Quarterly Report 1

for the period ending March 31, 2006

- *Earnings per share increases 3.2% vs. first quarter 2005*
- *Board declares second quarter 2006 cash dividend of $0.65 per share*
- *2006 financial guidance issued*
- *Strong growth in wireless, digital television and high-speed Internet revenues*
- *Transition Phase II cost reduction program ("TP2") achieved $52 million in annualized expense savings*
- *New organizational structure sharpens customer focus*
- *IP VPN (Internet Protocol Virtual Private Network) base continues to climb, reaching 135 customers*
- *Launch of 1xEV-DO (Evolution Data Optimized) creates fastest wireless data network in Manitoba*
- *Multi-year sponsorship deal signed with 6-time Olympic medallist, Cindy Klassen*

Winnipeg, Manitoba, May 2, 2006 – Manitoba Telecom Services Inc. ("MTS") today released its first quarter results. The Board of Directors also declared the second quarter cash dividend at $0.65 per share. The second quarter dividend is payable on July 17, 2006 to shareholders of record at the close of business on June 15, 2006.

"MTS had a solid and productive quarter," said Pierre Blouin, Chief Executive Officer. "In markets that remain intensely competitive, we delivered gains in year-over-year financial performance, maintained our product and service leadership, invested in our brand by partnering with Canada's greatest Olympian, made significant progress against our cost reduction and productivity goals, and continued to advance our efforts to deliver shareholder value."

EPS[1] was $0.65 in the first quarter, as compared to $0.63 in the first quarter of 2005. Revenues were $488.8 million, EBITDA[2] increased by 4.1% to $165.7 million and free cash flow[3] was 6.9% higher at $69.3 million. The year-over-year increase in EPS reflects improvements in the Company's operating cost structure, together with lower restructuring and integration costs in 2006, which was partly offset by marginally lower revenues. Underlying the stability of the first quarter EBITDA results was strong performance in the Company's growth services which, on a combined basis, increased by 15% and added $21 million in new revenues. Specifically:

- *Next generation data connectivity revenues climbed by 54.0%*
- *Wireless revenues grew by 13.3%*
- *Digital television revenues increased by 48.9%*
- *Wireless customers increased by 11.5%; postpaid net additions increased by 20.4%*
- *Digital television customers increased by 46.3%*
- *High-speed Internet customers grew by 19.1%*

"These results demonstrate that we are absolutely headed in the right direction with our TP2 cost reduction program, as we focus our operations and align our cost structure. We are competing and winning through the delivery of high-quality and innovative services to our customers. Be it digital television, wireless telephony and high-speed Internet for the consumer market, or next generation capabilities like IP VPN service for business – our capabilities and network infrastructure are market-leading," added Mr. Blouin. "After the first quarter of 2006, we have achieved annualized savings of $52 million. The market continues to evolve, and we're changing with it."

Mr. Blouin remarked, "We were also encouraged by the CRTC's recent ruling on local forbearance. Longer-term, the CRTC's recognition that fair competition requires a commitment to wholesale access in tandem with retail price deregulation bodes well for our Enterprise Solutions business. As well, the winback provisions of the ruling will strengthen our consumer franchise."

FINANCIAL HIGHLIGHTS

(in millions of dollars) [4]	*three months ended March 31*	
	2006	**2005**
Operating Revenues	488.8	495.1
Operating Income	84.9	80.1
EBITDA	165.7	159.1
Net Income	44.0	42.5
Basic EPS	0.65	0.63
Free Cash Flow	69.3	64.8
Total Capital Assets [5]	1,491.0	1,507.6

Aligning the Company's cost structure with the realities of an intensely competitive marketplace is one of the Company's top priorities. "We are making excellent progress with our cost reduction and productivity efforts," commented Chief Financial Officer Wayne Demkey. "Establishing the appropriate cost structure is fundamental to our competitiveness and long-term business success. With $52 million in annualized expense savings achieved by the end of the first quarter, we are right on plan and confident that we will achieve our full TP2 cost reduction program target for 2006."

2006 FINANCIAL OUTLOOK – CONTINUING OPERATIONS[6]

MTS also announced its 2006 financial guidance today, as outlined in the following table.

Revenues	$1.925 B to $1.975 B
EBITDA	$655 M to $680 M
EPS	$2.35 to $2.65
Free Cash Flow	$285 M to $310 M
Capital Expenditures	$270 M

The Company expects to fund its 2006 cash requirements out of continued strong cash flow from operations, together with lower year-over-year capital expenditures, improved working capital management and limited incremental borrowings. This includes cash costs for two special obligations which are not from continuing operations that the Company expects to incur in 2006. The first of these is approximately $70 million to $80 million to support the advancement of its TP2 cost reduction program. The second is solvency funding for its pension plans. Under current pension rules, the Company must contribute approximately $105 million to its plans, even though the Company is financially strong and the plans are fully funded on a going concern basis.

Ranges for the guidance have been established to reflect the continuing evolution of the marketplace and the timing of declines in revenues from the Company's relationships with AT&T Corp. and Rogers Communications Inc. Further details on the Company's 2006 outlook and these customer relationships can be found in our interim Management's Discussion and Analysis ("MD&A") for the three months ended March 31, 2006.

BUSINESS REVIEW

On January 31, 2006, the Company announced it would conduct a comprehensive business review to evaluate its competitive position and strategic opportunities for creating and delivering long-term shareholder value. "The business review is proceeding well," said Mr. Blouin. "We have confirmed that MTS Allstream has attractive opportunities to capitalize on the growth potential of its core businesses and to unlock significant shareholder value. Our focus is now on evaluating the various opportunities. We are working diligently on this effort, and continue to expect the review will be completed this year."

OTHER DEVELOPMENTS

New Organizational Structure

On February 28, 2006, the Company announced a new organizational structure. Under this new structure, a Consumer Markets division and an Enterprise Solutions division were created as a means to refocus the businesses around the customer. The Consumer Markets division is focused on the consumer and small business segments. The Enterprise Solutions division is focused on the mid to large enterprise business markets across the country. Through this new structure, MTS Allstream believes that it will be better positioned to compete more effectively and efficiently in the marketplace.

Because the announced changes to the organizational structure occurred late in the first quarter of 2006, any financial and operating information in this news release and the MD&A for the first quarter, respecting the Consumer Markets division (formerly the Manitoba division) and Enterprise Solutions division (formerly the National division) is presented on the same basis as each division's respective predecessor organization.

Going forward, financial and operating information related to the Consumer Markets division and Enterprise Solutions division will be reported on the basis of the market responsibilities contemplated in the new structure.

1xEV-DO
On March 8, 2006, MTS Allstream announced the upcoming launch of its new wireless high-speed 1xEV-DO 3G wireless network in Winnipeg and Brandon. By making its mobile data network the fastest in the province of Manitoba, the 1xEV-DO upgrade is an outstanding example of MTS Allstream's leadership when it comes to providing access to the most advanced technology available. Customers will experience data download rates of up to 2.4 Mbps – with average speeds up to five times faster than are currently available. The faster and more reliable Internet connections will revolutionize the way Manitobans communicate using their wireless devices.

AAA Alarms Now Included in Bundling Options
In a move that rewards customer loyalty with enhanced product choices, on April 7, 2006 the Company announced that it is now making it possible for security services from AAA Alarm Systems Ltd. to be bundled together with other services, including wireless, high-speed Internet and digital television.

Further Expansion of MTS Video On Demand Library
MTS Allstream announced new multi-year distribution agreements with Sony Pictures Television Canada ("Sony") and Metro-Goldwyn-Mayer ("MGM") on April 25, 2006, and with Warner Bros. International Television Distribution on April 26, 2006. New release and library title films from Columbia Pictures, Sony Pictures Classics, Screen Gems and TriStar Pictures (represented by Sony) and United Artists, Orion, Goldwyn and Polygram (represented by MGM) are included in these partnerships. The addition of this vast content array further expands the quality and selection of movie titles offered by MTS TV to its more than 50,000 subscribers. Combined with the new MTS TV features that are rolled out on an ongoing basis, MTS TV continues to be recognized as one of the best video-over-digital subscriber line services in North America.

