

Management's Discussion and Analysis of Financial Condition and Results of
Operations of

LOOK COMMUNICATIONS INC.

Years ended August 31, 2007 and 2006

LOOK COMMUNICATIONS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS of Financial Condition and Results of Operations

(In thousands of dollars, except share and per share amounts)
For the years ended August 31, 2007 and 2006

November 30, 2007

1. INTRODUCTION

This Management's Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations is supplementary to, and should be read in conjunction with, the annual audited consolidated financial statements for the year ended August 31, 2007. The Corporation's annual audited consolidated financial statements and the notes thereto have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") on a going concern basis and do not include any adjustments to the amounts and classifications of the assets and liabilities that would be necessary should the Corporation be unable to continue in business.

There is doubt about the Corporation's ability to continue as a going concern as it has incurred significant operating losses in recent years and has a working capital deficiency of \$6,696 as at August 31, 2007 (2006 - \$5,821).

The Corporation's ability to continue as a going concern is dependent upon achieving and maintaining profitable operations, the successful implementation of the Corporation's business strategy, the availability of financing alternatives, and an acceptable outcome to the Corporation's contingencies (See the sections entitled "Operating Risks and Uncertainties – Economic Dependence" and "Operating Risks and Uncertainties – Contingencies"). The outcome of these matters cannot be predicted at this time.

In this MD&A, the terms "we", "us", "our", and "Corporation" refer to Look Communications Inc.

2. CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This MD&A includes forward-looking statements concerning the future performance of the Corporation, its operations, and its financial performance and condition. These forward-looking statements include, among others, statements with respect to our objectives and strategies to achieve those objectives, as well as statements with respect to our beliefs, plans, expectations, anticipations, estimates, and intentions. When used in this MD&A, the words "believe", "anticipate", "may", "should", "intend", "estimate", "expect", "project", and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such words. These forward-looking statements are based on current expectations. The Corporation cautions that all forward-looking information is inherently uncertain and actual results may differ materially from the assumptions, estimates, or expectations reflected or contained in the forward-looking information, and that actual future performance will be affected by a number of factors including economic

conditions, technological change, regulatory change, and competitive factors, many of which are beyond the Corporation's control.

Future events and results may vary significantly from what the Corporation currently foresees. We are under no obligation (and we expressly disclaim any such obligation) to update or alter the forward-looking statements whether as a result of new information, future events or otherwise. For a more detailed discussion of factors that may affect actual results, see the sections entitled "Overview - Significant Current Events" and "Operating Risks and Uncertainties" below.

3. OVERVIEW

Significant Current Events - Corporate Reorganization Plan

On October 10, 2007 the Corporation approved a certain reorganization plan (the "Plan") which involves the transfer of certain assets to a 100 per cent controlled entity. The purpose of the Plan is to utilize certain of its \$315,815 of non-capital losses which may otherwise expire, to reduce future taxable income (See related press release dated October 10, 2007).

On November 7, 2007, the Corporation was granted an order by the Ontario Superior Court of Justice that permitted it to transfer certain assets in accordance with the Plan (See related press release dated November 7, 2007).

Our Corporation

The Corporation's mission is to be a M³ - Mobile Multi Media - entertainment and information service provider in Ontario and Québec. The Corporation currently delivers a full range of communications services including digital television distribution, high-speed and dial-up internet access, and web applications as well as superior customer service to both the business and residential markets. The Corporation's shares are listed on the TSX Venture Exchange under the symbols "LOK" for Multiple Voting Shares and "LOK.A" for Subordinate Voting Shares.

UBS Wireless Services Inc. ("UBS Wireless"), a subsidiary of Unique Broadband Systems, Inc. ("UBS"), acquired control of the Corporation at the end of December 2003 after a series of share transactions and regulatory approvals during 2003. UBS Wireless also subscribed for \$5,447 of the Corporation's convertible debentures offered in February 2004 to retain its 51% fully diluted ownership in the Corporation.

