individual performance and potential, and market competitiveness. Final payout value is as described under "RSU Plan" below
Stock Options	Long-term	Vice-Presidents and above	20% vesting per year, expiring a maximum of 10 years from the date of grant	Awarded annually based on sustained individual performance, potential, and market competitiveness. Value based on the difference between Common Share price at time of exercise and price at time of grant

PSU, RSU and Stock Option Mix

The Corporation first made grants of PSUs in 2005, pursuant to the PSU Plan that was implemented in December 2004, and grants of RSUs in 2007, pursuant to the RSU Plan that was implemented in 2007. Before that, the NEOs and other executives received all of their longer term incentives in the form of stock options. The number of stock option grants was reduced significantly starting in 2005 with the introduction of the PSU Plan. Only the most senior executives, including the NEOs, who have the greatest impact on the Corporation's longer-term performance, receive a greater portion of their longer-term compensation in stock options. For 2009, the mix of RSUs and PSUs to stock options varies by level as follows:

- The CEO's LTI Target = 250% of Base Salary, and in 2009 he received 70% in PSUs and RSUs, and 30% in stock options;
- The CFO's LTI Target = 125% of Base Salary and in 2009 he received 82% in PSUs and RSUs, and 18% in stock options;
- The President, MTS's and the President, Allstream's LTI Target = 150% of Base Salary and the CTIO's LTI Target = 100% of Base

Salary and in 2009 each received 80% in PSUs and RSUs, and 20% in stock options;

Grants of PSUs, RSUs and stock options typically are made to the NEOs in February.

PSU Plan

The PSU Plan provides the Board of Directors with flexibility to align the performance of the NEOs, other executive officers and key employees with specific financial and operating targets. Each grant of PSUs has certain core elements.

Term & Vesting – Each grant of PSUs has a specified "term", being a period of time determined by the Board of Directors commencing on the grant date and ending on the "vesting date", upon which the PSUs mature and vest. A term may not exceed 3 years. PSUs will vest only if the "holder" of such grant of PSUs has been continuously employed by the Corporation during the entire term. Holders who cease to be employed by the Corporation before the end of the term forfeit their PSUs, except that the Board of Directors may exercise their discretion in special circumstances to waive this requirement.

Specific Financial and Operating Objectives – Pre-determined, specific financial and operating metrics or “targets” that are aligned with creating shareholder value are set by the Board of Directors in respect of each grant of PSUs as a condition to the vesting of such PSUs. The length of time to achieve such targets (or “target period”) is set by the Board of Directors and may be less than or equal to the time period of the term. Such pre-determined targets (for example, EBITDA, cash flow and specific operating metrics from continuing operations) are measured at the end of the target period by comparing the actual financial and operating results achieved against the pre-determined targets. This comparison determines the percentage of the grant of PSUs that will vest, if any, which may be less than the number of PSUs initially granted or may exceed the number of PSUs initially granted in the case where the targets were exceeded.

Dividend Equivalents – During the term, the PSUs are entitled to dividend equivalents that are paid in the form of additional PSUs. These additional PSUs are issued at the time that dividends are paid on the Common Shares.

Payout on Vesting Date – On the vesting date, the payout amount of each PSU that has vested is equal to the weighted average of the trading prices of a Common Share on the TSX on the five consecutive trading days preceding the vesting date. The aggregate amount payable to a holder as of the vesting date for all PSUs that vest on the vesting date, at the option of the holder, will be paid in cash, in Common Shares that are acquired on the open market by a trustee on behalf of the Corporation, or a combination of cash and Common Shares. In the case of the CEO, pursuant to his Employment Agreement, a portion of any payout of his vested PSUs may be paid in cash to the extent of the income taxes that are payable in respect of such vested PSUs, with the balance of the payout amount used to purchase Common Shares of the Corporation in the open market. All Common Shares acquired by the CEO in this manner shall be retained by the CEO until his employment with the Corporation ceases, and in certain cases, such Common Shares shall be held for a minimum period of three years after the date of the grant of PSUs.

Prior Grants of PSUs – A majority of the PSUs granted in 2008 had a three year term and a corresponding three year target period. Due to prevailing economic conditions experienced in Canada by the telecom sector after the date of these grants, the Corporation did not achieve expected results for the first two years of the program. Accordingly, it is projected that the three year targets in respect of such grants of PSUs in 2008 will not be met and such PSUs are not expected to vest and no amounts will be paid thereon at the end of the three year term to holders who are then employed.

In 2009, the majority of the grants of PSUs also had a three year term, although the target period was set for the first year of such term. As described elsewhere, the actual financial and operating targets of the Corporation in 2009 as compared with the pre-determined targets at the end of the one year target period will result in 23% of the 2009 PSUs actually vesting at the end of their three year term to holders who are then employed. This means that 23% of the intended compensation value of such PSUs granted to individuals in 2009 will

actually be paid at the end of the three year term to holders who are then employed.

RSU Plan

RSUs are granted to the NEOs and other executives based on individual performance, potential and market competitiveness. As with PSUs, RSUs have a maximum vesting period of three years, and will vest only if there has been continuous employment until the vesting date. Subject to certain exceptions as approved at the Board of Director’s discretion, RSUs that have not vested at the time that a participant in the RSU Plan ceases to be employed are forfeited.

The market value of an RSU is the same as the market value of a PSU, and the payout amount on the vesting date is determined based on the weighted average of the trading prices of the Common Shares on the TSX on the five consecutive trading days preceding the vesting date. RSUs, like PSUs, also attract dividend equivalents that are paid in the form of additional RSUs that are issued at the time that dividends are paid on the Common Shares. Vested RSUs are paid out, at the option of the holder, in cash, in Common Shares of the Corporation that are acquired on the open market by a trustee on behalf of the Corporation, or a combination of cash and Common Shares. In the case of the CEO, a portion of any payout of his vested RSUs may be paid out in cash to the extent of the income taxes that are payable in respect of such vested RSUs, with the balance of the payout amount used to purchase Common Shares of the Corporation in the open market that must be retained by the CEO until his employment with the Corporation ceases.

Stock Option Plan

The Corporation’s Stock Option Plan, which was implemented in 1997 with the approval of shareholders, provides for the grant of stock options to executives and key employees who are in a position to contribute to the long-term success of the Corporation as determined by the HRCC. A holder of stock options that have vested may acquire Common Shares at a specified exercise price, which is established at the time of the grant, during the exercise period applicable to the vested options.

Stock options vest in increments of 20% per year commencing on the first anniversary of the date of grant. A vested option may be exercised within a period of 10 years from the date of grant, or a lesser period in the event the option holder no longer is employed by the Corporation. The exercise price of an option is the weighted average of the trading prices of the Common Shares on the TSX on the five consecutive trading days preceding the date of grant. Any options that have not vested at the time that the holder ceases to be employed are forfeited, except that the Board of Directors, in special circumstances, may exercise its discretion to accelerate the vesting of options that would otherwise vest within 180 days after such employee ceases to be employed. Stock options are non-transferable or assignable except in the case of death, in which event they may be assigned to a beneficiary or an estate.

Benefits and Perquisites

Compensation Component	Form	Applies To	How Determined
Benefits	Group life, health and dental insurance programs	All employees	Based on market practice
Perquisites	Vary by level of executive in organization	Vice-Presidents and above	Based on market practice

The Corporation offers group life, health and dental insurance, vacation and other benefits to the NEOs and other executives. The Corporation offers these benefits on a competitive level with

comparator group companies, while ensuring that benefit costs are contained over the long-term.

Perquisites are provided for a number of personal expenditures to executives in the form of annual flexible spending allowances, such as

car leases, financial planning and club memberships. These are offered as fixed allowances by level of the executive, subject to maximum limits, as benchmarked against comparator group companies. In 2009, the CEO was provided with an annual flexible spending allowance of up to \$72,000. In the case of the CFO, the division Presidents and the CTIO, their annual allowance was a maximum of \$40,000, \$45,000 and \$30,000, respectively.

2009 Performance Targets, Results & NEO Performance

2009 Variable Pay Plan

The Variable Pay Program (VPP) for the NEOs for 2009 is based on attaining annual performance targets for financial metrics that are important to creating shareholder value in the short and medium term and on attaining key operating metrics, customer satisfaction levels and strategic personal objectives to better position the company and its divisions for the future.

For 2009, the financial targets for the VPP were established by the Board in relation to the Corporation's financial plans and outlook, which were consolidated EBITDA, consolidated revenue, divisional revenue, divisional EBITDA (all from continuing operations), and customer satisfaction. Results for these targets reflected a challenging year outside of Manitoba due to economic conditions and reflected the financial performance of each division and of the company in total. Customer satisfaction targets were met for Allstream and exceeded for MTS. The Corporation's financial performance resulted in NEOs receiving less than their targeted incentive awards related to the financial targets with results ranging from 58% to 84.8% of targets.

All of the NEOs met or exceeded their personal and strategic performance targets of the 2009 VPP with personal performance ranging from 103% to 135% of targets. These personal ratings were based on multiple 2009 objectives and results such as a market-leading divisional performance in Manitoba; the successful completion of a strategic alliance with Rogers Wireless Partnership; the renewal of the long term debt at competitive and favourable rate; the improvement of the cost structure of the Corporation with annualized cost savings of \$58M; the sale of non-performing assets and the creation of favourable conditions that will enable the launch of a national wireless offering in 2010.

Both personal and financial ratings resulted in total VPPs for NEOs ranging from 68.6% to 123% of targets for 2009. This amount is, on average, 10% lower than the 2009 VPP annual targets.

2009 PSU Targets and Results

The following table compares the pre-determined financial and operating targets of the PSUs granted for 2009 against the actual financial and operating results achieved in this target period. These apply to all executives (including the NEOs) for the PSUs granted for 2009, most of which will vest in 2012.

Facing a difficult national economy, two of the three applicable financial and operating metrics from continuing operations, being consolidated EBITDA and consolidated cash flow, were below target and did not meet threshold levels. Only the EBITDA target for growth products exceeded its threshold level for 2009. As a result, and as illustrated in the table below, the PSU performance vesting level applicable to PSUs granted in 2009 was 23% out of 100%.

Target Consolidated EBITDA \$M	Target Cash Flow \$M	Target Growth Products EBITDA \$M	Overall Vesting Level Achieved
Weight= 35%	Weight = 35%	Weight = 30%	
Target = 664.7 Threshold not met = 0%	Target = 264.9 Threshold not met = 0%	Target = 333.0 Achieved between threshold and target =23%	23% of granted PSUs and associated Dividend equivalents ⁽¹⁾

- (1) The 23% vesting level determined on the basis of applying performance conditions to the PSUs granted in 2009 resulted in those PSUs having a value below the intended granted value shown in the Summary Compensation Table in Section 17 by an aggregate amount of \$707,022 for all NEOs.