RBC Financial Group Win
On January 30, 2006, MTS Allstream announced a four-year multi-million dollar contract to migrate RBC Financial Group's 1,900 off-branch automated banking machines ("ABMs") across Canada to an IP/multiprotocol label switching ("MPLS") network. This solution enables RBC Financial Group to offer its customers faster service at its non-branch ABMs through MTS Allstream's highly secure network. Implementation is currently underway and is expected to be complete by mid-2007.

Vantis Credit Union Chooses MTS Allstream to Make Leading-Edge Customer Connections
On May 1, 2006, the Company announced that Vantis Credit Union will offer customers live consultation with service representatives through video kiosks at all of their branches, utilizing the expertise of MTS Allstream. The multimedia platform developed and deployed by MTS Allstream will allow cameras at Vantis' interactive communication unit kiosks to link directly with the organization's financial professionals, re-defining customer service while allowing Vantis to make more efficient use of existing resources and increase access to the financial services and products they offer. By partnering with MTS Allstream, Vantis Credit Union, a Winnipeg-based credit union, is the first financial institution in Canada to offer this leading-edge access to their financial products and services.

Securitization Arrangement with RBC Capital Markets
On April 13, 2006, the Company announced that it entered into a $150.0 million accounts receivable securitization arrangement. Under this arrangement, MTS Allstream has the ability to sell its accounts receivable on a revolving basis in exchange for short-term funds. Under this arrangement, MTS Allstream will continue to manage and service all of its customer accounts.

Cindy Klassen – Canada's Greatest Olympian
On February 27, 2006, the Company announced a major sponsorship agreement with 26-year-old speed skater Cindy Klassen of Winnipeg. Ms Klassen is the first Canadian athlete to win six Olympic medals. During her impressive showing in the 2006 Winter Olympics in Torino, Italy, she won an amazing five medals – one gold, two silver and two bronze – and wrapped up the games as Team Canada's flag bearer. As part of the multi-year agreement, Ms Klassen will represent MTS Allstream at various events and participate in upcoming marketing campaigns.

CRTC Approves Additional $9.9 Million Payment to MTS Allstream
On April 24, 2006, the Canadian Radio-television and Telecommunications Commission ("CRTC") issued Decision 2006-20, which approved MTS Allstream's application to review and vary the *CRTC's decision in MTS Allstream's application to review and vary certain decisions relating to its Band F subsidy*, Telecom Decision CRTC 2005-52 (the "Band F Decision"), and determined that a further payment of $9.893 million from the National Contribution Fund be paid to MTS Allstream within thirty days of this decision. These funds are in addition to the approximately $10 million previously awarded from the Band F Decision on subsidies paid in support of the Company's service to high-cost and remote locations.

CRTC Approves Final Rates for Access Tandem and Direct Connection Service
On April 27, 2006, the CRTC issued *Aliant Telecom, Bell Canada, MTS Allstream, SaskTel and TCI – Approval of rates on a final basis for Access Tandem service*, Telecom Decision CRTC 2006-22 and *Aliant Telecom, Bell Canada, MTS Allstream, SaskTel and TCI – Approval of rates on a final basis for Direct Connection service*, Telecom Decision CRTC 2006-23. In these decisions, the CRTC has set the final rates for these services at levels lower than those proposed by the major incumbent providers. These decisions will contribute positively to MTS Allstream's Enterprise Solutions division's ability to compete in the marketplace.

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[1] EPS is earnings per share.
[2] EBITDA is earnings before interest, taxes, amortization and other income (expense). EBITDA should not be construed as an alternative to operating income or to cash flows from operating activities (as determined in accordance with Canadian generally accepted accounting principles) as a measure of liquidity.
[3] Free cash flow is cash flow from operating activities, less capital expenditures, and excluding changes in working capital. Free cash flow is the amount of discretionary cash flow that we have for purchasing additional assets beyond our annual capital expenditure program, paying dividends, buying back shares or retiring debt.
[4] Excludes earnings per share.
[5] 2006 as at March 31; 2005 as at December 31
[6] Continuing operations include synergies, and exclude restructuring, solvency funding to our pension plans and the one-time payment to be received as a result of CRTC Decision 2006-20.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Unless otherwise indicated, this Management's Discussion and Analysis ("MD&A") of our financial results for the period ended March 31, 2006 is as at May 2, 2006. In this MD&A, "we", "our", and "us" refer to Manitoba Telecom Services Inc. This interim MD&A should be read in conjunction with our interim consolidated financial statements and the discussion and analysis that accompanies our audited consolidated financial statements for the year ended December 31, 2005. This interim MD&A for the three months ended March 31, 2006 updates the information contained in our 2005 annual MD&A.

This interim MD&A includes forward-looking statements about our corporate direction and financial objectives that are subject to risks, uncertainties and assumptions. As a consequence, actual results in the future may differ materially from any conclusion, forecast or projection in such forward-looking information. Examples of statements that constitute forward-looking information may be identified by words such as "believe", "expect", "project", "anticipate", "could", "target", "forecast", "intend", "plan", "outlook", and other similar terms. Factors that could cause actual results to differ materially from those expected, and the material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in such forward-looking information, include, but are not limited to, the items identified in the "Risks and Uncertainties" section and the "Material Assumptions" identified in the "Outlook" section of this interim MD&A and our 2005 annual MD&A. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Additional information relating to our company, including our Annual Information Form, is available on SEDAR at www.sedar.com.

NON-GAAP MEASURES OF PERFORMANCE

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

- **Continuing Operations** – We provide information that refers to our performance from continuing operations to assist investors in understanding the performance of our company. Continuing operations in the first quarter of 2006 include synergies and exclude restructuring costs and solvency funding to our pension plans. Continuing operations in the first quarter of 2005 include synergies and exclude restructuring costs, the estimated net positive retroactive portion of the impact from a decision of the Canadian Radio-television and Telecommunications Commission ("CRTC") in *Competitor Digital Network Service*, Telecom Decision CRTC 2005-6 (the "CDNA Decision"), the gain arising from the sale of our investment in a wireless venture, and solvency funding to our pension plans.

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

- **Free Cash Flow –** We define free cash flow as cash flow from operating activities, less capital expenditures, and excluding changes in working capital. Free cash flow is the amount of discretionary cash flow that we have for purchasing additional assets beyond our annual capital expenditure program, paying dividends, buying back shares or retiring debt.

OVERVIEW

MTS is a leading national communications provider in Canada, which earned $2.017 billion in revenue and net income of $213.7 million in 2005. Our objective is to build upon our many strengths as an agile national competitor and services innovator, and to ensure that we are profitably focused on our growth opportunities, particularly those being driven by customers migrating to Internet Protocol ("IP") solutions.

On February 28, 2006, we announced changes to our organizational structure. Under this new structure, we have created a Consumer Markets division and an Enterprise Solutions division. Our Consumer Markets division is focused on the consumer and small business segments. Our Enterprise Solutions division is focused on the mid to large enterprise business markets across the country. Through this new structure, which is centred around the customer, we believe that we are better positioned to compete in the marketplace and facilitate cost-effective operations.

Because the announced changes to our organizational structure occurred later in the first quarter of 2006, any financial and operating information, and the associated discussion in this MD&A respecting our Consumer Markets division (formerly our Manitoba division) and Enterprise Solutions division (formerly our National division) is presented on the same basis as each division's respective predecessor organization.

Going forward, financial and operating information related to our Consumer Markets division and Enterprise Solutions division will be reported on the basis of the market responsibilities contemplated in the new structure.

Consumer Markets division: the primary telecommunications provider in Manitoba which operates under the MTS brand. We serve residential and small business customers with a full suite of wireline voice, high-speed Internet and data, next generation wireless, directory, digital television, and security and alarm monitoring services.

Enterprise Solutions division: a customer-focused, agile innovator which offers a world-class portfolio of business solutions, including voice and data connectivity, infrastructure management and information technology ("IT") services to business and wholesale customers. Our Enterprise Solutions division, which operates under our Allstream brand, has built a strong market share position that spans the country, and includes many of Canada's largest companies, as well as federal, provincial and municipal governments.

On November 29, 2005 we launched our Transition Phase II cost reduction program ("TP2 cost reduction program") to position the company to grow profitably and improve our cash flows in the rapidly changing telecommunications industry. Our TP2 cost reduction program builds on the success of our initial integration project by refining our market focus and aligning our cost structure for long-term competitive success. The TP2 cost reduction program represents a further integration of our two operating divisions, which is expected to achieve a minimum of $100 million in expense savings over the next two years.