As at August 31, 2007, UBS Wireless owned or controlled 24,864,478 Multiple Voting Shares and 28,614,442 Subordinate Voting Shares of the Corporation representing an aggregate of 42.7% of the issued and outstanding shares of the Corporation. In addition to the shares set out above, UBS Wireless is the registered holder of a convertible debenture of the Corporation in the principal amount of \$3,000 subscribed to pursuant to a rights offering of convertible debentures effected by the Corporation and in respect of which a final prospectus was filed with the applicable securities commissions on January 16, 2004. The debentures are convertible at any time, at the option of either the Corporation or the holder, into 20,000,000 Multiple Voting Shares and 20,000,000 Subordinate Voting Shares.

In the event that all of the debentures issued pursuant to the rights offering were to be converted, UBS Wireless would hold an aggregate of approximately 51.6% of the issued and outstanding shares of the Corporation.

Our Products and Services

The Corporation is a multimedia service provider delivering a full range of communications services to residential and business subscribers including wireless digital television distribution, Dial-Up and High Speed wireline and wireless internet access, co-location facilities, and web-related services including web hosting and domain name registration.

Our Networks

The Corporation provides its digital broadcasting and wireless Internet Services using a Multipoint Distribution System (MDS), operating with approximately 100 MHz of spectrum in the 2.5 GHz frequency band. The Corporation has had exclusive use of these frequencies since it received licences from the Canadian Radio-television and Telecommunications Commission (CRTC) as a broadcast distribution undertaking (BDU) in August 1997 for Southern Ontario and in 1998 for Québec and Eastern Ontario. The Corporation's licences were subsequently converted to a single licence and were further extended in August 2004 for another seven years to 2011. Its coverage areas within Ontario and Québec include the major metropolitan markets of Toronto, Montreal, Hamilton, Trois-Rivières, Ottawa, and many other cities from London to Québec City.

The Corporation is also a provider of Dial-Up and High Speed wireline internet access through various contractual agreements with major telecommunications companies.

The Corporation has deployed the next generation of its digital wireless High Speed network in numerous locations, namely Toronto, Vaughan, Barrie, Aurora, Hamilton, Milton, and Montreal using a DOCSIS[®] (Data Over Cable Service Interface Specification) system in the 2596 - 2686 and 2150 – 2160 MHz frequency bands. This new system has expanded the network capacity and enhanced the quality of the wireless broadband High Speed internet access.

Our Distribution Network

The Corporation offers products, services, and customer service on its website: www.look.ca.

Our Strategy

On December 8, 2004, the Corporation and UBS announced that they had signed a Memorandum of Understanding whereby they plan to jointly launch hand-held mobile video services in Ontario and Québec. A mobile television demonstration network was completed in Milton, Ontario in April 2006 and is fully operational. The commercial launch of the M³ network is, however, dependent upon the Corporation obtaining adequate financing arrangements with financial partners and other suppliers for the development and build-out of the network and various subscriber devices.

An M³ platform brings together communications, information, and entertainment, delivered to the consumers hand rather than to a geographically defined location – the home or the office. It gives the consumers the personalization and mobility they want in voice, television, data, and Internet, and allows the applications to be further delineated into specific services such as text messaging, pictures, video, conferencing, and caller identification.

Mobile video is fast becoming a reality in a number of countries, most notably in Korea and Japan, as well as across Europe and the US. The Corporation believes that together with UBS, it has the expertise and technological know-how to offer consumers the freedom of mobility with the access of broadband. Not only did UBS develop, design, and build a mobile video network in more than 2,000 public transportation vehicles in Singapore, they were also the Canadian contractor that developed, designed, and built the terrestrial network for deployment by XM Satellite Radio Inc. throughout the US.

The Corporation will seek to achieve profitability within Ontario and Québec from its existing operations and its strategy is designed to maximize cash flow and return on the Corporation's existing assets.