Total Compensation of NEOs

The total compensation paid to the NEOs in relation to their performance in 2009 is set out in the Summary Compensation Table in Section 17. When determining the total compensation for the NEOs, the HRCC considered the competitiveness of all aspects of compensation, the relative performance of peers in the comparator groups, and the individual performance and achievement of performance targets for each NEO. Some adjustments were made in 2009 to the total compensation of some NEOs (including the CEO) to ensure they did not fall below Corporation's policy guideline ranges. These ranges compare the Corporation's compensation levels to comparator group companies in order to ensure that total compensation levels supported retention and competitiveness for the Corporation. Most adjustments were made by awarding compensation in areas that have performance-related factors (as opposed to cash increases), which supports the delivery of shareholder value in the medium and long term and were equity related.

As discussed earlier, annual assessment of each NEO's performance is based upon personal non-financial and strategic objectives, as well as the overall financial and operating performance of the Corporation as compared to incentive plan financial targets. In addition, the division Presidents are also assessed on the financial results achieved by the respective operating divisions, MTS and Allstream.

The annual base salaries for nearly all of the NEOs were frozen in 2009 and remained at 2008 levels. This included the CEO and his base salary remained at the lower end of the established comparator group companies' benchmarks. The CFO's annual base salary was increased by 6.5% in 2009 to slightly exceed the minimum level of established benchmarks for a similar position in the Corporation comparator group companies and to reflect the CFO's strong performance and contribution to the Corporation.

The Annual VPP awards are described in the compensation summary table in Section 17. When compared to 2008, the aggregate 2009 VPP awards were higher for the following specific reasons:

- The 2008 and 2009 VPP awards had a weight on customer satisfaction targets of 10% for the CEO and 10% to 15% for other NEO's. In 2008 the customer satisfaction targets were not met and resulted in a 0% payout. In 2009, the Corporation delivered an improved performance overall and met and exceeded the customer satisfaction targets resulting in a year over year increase in the VPP awards by 10% for the CEO and by 10% to 15% for the NEOs;
- The VPP award percentage level was adjusted for the CEO in 2009 from 75% to 85% to better align to the comparator benchmark group

and supporting the Corporation policy to have a large proportion of the CEO compensation at risk and performance related;

- The base salary for the CFO was increased by 6.5%, which automatically resulted in a proportional increase to his 2009 VPP target;
- The base salary of Dean Prevost, promoted to the position of President Allstream in December 2008, was increased at that time from \$351,473 to \$440,000, which automatically resulted in a proportional increase in his 2009 VPP target; and
- The successful long term positioning of Allstream and MTS through the closing of the Rogers Wireless Partnership strategic alliance required the extensive involvement of the NEOs for much of 2009 and contributed to meeting or exceeding their personal objectives.

The executive compensation plan developed by the Corporation is proving to be effective in promoting the Corporation's philosophy and objectives of paying for performance and aligning with shareholder interest. The Corporation's overall financial results during 2008 and 2009 did not fully meet its targets and as a result, the total realized compensation for NEOs decreased accordingly. By way of examples:

- The PSU's granted in 2008 did not satisfy any of the financial and operating targets for the 2008 grant year and none of them will vest;
- The PSU's granted in 2009 did not achieve most of the required financial and operating targets for 2009 and 23% of them will vest; and
- The exercise prices of most stock options granted before March 8, 2009 are less than the current market value of the Corporation's Common Shares.

Name	2007 – 2009 Total Compensation Granted (Base Salary, VPP & LTIP) \$	2007 – 2009 Total Compensation Realized (Base Salary, VPP & LTIP) \$	2007 – 2009 Total Compensation Difference between Granted and Realized \$
Pierre J. Blouin	9,011,161	6,369,940	(2,641,221)
Wayne S. Demkey	2,985,742	2,439,821	(545,921)
Kelvin A. Shepherd	3,733,815	3,002,867	(730,948)
Dean L. Prevost	2,867,988	2,216,659	(651,329)
Paul C. Frizado	2,475,978	1,901,565	(574,413)

Determining Annual Individual Awards and Annual Compensation for the CEO

The important factors in determining the CEO's aggregate annual compensation are the financial performance of the Corporation and his individual performance as detailed below. Mr. Blouin's individual performance is assessed against predetermined operational and strategic goals which were agreed to between the CEO and the Board of Directors at the beginning of the year.

Based on this annual assessment, external benchmarking and consultation with the HRCC's external advisor, the HRCC recommends to the Board the CEO's base salary, annual variable pay incentive and medium and long-term awards of equity-based compensation.

In 2009, taking into consideration information provided by the external advisor and external benchmarking, the HRCC undertook a complete review of the CEO compensation to ensure competitiveness, retention and a stronger weight and emphasis on performance and equity based awards. This resulted in the following:

- Freezing the base salary of the CEO for 2009 at 2008 levels;
- Increasing the target for annual variable award percentage from 75% to 85% of base salary including a minimum 50% weight on key financial metrics and 50% on strategic personal objectives and customer satisfaction metrics;
- Implementing the target for the long term incentive award to 250% of base salary, which still remains at the low end of the range and under the midpoint for the comparator group companies;
- Increasing the LTI weight and emphasis of the PSU incentive awards that are based on achieving pre-determined financial and operating targets; and
- Granting stock options for 2009 after a 3 year moratorium. The front loaded 3 year stock options granted to the CEO upon his hire in December 2005 ended in December 2008.

The table below sets out the objectives, weighting and results of Mr. Blouin's 2009 individual VPP performance:

2009 Objectives	Weight	Results	Comments
Financial and Operating Metrics Based on the Corporation Outlook and Business Plans	50%	Partially Met	Continued market leading performance in Manitoba. Revenue and EPS negatively impacted at the national level by economic downturn.
Develop and Pursue Strategic Initiatives to Increase Long Term Shareholder Value and Improve Cost Structure	25%	Exceeded	<p>Completed the strategic alliance with Rogers Wireless Partnership enabling a lower cost joint build for HSPA in Manitoba and enabling national access to wireless.</p> <p>Made significant progress on cost structure exceeding 2009 outlook and achieving \$58.4 million in annualized savings.</p> <p>Concluded a wireless alliance with Sprint PCS (CDMA) to support MTS wireless competitiveness in Manitoba while HSPA is deployed.</p> <p>Delivered best in class performance for an incumbent telco facing a cable competitor in Manitoba.</p> <p>Completed the sale of the non-performing non-telecom IT services business.</p>
Improve Customer Satisfaction	10%	Exceeded	Improved customer satisfaction over 2008 and exceeded target by focussing and investing on key process improvement areas – measured by independent external surveys.
Employee and Executive Retention and Engagement	15%	Exceeded	<p>Named one of the Top 100 Employers in Canada and Top 25 in Manitoba.</p> <p>Leaders completed 500 dialogue sessions with employees focussing on values and employee engagement improvement plans; strong communication and interactions with employees.</p> <p>Succession plans in place for key senior positions.</p>

All other NEOs had similar financial and personal strategic objectives that were reviewed and approved by the HRCC.

In determining Mr. Blouin's total direct compensation, the HRCC considered the corporation's financial performance and his strong performance with respect to strategic objectives and the fact that his total direct compensation was below the median of the benchmark groups. Mr. Blouin's annual Variable Pay Plan was determined to be \$840,000 for 2009. This award is higher than 2008 based on the change of VPP level from 75% to 85% of his base salary as described above and the Corporation meeting and exceeding customer satisfaction 2009 targets. Mr. Blouin's performance was assessed as exceeding his personal strategic objectives, as shown in the table above.

Share Ownership Guidelines

Commencing in 2009, the share ownership guidelines were amended to ensure each NEO and other executives to acquire, over a period of five years from and including 2009, a prescribed amount of the Common Shares. Unvested PSUs and RSUs, as well as Common Shares that are acquired under the Corporation's Employee Share Ownership Plan, are included for this purpose in the table below, while unvested and unexercised stock options are not.

Executive	Multiple of Base Salary	Guideline Ownership by Year 2014 ⁽¹⁾ \$	Actual Ownership at Year End 2009 ⁽²⁾ \$
Pierre J. Blouin	3	2,400,000	3,521,519
Wayne S. Demkey	2	810,000	915,307
Kelvin A. Shepherd	2	940,000	1,041,973
Dean L. Prevost	2	880,000	811,769
Paul C. Frizado	1.5	525,000	628,535
Chief Functional Officers	1.5	–	–
Vice-President (2 nd level)	1	–	–
Vice-President (1 st level)	0.5	–	–

(1) The amounts shown are calculated by multiplying the annual base salary earned by each NEO in 2009 by the specified guideline multiple.

(2) The amounts shown are calculated as follows:

- i) Common Shares – by multiplying the aggregate Common Shares held by each NEO as at December 31, 2009 either under the Employee Share Ownership Plan or otherwise by the Market Value (in either event, as calculated as per the Employee Share Ownership Plan definition) of the Common Shares as at December 31, 2009, which was \$33.50; and
- ii) PSUs and RSUs – by multiplying the PSUs and RSUs held by each NEO as at December 31, 2009 by the Market Value (calculated as per the Performance Share Unit Plan and Restricted Share Unit Plan definitions) of the Units as at December 31, 2009, which was \$33.35.

All of the NEOs have satisfied or have made significant progress in satisfying the required share ownership guidelines, notwithstanding the fact that the market value of the Common Shares, like the market in general, declined significantly during 2008 and 2009.