RESULTS OF OPERATIONS

Earnings Per Share ("EPS") ($)

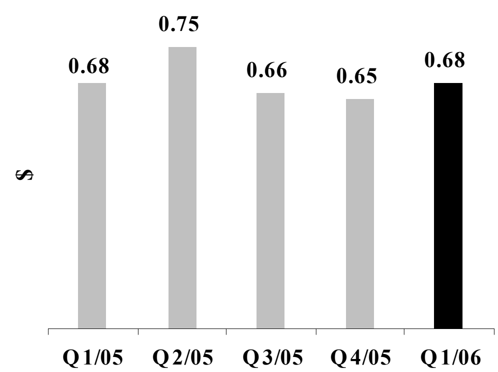
three months ended March 31	*2006*	*2005*
EPS (Continuing Operations)	**0.68**	0.68
Restructuring Costs	(0.03)	(0.12)
Retroactive Portion of CDNA Decision	--	0.04
Gain on Sale of Wireless Venture	--	0.03
Basic EPS	0.65	0.63

Note: EPS for the three months ended March 31 is based on weighted average shares outstanding of 67.8 million for 2006, and 67.6 million for 2005.

EPS from continuing operations was consistent with last year at $0.68 for the first quarter of 2006, which is primarily due to slightly lower results from our Enterprise Solutions division and higher amortization expense, which was offset by growth in our Consumer Markets division.

Basic EPS was $0.65 in the first quarter, as compared to $0.63 in 2005. This result reflects a number of items that did not arise from continuing operations, including restructuring costs during the first quarter of both 2005 and 2006; the estimated retroactive portion of the net positive impact from the CDNA Decision; and the gain on the sale of our ownership interest in a wireless venture.

EPS
(Continuing Operations)



EBITDA

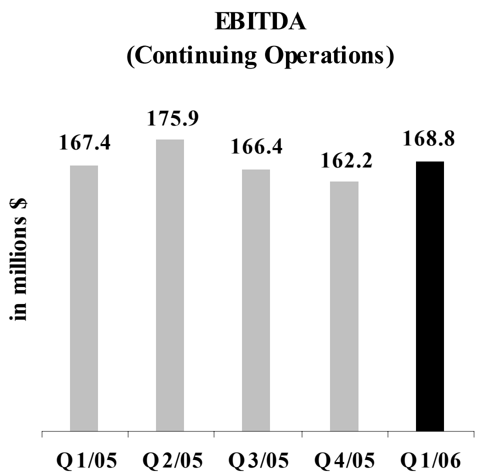
(in millions $)	*Q1/06*	*Q1/05*	*% change*
EBITDA (Continuing Operations)	**168.8**	167.4	0.8
Restructuring Costs	(3.1)	(12.6)	(75.4)
Retroactive portion of CDNA Decision	--	4.3	n/m
EBITDA	165.7	159.1	4.1

When comparing results from the first three months of 2005 and 2006, EBITDA from continuing operations increased from $167.4 million to $168.8 million. This performance is primarily attributable to improvements in our cost structure and continued revenue growth in our Consumer Markets division, which was partly offset by lower revenues from our Enterprise Solutions division.

Our Enterprise Solutions division continued to encounter pressure due to aggressive pricing in the long distance and data services markets, which was driven in part by the ongoing adoption of IP solutions by customers. These impacts were partly offset by increased revenues from growth in next generation data connectivity services, IT services and wholesale local services.

Through various actions we are undertaking in relation to our TP2 cost reduction program, we are repositioning our business to compete successfully and deliver profitable growth. Our focus is on profitable customer segments that have solid profitability margins and significant growth potential, such as IP data services. We also are moving forward with our cost reduction initiatives, which have achieved annualized savings of $52 million to March 31, 2006.

Strong growth in revenues from wireless, digital television and Internet services, partly offset by decreased revenues from local and long distance services, contributed to higher EBITDA performance for our Consumer Markets division.



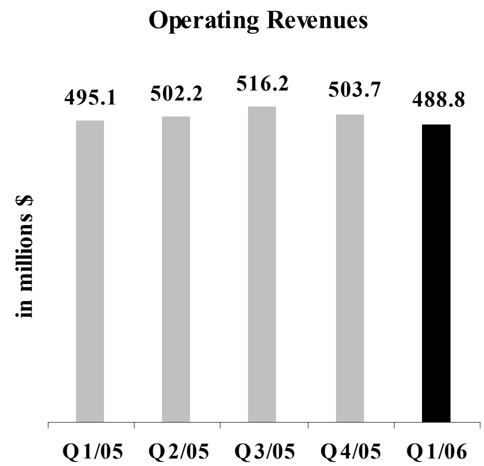
REVENUES

Operating Revenues

(in millions $)	*Q1/06*	*Q1/05*	*% change*
Data	164.0	167.5	(2.1)
Local	138.2	136.2	1.5
Long Distance	104.8	121.3	(13.6)
Wireless	53.8	47.5	13.3
Other	28.0	22.6	23.9
Total	**488.8**	495.1	(1.3)

Our operating revenues include those earned from the provision of data, local voice, long distance voice, wireless and other services, which includes digital television service.

Consolidated revenues decreased by 1.3% to $488.8 million in the first quarter of 2006. Contributing to this change were strong increases in next generation data connectivity, wireless, IT services, wholesale local, miscellaneous (terminal equipment), digital television and Internet. Lower revenues from legacy data connectivity, and long distance contributed to the change in consolidated revenues year-over-year.

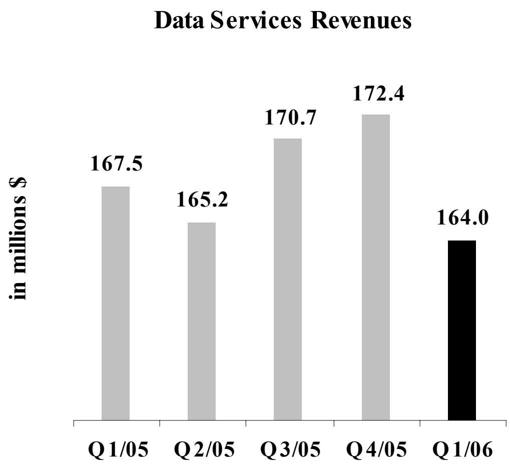


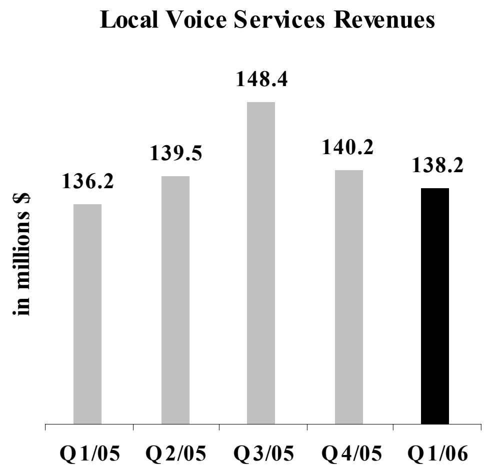
Data Services

(in millions $)	*2006*	*2005*	*% change*
Q1/YTD	**164.0**	167.5	(2.1)

Our data line of business includes revenues earned from providing data, Internet and IT services. Data services connect data, video and voice networks to establish private connections across office locations and to integrate traffic over highly secure networks. We provide a wide range of Internet connectivity services to meet the needs of residential customers in Manitoba and business customers across the country. We also offer numerous hosting and security services to business customers across Canada.

Revenues from data services were $164.0 million in the first three months of 2006, as compared to $167.5 million in the corresponding period in 2005. Included in our first quarter 2005 results is a $1.6 million retroactive charge associated with the CDNA Decision. Data connectivity revenues decreased due to re-pricing associated with competitive pressures and ongoing migration to IP-based solutions. These services, while priced lower, have attractive margins, and we have strong capabilities to deliver these solutions to customers. Revenues from next generation data connectivity services, IT services and Internet services increased in the first quarter, which helped to offset lower legacy data connectivity revenues. Our IT services, which include managed and professional services for IP environments, increased due to our acquisition of Delphi Solutions Corp. ("Delphi") on July 5, 2005. Strong growth in our high-speed Internet customer base in Manitoba also continued in the first quarter of 2006. As at March 31, 2006, our high-speed Internet customer base totalled 131,047, translating into strong year-over-year growth of 19.1%.