The key elements of the Corporation's existing strategy are as follows:

1. Resolve the dispute with Bell Canada to continue servicing existing subscribers;
2. Maximize shareholder value through the implementation of the Corporation's reorganization plan and the strategic repositioning of the Corporation's M³-enabling assets; and
3. Continue to re-negotiate supplier contracts and focus on efficiency improvements.

On October 24, 2006, the Corporation announced that it had retained Greenhill & Co. to assist in the strategic repositioning of the Corporation and to assist in maximizing shareholder value. After months of discussions with "Interested Parties", on April 24, 2007 the Corporation announced that it believes it is inappropriate and unproductive to continue the formal shareholder maximization process and accordingly has decided to discontinue at this time the formal process with 'Interested Parties'. The Corporation may continue informal discussions should it be appropriate to do so. This decision resulted from, amongst other events involving the Corporation and its parent company, UBS:

1. The actions taken by Rogers that suggest that the Corporation should be "tempering with cautionary language" comments made about UBS' Inukshuk litigation, and Bell Canada, with respect to the Notice of Intent to Disconnect the Corporation's services, and the Corporation and UBS' responses to those actions; and
2. Recent changes in the broader Canadian telecommunications industry, including the upcoming Canadian Advanced Wireless Services ("AWS") spectrum auction, which is discussed below in the section entitled "2008 Spectrum Auction".

4. RECENT WIRELESS INDUSTRY TRENDS

The Canadian Market

According to Industry Canada, the Canadian wireless telecommunications market is expected to generate over \$15 billion of revenue by 2009, representing an 11.5 percent compound five year growth from 2005 to 2009. The Canadian market is currently estimated to be about one tenth of the US market, which currently stands at over US\$122 billion, but the Canadian wireless market is growing at a faster pace than its US counterpart. [source: The Canadian Wireless Industry – Analysis, Positioning and Capabilities: 2006-09, Industry Canada publication, April 13, 2007]

The wireless telecommunications sector plays an important role in the Canadian economy, accounting for 25,000 jobs, over \$9.5 billion in annual revenue, and a \$4.1 billion investment in infrastructure. In recent years, the number of wireless subscribers has increased at a compound annual rate exceeding 17% to reach 14.9 million while revenue has grown at a rate of 14% to reach \$9.5 billion. However, wireless market penetration remains low in Canada – estimated by industry analysts at SeaBoard to be 58 percent, second to last among member countries in the Organization for Economic Co-operation and Development and 20 percent behind the US. SeaBoard believes relatively high cell phone prices in Canada suppress demand for wireless services. [source: Lament for a Wireless Nation - A Cross-National Survey of Wireless Service Prices: Canada, the United States and Europe, March 2007]

The ongoing development of wireless data transmission technologies has led manufacturers to create wireless devices with increasingly advanced capabilities including access to e-mail and other information technology platforms, news, sports, financial information and services, shopping services, and other functions. Research In Motion Ltd. expected to ship the 20 millionth BlackBerry in the summer of 2007 while analysts have said they expect Apple to sell 10 million iPhones by the end of 2008.

Increased demand for sophisticated wireless services, especially data communications services, has led wireless providers to migrate towards the next generation of digital voice and data networks. These networks are intended to provide wireless communications with wireline quality sound, far higher data transmission speeds and video capability. These networks are expected to support a variety of data applications, including high-speed internet access, multimedia services, and seamless access to corporate information systems such as e-mail and purchasing systems.

Global growth in the wireless market continued unabated in the last year, and few, if any, are expecting this to change in the year ahead. More than 900 million cell phones are expected to sell worldwide during 2007 and again in 2008 – making the cellular phone the fastest-selling single item of consumer electronics. There are more than 2.3 billion global cellular phone subscribers as of mid 2007 and one research firm forecasts that number to grow to close to 4 billion by the end of 2011, meaning that approximately 56 per cent of the Earth's population would have a cellular phone. [source: Wireless, Cellular & RFID Industry Trends, Plunkett Research, Ltd.; Portio Research]