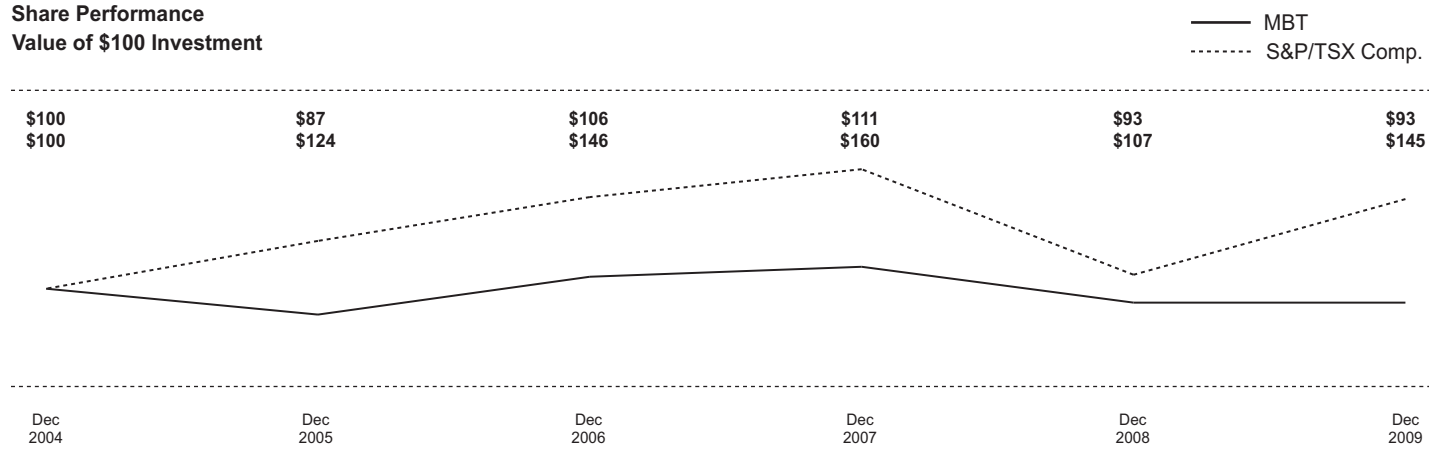
16. PERFORMANCE GRAPH

The following graph compares the change over the last five years in the shareholder cumulative total return on the Common Shares of the Corporation with the cumulative total return of the S&P/TSX

Composite Index, assuming a \$100 investment at the closing December 31, 2004 share price of \$49.00 and reinvestment of dividends.

Share Performance

Value of \$100 Investment



	Dec. 31/04	Dec. 31/05	Dec. 31/06	Dec. 31/07	Dec. 31/08	Dec. 31/09
MBT (MTS Common Shares)	100	87	106	111	93	93
S&P/TSX Composite Index	100	124	146	160	107	145

The trend in the Corporation's cumulative total shareholder return, as shown in the above performance graph, is reflected in the trend in the compensation paid to the NEOs. During the one-year period from December 31, 2008 to December 31, 2009, the cumulative total shareholder return was at the same level, while others in our industry went downward, this was due to the Corporation's high dividend yield, offset by an equivalent reduction in share price. The Corporation's return to shareholders has also outperformed both Telus Corp. and Rogers Communications on each of the past 12 and 24 months. Over this same period, the aggregate total compensation realized by NEOs decreased by 13% reflecting the lower than expected financial performance. The three-year trend in the Corporation's cumulative total shareholder return represents a 12.3% decline during the period from December 31, 2006 to December 31, 2009. Over this same three year period, the aggregate total compensation realized by the NEOs, compared to the granted value, decreased by 24%. This decrease aligns with Shareholder interest and the Corporation's pay for

performance objectives. This puts into effect the Corporation's philosophy and goal of maintaining executive compensation at least at the minimum of the market positioning of the comparator groups to ensure the competitiveness of the Corporation's executive compensation program, in order that it can continue to attract and retain the strongest executives whose performance will have a positive impact on shareholder return.

Summary and Board Endorsement

The Board of Directors, with the support of the HRCC, gave careful consideration to the compensation decisions for each component of an NEO's compensation and the aggregate effect of these decisions, and they are satisfied that they are fair and reasonable in the context of both the absolute and relative performance of the Corporation and the NEO, as well as the compensation practices among the Corporation's identified comparator group companies' benchmarks.

17. SUMMARY COMPENSATION TABLE

The following table sets out the total compensation paid to, or earned by, each NEO during the three most recently completed financial years.

Name and Principal Position	Year	Salary	Share-based Awards ⁽³⁾ (\$)		Option-based Awards ⁽⁴⁾ (\$)	Non-equity Incentive Plan Compensation (\$)		Pension Value (\$)	All Other Compensation ⁽⁶⁾ (\$)	Total Compensation (\$)
			PSUs	RSUs		Annual Incentive Plans ⁽⁵⁾				
Pierre J. Blouin ⁽²⁾ Chief Executive Officer Manitoba Telecom Services Inc. and MTS Allstream Inc.	2009	800,000	900,019	500,018	599,998	840,000	290,000	67,500	3,997,535 ⁽¹⁾	
	2008	803,066	400,013	400,013	Nil	750,000	342,000	67,871	2,762,963	
	2007	750,000	1,125,011	375,023	Nil	768,000	340,000	67,500	3,425,534	
Wayne S. Demkey ⁽⁷⁾ Chief Financial Officer Manitoba Telecom Services Inc. and MTS Allstream Inc.	2009	398,870	157,510	276,030	96,500	231,094	104,000	36,500	1,300,504 ⁽¹⁾	
	2008	376,226	120,004	126,636	153,450	191,976	89,000	233,840	1,291,132	
	2007	359,000	Nil	Nil	201,460	227,056	70,000	15,000	872,516	
Kelvin A. Shepherd President MTS MTS Allstream Inc.	2009	470,000	210,014	350,035	135,100	262,516	81,000	42,300	1,550,965 ⁽¹⁾	
	2008	463,209	160,005	200,006	187,550	259,065	129,000	42,300	1,441,135	
	2007	435,500	Nil	Nil	287,800	313,015	131,000	19,000	1,186,315	
Dean L. Prevost President Allstream MTS Allstream Inc.	2009	438,455	192,524	285,215	115,800	196,253	20,961	39,600	1,288,808 ⁽¹⁾	
	2008	351,473	100,024	111,091	153,450	141,320	131,787	30,800	1,019,945	
	2007	335,000	Nil	Nil	261,340	186,043	18,345	27,000	827,728	
Paul C. Frizado ⁽⁸⁾ Chief Technology & Information Officer MTS Allstream Inc.	2009	348,771	105,007	226,905	77,200	146,826	34,719	30,000	969,428 ⁽¹⁾	
	2008	344,919	100,004	105,558	153,450	135,275	76,623	225,500	1,138,349	
	2007	294,040	Nil	Nil	261,340	176,663	101,351	27,000	860,394	

(1) Twenty-three percent of the PSUs granted in 2009 will vest. As a result the total compensation realized in 2009 by each NEO, adjusted for the limited vesting of PSUs will decrease as follows:

Name	2009 Total Compensation Granted (as shown in Summary Compensation Table) \$	2009 Total Compensation Realized (Reflecting the Actual 2009 PSUs Vesting) \$	2009 Total Compensation Difference Between Granted (as shown in Summary Compensation Table) and Realized \$
Pierre J. Blouin	3,997,535	3,304,520	(693,015)
Wayne S. Demkey	1,300,504	1,179,222	(121,282)
Kelvin A. Shepherd	1,550,965	1,389,254	(161,711)
Dean L. Prevost	1,288,808	1,140,564	(148,244)
Paul C. Frizado	969,428	888,573	(80,855)

(2) The 2009 compensation awarded to the CEO is based on a compensation review and alignment with the comparator groups. Such review showed that Mr. Blouin is at the lower level of the comparator groups and of the Corporation's compensation policy levels. Changes have been made to the CEO's long term incentives to increase his pay for performance based on the Corporation's specific predetermined financial performance objectives that are equity related. An annual grant of stock options was made in 2009 following the 3 year grant that was made to Mr. Blouin in 2006. The CEO is required to retain the net after tax value of all mid term and long term awards in the form of Common Shares, less taxes owing, until his employment ceases with the Corporation and in some cases, beyond his employments with the Corporation. As described in the table on page 25, over the last three years, the above long term incentive awards granted to the CEOs (and other executives) have not vested at the granted levels as identified in the above table. This resulted in a realized loss of granted compensation for the CEO of \$2,641,221 from 2007 to 2009, which amount is further decreased as all but \$88,601 of his stock options have no value if the same vested and were exercised as of December 31, 2009.

(3) The amount shown for each share-based award is the grant date fair value of the PSUs and the RSUs that were granted under the Corporation's PSU Plan and RSU Plan for the specified financial year. The grant date fair value of the PSUs and the RSUs is equal to the weighted average of the trading prices of the Common Shares on the TSX on the five consecutive trading days preceding the date of grant. The grant date fair value has been calculated using the following weighted average of the trading prices preceding the grant date: 2009: \$32.59 (December), \$32.92 (March) and \$35.19 (February); 2008: \$39.06 (December) and \$42.24 (February); 2007: \$44.87 (December) and \$47.03 (February);

(4) The amount shown for each option-based award is the grant date fair value of the stock options awarded to the NEO for the specified financial year, which is calculated in accordance with the valuation methodology set out in the Canadian Institute of Chartered Accountants Handbook Section 3870. The grant date fair value has been

calculated using the following exercise prices and Black-Scholes factors for the specified periods: 2009: \$33.67; 2008: \$42.24; 2007: \$49.31, and \$47.03. The Black-Scholes factors were calculated using the following variables: (a) risk-free interest rate, (b) expected volatility of the Common Share price; (c) expected dividend yield of the Common Shares; and (d) the expected life of the options.

- (5) The amount shown represents the annual variable pay plan award for the specified financial year.
- (6) The value of perquisites received by each NEO which does not exceed \$50,000 or 10% of the NEO's total salary for the specified financial year does not need to be disclosed in accordance with applicable securities law requirements. The Corporation however has voluntarily disclosed such amounts in the interests of increasing transparency and full disclosure.
- (7) The amount shown as "All Other Compensation" in 2008 for Mr. Demkey includes a retention incentive payment of \$197,340 and a perquisite allowance of \$36,500.
- (8) The amount shown as "All Other Compensation" in 2008 for Mr. Frizado includes a three-year retention incentive payment of \$192,500 and a perquisite allowance of \$30,000.

18. INCENTIVE PLAN AWARDS

Outstanding Share-based Awards and Option-based Awards

The following table describes all option-based awards and share-based awards granted to the NEOs that are outstanding as at December 31, 2009.