Local Services

(in millions $)	*2006*	*2005*	*% change*
Q1/YTD	**138.2**	136.2	1.5

Local services revenues from our Consumer Markets division include basic voice connections for residential and business customers, including enhanced calling features (such as Call Answer, Call Display, Call Waiting and 3-Way Calling), payphone revenue, wholesale revenues from services provided to third parties, as well as contribution revenue. Through our Enterprise Solutions division, we provide a full range of local services to business customers on a national basis. These services allow customers to complete calls in their local calling areas and to access long distance, cellular networks and the Internet. The local products provided by our Enterprise Solutions division offer a uniform service across all major markets in Canada.

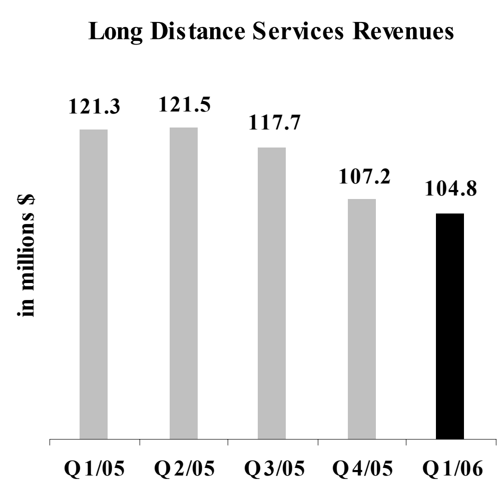
Local services revenues were $138.2 million, which is up 1.5% from $136.2 million in the same period of the previous year. This increase is primarily due to higher wholesale business in our Enterprise Solutions division, which was partly offset by the impact from the increasingly competitive environment in which our Consumer Markets division operates. Competition from cable telephony offerings was introduced in the local Manitoba market in mid-2005, which has contributed to a 6.5% decrease in residential network access lines year-over-year. Our Consumer Markets division has one of the most advanced suites of communications offerings of any operator in North America, and we are confident in our ability to continue to compete successfully in the Manitoba market.

Long Distance Services

(in millions $)	*2006*	*2005*	*% change*
Q1/YTD	**104.8**	121.3	(13.6)

Long distance services enable residential customers in Manitoba and business customers across Canada to communicate with destinations outside the local exchange. Our long distance voice service portfolio includes basic, domestic, cross-border and international outbound long distance, basic and enhanced toll-free services, calling cards and audio conferencing, as well as a variety of enhanced long distance services and features.

Long distance revenues decreased to $104.8 million in the first quarter of 2006, as compared to $121.3 million in the previous year, which reflects competitive pressures that are associated with pricing across all market segments. Our Consumer Markets division experienced decreased revenue due to local line losses and customer migration to lower priced plans along with wireless and e-mail substitutions. Our Enterprise Solutions division experienced year-over-year rate contraction in the domestic and cross-border markets, which was partly offset by higher domestic volume.



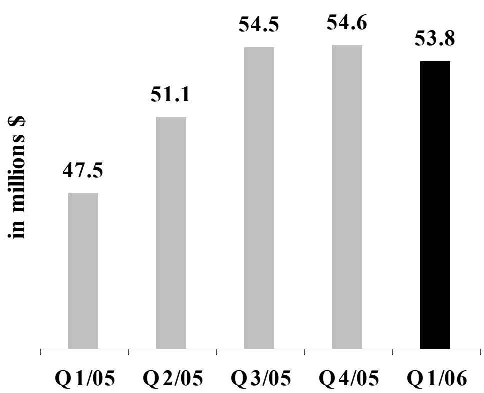
Wireless Services

(in millions $)	*2006*	*2005*	*% change*
Q1/YTD	**53.8**	47.5	13.3

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

Revenues from wireless services increased to $53.8 million in the first three months of 2006, representing growth of 13.3%. Strong customer growth and increased average monthly revenue per user ("ARPU") were the primary contributors to this solid level of performance. Our cellular customer base grew to 323,399 as at March 31, 2006, representing an increase of 11.5% over the first quarter of 2005. The expanding popularity of our wireless services, including related data and other enhanced features, also continued to drive increased utilization rates, resulting in an ARPU of $53.93 in the quarter, representing a 2.2% improvement over the corresponding quarter in the prior year.

Wireless Services Revenues



Other Revenues

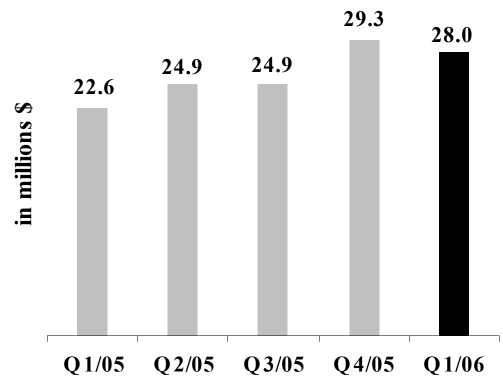
(in millions $)	*2006*	*2005*	*% change*
Q1/YTD	**28.0**	22.6	23.9

Other revenues consist of revenues earned from our directory business, digital television services and miscellaneous items. Directory revenues mainly include our Yellow Pages™ and White Pages telephone directories. Our digital television service is offered across our broadband network platform and is targeted at residential customers in Winnipeg. Miscellaneous revenues primarily consist of security and alarm monitoring services, and the sale and maintenance of terminal equipment.

Other revenues climbed by 23.9% to $28.0 million in the first quarter of 2006, primarily due to strong revenue growth from digital television services and equipment sales together with continued stable revenues from our security and alarm monitoring services.

On a year-over-year basis, digital television revenues increased by 48.9% to $7.0 million in the first three months of 2006. This increase is indicative of growth in our subscriber base from 37,219 to 54,439 at March 31, 2006, and our addressable market share capture of 22.5%.

Other Revenues



OPERATING EXPENSES

Operations Expense

(in millions $)	*2006*	*2005*	*% change*
Q1/YTD	320.0	323.4	(1.1)

For the three months ended March 31, 2006, operations expense was $320.0 million, as compared to $323.4 million in the same period of 2005. Contributing to this decrease are lower expenses flowing from our TP2 cost reduction program, which contributed approximately $22 million in savings realized in the first quarter. These reductions were partly offset by higher expenses associated with our growth operations and the acquisition of Delphi.

Included in our first quarter 2005 results is a positive $5.9 million retroactive adjustment associated with the CDNA Decision. This adjustment reflects the net amount associated with the rates approved in the CDNA Decision for periods prior to 2005. This decision established final rates for the facilities that our Enterprise Solutions division leases from incumbent local exchange carriers and for the facilities that our Consumer Markets division leases to competitors.

Restructuring Costs

(in millions $)	*2006*	*2005*	*% change*
Q1/YTD	3.1	12.6	(75.4)

Restructuring costs were $3.1 million in the first quarter of 2006, as compared to $12.6 million in the comparable quarter in 2005.

During the first quarter of 2005, we recorded restructuring costs of $9.0 million relating to workforce reduction programs that were undertaken during the first quarter of 2005. These costs represent severance costs and other employee-related costs associated with the elimination of approximately 185 positions.

Amortization Expense

(in millions $)	*2006*	*2005*	*% change*
Q1/YTD	80.8	79.0	2.3

Amortization expense was $80.8 million in the first quarter of 2006, which is up marginally as compared to $79.0 million in the same period of the previous year. This increase was the result of an increase in deferred wireless amortization costs, and an increase in plant in service.

Other Income

(in millions $)	*2006*	*2005*	*% change*
Q1/YTD	1.1	4.1	(73.2)

Other income was $1.1 million in the first quarter of 2006, versus $4.1 million in the previous year. This year-over-year decrease is primarily attributable to a $2.7 million gain that we realized in the first quarter of 2005 on the disposition of our investment in a wireless venture. Our investment was acquired by the other two partners in this venture for a total purchase price of $8.1 million in cash, which represented the total investment we made in this venture.