As the number of cellular phones and subscribers increase, so too will the need for spectrum as users turn to their “phone” (or, more accurately, “mobile device”) for a growing number of non-voice services. The Canadian Wireless Telecommunications Association believes Canadians will triple their use of wireless data in the next three years, following their rapid embrace of a range of mobile services including wireless e-mail, text messaging, and internet access. Already, these services account for about 10 per cent of the average Canadian’s cell phone plan, or more than \$1 billion. [source: Wireless use to skyrocket 30%, top \$3B by 2010, David George-Cosh, Financial Post (National Post) October 23, 2007; Wireless Data Usage Reaches New Heights in Canada, Spectrum Wireless, October 23, 2007]

Despite this forecast in growth, the penetration rate for wireless in Canada remains far behind many other countries. One industry research firm reported that only 58 per cent of Canadians have access to wireless communications, significantly lower than the latest US figure of just over 80 per cent, and even further behind most European and Asian countries where the rate is at (or in some cases, over) 100 per cent. While there may be a number of factors influencing the penetration rate, the belated adoption of 3G in the market is expected to raise the North American numbers in the coming years. [source: Lament for a Wireless Nation - A Cross-National Survey of Wireless Service Prices: Canada, the United States and Europe, March 2007; Cellular Penetration Hits Record Despite Net-New Subscriber Drop, Spectrum Wireless, October 25, 2007; Adoption and Applications, CTIA – The Wireless Association]

The Canadian wireless market is dominated by three incumbents which collectively provide service to approximately 96 per cent of Canadian subscribers. A number of other industry players have indicated an interest in entering the Canadian wireless market, suggesting that they see a potential for considerable market growth. Industry and business analysts both suggest that will happen, with new products and innovations helping to drive demand. Demand is also expected to be fuelled by a growing mobile workforce. [source: The wireless wars, Erik Heinrich, Canadian Business, September 5, 2007; Quebecor, MTS form wireless alliance to battle giants. Bid for fourth network, Paul Vieira and Peter Nowak, Financial Post (National Post), May 11, 2007; MTS courts partners in bid to go national, Catherine McLean, Globe and Mail, June 13, 2007]

Industry research firm IDC expects to see the adoption of wireless broadband access that can handle multiple types of information and the use of more sophisticated mobile devices to enrich and simplify the information worker experience. The proliferation of mobile devices, widespread adoption of enterprise applications, and vast improvements in wireless network speed and coverage will all contribute to an increasing demand for mobile services from the 878-million mobile-worker population that IDC believes will exist by 2009. [source: IDC: As mobile workforce grows, IT support could lag. Cost and complexity could slow efforts to keep mobile workers up and running, Matthew Hamblen, Computerworld, November 8, 2005]

The Need for Spectrum

The requirement for additional spectrum may be addressed in part by the federal government's AWS spectrum auction, to be held in May 2008. The demand for spectrum is expected to be high. As The Honourable Maxime Bernier, former Minister of Industry explained at the June 2007 Canadian Telecom Summit:

1. Spectrum is not just about cellphones. New applications are being developed and commercialized every year. High-tech cars today come with satellite navigation systems, and this requires spectrum. Farmland irrigation systems are being switched on and off remotely, which requires spectrum. Bank cards and public transit passes will soon be able to communicate by using spectrum. The wireless transmission of energy is being developed. Imagine how revolutionary it would be if we did not need wires to transmit power.
2. There are dozens of other examples of wireless communication between people and machines. Wireless technology is like the electrical grid. At first, it was used mainly for lighting. Since then, all kinds of new electrical devices have been invented and connected to the wireline electrical network: ovens and refrigerators, hair dryers and washing machines.
3. As new devices are invented that communicate wirelessly using spectrum, they too will reshape society in unpredictable ways. This is why we must have an effective spectrum policy. The next wave of innovation depends on spectrum.
4. Countries that have flexible spectrum policies will attract innovators, researchers and investments. Their citizens will have faster access to all these new products. Countries that slow down the adoption of technologies, or inhibit market forces, will fall behind. The most critical role of government is to allocate spectrum in a timely and efficient manner.