Name	Option-based Awards				Share-based Awards			
	Number of Securities Underlying Unexercised Options ⁽¹⁾ (#)	Option Exercise Price ⁽²⁾ (\$)	Option Expiration Date	Value of Unexercised in-the-money Options ⁽³⁾ (\$)	Number of Shares or Units of Shares that have not Vested (#)		Market or Payout Value of Share-based Awards that have not vested ⁽⁴⁾ (\$)	
					PSUs	RSUs	PSUs	RSUs
Pierre J. Blouin ⁽⁵⁾	450,000	40.44	December 6, 2015	Nil				
	155,440	32.93	March 9, 2019	88,601	49,112	15,499	1,637,885	516,892
Wayne S. Demkey	40,000	36.42	October 24, 2011	Nil				
	20,000	33.84	January 30, 2012	Nil				
	40,000	34.75	January 29, 2013	Nil				
	40,000	45.61	June 14, 2014	Nil				
	25,500	49.03	January 3, 2015	Nil	7,979	11,734	266,100	391,329
	25,500	38.78	January 30, 2016	Nil				
	35,000	47.03	January 31, 2017	Nil				
	45,000	42.24	February 7, 2018	Nil				
Kelvin A. Shepherd	25,000	35.19	February 9, 2019	Nil				
	25,000	35.60	November 30, 2010	Nil				
	14,000	33.84	January 30, 2012	Nil				
	25,000	34.71	October 30, 2012	Nil				
	13,600	34.75	January 29, 2013	Nil				
	25,000	45.61	June 14, 2014	Nil	10,639	15,940	354,811	531,599
	25,500	49.03	January 3, 2015	Nil				
	40,000	38.78	January 30, 2016	Nil				
	50,000	47.03	January 31, 2017	Nil				
	55,000	42.24	February 7, 2018	Nil				
Dean L. Prevost	35,000	35.19	February 9, 2019	Nil				
	10,000	49.03	January 3, 2015	Nil				
	20,000	38.78	January 30, 2016	Nil				
	35,000	47.03	January 31, 2017	Nil	8,499	11,593	283,442	386,627
	10,000	49.31	September 11, 2017	Nil				
	45,000	42.24	February 7, 2018	Nil				
Paul C. Frizado	30,000	35.19	February 9, 2019	Nil				
	10,000	49.03	January 3, 2015	Nil				
	20,000	38.78	January 30, 2016	Nil				
	35,000	47.03	January 31, 2017	Nil	5,857	9,685	195,331	322,995
	10,000	49.31	September 11, 2017	Nil				
	45,000	42.24	February 7, 2018	Nil				

(1) Each option entitles the holder to acquire one Common Share of the Corporation.

- (2) The exercise price of an option is equal to the weighted average of the trading prices of the Common Shares of the Corporation on the TSX on the five consecutive trading days preceding the date of grant.
- (3) An option is in-the-money at year end if the market value of the underlying securities as at that date exceeds the exercise price of the option. The closing price on the TSX of the Common Shares as at December 31, 2009 was \$33.50. The options vest in increments of 20% per year commencing on the first anniversary of the date of grant.
- (4) The market value of the share-based awards is calculated on the basis of the weighted average of the trading prices of the Common Shares of the Corporation on the TSX on the five consecutive trading days preceding December 31, 2009, which was \$33.35.
- (5) Mr. Blouin received a grant of stock options in December 2005 to acquire 450,000 Common Shares at an exercise price of \$40.44. In accordance with the terms of his employment contract, Mr. Blouin is eligible for further grants of options on an annual basis commencing in 2010 as determined by the Board of Directors.

Incentive Plan Awards – Value Vested or Earned during the Year

The following table provides information on incentive plan awards that vested or were earned during the financial year ended December 31, 2009.

Name	Option-based Awards Value Vested during the Year ⁽¹⁾ (\$)	Share-based Awards Value Vested during the Year (\$)		Non-equity Incentive Plan Compensation Value earned during the Year ⁽²⁾ (\$)
		PSUs	RSUs	
Pierre J. Blouin	Nil	Nil	Nil	Nil
Wayne S. Demkey	Nil	Nil	Nil	Nil
Kelvin A. Shepherd	Nil	Nil	Nil	Nil
Dean L. Prevost	Nil	Nil	Nil	Nil
Paul C. Frizado	Nil	Nil	Nil	Nil

- (1) Stock options vest in increments of 20% per year commencing on the first anniversary of the date of grant. The amounts specified represent the value, on the vesting date, of the 20% increment of the stock options that vested during 2009, where the market value of such vested stock option increment on the vesting date exceeds the exercise price of the option.
- (2) The amount shown represents the annual variable pay plan award for the specified financial year as shown in the "Non-Equity Incentive Plan Compensation – Annual Incentive Plans" column of the Summary Compensation Table.

19. PENSION PLAN BENEFITS

Pension Plans

Pierre J. Blouin, Wayne S. Demkey and Kelvin A. Shepherd

Pierre J. Blouin, Wayne S. Demkey and Kelvin A. Shepherd participate in the Corporation's contributory defined benefit pension plan (the "MTS Pension Plan"), as well as the Corporation's non-contributory supplemental pension plan (the "MTS Supplemental Pension Plan") which provides supplemental pension benefits to these NEOs whose benefits under the MTS Pension Plan are limited by the maximum benefit limits imposed under the *Income Tax Act* (Canada) (the MTS Pension Plan and the MTS Supplemental Pension Plan collectively are referred to as the "MTS Employee Pension Plans"). The pension benefit for eligible retiring employees under the MTS Employee Pension Plans is based on 2% of the highest five-year average earnings (consisting of salary only and excluding bonuses) multiplied by years of credited service less 0.6% of the average Year's Maximum Pensionable Earnings (as established under the *Canada Pension Plan Act* (Canada) ("YMPE")) multiplied by years of credited service. Pension benefits under the MTS Employee Pension Plans are indexed at a rate of two-thirds of the increase in the Consumer Price Index

("CPI") for Canada to a maximum CPI increase of 4%. Messrs Blouin, Demkey and Shepherd contribute to the MTS Pension Plan at a rate of 5.1% of salary up to the YMPE, plus 7.0% of salary over the YMPE up to the maximum benefit limits imposed under the *Income Tax Act* (Canada).

Members of the MTS Employee Pension Plans may retire with an unreduced pension at age 60 if they have at least 10 years of continuous service, or at any time after age 55 if their age plus years of continuous service total at least 80 (the "Rule of 80"). Members may retire 10 years prior to the date on which they first are eligible for an unreduced pension provided that they have at least two years of credited service. If the member retires after age 55 with 10 or more years of continuous service, but before becoming eligible for an unreduced pension, the pension benefit is reduced by 0.0625% for each full month that the early retirement date precedes the earlier of the date on which the member reaches age 60 or the date on which the member attains the Rule of 80. If the member retires on an early retirement date before attaining age 55 or with less than 10 years of continuous service, the pension benefit is actuarially reduced from age 65.

Messrs. Blouin, Demkey and Shepherd are also members of the Corporation's non-contributory executive pension plan (the "MTS Executive Pension Plan"). The pension benefit for eligible retiring executives under the MTS Executive Pension Plan is based on 2.5% of the highest five-year average earnings (consisting of salary only and excluding bonuses) multiplied by years of executive credited service less the pension benefit payable from the MTS Employee Pension Plans in respect of such period of executive credited service. Pension benefits under the MTS Executive Pension Plan are indexed at a rate of two-thirds of the increase in CPI to a maximum CPI increase of 4%.

Members of the MTS Executive Pension Plan may retire with an unreduced pension at age 60 or at any time after age 55 if they have attained the Rule of 80. Members may retire 10 years prior to the date on which they first are eligible for an unreduced pension provided that they have at least two years of credited executive service. If a member has attained age 55 but is not eligible for an unreduced pension, the pension benefit is reduced by .0625% for each full month that the early retirement date precedes the unreduced retirement date. If the member retires on an early retirement date before attaining age 55, the pension benefit is actuarially reduced from age 65.

Under the terms of his employment contract with the Corporation as described in "Employment Agreements", Mr. Blouin is eligible to receive a top-up pension which, in combination with his pension benefits under the MTS Employee Pension Plans and the MTS Executive Pension Plan, will provide an annual pension benefit of \$300,000 at retirement at age 55. In the event of the termination of Mr. Blouin's employment prior to age 55, the top-up pension will be reduced on a straight line basis in proportion to the actual period of employment.

Paul C. Frizado and Dean L. Prevost

Paul C. Frizado and Dean L. Prevost are covered by two pension plans that had been established by Allstream Inc. These pension plans consist of a non-contributory defined contribution pension plan (the "Allstream DC Pension Plan") and the Allstream Executive Pension Plan. The Allstream DC Pension Plan provides for a company annual contribution of 2.5% of the member's base salary. For Messrs. Frizado and Prevost, the Allstream Executive Pension Plan provides a benefit formula of 2% of the highest five-year average pensionable earnings (consisting of salary only and excluding bonuses) per year of credited service less the benefit deemed earned under the Allstream Non-Contributory Pension Plan. An additional year of credited service is granted for each of the first five years of actual service. There is an overall cap of 60% of the final five-year average base salary.

Under the Allstream Executive Pension Plan, members must attain retirement status to be eligible for pension benefits under this plan. Members are considered to have attained retirement status if, upon cessation of continuous service, they either (i) have attained age 60, or (ii) have attained age 55 and have been terminated without

cause, voluntarily resigned within 18 months following a change of control, or the HRCC has approved the retirement status. A change of control means an acquisition of the majority of the Common Shares or substantially all of the assets of MTS Allstream Inc. by any entity. Subject to attaining retirement status under the Allstream Executive Pension Plan, members may retire with no reduction at age 62 or on or after age 55 if their age plus service (excluding any additional credited service) totals 85 points or more. If members retire earlier, the reduction is the lesser of (i) 0.5% for each month that their retirement precedes age 62, and (ii) 3% for each point that their age plus service totals less than 85.

Defined Benefits Plan Table

The pension benefits described below are determined using the same actuarial assumptions as were used to determine the accounting information for pension plans as disclosed in Notes 1 and 17 of the Corporation's audited annual consolidated financial statements for the period ended December 31, 2009.

The following table details the years of credited service, estimated pension benefits as at December 31, 2009, projected pension benefits to age 65, and the changes in the accrued pension obligations during 2009 for the NEOs participating in the defined benefit plans described above:

Name	Number of years credited service ⁽¹⁾	Annual benefits payable ⁽³⁾ (\$)		Accrued obligation at Dec. 31, 2008 (\$)	2009 Compensatory change ⁽⁴⁾ (\$)	2009 Non-compensatory change ⁽⁴⁾ (\$)	Accrued obligation at Dec. 31, 2009 (\$)
		At year end	At age 65				
Pierre J. Blouin	4.1	170,000	339,000	989,000	290,000	193,000	1,472,000
Wayne S. Demkey ⁽²⁾	13.1	115,000	287,000	849,000	104,000	232,000	1,185,000
Kelvin A. Shepherd	9.1	100,000	264,000	829,000	81,000	219,000	1,129,000
Dean L. Prevost	15.6	89,000	147,000	375,000	10,000	126,000	511,000
Paul C. Frizado	10.6	55,000	130,000	242,000	26,000	83,000	351,000

- (1) Represents total service, including service in a basic pension plan prior to joining an executive pension plan. The credited service specified for Mr. Prevost and Mr. Frizado includes 5.0 years of extra service under the Allstream Executive Pension Plan.
- (2) Mr. Demkey's executive service is 8.3 years.
- (3) The annual benefits payable at year end and at age 65 represent the estimated pension earned for all service to date and the total service projected to age 65 respectively, and is calculated based on actual pensionable earnings as at the end of the current year. The benefits payable at year end do not include any reduction that may apply if an NEO retires prior to his normal retirement age.
- (4) The compensatory change includes the service cost for the year, determined at the beginning of the year, and any adjustments to the accrued obligation as a result of salary increases other than expected. The non-compensatory change reflects all other changes in the accrued obligation that are not included in the compensatory changes.

