

IN THE MATTER OF THE SECURITIES LEGISLATION OF MANITOBA, BRITISH COLUMBIA, ALBERTA, SASKATCHEWAN, ONTARIO, QUEBEC, NOVA SCOTIA, NEWFOUNDLAND AND LABRADOR, AND NEW BRUNSWICK

AND

IN THE MATTER OF  
THE MUTUAL RELIANCE REVIEW SYSTEM FOR EXEMPTIVE RELIEF  
APPLICATIONS

AND

IN THE MATTER OF MANITOBA TELECOM SERVICES INC.

MRRS DECISION DOCUMENT

**WHEREAS** the local securities regulatory authority or regulator (the "Decision Maker") in each of the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, Nova Scotia, Newfoundland and Labrador, and New Brunswick (the "Jurisdictions") has received an application from Manitoba Telecom Services Inc. (the "Applicant") for a decision under the securities legislation of the Jurisdictions (the "Legislation") that, in connection with the proposed purchase by the Applicant of a portion of its outstanding common shares ("Common Shares") and Class B preference shares ("Class B Preference Shares" and together with the Common Shares the "Shares") by way of an issuer bid (the "Offer"), the Applicant be exempt from the following:

- (i) the requirements in the Legislation to:
  - (a) take up and pay for securities on a pro rata basis according to the number of securities deposited by each security holder (the "Proportionate Take Up and Payment Requirement");
  - (b) provide disclosure in the issuer bid circular (the "Circular") of such proportionate take up and payment (the "Associated Disclosure Requirement"); and
  - (c) state the number of securities that are being sought under the Offer (the "Number of Securities Requirement"); and
- (ii) the requirement in the Legislation of each of the Jurisdictions, except for Ontario and Quebec, to obtain a formal valuation of the Shares (the "Valuation Requirement");

**AND WHEREAS** under the Mutual Reliance Review System for Exemptive Relief Applications (the "System") The Manitoba Securities Commission is the principal regulator for this application;

**AND WHEREAS**, unless otherwise defined, the terms herein have the meaning set out in National Instrument 14-101 Definitions;

**AND WHEREAS** the Applicant has represented to the Decision Makers that:

1. The Applicant is the successor corporation to The Manitoba Telephone System, a Crown corporation that was incorporated by special statute of the Province of Manitoba on April 28, 1933. On January 7, 1997, the Applicant was reorganized and continued as a share capital corporation pursuant to The Manitoba Telephone System Reorganization and Consequential Amendments Act (Manitoba). The Applicant subsequently was continued as a corporation under The Corporations Act (Manitoba) pursuant to a Certificate and Articles of Continuance dated April 5, 2000. The Applicant's Articles, as amended, were restated by Certificates and Restated Articles of Incorporation dated May 15, 2001 and June 28, 2004. The head and registered office of the Applicant are located at 333 Main Street, PO Box 6666, Winnipeg, Manitoba R3C 3V6.
2. The Applicant is a reporting issuer or equivalent in the Jurisdictions and is not on the list of defaulting reporting issuers of any securities regulatory authority in Canada.
3. The authorized capital of the Applicant consists of an unlimited number of Common Shares of a single class, and an unlimited number of preference shares of two classes, which have been designated as "Class A Preference Shares" and "Class B Preference Shares".
4. The rights, privileges, restrictions and conditions of both classes of preference shares are identical to those of the Common Shares, except:
  - a) the holders of Class A Preference Shares are not entitled to vote at meetings of shareholders on resolutions electing directors. The Class A Preference Shares are convertible at any time into Common Shares on a one-for-one basis; and
  - b) the holders of Class B Preference Shares are not entitled to vote at meetings of shareholders, and are not entitled to share in the distribution of the assets of the Applicant upon a liquidation, winding-up or dissolution. The Class B Preference Shares are convertible into Common Shares on a one-for-one basis at the option of the holder at any time, subject to foreign ownership restrictions, or upon the occurrence of certain events, and at the option of the Applicant at any time.
5. The Common Shares (trading symbol MBT) and the Class B Preference Shares (trading symbol MBT.B) are listed for trading on the Toronto Stock Exchange ("TSX"). As at August 5, 2004, there were issued and outstanding:
  - a) 80,024,709 Common Shares with a closing price of \$43.15 with an aggregate market value of \$3,453,066,193; and

b) 5,397,865 Class B Preference Shares with a closing price of \$43.08 with an aggregate market value of \$232,540,024.