On October 31, 2007, the Honourable Jim Prentice, Minister of Industry, pledged to hold the AWS spectrum auction, an auction that could fetch \$1.7 billion, as soon as practical in 2008. Furthermore, in September 2007, Ted Rogers, President and Chief Executive Officer of Rogers Communications Inc., said that Rogers may bid between \$500 million and \$1 billion for new spectrum. [source: Canada to Hold Spectrum Auction as Soon as 'Practical' in 2008, Alexandre Deslongchamps and Chris Fournier, Bloomberg, October 31, 2007]

The US FCC completed the auction of 90 MHz of AWS spectrum with no limitations on its use in September 2006, awarding 1,087 licences to 104 bidders for aggregate proceeds of US\$13.9 billion. In the UK, the auction of 192 MHz of spectrum, situated around the frequency of 2.6 GHz, is expected to happen in Q1 2008.

2008 Spectrum Auction

In February 2007, Industry Canada released a consultation paper entitled “Consultation on a Framework to Auction Spectrum in the 2 GHz Range including Advanced Wireless Services” (the “Consultation Paper”) which outlined the proposed rules and procedures governing the 2008 auction. In this Consultation Paper, the Government of Canada’s plans for the AWS spectrum auction for 90 MHz in the 1710 – 1755 and 2110 – 2155 MHz bands and 5 MHz in each of the 1670 – 1675, 1910 – 1915 and 1990 – 1995 bands would see 589 licences placed for bid with similar geographic distribution as the 2001 Industry Canada PCS auction. The Consultation Paper suggested that these licences would be divided into three tiers – 14 Tier 2 Provincial and large regional licences, 59 Tier 3 Smaller regional licences and 516 Tier 4 Local licences. The Consultation Paper initially outlined that the opening reserve bids for the AWS spectrum would be approximately \$208,000. However, as noted below, these opening reserve bids were significantly increased in the final policy decisions announced on November 28, 2007 which saw opening reserve bids increase to over \$500,000. In particular, in the geographic areas covered by the Corporation’s spectrum and broadcast licenses, namely Southern and Eastern Ontario and Québec, opening reserve bids increased from approximately \$140,000 in the Consultation Paper to approximately \$390,000 in the November 28, 2007 announcement.

Industry Canada had invited interested parties to provide their views and comments on various issues raised in the Consultation Paper about the auction, including, but not limited to, spectrum set-asides, spectrum caps, affiliate bidding, tower or infrastructure sharing and mandated roaming agreements, by May 25, 2007. Reply comments were then to be accepted until June 27, 2007. Although all of the large industry players, namely Rogers, Bell Canada, and Telus, initially advocated an open auction with all spectrum going to the highest bidder and argued against infrastructure-sharing, in June 2007 Telus reversed its position during its considerations in bidding for Bell Canada, stating that Telus now believes there should be spectrum set-asides and would be amenable to infrastructure-sharing for a fixed period of time thus greatly facilitating the entry of new players to the industry. The Corporation fully supports this position and the Corporation believes that in part as a result of these new developments, the value of its assets will only continue to increase over time.

On November 28, 2007, the Minister of Industry announced the final policy decisions for the 2008 AWS spectrum auction of 105 MHz, to commence on May 27, 2008, in a policy document entitled “Policy Framework for the Auction for Spectrum Licences for Advanced Wireless Services and other Spectrum in the 2 GHz Range”. The Industry Minister, Jim Prentice, announced, amongst other things, the following significant policy decisions:

1. Mandatory roaming provisions;
2. Mandatory antenna tower and site sharing;
3. Binding arbitration for commercial negotiations;
4. A set aside of 40 MHz of AWS spectrum for new entrants;
5. 50 MHz of AWS spectrum, 10 MHz of spectrum as an extension to the existing PCS band and 5 MHz of spectrum as one way broadcast spectrum is available to all bidders; and
6. Minimum opening bids of approximately \$200,000 in the Consultation Paper increased to over \$500,000 for all geographic areas.