Debt Charges

(in millions $)	*2006*	*2005*	*% change*
Q1/YTD	15.3	15.2	0.7

Debt charges were $15.3 million in the first quarter, which is up nominally by 0.7% as compared to the same period in 2005. As at March 31, 2006, we had $1,027.6 million of outstanding debt, as compared to $1,004.2 million as at December 31, 2005. Our debt to total capitalization ratio as at March 31, 2006 was 41.8%, and continues to provide us with financial strength and flexibility going forward.

Income Tax Expense

(in millions $)	*2006*	*2005*	*% change*
Q1/YTD	26.7	26.5	0.8

Income tax expense was $26.7 million in the first quarter of 2006, as compared to $26.5 million in the first quarter of 2005.

Our effective tax rate has decreased from 38.4% in the first quarter of 2005 to 37.8% in the first quarter of 2006. Our effective tax rate is slightly higher than the statutory income tax rate of 36.2% due to the inclusion of large corporations tax.

As a result of our acquisition of Allstream Inc. ("Allstream") on June 4, 2004, we have the benefit of tax loss carryforwards, which enables us to reduce taxes payable for a number of years going forward. The impact of the utilization of these tax losses has essentially eliminated cash taxes on earnings since June 2004.

CONSOLIDATED QUARTERLY DATA

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

(in millions $, except earnings per share)	**Q1 2006**	**Q4 2005**	**Q3 2005**	**Q2 2005**
Operating Revenues	488.8	503.7	516.2	502.2
Operating Income	84.9	39.9	87.8	94.6
Net Income	44.0	14.6	45.1	111.5
Earnings Per Share	0.65	0.22	0.67	1.65
Diluted Earnings Per Share	0.65	0.22	0.66	1.64
(in millions $, except earnings per share)	**Q1 2005**	**Q4 2004**	**Q3 2004**	**Q2 2004**
Operating Revenues	495.1	503.9	495.9	314.0
Operating Income	80.1	92.6	95.0	72.1
Net Income (Loss)	42.5	42.3	51.0	(6.7)
Earnings (Loss) Per Share	0.63	0.63	0.61	(0.10)
Diluted Earnings (Loss) Per Share	0.63	0.63	0.61	(0.10)

Our Consumers Markets division historically has delivered consistently steady growth in financial performance. In the second quarter of 2004, we began consolidating Allstream's results, which is the primary reason for the higher revenues and operating income in the last three quarters of 2004, all four quarters of 2005, and the first quarter of 2006. In addition to the steady performance of our Consumer Markets division, and the inclusion of Allstream's results beginning on June 4, 2004, our consolidated financial results for the eight most recently completed quarters reflect:

- The recognition of restructuring costs in the first quarter of 2006 in the amount of $3.1 million; in each of the four quarters in 2005 in the amounts of $3.6 million, $3.9 million, $5.0 million and $5.0 million, listed chronologically; and in the third and fourth quarters of 2004 in the amounts of $2.2 million and $3.3 million, respectively. These costs are associated with the initial integration of Allstream's operations following the completion of our acquisition and further restructuring costs associated with our TP2 cost reduction program.

- The recording of a provision against the carrying value of a long-term investment in the pre-tax amount of $4.5 million and $7.0 million in the fourth quarters of 2005 and 2004, respectively.

- Workforce reduction initiatives that we undertook in the first and fourth quarters of 2005, which resulted in restructuring charges of $9.0 million and $35.4 million, respectively.

- The recording of a $5.9 million positive retroactive impact in the third quarter of 2005 from the *CRTC's decision in MTS Allstream's application to review and vary certain decisions relating to its Band F subsidy*, Telecom Decision CRTC 2005-52 (the "Band F Decision").

- The acquisition on July 5, 2005 of Delphi for a purchase price of approximately $15 million.

- The recording of a $72.5 million (non-cash) gain in respect of prior years' tax audits in the second quarter of 2005, which was partly offset by a $9.6 million charge to reflect a decrease in the value of our income tax asset as a result of a reduction in future income tax rates in the province of Manitoba.

- The recording of a $4.3 million net positive retroactive impact in the first quarter of 2005 from the CDNA Decision.

- The recognition of a one-time gain in the amount of $2.7 million in the first quarter of 2005 resulting from the sale of our investment in a wireless venture.

- The impact of our substantial issuer bid, which we completed on September 27, 2004, and which resulted in the purchase for cancellation of 1,966,775 Class B Preference Shares for cash consideration of $84.6 million and 16,637,870 Common Shares for cash consideration of $716.2 million in the third quarter of 2004.

- The recording of a one-time charge of $75.0 million ($47.8 million, net of taxes) in the second quarter of 2004 relating to the costs of a settlement with Bell Canada ("Bell"). This one-time pre-tax cost is reflected in our income statement as "other expense". This cost is the reason for the loss per share in the second quarter of 2004.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows from Operating Activities

(in millions $)	*2006*	*2005*	*$ change*
Q1/YTD	77.7	110.0	(32.3)

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

Cash flows from operating activities were $77.7 million in the first quarter, as compared to $110.0 million in the same period of 2005. This decrease is mainly attributable to items not from continuing operations including increased pension solvency funding and changes in working capital relating to workforce reductions flowing from our TP2 cost reduction program.

Cash Flows used in Investing Activities

(in millions $)	*2006*	*2005*	*$ change*
Q1/YTD	53.1	63.3	(10.2)

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

Cash flows used in investing activities were $53.1 million in the first quarter, as compared to $63.3 million a year ago. This decrease is primarily due to decreased capital expenditures. Also contributing to the year-over-year change are the proceeds from the sale of our investment in a wireless venture at a price of $8.1 million, and $4.2 million in acquisition costs for the purchase of Reliable Alarms Limited, both of which occurred during the first quarter of 2005.

Free Cash Flow

(in millions $)	*Q1/06*	*Q1/05*
Free Cash Flow (Continuing Operations)	92.5	82.0
Restructuring Expense	(3.1)	(12.6)
Restructuring Capital Expenditures	(0.1)	(1.3)
Pension Solvency Funding	(20.0)	(7.6)
Retroactive Portion of CDNA Decision	--	4.3
Consolidated Free Cash Flow	69.3	64.8

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

Free cash flow from continuing operations was $92.5 million in the first quarter, which is up from $82.0 million from the previous year. This increase is primarily attributable to lower capital expenditures year-over-year.

Consolidated free cash flow was $69.3 million in the first quarter of 2006, as compared to $64.8 million in the same period of the previous year. In addition to the items noted above, consolidated free cash flow during the first quarter of 2006 also includes restructuring costs and pension solvency funding, while consolidated free cash flow during the corresponding quarter of the previous year included restructuring costs and pension solvency funding, as well as a positive retroactive adjustment associated with the CDNA Decision.

Cash Flows used in Financing Activities

(in millions $)	*2006*	*2005*	*$ change*
Q1/YTD	17.0	49.0	(32.0)

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

Cash flows used in financing activities were $17.0 million in the first quarter, as compared to $49.0 million in 2005. In the first quarter of 2006, we paid cash dividends of $44.0 million, and issued net notes payable of $23.4 million. In the first quarter of 2005, we paid cash dividends of $43.9 million and repaid long-term debt in the amount of $9.7 million.

Credit Facilities

(in millions $)	*Capacity*	*Utilized at March 31/06*
Medium Term Note Program	350.0	220.0
Commercial Paper	150.0	81.4
Operating Line of Credit	100.0	66.6
Total	600.0	368.0

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

In addition to our medium term note program, we have additional credit facilities available in the amount of $250.0 million, which consist of a fully backstopped commercial paper program of $150.0 million, and a $100.0 million operating line of credit. As at March 31, 2006, we utilized $81.4 million of our commercial paper backstop facility, and $66.6 million of our operating line of credit, of which $16.6 million were in undrawn letters of credit.

Capital Structure

(in millions $)	*March 31/06*	*December 31/05*
Long-term Debt and Notes Payable	1,027.6	1,004.2
Shareholders' Equity	1,431.3	1,429.8
Total Capitalization	2,458.9	2,434.0
Debt to Capitalization	41.8%	41.3%

Our capital structure illustrates the amount of our assets that are financed by debt versus equity. During the first quarter, we issued $23.4 million, net in short-term debt. Our debt to total capitalization ratio of 41.8% as at March 31, 2006 continues to represent excellent financial strength and flexibility.