6. Effective June 4, 2004, the Applicant acquired all of the issued and outstanding Class A voting shares and all of the issued and outstanding Class B limited voting shares of Allstream Inc. ("Allstream") pursuant to a plan of arrangement (the "Arrangement"). Under the Arrangement, shareholders of Allstream received, for each of their Allstream Class A voting shares and Class B limited voting shares, \$23.00 in cash and 1.0909 of either Common Shares (for qualifying Canadian residents) or Class B Preference Shares (for non-Canadian residents or non-qualifying Canadian residents).

7. As at August 5, 2004, BCE Inc., an affiliate of Bell Canada, owned 13,635,838 Common Shares, which represents approximately 15.96% of the equity of the Applicant.

8. As disclosed in the Circular to be sent to holders of Shares,

a) under the Offer, the Applicant will offer to purchase Shares having a maximum aggregate purchase price of approximately \$800,000,000.

b) The price per Share to be paid to holders will be determined using a "Dutch Auction" tender system without regard to the class of Shares tendered, so that the same consideration will be paid by the Applicant for each Common Share and for each Class B Preference Share taken up pursuant to the Offer.

c) The price per Share will be anywhere between a range of two prices to be determined by the Applicant (the "Price Range"). Since the purchase price per Share will be determined only after the expiry of the Offer, and since the size of the Offer is based on an aggregate acquisition cost to the Applicant of \$800,000,000, the number of Shares that will be purchased will not be known until after the expiry of the Offer.

d) The Circular will state the minimum and maximum number of Shares that may be purchased under the Offer assuming at least \$800,000,000 worth of Shares are properly tendered within the Price Range. The maximum number of Shares that will be purchased under the Offer will be equal to \$800,000,000 divided by the minimum price within the Price Range. The minimum number of Shares that will be purchased under the Offer will be equal to \$800,000,000 divided by the maximum price within the Price Range.

e) A shareholder will be able to deposit Shares using either (i) an auction tender (an "Auction Tender"), at a price per Share anywhere within the Price Range, as specified by such shareholder, or (ii) a purchase price tender (a "Purchase Price Tender"), for use by a shareholder who wishes to deposit Shares but who does not wish to specify a price at which the Shares may be purchased by the Applicant.

f) Shares deposited pursuant to Purchase Price Tenders will be considered to have been deposited at the lowest price in the Price Range.

9. The Applicant will select a purchase price (the "Purchase Price") that will be the lowest price that will enable it to purchase \$800,000,000 worth of Shares pursuant to the Offer. The Purchase Price will be determined based on the number of Shares deposited pursuant to Auction Tenders and Purchase Price Tenders, the prices specified by shareholders making Auction Tenders, and the price at which the Shares deposited pursuant to Purchase Price Tenders are considered to have been deposited.

10. Each shareholder who has properly deposited Shares pursuant to an Auction Tender at or below the Purchase Price or pursuant to a Purchase Price Tender and who has not withdrawn such Shares will receive the Purchase Price, payable in cash (subject to applicable withholding taxes, if any), for all Shares purchased upon the terms and subject to the conditions of the Offer including the provisions relating to pro-ration described therein.

11. The Applicant will first accept for purchase Shares properly deposited by any shareholder who beneficially holds, as of the close of business on the Expiration Date (as defined in the Circular), fewer than 100 Shares and who deposits all such Shares pursuant to an Auction Tender at or below the Purchase Price or pursuant to a Purchase Price Tender and who checks the "Odd Lots" box in the Letter of Transmittal. These purchases shall not be subject to pro-ration.

12. All Shares deposited pursuant to Auction Tenders at prices above the Purchase Price will be returned to the appropriate shareholders.

13. All Shares:

(a) deposited at prices below the minimum price in the Price Range, or

(b) deposited by shareholders who fail to specify any tender price for such deposited Shares, or

(c) deposited by shareholders who fail to indicate whether they have deposited their Shares pursuant to an Auction Tender or a Purchase Price Tender, will be considered to have been improperly deposited, will be excluded from the determination of the Purchase Price, will not be purchased by the Applicant and will be returned to the appropriate shareholders.

14. Depositing shareholders who make either an Auction Tender or a Purchase Price Tender but who fail to specify the number of Shares that they wish to deposit will be considered to have deposited all Shares evidenced by the share certificate in respect of which the Auction Tender or Purchase Price Tender was made.

15. Since the Offer is for fewer than all the Shares, if the number of Shares deposited to the Offer at or below the Purchase Price and not withdrawn exceeds the Maximum Number of Shares that may be purchased for an amount not exceeding the Specified Amount, the Proportionate Take

Up Requirement requires the Corporation to take up and pay for deposited Shares proportionately according to the number of Shares deposited by each Shareholder. In addition, the Associated Disclosure Requirement mandates disclosure in the Circular that the Corporation would, if Shares deposited to the Offer and not withdrawn exceeded the Specified Number, take up such Shares proportionately according to the number of Shares deposited and not withdrawn by each Shareholder

16. The Circular will disclose the review and approval process adopted by the Board of Directors of the Applicant and that the Board of Directors of the Applicant has determined that the purchase of Shares pursuant to the Offer represents an effective use of the Applicant's available capital and is in the best interests of its shareholders.