Defined Contribution Plan Table

The following table details the accumulated value as at December 31, 2009 and the changes in the accumulated value during 2009 for the NEOs participating in the defined contribution plan:

Name	Accumulated value at Dec. 31, 2008 (\$)	2009 Compensatory (\$)	2009 Non-compensatory (\$)	Accumulated value at year end (\$)
Dean L. Prevost	66,040	10,961	12,433	89,434
Paul C. Frizado	40,044	8,719	13,142	61,905

20. TERMINATION AND CHANGE OF CONTROL BENEFITS

Each of the NEOs has an employment agreement, a continuity agreement and a surrender agreement in effect with the Corporation

which include terms providing for certain payments in the event of the termination of the NEO's employment without cause or as a result of a change of control of the Corporation as described below.

Employment Agreements

Pierre J. Blouin

Pierre J. Blouin has an employment contract with the Corporation pursuant to which his compensation is established annually. Mr. Blouin's employment agreement was amended in 2009 to reflect the changes in his total compensation package described previously in this Management Proxy Circular. His compensation established for 2010 is increasingly aligned with the Corporation achieving financial targets and creating shareholder value and includes: a short term variable bonus incentive which is subject to the achievement of target and stretch objectives as determined by the Board of Directors, calculated on the basis of a

maximum of 85% of annual base salary for target objectives and a maximum of 170% of annual base salary for stretch objectives; and equity-based units valued at 262.5% of his annual base salary, consisting of PSUs, RSUs and stock options. His employment agreement requires that the net after tax amount paid to him upon vesting of PSUs and RSUs shall be used to purchase Common Shares which he shall retain until his employment with the Corporation ceases and in certain cases for a minimum period of three years from the date of grant of such PSUs and RSUs to align to the vesting period of other senior executives. This employment agreement also provided for a three year front loaded grant in 2005 of an option to acquire 450,000 Common Shares of the Corporation which are subject to the terms of the Corporation's Stock Option Plan and further grants beginning in 2009 of stock options as determined by the Board.

Mr. Blouin's employment agreement provides that in the event Mr. Blouin's employment with the Corporation is terminated without cause, or if there has been constructive termination, which includes any material reduction in Mr. Blouin's title or responsibilities or his position is relocated outside of Winnipeg without his agreement, he will be entitled to a severance payment in an amount equal to the aggregate of his annual base salary and bonus paid during the two fiscal years preceding his termination, as well as a continuation of employee benefits and perquisites for a two-year period. Mr. Blouin's employment contract also imposes non competition and non solicitation restrictions for a period of one year following the termination of employment.

Wayne S. Demkey

Wayne S. Demkey has an employment contract with the Corporation which establishes an initial annual base salary and provides for a short-term variable bonus incentive which is subject to the achievement of target and stretch objectives as determined by the Board of Directors, and which is calculated on the basis of a maximum of 60% of annual base salary for target objectives and a maximum of 90% of annual base salary for stretch objectives. This contract also provides that in the event Mr. Demkey's employment with the Corporation is terminated without cause, Mr. Demkey is entitled to a severance payment in the amount of one and a half times the sum of his annual base salary, the average of his annual bonus for each of the two preceding fiscal years, and the value of his annual benefits for each of the two preceding fiscal years. Mr. Demkey also is subject to non-competition and non-solicitation restrictions for a period of one year following the termination of employment.

Kelvin A. Shepherd

Kelvin A. Shepherd has an employment contract with the Corporation which establishes an initial annual base salary and provides for a short-term variable bonus incentive which is subject to the achievement of target and stretch objectives as determined by the Board of Directors, and which is calculated on the basis of a maximum of 65% of annual base salary for target objectives and up to 97.5% of annual base salary for stretch objectives.

Dean L. Prevost

Dean L. Prevost has an employment contract with the Corporation which establishes an initial annual base salary, and provides for a short-term variable bonus incentive which is subject to the achievement of target and stretch objectives as determined by the Board of Directors, and which is calculated on the basis of a maximum of 65% of annual base salary for target objectives and up to 97.5% of annual base salary for stretch objectives. This contract also provides that in the event Mr. Prevost's employment with the Corporation is terminated without cause, Mr. Prevost is entitled to a severance payment in the amount of one and a half times

the sum of his annual base salary, the average of his annual bonus for each of the two preceding fiscal years, and the value of his annual benefits for each of the two preceding fiscal years. Mr. Prevost also is subject to non-competition and non-solicitation restrictions that will apply for a period of 14 months following the termination of his employment by the Corporation.

Paul C. Frizado

Paul C. Frizado has an employment contract with the Corporation which establishes an initial annual base salary and provides for a short-term variable bonus incentive which is subject to the achievement of target and stretch objectives as determined by the Board of Directors, and which is calculated on the basis of a maximum of 50% of annual base salary for target objectives and a maximum of 75% of annual base salary for stretch objectives. This contract also provides that in the event Mr. Frizado's employment with the Corporation is terminated without cause, Mr. Frizado is entitled to a severance payment in the amount of one and a half times the sum of his annual base salary, the average of his annual bonus for each of the two preceding fiscal years, and the value of his annual benefits for each of the two preceding fiscal years. Mr. Frizado also is subject to non-competition and non-solicitation restrictions for a period of one year following the termination of employment.

Continuity Agreements

The Corporation has entered into a contract (the "Continuity Agreement") with each NEO which provides for a severance payment in the event of the termination of employment following a change of control of the Corporation. Each Continuity Agreement provides that in the event of involuntary termination of employment (other than for just cause or due to resignation) or constructive termination of employment (which consists of relocation or other material changes in the terms of employment) within 24 months of the occurrence of a change of control of the Corporation, the executive officer is entitled to receive a severance payment in an amount equal to two times, and in the case of Mr. Blouin, three times, the executive officer's annual compensation, plus a pro-rated amount of the variable bonus that would have been payable if their employment had not been terminated. Entitlement to severance under an NEO's Continuity Agreement is without duplication in respect of severance under the NEO's employment contract in the event of termination without cause.

For purposes of determining the amount of the severance payment, "annual compensation" consists of the aggregate of the executive officer's annual salary prior to the date of termination, an amount equal to the annual benefits payable prior to the date of termination, and an amount equal to the average of the annual bonus for each of the two fiscal years immediately preceding the year in which the termination of employment occurs.

"Change of control" is defined in the Continuity Agreements of Messrs. Blouin, Prevost and Frizado as (i) the acquisition of 20% or more of the Common Shares by a person or by a group of affiliated persons, (ii) 50% or more of the members of the Board of Directors of the Corporation elected at a meeting of shareholders are individuals who are not Board members prior to such meeting of shareholders, (iii) a single shareholder of the Corporation has the right within two years to nominate a majority of the members of the Board of Directors, or (iv) as otherwise determined by the Board of Directors in certain situations. The Continuity Agreements of Messrs. Demkey and Shepherd define a change of control in the same manner, with two differences. In these Continuity Agreements, a change of control will not include the acquisition of 20% or more of the Common Shares by Bell Canada or any of its affiliates, but a change of control will have

occurred if Bell Canada and/or its affiliates acquire 35% or more of the Common Shares.

Surrender Agreements

The Corporation has entered into a contract (the "Surrender Agreement") with each NEO which provides that in the event of a change of control of the Corporation, all unvested options, PSUs and RSUs (collectively, the "Equity-based Awards") immediately will vest, and the NEO will have the option, (a) in the case of stock options, to surrender each such option to the Corporation at a price equal to the difference between the surrender price and the exercise price, and (b) in the case of RSUs and PSUs, to surrender such units at a price

equal to the surrender price. The surrender price is the market price of the Common Shares (which is defined as the weighted average of the trading prices of the Common Shares on the TSX on the five consecutive trading days prior to the date of a surrender notice submitted by the NEO) or, in the case of a change of control resulting from an offer to shareholders of the Corporation to purchase their Common Shares, the higher of (i) the market price of the Common Shares, and (ii) the price per Common Share offered to shareholders pursuant to such offer.

The Surrender Agreements define "change of control" in the same manner as this term is defined in the Continuity Agreements of the NEOs as described above.

Estimated Payments on Termination

The following table outlines, for each NEO, the estimated incremental payments that would be triggered in the event the employment of an NEO is terminated without cause, including termination resulting from a change of control of the Corporation, which assumes that the termination occurred on January 1, 2010. No severance or other incremental payments apply in the event an NEO retires or resigns.

NEO	Type of Termination	Salary (\$)	Incentive Payment (\$)	Employee Benefits (\$)	Vesting of Option-based Awards (\$)	Vesting of Share-based Awards (\$)	Total (\$)
Pierre J. Blouin	Termination without cause	1,603,066	1,518,000	312,500	Nil	Nil	3,433,566
	Change of control	2,400,000	2,277,000	360,000	88,601	1,833,583	6,959,184
Wayne S. Demkey	Termination without cause	607,500	313,583	91,125	Nil	Nil	1,012,208
	Change of control	810,000	418,112	121,500	Nil	657,429	2,007,041
Kelvin A. Shepherd	Termination without cause	Note 1	Note 1	Note 1	Nil	Nil	Note 1
	Change of control	940,000	572,080	141,000	Nil	886,410	2,539,490
Dean L. Prevost	Termination without cause	660,000	245,522	100,000	Nil	Nil	1,005,522
	Change of control	880,000	327,363	132,000	Nil	670,069	2,009,432
Paul C. Frizado	Termination without cause	525,000	233,954	78,000	Nil	Nil	836,954
	Change of control	700,000	311,938	105,000	Nil	518,326	1,635,264

(1) Mr. Shepherd's employment contract does not contain any provisions providing for the payment of severance in the event of the termination of his employment without cause.

21. EQUITY COMPENSATION PLAN INFORMATION

Except as described below, the Corporation's Stock Option Plan is the only compensation plan under which equity securities of the Corporation have been authorized for issuance as at December 31, 2009. The Stock Option Plan was approved by the shareholders of the Corporation at its annual meeting held on May 30, 1997. A total of 3,500,000 Common Shares of the Corporation were reserved for issuance under the Stock Option Plan. At the Corporation's annual meeting held on May 8, 2007, shareholders approved an amendment to the Stock Option Plan which increased the maximum number of Common Shares that are reserved for issuance under the Stock Option Plan by 3,500,000. As a result, a total of 7,000,000 Common Shares are reserved for issuance under the Stock Option Plan.