Credit Ratings

S&P – Senior debentures	BBB+
S&P – Commercial paper	A-2
DBRS – Senior debentures	BBB (high)
DBRS – Commercial paper	R-1 (low)

Two leading rating agencies, Standard & Poor's ("S&P") and Dominion Bond Rating Service ("DBRS"), analyze us and assign ratings based on their assessments. We have consistently been assigned solid investment grade credit ratings. DBRS's rating on our senior debentures is "BBB (high)" and "R-1 (low)" on our commercial paper. DBRS confirmed our credit ratings on February 21, 2006 and changed its outlook from stable to negative. On March 8, 2006, S&P confirmed our credit rating on our long-term corporate credit and senior unsecured debt of "BBB+", and revised its rating on our commercial paper to "A-2". The outlook remained unchanged at negative.

Outstanding Share Data as at April 24, 2006

Authorized:

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

Issued:

Shares	**Number**	**Book Value (in millions $)**
Common	68,098,707	1,317.5

Stock options:

Options	**Number**	**Weighted Average Exercise Price Per Share**
Outstanding	1,860,910	$39.71
Exercisable	545,910	$36.13

Subsequent Events

Securitization Arrangement for Accounts Receivable
On April 11, 2006, we entered into a $150.0 million accounts receivable securitization arrangement led by RBC Capital Markets. This arrangement gives us the ability to sell our accounts receivable on a revolving basis in exchange for short-term funds. We will continue to manage and service all of our customer accounts under this arrangement.

CRTC Approves Review and Vary Application Related to the Band F Decision
On April 24, 2006, the CRTC issued Decision 2006-20 which approved our application to review and vary an earlier ruling on subsidies paid in support of service to remote locations. The CRTC determined a further retroactive one-time payment of $9.893 million from the National Contribution Fund to be paid to us within thirty days of this decision.

Contractual Obligations, Financial Instruments, Off-Balance Sheet Arrangements, and Other Financial Arrangements

Our contractual obligations, financial instruments, off-balance sheet arrangements, and other financial arrangements remain substantially unchanged from those that were disclosed in our 2005 annual MD&A, except as noted below. For additional details, please consult our 2005 annual MD&A, which is available on our Web site at www.mtsallstream.com.

Commitment
On May 30, 2002, the CRTC issued *Regulatory framework for second price cap period,* Telecom Decision CRTC 2002-34 ("Decision 2002-34"), which governs local rates charged to residential and business customers, and the rates that incumbent telephone companies may charge their competitors. In Decision 2002-34, the CRTC established a regulatory deferral account mechanism, which is to be used to fund qualifying initiatives, such as rate reductions, rebates and service improvement plans.

On February 16, 2006, the CRTC issued *Disposition of funds in the deferral accounts,* Telecom Decision CRTC 2006-9 ("Decision 2006-9"). In this decision, the CRTC determined that the funds accumulated in our deferral account should be used for the expansion of broadband services, for initiatives to improve accessibility to telecommunications services for persons with disabilities, and for certain rate reductions. The CRTC's preliminary estimate of the balance to be cleared from our deferral account for these initiatives is $18 million projected to May 31, 2006.

The CRTC has requested that proposals be submitted for its consideration during May and June 2006. Groups representing consumers and Bell have both sought leave from the Federal Court of Appeal to appeal Decision 2006-9. The implementation of certain aspects of this decision may be delayed as a result of these appeal proceedings.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Our critical accounting estimates and assumptions remain substantially unchanged from those that were disclosed in our 2005 annual MD&A. For additional details, please consult our 2005 annual MD&A, which is available on our Web site at www.mtsallstream.com.

CHANGES IN ACCOUNTING POLICIES, INCLUDING INITIAL ADOPTION

Our accounting policies, including initial adoption, remain substantially unchanged from those that were disclosed in our 2005 annual MD&A. For additional details, please consult our 2005 annual MD&A, which is available on our Web site at www.mtsallstream.com.

RISKS AND UNCERTAINTIES

Our risks and uncertainties remain substantially unchanged from those that were disclosed in our 2005 annual MD&A, except as noted below. For additional details, please consult our 2005 annual MD&A, which is available on our Web site at www.mtsallstream.com.

Developments in Federal Regulation

The telecommunications and broadcast industries in which we operate are regulated federally. We operate as both an incumbent local exchange carrier in Manitoba and as a competitor local exchange carrier nationally. In addition, pursuant to Broadcasting Decision CRTC 2002-235, the CRTC granted us a Class 1 regional broadcasting distribution licence to operate as a broadcasting distribution undertaking serving Winnipeg and its surrounding areas. Policy developments and regulatory decisions or proceedings that were issued or commenced during the first quarter that are significant to our business are described below.

Telecommunications Policy Review
On March 22, 2006, the Final Report (the "Report") of the Telecommunications Policy Review Panel was submitted to the federal Minister of Industry and released to the public. The Report is substantial, including over 120 recommendations for modernization of the telecommunications policy framework in Canada. The Government of Canada has indicated that it will respond

substantively after reviewing the Report over the next number of months.

We agree with the Report that telecommunications policy should rely on competition and market forces to the maximum extent feasible, rather than on economic regulation, and that telecommunications providers having significant market power require regulation to avoid anti-competitive conduct.

It is our intention to articulate to the federal government those recommendations in the Report that we believe are consistent with a modern telecommunications policy framework.

Deferral Account
On February 16, 2006, the CRTC issued Decision 2006-9. In this decision, the CRTC determined that the funds accumulated in our deferral account should be used for the expansion of broadband services, initiatives to improve accessibility to telecommunications services for persons with disabilities, and certain rate reductions. The CRTC's preliminary estimate of the balance to be cleared from our deferral account for these initiatives is $18 million, projected to May 31, 2006.

We are analyzing Decision 2006-9 in light of our business, with a view towards developing proposals for the CRTC's consideration that meet the goals and objectives of Decision 2006-9, while remaining consistent with our own business goals.

The CRTC has requested that proposals be submitted for its consideration during May and June 2006. Groups representing consumers and Bell have both sought leave from the Federal Court of Appeal to appeal Decision 2006-9. The implementation of certain aspects of this decision may be delayed as a result of these appeal proceedings.

Local Forbearance
On April 6, 2006, the CRTC issued *Forbearance from the regulation of retail local exchange services*, Telecom Decision CRTC 2006-15 (the "Forbearance Decision"). The Forbearance Decision sets out the details of the framework for forbearance from the regulation of local exchange services, including local forbearance criteria, and outlines the scope of forbearance to be granted and the adoption of transitional measures to aid in the development of sustainable local competition.

We believe that the Forbearance Decision is positive in that it recognizes the need to deregulate retail pricing of local services and recognizes that fair competition requires a clear commitment to wholesale access in tandem with retail price deregulation. The Forbearance Decision also reduces winback restrictions in the residential market from twelve months down to three months, making them consistent with those applicable in the business market.

The Forbearance Decision has beneficial implications for both our Consumer Markets and Enterprise Solutions divisions, and will further strengthen our ability to compete successfully in the national business marketplace.

Approval of Final Rates for Access Tandem and Direct Connection Service
On April 27, 2006, the CRTC issued *Aliant Telecom, Bell Canada, MTS Allstream, SaskTel and TCI – Approval of rates on a final basis for Access Tandem service*, Telecom Decision CRTC 2006-22 and *Aliant Telecom, Bell Canada, MTS Allstream, SaskTel and TCI – Approval of rates on a final basis for Direct Connection service*, Telecom Decision CRTC 2006-23. In these decisions, the CRTC has set the final rates for these services at levels lower than those proposed by the major incumbent providers. These decisions will contribute positively to our Enterprise Solutions division's ability to compete in the marketplace.

Pension Solvency Funding
We have defined benefit pension plans which provide retirement benefits to our employees. These plans are funded as determined through periodic actuarial valuations.

We have completed our 2006 actuarial funding valuations, and based on these valuations, we will be making solvency payments of approximately $105 million in 2006, leaving a remaining solvency deficiency amount of approximately $300 million for future years.

Future solvency funding requirements will depend on the results of annual actuarial funding valuations which are affected by various factors, such as return on plan assets and changes in solvency liability discount rates.