17. It is expected that the Board of Directors of the Applicant will approve the making of the Offer, the pricing of the Offer, and the Circular on or about August 12, 2004.

18. In accordance with the terms of a subscription agreement dated February 11, 1999, as amended, between the Applicant and Bell Canada, pursuant to which Bell Canada acquired an equity interest in the Applicant, and the terms of a settlement agreement between the Applicant and Bell Canada effective as of June 30, 2004, Bell Canada is required to tender to the Offer at least its proportionate share, at a level of not less than 15.96%, of the aggregate number of Shares to be purchased by the Applicant pursuant to the Offer. BCE Inc., which owns the equity interest in the Applicant previously owned by Bell Canada, has indicated its intention to deposit Common Shares under the Offer in accordance with its obligations described above.

19. Prior to the expiry of the Offer, all information regarding the number of Shares tendered and the prices at which such Shares are tendered will be kept confidential, and the depositary will be directed by the Applicant to maintain such confidentiality until the Purchase Price is determined.

20. The Applicant has determined that there is a liquid market in the Common Shares because:

- (a) there is a published market for the Common Shares, namely the TSX;
- (b) during the 12-month period prior to the announcement of the Offer on August 12, 2004:
  - (i) the number of outstanding Common Shares was at all times at least 5,000,000, excluding Common Shares beneficially owned, directly or indirectly, or over which control or direction was exercised by related parties and Common Shares that were not freely tradeable;
  - (ii) the aggregate trading volume of the Common Shares on the TSX was at least 1,000,000 Common Shares;
  - (iii) there were at least 1,000 trades in Common Shares on the TSX;

(iv) the aggregate trading value based on the price of the trades referred to in clause (iii) on the TSX was at least \$15,000,000; and

(v) the market value of the Common Shares on the TSX, as determined in accordance with applicable rules, for July 2004, being the calendar month preceding the calendar month in which the Offer will be announced, was at least \$75,000,000.

21. In accordance with Rule 61-501 of the Ontario Securities Commission ("Rule 61-501") and Quebec Autorit es march s financiers Local Policy Statement Q-27 ("Policy Q-27"), the Applicant will disclose in the Circular the facts supporting the conclusion that the Common Shares meet the tests for a "liquid market" as set out in Rule 61-501 and Policy Q-27 and that it is reasonable to conclude that, following completion of the Offer, there will be a market for shareholders who do not tender to the Offer that is not materially less liquid than the market that existed at the time of the making of the Offer.

22. The Class B Preference Shares were initially issued on June 4, 2004 and, therefore, have not been traded for a 12 month period. Accordingly, the Applicant cannot rely on the liquid market exemption in Rule 61-501 or Policy Q-27 in respect of the Class B Preference Shares. The Applicant has retained Scotia Capital Inc., a qualified and independent registered investment dealer, to provide an opinion to the effect that there is a liquid market in the Class B Preference Shares for shareholders of the Applicant at the time of the making of the Offer and that there will be a market for shareholders who do not tender to the Offer that is not materially less liquid than the market that existed at the time of the making of the Offer. The Circular will include this opinion as well as a statement that the TSX is providing a similar opinion and will send a letter to the Director at the Ontario Securities Commission indicating this.

23. The Circular will disclose the mechanics for take up and payment for, or the return of, Shares. The Circular will also make it clear that, by tendering Shares pursuant to a Purchase Price Tender or pursuant to an Auction Tender at the lowest price in the Price Range, a shareholder can reasonably expect that the Shares so tendered will be purchased at the Purchase Price, subject to pro-ration.

24. Except to the extent exemptive relief is granted by this decision, the Circular will contain the disclosure prescribed by the Legislation for issuer bids.

**AND WHEREAS** under the System, this MRRS Decision Document evidences the decision of each Decision Maker (collectively, the "Decision");

**AND WHEREAS** each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the Decision has been met;

**THE DECISION** of the Decision Makers under the Legislation is that, in connection with the Offer, the Applicant is exempt from the Proportionate Take Up and Payment Requirement, the Associated Disclosure Requirement, the Number of Securities Requirement, and the Valuation

Requirement, provided that Shares deposited under the Offer and not withdrawn are taken up and paid for, or returned to shareholders, in the manner described herein.

**DATED** August 18, 2004.

"Chris Besko"  
Deputy Director - Legal