Pursuant to the Corporation's Stock Option Plan, 20% of an option vests each year commencing on the first anniversary of the date of grant, and may be exercised for a period of 10 years from the date of grant, or a lesser period in the event the option holder's employment ceases. The exercise price of an option is equal to the weighted average of the trading prices of the Common Shares on the TSX on the five consecutive trading days preceding the date of grant. Any options that have not vested at the time that an employee ceases to be employed are forfeited, except that the Board of Directors may accelerate, in special circumstances and in its sole discretion, the

vesting of options that would otherwise vest within 180 days after such employee ceases to be employed. The Stock Option Plan provides that the aggregate number of Common Shares that may be issued to insiders of the Corporation under the Stock Option Plan and all other security based compensation arrangements during any one-year period or that are issuable at any time to insiders of the Corporation must not exceed 10% of the total issued and outstanding securities of the Corporation.

On December 7, 2005, options to acquire 450,000 Common Shares of the Corporation were granted to Pierre J. Blouin as an inducement to Mr. Blouin to enter into a contract of full-time employment with the Corporation as its Chief Executive Officer. This stock option grant was approved by the TSX, and was made pursuant to subsection 613(c) of the TSX Company Manual, which provides that a security based compensation arrangement can be established by a listed issuer, without shareholder approval, if it is used as an inducement to a person to enter into a contract of full-time employment as an officer of the issuer, provided that the securities to such person do not exceed 2% of the number of securities of the issuer that are outstanding, on a non-diluted basis, prior to the date of the arrangement. Mr. Blouin's inducement options are subject to the same terms, including vesting provisions, as are options granted under the Corporation's Stock Option Plan.

The following table provides information as at December 31, 2009 regarding the Common Shares to be issued upon the exercise of options that are outstanding under the Stock Option Plan, as well as the number of Common Shares remaining available for issuance under the Stock Option Plan. This table also provides information on the inducement options that were granted pursuant to subsection 613(c) of the TSX Company Manual as described above.

Plan Category	Number of securities to be issued upon exercise of outstanding options (a)	Weighted average exercise price of outstanding options (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by securityholders	1,871,835	\$40.77	3,256,785
Equity compensation plans not approved by securityholders	450,000	\$40.44	Nil
Total	2,321,835	\$40.70	3,256,785

The following table provides additional disclosure as at March 17, 2010 regarding the options that are outstanding and available for grant under the Stock Option Plan and the inducement options granted to the Chief Executive Officer.

Options	Options Outstanding		Options Available for Grant		Total Options Outstanding and Available for Grant	
	#	% of Common Shares Outstanding	#	% of Common Shares Outstanding	#	% of Common Shares Outstanding
Stock Option Plan	2,720,750	4.21%	2,402,870	3.72%	5,123,620	7.92%
Inducement Options	450,000	0.70%	Nil	Nil	450,000	0.70%
Total	3,170,750	4.91%	2,402,870	3.72%	5,573,620	8.62%

22. ADDITIONAL INFORMATION

Financial information relating to the Corporation is provided in the Corporation's comparative financial statements and management's discussion and analysis for the financial year ended December 31, 2009. These documents, as well as additional information relating to the Corporation, are available on SEDAR at www.sedar.com.

A copy of the Corporation's most recent comparative financial statements and management's discussion and analysis, as contained in the Corporation's Annual Report, as well as the most recent interim financial statements, Annual Information Form and Management Proxy Circular of the Corporation may be obtained by shareholders, without charge, upon request to the Corporation as follows:

Manitoba Telecom Services Inc.
 PO Box 6666
 Room MP20B – 333 Main Street
 Winnipeg, Manitoba R3C 3V6
 Telephone No.: (204) 958-3549 or 1-888-544-5554 (toll-free)
 E-mail: investor.relations@mtsallstream.com

23. BOARD APPROVAL

The contents and the sending of this Management Proxy Circular have been approved by the Board of Directors of the Corporation.



Peter J. Falk, Q.C.
 Corporate Secretary

March 17, 2010
 Winnipeg, Manitoba

SCHEDULE A

PROPOSED AMENDMENTS TO BY-LAWS OF CORPORATION

The following is a summary of all of the proposed housekeeping amendments to the Corporation's By-Laws, all of which are designed to make the By-Laws consistent with the current statutory and regulatory requirements, and to reflect the current organizational structure of the Corporation. The Board of Directors believes that none of the following changes are material, and that all of these changes support the objective of good governance and best practices.

A comprehensive blackline showing the amended and restated By-Laws is located at www.mtsallstream.ca.

Changes to By-Laws No. 1, No. 2 and No. 3 – As a global change, the terms "Chairman", "chairman" and "managing Director" are all changed to "Chair"

By-Law No. 1

Section 1.01 – The following Definitions are amended as follows:

- "Directors" means those persons elected to the Board by the shareholders of the Corporation and, if permitted by the Act, a person elected by a quorum of Directors to fill a vacancy among the Directors;
- "Officer(s)" means the Chief Executive Officer of the Corporation, ~~the most senior executive Officer (or Officers if more than one) of each Subsidiary, the Chief Financial Officer and the Corporate Secretary~~ of the Corporation and such other person(s) as may be appointed as Officers by the Board from time to time;
- "Subsidiary" means the corporations wholly owned by the Corporation and those corporations that are wholly owned by any one or more of such corporations;

Section 2.01 – This Section is amended as follows:

Unless changed in accordance with the Act, the Board shall consist of a minimum of 9 Directors and a maximum of 15 Directors, a majority of whom shall be ordinarily resident in Manitoba and the requisite number of which shall be independent within the meaning of the applicable securities laws and applicable stock exchanges on which the Corporation's securities are listed, as well as the guidelines of applicable securities regulatory authorities.

Section 2.03 – This Section is amended as follows:

The Board shall elect annually from among its members an Audit Committee to be composed of not fewer than four Directors, none of whom is an officer or employee of the Corporation or any of its affiliates. Each member of the Audit Committee shall be a director and the requisite number of which shall satisfy the applicable independence, experience and financial literacy qualification requirements of the laws governing the Corporation and the applicable stock exchanges on which the Corporation's securities are listed, as well as the guidelines of applicable securities regulatory authorities and Canadian Securities Administrators. Each member of the Audit Committee shall serve during the pleasure of the Board and, in any event, only so long as such member is a Director. The Directors may fill vacancies in the Audit Committee by election from among their number. The Audit Committee shall have power to fix its quorum at not less than a majority of its members and to determine its own rules of procedure subject to any regulations imposed by the Board from time to time. The Audit Committee shall review the financial statements of the Corporation prior to approval thereof by the Board and shall have such other powers and duties as may from time to time by resolution be assigned to it by the Board.

The auditor of the Corporation is entitled to receive notice of every meeting of the Audit Committee and, at the expense of the Corporation, to attend and be heard thereat; and, if so requested by a member of the Audit Committee, shall attend every meeting of the committee held during the term of office of the auditor. The auditor of the Corporation or any member of the Audit Committee may call a meeting of the Audit Committee.

Section 3.01 – This Section is amended as follows:

A meeting of the Board may be convened on at least two days' notice by the Corporate Secretary upon being requested to do so by the Chairman or upon being requested to do so in writing by a majority of the Directors. The notice of a meeting of the Board may be in writing and delivered or mailed or may be given by telephone, telegraph or facsimile or e-mail. Such notice need not specify the purpose of business to be transacted or ~~the matters to be dealt with at such meeting unless the purpose of such meeting is a matter referred to approve financial statements, adopt, amend or repeal by-laws or change in section 110(3) of the office of auditor Act.~~ A meeting of the Board may be held and duly constituted at any time without notice if all the Directors are present or, if any be absent, those absent have waived notice or signified their consent in writing to the meeting being held in their absence, or, thereafter, have ratified and approved of the proceedings thereof or action taken and any resolution passed thereat.

Section 4.02(a) – This Section is amended as follows:

The Corporation and its successors and assigns shall defend, indemnify and save harmless every Director and Officer and their respective heirs, executors and administrators from and against every claim for loss, costs, damages and expenses with respect to, or in any way arising out of, anything ~~in good faith~~ done, or omitted to be done, or caused, permitted or authorized to be done or not to be done, by the Director or Officer in the course of or supposed course of employment, provided ~~the conduct which gave rise to the claim did not include any dishonest, fraudulent, criminal or malicious act or omission on the part of the Director or the Officer;~~

- (i) the Director or Officer acted honestly and in good faith with a view to the best interests of the Corporation; and
- (ii) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, the Director or Officer had reasonable grounds for believing that his conduct was lawful.

Section 5.04 – This Section is amended as follows:

The Chief Executive Officer shall report to the Chairman. All Officers of the Corporation, except the Corporate Secretary and any other Officer engaged by the Board, or as otherwise indicated by resolution of the Board, shall report to the Chief Executive Officer.

Section 7.02 – This Section is amended as follows:

The Chief Executive Officer shall provide to the Board as soon as possible, and in any event, within ~~three months of~~ seventy-five days from the end of each fiscal year, the audited financial statements of the Corporation and each Subsidiary and for all such corporations on a consolidated basis

Section 9.01(e) – This section is amended as follows:

The Board shall appoint an ~~Officer~~ employee responsible for providing resources and overall direction to the human resources and industrial relations departments of the Corporation. The Board shall approve a mandate to such ~~Officer~~ employee of the Corporation and the strategic direction and shall provide its approval prior to any ratification of each collective bargaining agreement of the Corporation and any Subsidiary, as applicable.

By-Law No. 3

Section 1.02 – This Section is amended as follows:

Security certificates (and the form of transfer power on the reverse side thereof) shall (subject to compliance with the Act) be in such form as the Directors may from time to time by resolution approve and, subject to the Act, such certificates shall be signed ~~manually~~ by at least one Director or Officer of the Corporation or by or on behalf of a registrar, transfer agent or branch transfer agent of the Corporation, or by a trustee who certifies it in accordance with a trust indenture, and all such signatures and any additional signatures required on a security certificate may be printed or otherwise mechanically reproduced thereon. Notwithstanding any change in the persons holding an office between the time of actual signing and the issuance of any certificate and notwithstanding that a person signing may not have held office at the date of issuance of such certificate, any such certificate so signed shall be valid and binding upon the Corporation.