2006 OUTLOOK

This outlook includes forward-looking information about our corporate direction and financial objectives that are subject to risks, uncertainties and assumptions. As a consequence, actual results in the future may differ materially from any conclusion, forecast or projection in such forward-looking information. Examples of statements that constitute forward-looking information may be identified by words such as "believe", "expect", "project", "anticipate", "could", "target", "forecast", "intend", "plan", "outlook", and other similar terms. Factors that could cause actual results to differ materially from those expected, and material factors or assumptions applied in drawing a conclusion or making a forecast or projection set out in such forward-looking information, include, but are not limited to, the items identified in the "Risks and Uncertainties" section and the "Material Assumptions" identified in the "Outlook" section of this interim MD&A and our 2005 annual MD&A.

The table below sets out our financial expectations for 2006.

2006 Financial Outlook – Continuing Operations

Revenues	$1.925 B to $1.975 B
EBITDA	$655 M to $680 M
EPS	$2.35 to $2.65
Free Cash Flow	$285 M to $310 M
Capital Expenditures	$270 M

Ranges for the guidance have been established to reflect the continuing evolution of the marketplace and the timing of declines in revenues from the Company's relationships with AT&T Corp. ("AT&T") and Rogers Communications Inc. ("Rogers").

Material Assumptions

Economic Assumptions
Our 2006 operational and financial performance will be influenced by a number of factors. At the macro level, the general performance of the national and regional economies in which we operate, the degree of technology migration by customers, and competitiveness among service providers in our markets will all contribute to our progress this year. We have assumed gross domestic product growth of approximately 3% which is consistent with the Conference Board of Canada's estimates for Manitoba and national growth.

Market Assumptions
Specific to us, we expect that the broad market segment trends within our industry that we have seen occur over the past few years will continue in 2006. Service areas such as wireless, Internet, digital television and IP-based next generation services for business customers will continue to exhibit strong growth. At the same time, our traditional legacy services, including data connectivity, local and long distance, will see continued pressure from customer migration to next generation services and an ongoing, highly competitive marketplace. In enterprise markets, we are facing continued strong competition which we are addressing by refining our market focus, being an innovator with IP solutions, and reducing our cost structure to position our operations to move forward successfully. In the residential market in Manitoba, we expect strong competition from the incumbent cable operator which launched telephony service in 2005. Through our broadband initiative, we have been preparing for this competitor for several years, and we are well placed to compete with our comprehensive suite of service offerings for residential customers, including local and long distance, wireless, Internet and digital television services.

Financial and Operational Assumptions
- Wireless customer growth of 9% to 12%
- High-speed Internet customer growth of 10% to 15%
- Digital television revenue growth of 50% to 60%
- Residential network access services decline of 5% to 7%

We have assumed amortization expense for 2006 to be in the range of $330 million to $340 million which is higher than in 2005 due to increased plant in service together with higher wireless amortization costs estimated to be $35 million in 2006; pension expense of approximately $15 million; an effective tax rate of approximately 38%; and a capital intensity ratio of approximately 14%. We have future tax assets resulting from net operating loss carryforwards and deductible temporary differences, which, to the extent utilized, will reduce future taxable income. As such, we do not expect to pay any cash taxes on earnings in 2006.

Changing Customer Relationships Assumptions
Through a relationship with AT&T, we jointly support the legacy data requirements of multinational customers with requirements in both Canada and the United States. AT&T has begun encouraging these customers to migrate their data requirements to AT&T's next generation IP solutions, which either do not utilize our facilities or utilize our facilities on a wholesale basis. We are offering our IP services in support of our growth strategies. These efforts are expected to mitigate the impact on our financial performance associated with the changes at AT&T.

In November 2004, we entered into a long distance services agreement with Rogers which expires in December 2006. It is our position that this contract obliges Rogers to purchase all of its requirements for certain long distance services from our National division until December 31, 2006, subject to certain exceptions which do not apply. We have been unable to agree with Rogers on the interpretation of the applicable provisions in the contract. On October 21, 2005, we applied to the courts for a declaration to interpret the applicable provisions of the contract that, in our opinion, require Rogers to purchase certain long distance services from us. In our application, we allege that Rogers has commenced and is intending to transfer to itself or its affiliates, such as Call-Net Enterprises Inc., a significant portion of Rogers' requirements for long distance services, contrary to our contract.

For 2006, we have assumed increased pressure on revenues from our relationships with AT&T and Rogers.

Cost Reduction Assumptions
Key to our operating and financial progress in 2006 will be our ongoing transition activities. Our initial transition project, which was completed in 2005, achieved annualized expense savings of $47 million, which exceeded our original target of $40 million. The full benefit of these reduction initiatives should be realized in 2006. Through our TP2 cost reduction program, we are working to align our cost

structure with market realities and expect to realize savings of $75 million to $100 million in 2006. As at March 31, 2006, we have reduced our staffing levels by 515 positions, and expect to achieve the balance of our total reduction target of approximately 750 to 800 positions largely by the end of the first half of 2006. We expect to incur restructuring cash costs of $70 million to $80 million in 2006, which will be a combination of capital and expense. These costs are not included in our 2006 outlook from continuing operations.

Liquidity and Capital Resources

Our operations historically have delivered strong cash flows, and we expect this positive trend to continue in 2006.

We will continue to invest in our core operations to ensure success in the markets in which we operate. Significant investments have been made in modernizing our network infrastructure both in Manitoba and nationally. In 2005, we saw the completion of a five-year, $300 million broadband expansion program in Manitoba, which positions our network capabilities second to none in Canada. These investments, in addition to the investment choices we are making nationally, are placing us in a favourable position in terms of capital requirements going forward. In 2006, our capital program is expected to be approximately $270 million.

Our cash requirements for 2006 include two special obligations. These consist of approximately $70 million to $80 million to support the advancement of our TP2 cost reduction program, and solvency funding of approximately $105 million for our pension plans. Our objective for 2006 is to fund all requirements, including dividend payments, operating and capital expenditures, TP2 cost reduction program expenses and our pension requirements, from operations, with only limited incremental borrowings. Our operations are expected to continue to generate strong cash flows which, together with lower capital expenditures in 2006, improved working capital management and limited incremental borrowings, are expected to fund all of our 2006 cash requirements.

Business Review

Our comprehensive business review was announced on January 31, 2006. Through this review, we are evaluating the company's position and strategic opportunities for maximizing long-term shareholder value. We are committed to conducting a thorough review and have engaged advisors to assist with this work. We look forward to reporting to shareholders on the results of this business review, and any changes that may be made to our business or our direction following its completion.

NOTICE OF DIVIDEND RECORD DATE

Notice is hereby given that the close of business on June 15, 2006 has been fixed as the record date for the purpose of determining those shareholders entitled to receive payment of MTS's second quarter dividend. The dividend, in the amount of $0.65 per Canadian per Common Share, has been declared payable July 17, 2006 to shareholders of record at the close of business on June 15, 2006. This notice is provided in accordance with section 128(4) of the *The Corporations Act* (Manitoba).

This interim MD&A contains forward-looking statements and there are risks that actual results may differ materially from those contemplated by these forward-looking statements. Forward-looking statements reflect our expectations as at May 2, 2006. Additional information on these risks can be found in our filings with the Canadian securities regulatory authorities. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. This interim MD&A, and the financial information contained herein have been reviewed by our Audit Committee and approved by our Board of Directors.

MTS Allstream is one of Canada's leading national communication solutions providers, delivering innovative products and services through its Consumer Markets and Enterprise Solutions divisions. Our Consumer Markets division serves residential and business customers in Manitoba with a full suite of wireline voice, high-speed Internet and data, next generation wireless, directory, digital television, security and alarm monitoring services. Our Enterprise Solutions division provides national business customers with a world-class portfolio of IP-based connectivity, managed network services, and professional services. MTS Allstream's extensive national broadband fibre optic network spans more than 24,300 kilometres, and provides international connections through strategic partnerships and interconnection agreements with other international service providers. Our Common Shares are listed on The Toronto Stock Exchange (trading symbol: MBT). For more information, please visit: www.mtsallstream.com.

Note:
Supplementary financial information is available in the Investors section of the MTS Web site at www.mtsallstream.com.