Section 2.08 – This Section is amended as follows:

The ~~Chairman~~ of the meeting may with the consent of the meeting adjourn any meeting of the shareholders from time to time to a fixed time and place and if the meeting is adjourned for less than 30 days no notice of the time and place for the holding of the adjourned meeting need be given to any shareholder, other than by announcement at the earliest meeting that is adjourned. If a meeting of shareholders is adjourned by one or more adjournments for an aggregate of 30 days or more, notice of the adjourned meeting shall be given as for an original meeting but, unless the meeting is adjourned by one or more adjournments for an aggregate of more than 90 days, section 143(1) of the Act does not apply. Any adjourned meeting shall be duly constituted if held in accordance with the terms of the adjournment and a quorum is present thereat. The persons who formed a quorum at the original meeting are not required to form the quorum at the adjourned meeting. If there is no quorum present at the adjourned meeting, the original meeting shall be deemed to have terminated forthwith after its adjournment. Any business may be brought before or dealt with at any adjourned meeting which might have been brought before or dealt with at the original meeting in accordance with the notice calling the same.

SCHEDULE B

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

National Instrument 58-101 *Disclosure of Corporate Governance Practices*, as adopted by the Canadian securities regulatory authorities, requires each reporting issuer to disclose its corporate governance practices in its Management Proxy Circular.

At Manitoba Telecom Services Inc. (the "Corporation"), corporate governance comprises the structure, process principles and practices employed to oversee, direct and manage the business and affairs of the Corporation, with the objectives of ensuring its financial viability and integrity, and enhancing shareholder value. This structure defines the division of power between, and establishes mechanisms for achieving accountability by, the Board of Directors (the "Board") and management.

The governance principles of the Corporation reflect its core values of professionalism, integrity, real value to customers, demonstrated financial strength, and being an employer of choice. These principles include independence, accountability, clarity of roles, effectiveness of strategy, prudence in risk management, leadership, ethical culture, and integrity of financial disclosure.

Board of Directors

Director Independence

Based on information provided by Directors as to their individual circumstances, the Board has determined that all of the Directors are independent as defined by the Canadian regulatory authorities except Pierre J. Blouin because of his position as Chief Executive Officer of the Corporation. None of the other Directors has a material relationship with the Corporation in any way.

The composition of the Board facilitates the ability of the Board to function independently of management, since all of the Directors, except for the Chief Executive Officer, are independent. The Chief Executive Officer is not a member of any of the Committees established by the Board.

The Board conducts its discussions at meetings without the presence of management. Certain members of management will be included in meetings of the Board only when necessary. Each meeting of the Board and the Committees includes an in-camera session at which neither the Chief Executive Officer nor other management is present. The Board also holds meetings at which the Chief Executive Officer and other members of management are not in attendance. In 2009, two such meetings were held.

Additional information relating to each Director standing for nomination, including other public company boards on which they serve, as well as their attendance record for all Board and Committee meetings during 2009, is described in the "Election of Directors" section of the Management Proxy Circular.

Independent Chair

The position of Chair is separate from the position of Chief Executive Officer, which further ensures that the Board maintains its independence from management.

Board Size

The Corporation's Articles provide for a minimum of nine and a maximum of 15 Directors. As described in the "Election of Directors" section of the Management Proxy Circular, the Board will be comprised of 10 Directors. The Board is of the view that this number

of Directors is appropriate, and provides for sufficient depth and diversity of experience to provide for effective decision-making.

Board Mandate

The Board, either directly or through Committees of the Board, is responsible for the stewardship of the Corporation and overseeing the management of the business and affairs of the Corporation with the objective of enhancing shareholder value. The Board acts in accordance with *The Corporations Act* (Manitoba) and other applicable laws; the Corporation's Articles and by-laws; the Corporation's *Guide for Business Conduct & Ethics* (the "Ethics Guide"), which outlines essential rules and guidelines pertaining to ethical business conduct; the Corporation's *Corporate Governance Manual* (the "Governance Manual"), which outlines the corporate governance principles and practices of the Board; the formal written Charters of the Audit Committee, the Governance & Nominating Committee and the HRCC of the Board, which set out the roles and responsibilities of these Committees; and other applicable policies of the Corporation.

The Board also acts in accordance with the Board Mandate, which initially was adopted in June 2005. The Board Mandate, which was last amended in November 2008, is set out in Appendix 1 to this Statement of Corporate Governance Practices and can be found on the Corporation's website.

Position Descriptions

The mandate of the Governance & Nominating Committee is to assist the Board in relation to the governance of the Corporation. The Governance & Nominating Committee has developed a Governance Manual which outlines the responsibilities of the Board and individual Directors, including their duties as prescribed by *The Corporations Act* (Manitoba). The Governance Manual contains a position description for the Chair, which sets out the responsibilities of the Chair for managing the processes of the Board, and ensuring that the Board discharges its duties under the Board Mandate. The Governance Manual also includes a position description for the Chairs of the Committees of the Board. This position description defines the duties and responsibilities of the Chair for managing the processes of the Committee, and ensuring the performance of the Committee's mandate as set out in its Charter.

The Governance Manual includes a position description for the Chief Executive Officer. This position description, which is reviewed on an annual basis, provides that the Chief Executive Officer is accountable to the Board for the management of the strategic and operational agenda of the Corporation to ensure both the short-term and long-term profitability and growth of the Corporation in a manner that increases shareholder value, and for the execution of the Board's directives and policies. This position description also sets out the principal duties of the Chief Executive Officer, which include developing and recommending to the Board a long-term strategy and vision for the Corporation; developing and monitoring the Corporation's strategic direction; directing the business operations of the Corporation; establishing and recommending to the Board an organizational structure, including an active succession plan; ensuring that the Board is kept appropriately informed about the Corporation's overall business operations and issues; ensuring the appropriate oversight and assessment of the Corporation's disclosure controls and procedures; developing and recommending to the Board an annual business plan and operating capital budgets; fostering a corporate

culture that promotes ethical practices, encourages individual integrity, and fulfils social responsibility; ensuring that the day-to-day business and affairs of the Corporation are appropriately managed; and formulating and overseeing the implementation of major corporate policies.

Orientation and Continuing Education

The Governance & Nominating Committee is responsible for making recommendations to the Board concerning the education and orientation of Directors. The Board recognizes the need to familiarize new Directors with their roles, responsibilities and liabilities, and to provide them with an overview of the Corporation and its subsidiaries. On an annual basis, each Director is provided with an updated Governance Manual and other orientation materials, including information on the Corporation's business, corporate structure, incorporating charters and by-laws, strategic plans, marketing strategies, financial planning strategies, human resources strategies, capital expenditure programs, new ventures, and products and services. Information on the procedures of the Board also is provided. On no less than a quarterly basis, the Board ensures that management provides it with reports that are intended to be educational and informative regarding various aspects of the business, and annually, an on-site hand-on visit to a specific area of the business. All Directors are expected to attend two separate orientation sessions with the Presidents of the Corporation's operating divisions, and a Director also may request to visit various facilities of the Corporation, and to meet with corporate officers to discuss and better understand the Corporation's business. Executive and senior management also make regular presentations to the Board on various aspects of the Corporation's operations.

Prior to agreeing to join the Board, new Directors are informed about the contributions that they are expected to make, including the commitment of time and energy that is expected.

Ethical Business Conduct

The Board has adopted the Ethics Guide which outlines the essential rules and guidelines for honest and ethical business conduct. Pursuant to the terms of its Charter, the Governance & Nominating Committee is responsible for reviewing annually and monitoring the Ethics Guide.

The Ethics Guide, which applies to all Directors, officers and employees of the Corporation and its subsidiaries, addresses various matters, including conflicts of interest; the protection and proper use of corporate assets and opportunities; confidentiality of corporate information; fair dealings with security holders, customers, suppliers, competitors and employees; compliance with laws, rules and regulations; and fraudulent activities and the reporting of any illegal or unethical behaviour. Each year, officers and employees must acknowledge that they have read, understood and complied with the Ethics Guide. The Ethics Guide is available on SEDAR at www.sedar.com.

The Ethics Guide provides that employees can contact the Chief Financial Officer of the Corporation or the Chair of the Audit Committee to report, in confidence, any possible misconduct. Under the terms of its Charter, the Audit Committee is responsible for addressing complaints regarding accounting, internal auditing controls or auditing matters, and for the receipt of confidential, anonymous submissions by employees of concerns regarding questionable accounting or auditing matters.

The Board also has adopted conflict of interest guidelines that are applicable to the Corporation's Directors and officers. These guidelines establish standards of conduct relating to the identification, disclosure and avoidance of actual and potential conflicts of interest in

order to ensure that Directors and officers maintain high standards of honesty, integrity, impartiality and ethical conduct in the exercise of their powers and the discharge of their duties.

Nomination of Directors

The Governance & Nominating Committee, which is comprised entirely of independent Directors, is responsible for identifying and recommending suitable Director nominees to the Board. In identifying new nominees, the Committee undertakes a consideration of the competencies and skills that the Board as a whole should possess, and assesses the competencies and skills of current Directors. The Committee follows the selection criteria pertaining to Directors as set out in the Corporation's Governance Manual, which includes considerations such as public profile in business and professions; business and special expertise, including financial and technical expertise; knowledge of the telecommunications industry; sound business judgment and the ability to think independently; and personal integrity, honesty and the ability to generate the confidence and goodwill of shareholders. The Governance & Nominating Committee also follows the policy of the Board respecting the maximum age of a Director. A Director who attains the age of 72 is not eligible for election at the annual meeting of shareholders held in the calendar year following the year during which the Director attained the age of 72, subject to special and unusual circumstances as determined by the Board. The Board's policy does not provide for a minimum age of a Director, subject to the requirement in *The Corporations Act* (Manitoba) that a person must be 18 years of age or older in order to be eligible to be a Director.

As part of the annual process for nominating a Director, the Governance & Nominating Committee reviews contributions made by an individual Director.

Additional information concerning the duties and responsibilities of the Governance & Nominating Committee is outlined below under the heading "Board Committees – Governance & Nominating Committee".

The Board has adopted a policy regarding majority voting for the election of Directors. This policy is described in the "Election of Directors" section of the Management Proxy Circular.

Chair Selection Criteria

In February 2009, and as disclosed as a part of the 2009 Management Proxy Circular, the Board adopted the following criteria which should be considered in selecting the Director who is appointed as the Chair of the Board:

- The Director ideally should have been a member of the Board for one or more years.
- The Director must be able to devote sufficient time to the position of Chair in order to discharge the duties and responsibilities of this position effectively.
- The Director must be of an age that will enable the Director to serve as Chair for a minimum period of five years before the Director attains the age of 72.
- The Director must be able to manage the processes of the Board effectively and to engage the other Directors in an open manner that conveys and demonstrates that all Directors are equal.
- The Director must have a mutually respectful and trustworthy relationship with the Chief Executive Officer of the Corporation.
- The Director must have experience as a chief executive officer, chair of a board or a board committee, or as a Director of a company that is comparable in size and complexity to the Corporation.