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MANITOBA TELECOM SERVICES INC.
CONSOLIDATED STATEMENT OF INCOME
(unaudited)

For the three months ended March 31	2006	2005
(in millions, except earnings per share)		
Operating revenues		
Data services	$ 164.0	$ 167.5
Local services	138.2	136.2
Long distance services	104.8	121.3
Wireless services	53.8	47.5
Other	28.0	22.6
	488.8	495.1
Operating expenses		
Operations	320.0	323.4
Restructuring and integration (Note 2)	3.1	12.6
Amortization	80.8	79.0
	403.9	415.0
Operating income	84.9	80.1
Other income	1.1	4.1
Debt charges	(15.3)	(15.2)
Income before income taxes	70.7	69.0
Income taxes		
Current	(5.2)	(1.0)
Future	31.9	27.5
	26.7	26.5
Net income for the period	$ 44.0	$ 42.5
Basic earnings per share (Note 3)	$ 0.65	$ 0.63
Diluted earnings per share (Note 3)	$ 0.65	$ 0.63

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

For the three months ended March 31		**2006**		**2005**
(in millions)				
Retained earnings, beginning of period	$	96.6	$	59.0
Net income for the period		44.0		42.5
Dividends declared		(44.0)		(44.0)
Retained earnings, end of period	$	96.6	$	57.5

MANITOBA TELECOM SERVICES INC.
CONSOLIDATED BALANCE SHEET
(unaudited)

(in millions)	March 31, 2006	December 31, 2005
Assets		
Current assets		
Accounts receivable	$ 205.3	$ 216.3
Prepaid expenses	35.7	29.5
Future income taxes	127.9	130.9
	368.9	376.7
Property, plant and equipment	3,483.5	3,523.8
Accumulated amortization	1,992.5	2,016.2
	1,491.0	1,507.6
Investments	3.1	3.1
Other assets	209.8	188.8
Future income taxes	781.9	810.8
Goodwill and other intangible assets	93.7	97.2
	$ 2,948.4	$ 2,984.2
Liabilities and shareholders' equity		
Current liabilities		
Bank indebtedness	$ 2.3	$ 9.9
Accounts payable and accrued liabilities	312.8	365.6
Advance billings and payments	57.0	54.2
Notes payable	131.4	108.0
Current portion of long-term debt	48.1	48.1
Current portion of capital lease obligations	4.4	4.3
	556.0	590.1
Long-term debt	848.1	848.1
Long-term portion of capital lease obligations	17.7	17.5
Deferred employee benefits	47.9	51.5
Other long-term liabilities	45.5	45.3
Future income taxes	1.9	1.9
	1,517.1	1,554.4
Shareholders' equity		
Share capital		
67,836,707 Common Shares (2005 - 67,739,257)	1,317.5	1,315.0
Contributed surplus	17.2	18.2
Retained earnings	96.6	96.6
	1,431.3	1,429.8
	$ 2,948.4	$ 2,984.2

MANITOBA TELECOM SERVICES INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(unaudited)

For the three months ended March 31	**2006**	**2005**
(in millions)		
Cash flows from operating activities		
Net income	$ 44.0	$ 42.5
Add (deduct) items not affecting cash		
Amortization	80.8	79.0
Future income taxes	31.9	27.5
Gain on sale of investment	-	(2.7)
Deferred wireless costs	(6.1)	(6.8)
Pension funding and net pension credit	(22.1)	(7.1)
Other, net	(5.8)	1.2
Changes in non-cash working capital	(45.0)	(23.6)
Cash flows from operating activities	77.7	110.0
Cash flows from investing activities		
Capital expenditures, net	(53.4)	(68.8)
Acquisition	-	(4.2)
Proceeds on sale of investment	-	8.1
Other, net	0.3	1.6
Cash flows used in investing activities	(53.1)	(63.3)
Cash flows from financing activities		
Dividends paid	(44.0)	(43.9)
Repayment of long-term debt	-	(9.7)
Issuance of notes payable, net	23.4	-
Issuance of share capital (Note 4)	2.4	3.6
Other, net	1.2	1.0
Cash flows used in financing activities	(17.0)	(49.0)
Change in bank indebtedness	7.6	(2.3)
(Bank indebtedness) cash and cash equivalents, beginning of period	(9.9)	31.6
(Bank indebtedness) cash and cash equivalents, end of period	$ (2.3)	$ 29.3

1. Significant accounting policies

The interim consolidated financial statements of Manitoba Telecom Services Inc. (the "Company") have been prepared in accordance with Canadian generally accepted accounting principles. These interim consolidated financial statements have been prepared using the same accounting policies and methods of their application as the Company's audited consolidated financial statements for the year ended December 31, 2005. These interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2005.

2. Restructuring and integration

In the fourth quarter of 2005, the Company launched a cost reduction program for the further integration of its operating divisions and corporate functions. This program includes activities to improve network access costs and further integrate compatible functions and processes, and is expected to continue into 2007. During the first quarter of 2006, the Company has recognized expenses of $3.1 million relating to this cost reduction program.

During 2005, the Company initiated workforce reduction programs in order to improve efficiencies and reduce costs. The Company accrued restructuring charges of $44.4 million in 2005, representing severance costs and other employee related costs. The outstanding restructuring liability as at December 31, 2005, relating to workforce reduction programs initiated in 2005, was $36.7 million. During the first quarter of 2006, $16.8 million of payments were applied against the liability, leaving an outstanding liability of $19.9 million as at March 31, 2006. The Company expects the workforce reduction programs will be substantially completed by the end of 2006.

Prior year comparative figures include amounts for both restructuring and integration initiatives, and workforce reduction programs. The restructuring and integration initiatives commenced in 2004 after the acquisition of Allstream Inc. and were substantially completed at December 31, 2005.

3. Earnings per share

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

	2006	**2005**
Net income		
Net income - basic and diluted	44.0	42.5
Weighted average shares outstanding (in millions)		
Weighted average number of shares outstanding – basic	67.8	67.6
Dilutive effect of outstanding stock options	0.1	0.3
Weighted average number of shares outstanding - diluted	67.9	67.9
Earnings per share ($)		
Basic earnings per share	0.65	0.63
Diluted earnings per share	0.65	0.63

4. Share capital

During the three months ended March 31, 2006, the Company issued 97,450 shares for cash consideration of $2.4 million pursuant to the exercise of stock options.

(All financial amounts are in millions, except where noted.)

5. Employee future benefits

The Company's total benefit cost for all of its defined benefit and defined contribution pension plans, supplemental pension arrangements and other non-pension employee future benefits for the three months ended March 31, 2006 is $4.4 million.

6. Segmented information

On February 28, 2006, the Company announced changes to its organizational structure. Under this new structure, the Company renamed its reportable operating segments as the Consumer Markets division and the Enterprise Solutions division. The Consumer Markets division provides a full range of local, data, long distance, wireless, directory publishing and media, digital television, security system and telecommunications equipment sales to residential and small business customers in Manitoba. The Enterprise Solutions division provides local, data, long distance, information technology services and telecommunications equipment sales to business customers in Canada. In the future as the Company further segments its customer base, there will be changes in the reporting responsibilities of each division for both revenues and expenses.

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

The following tables provide further segmented information:

	Three months ended March 31							
	Consumer Markets		Enterprise Solutions		Other		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
Operating revenue								
External	222.7	214.6	266.1	280.5	-	-	488.8	495.1
Internal	4.5	2.8	3.0	1.2	6.8	5.6	14.3	9.6
EBITDA	120.4	109.0	44.5	50.5	0.8	(0.4)	165.7	159.1

Reconciliation of consolidated net income is as follows:

	Three months ended March 31	
	2006	2005
Consolidated net income		
Total EBITDA	165.7	159.1
Amortization	(80.8)	(79.0)
Other income	1.1	4.1
Debt charges	(15.3)	(15.2)
Income tax expense	(26.7)	(26.5)
	44.0	42.5

7. Subsequent events

Accounts receivable securitization

On April 11, 2006, the Company established an accounts receivable securitization arrangement to sell up to a maximum of $150.0 million of its accounts receivable. The estimated sale proceeds in respect to the securitization of accounts receivable are approximately $150 million.

7. Subsequent events (continued)

Review and vary on Band F

On April 24, 2006, the Canadian Radio-television and Telecommunications Commission approved an application to review and vary an earlier ruling on subsidies paid in support of service to remote locations or Band F. As a result of this ruling, the Company will receive, in the second quarter, a one-time payment of $9.9 million which will be recorded in local revenue.