Through the course of 2009, the Board considered all of these factors as part of its review process. On December 4, 2009, with the pending retirement of Thomas E. Stefanson as Chairman, the Board elected David G. Leith to serve as its Chair. In particular, the Board considered Mr. Leith's considerable industry, financial and business expertise and his extensive experience as an advisor to boards.

Compensation

The HRCC, which is comprised entirely of independent Directors, is responsible for making recommendations to the Board concerning the compensation of executive officers, and for reviewing and making annual recommendations to the Board on the goals and objectives of executive officers. The Governance & Nominating Committee sets the Chief Executive Officer's compensation based on the achievement of such goals and objectives.

The HRCC is responsible for reviewing and making recommendations to the Board regarding appropriate systems of compensation for other executive officers, including salaries, pensions, perquisites, benefits and short-term and long-term incentives, which recognize and reflect responsibilities, risks, individual and corporate performance, and comparative industry standards, and which will facilitate and enhance the achievement of corporate objectives. Information on the compensation of executive officers is described in the "Compensation Discussion and Analysis", "Summary Compensation Table", "Incentive Plan Awards" and "Pension Plan Benefits" sections of the Management Proxy Circular.

The Board, with the assistance of the Governance & Nominating Committee and independent external advisors, reviews and benchmarks the compensation paid to Directors on an annual basis and makes recommendations to the Board regarding changes as may be required to ensure that this compensation meets the objective of properly aligning the interests of Directors with the long-term interests of the Corporation. In 2006, the Board, on the recommendation of the Committee and with the assistance of an external consultant, approved a new flat fee compensation arrangement for Directors which came into effect January 1, 2007. To align the interests of Directors with the interests of shareholders, a certain minimum amount of a Director's annual retainer must be paid in deferred compensation units pursuant to the Corporation's Directors Share Appreciation Plan as described in the "Director's Share Appreciation Plan" section of the Management Proxy Circular, which contains other information on the compensation of Directors.

The HRCC has the authority to retain consulting firms to assist it in carrying out its responsibilities. Additional information concerning the duties and responsibilities of the HRCC is outlined below under the heading "Board Committees – Human Resources & Compensation Committee".

Board Committees

The Board currently has three committees, consisting of the Audit Committee, the Governance & Nominating Committee, and the HRCC. The roles and responsibilities of each of these Committees are set out in formal written Charters. The Committee Charters are reviewed annually to ensure compliance with applicable regulatory requirements and appropriate governance practices. The full text of these Charters can be found on the Corporation's website.

Each of the Committees of the Board is entitled to engage the services of independent consultants, auditors and advisors to assist the Committee in making objective recommendations to the Board that are independent of management.

Audit Committee

The Audit Committee is responsible for monitoring the Corporation's financial reporting functions and related internal control and management information systems; ensuring the quality and integrity of financial information; establishing and ensuring compliance with disclosure controls and procedures and internal control over financial reporting; identifying the principal risks of the Corporation's business, and assigning the responsibility for oversight and monitoring, including ensuring the implementation of appropriate systems to manage these risks, to a Committee of the Board or directly to the Board; adopting a communications policy for the distribution of financial information to the public; directing matters relating to the governance and administration of the Corporation's employee pension plans; ensuring the independence of external auditors; monitoring the performance of the Corporation's internal and external audit functions; and ensuring the Corporation's compliance with legal, regulatory and environmental requirements.

In discharging its responsibilities, the Audit Committee meets periodically with the internal and external auditors to discuss the results of audit examinations with respect to the adequacy of internal controls. The Audit Committee also meets with the external auditors in in-camera sessions to review the quality of the Corporation's financial and accounting personnel and any recommendations of the external auditors. The Audit Committee requires management to implement appropriate systems of internal control over financial reporting, and reviews with the Corporation's executive officers the Corporation's overall policies and procedures with respect to controlling and safeguarding corporate assets. The Audit Committee also approves the internal auditor's annual audit plan and annual report.

Additional information pertaining to the composition of the Audit Committee, its Charter, and the relevant education and experience of its members is set out under the heading "Audit Committee" in the Corporation's Annual Information Form for the year ended December 31, 2009.

Governance & Nominating Committee

The Governance & Nominating Committee is responsible for adopting a strategic planning process, which includes a process for completing, on an annual basis, a strategic plan, a consolidated business plan, and operating and capital budgets; developing the Corporation's corporate governance principles, guidelines and policies; establishing the composition of the Board and its Committees, including identifying and recommending qualified Director nominees on an annual basis; assessing the effectiveness of the Board and its Committees; appointing and planning for the succession of the Chief Executive Officer; assuming responsibility for oversight and monitoring of principal risks of the Corporation as assigned to it by the Audit Committee; assessing the contributions of individual Directors; determining the compensation of Directors; reviewing and monitoring various policies of the Corporation, including its *Conflict of Interest Guidelines*, *Ethics Guide*, *Code of Fair Information Practices*, and *Guide for Competition Law Compliance*; and ensuring appropriate disclosure in the Corporation's Management Proxy Circular.

Human Resources & Compensation Committee

The HRCC is responsible for assisting the Board in relation to the organizational structure, policy, procedures and standards involving the Corporation's human resources, which includes ensuring the integrity of the Chief Executive Officer and other executives, and the contribution of all executives toward the creation of a culture of integrity throughout the Corporation; reviewing and making

recommendations regarding succession planning for all executive officer positions, except for the Chief Executive Officer, and human resource development; determining appropriate compensation systems for executive officers; monitoring collective bargaining practices; and approving the executive compensation disclosure that is included in the Corporation's Management Proxy Circular.

Board and Directors Evaluation

In accordance with its Charter, the Governance & Nominating Committee is responsible for making recommendations to the Board concerning the establishment of criteria, mechanisms and processes for assessing the contributions of Directors on an ongoing basis, the effectiveness of the Board as a whole, and the effectiveness of the Committees established by the Board. These reviews are conducted along with the Chair. The Corporation's Governance Manual requires that as part of the annual process for nominating a Director, the Governance & Nominating Committee must review contributions made by an individual Director in terms of meeting attendance, preparedness, participation, value-added contribution and other responsibilities. These assessments are made through various means as determined by the Governance & Nominating Committee, including the following factors that are relevant at the times of such assessments:

- Evaluation meetings between the Chair and each Director are held to discuss the performance of the Board.

- Each Director completes a written survey in which the Director self-assesses his or her performance and the effectiveness of the Board, with a focus on areas for improvement.
- The Board is assessed against the Board Mandate, and the Committees are assessed against their Charters.
- The results of these assessments are presented to the Governance & Nominating Committee and the Board, and the Governance & Nominating Committee identifies and makes recommendations for improvements.
- The Governance & Nominating Committee evaluates the performance of the Chair (although, in light of the pending retirement of Thomas E. Stefanson as Chairman in early 2010, this review was not conducted in 2009).
- In-camera meetings of the independent Directors are held to review the results of the assessments and to approve the recommendations made by the Governance & Nominating Committee.
- The overall size and operation of the Board and its Committees are reviewed to ensure that the Board and the Committees are able to operate effectively.

APPENDIX 1

BOARD MANDATE

1. The Board acknowledges responsibility for the stewardship of Manitoba Telecom Services Inc. ("MTS" or the "Corporation"), including:
 - (a) to the extent feasible, satisfying itself as to the integrity of the chief executive officer ("CEO") and other executive officers and that the CEO and other executive officers create a culture of integrity throughout the organization;
 - (b) adopting a strategic planning process and approving, on at least an annual basis, a strategic plan which takes into account, among other things, the opportunities and risks of the business;
 - (c) ensuring appropriate systems and processes to identify and manage the principal risks of the Corporation;
 - (d) succession planning (including monitoring and developing senior management);
 - (e) adopting a communication policy for MTS regarding the distribution of financial and other material information to the Corporation's stakeholders;
 - (f) monitoring MTS's internal control and management information systems; and
 - (g) developing MTS's approach to corporate governance, substantially in alignment with regulations applicable to the Corporation, including developing a set of corporate governance principles and guidelines that are specifically applicable to the Corporation.
2. The Board recognizes its responsibilities to shareholders and the importance of communications with shareholders. To facilitate appropriate communications, the Board has adopted appropriate measures and processes, including: a department of Investor Relations which inter alia receives and responds to, in a timely manner, comments from its shareholders, as appropriate and to the extent lawfully permitted; prior approval of the Board as to news releases which contain earnings guidance and financial information based on the Corporation's financial statements prior to release of such financial statements, financial and other information to shareholders; prior approval of the Board regarding responses to proposals from shareholders; and extensive consideration by the Board in the selection of candidates nominated for election as Directors at meetings of shareholders.
3. The Directors of the Corporation are expected to fulfill the obligations of Directors generally as set out in *The Corporations Act* (Manitoba) including the duty of honesty, the duty of loyalty, the duty of care, the duty of diligence, the duty of skill and the duty of prudence. The definitions of these duties are made available to all Directors of the Corporation. In addition, the responsibilities set out below serve as a framework to guide the Directors in their participation on the Board. Directors are expected to:
 - (a) assume a stewardship role, oversee the management of the business and affairs of the Corporation;
 - (b) maintain a clear understanding of the business of the Corporation, including its strategic and financial plans and objectives, emerging trends and issues, significant initiatives and capital allocations and expenditures, risks, internal systems, processes and controls, compliance with applicable regulations, governance, audit and accounting principles and practices;
 - (c) absent a compelling reason, attend all Board and Committee meetings, and actively participate in deliberations and decisions;
 - (d) be familiar with matters to be covered at all Board and Committee meetings even if attendance is not possible; prepare for each Board and Committee meeting by reviewing materials and requesting, where appropriate, information that will allow the Director to participate meaningfully in the Board's deliberations, make informed business judgments and exercise oversight;
 - (e) vote on all decisions of the Board and each Committee of which s/he is a member, except where a conflict of interest exists or may exist;
 - (f) prevent personal interests from conflicting with, or appearing to conflict with, the interests of the Corporation and disclose details of such conflicting interests as they arise;
 - (g) act in the highest ethical manner and with integrity in all professional matters; and
 - (h) maintain a level of equity in the Corporation consistent with the policy for ownership established by the Board to ensure personal alignment with the long-term interests of the Corporation.

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