The Corporation believes the new policy decisions will foster better and more diverse services for consumers. In particular, the spectrum set aside, mandated roaming and antenna tower and site sharing, coupled with binding arbitration to conclude commercial agreements, are likely to encourage increased competition and lower prices in Canada's wireless industry.

In the final policy decisions, Industry Canada has adopted the use of Tier 2 and Tier 3 service areas and eliminated the Tier 4 service areas initially proposed in the Consultation Paper. The licenses to be auctioned will be divided into two Tiers - 28 Tier 2 Provincial and large regional licenses (all of which have been set aside for new entrants) and 236 Tier 3 Smaller regional licenses (available to all bidders).

Development of Additional Technologies

The development of additional technologies and their use by consumers will accelerate the widespread adoption of 3G digital voice and data networks. One such example is WiFi which allows suitably-equipped devices such as laptop computers and personal digital assistants to connect to a wireless access point. The wireless connection is only effective within a range of approximately 100 metres and at theoretical speeds of up to 54 megabits per second. To address these limitations, WiFi access points must be placed selectively in high-traffic locations frequented by potential subscribers where they have sufficient time to use the service. Technology companies are currently developing additional technologies designed to improve WiFi and otherwise utilize the higher data transmission speeds found in a 3G network. Future enhancements to the range of WiFi service, and the networking of WiFi access points, may provide additional opportunities for mobile wireless operators to deploy hybrid high-mobility 3G and limited-mobility WiFi networks, each providing capacity and coverage under the appropriate circumstances.

The Corporation believes the WiFi networks have significant limitations, the least of which is the use of unlicensed spectrum, which will eventually prove itself unacceptable to the subscribers. Unlicensed spectrum is available to anyone who wants to use it. The potential exists for many competing networks to be built in the same area with each expecting to use the same spectrum. This can lead to problems related to signal interference and lack of capacity to meet consumer demand.

The Corporation believes that only with the use of some or all of the new technologies such as WiMax, Internet Protocol (IP), Digital Video Broadcast-Handheld (DVB-H), together with spectrum and Canadian Broadcast Distribution Undertaking Licences, can true M³ be offered to consumers. These new technologies are more advanced than analog cellular (first generation or 1G), digital cellular (second generation or 2G) and higher speed unicast cellular networks (third generation or 3G). Canadian mobile telephone carriers have recently begun to deploy significantly faster broadband technologies on their mobile cellular networks, and many have announced plans to launch or expand these technologies further in the future. However, the Corporation believes it is likely that 3G unicast networks alone will be unable to reach the full potential of M³ (fourth generation or 4G).

Through this unique 4G combination of spectrum, broadcast licences, and technology, these M³ services are being offered throughout the world today in countries such as Korea and Japan and trials continue in other countries including Italy, Germany, and France. “Hybrid” mobile networks are being expanded into places like England, the United States, and Canada; however, the Corporation believes that these “hybrid” mobile networks being built to increase the speeds of cellular unicast networks will prove to be inadequate when compared to true M³. We believe that we are the only company in Canada today with the capability of offering fourth generation (4G) live mobile information, entertainment, and communications to consumers in Ontario and Québec and that our technology will allow the service offering of “Live” 30 frames-per-second (30fps) television or video, IP-based mobile VoIP, and two way high speed mobile wireless broadband.

5. OVERVIEW OF GOVERNMENT REGULATION AND REGULATORY DEVELOPMENTS

Industry Canada

The awarding of spectrum and licences for data services in Canada are under the jurisdiction of Industry Canada, a department of the Government of Canada. Industry Canada is responsible for telecommunications policy in Canada and has specific jurisdiction under the Radio Communication Act (Canada) to establish radio licensing policy and award radio licences for radio frequencies that are required to operate wireless communications systems.

In May 2004, Industry Canada issued a discussion paper on the re-farming of the Multipoint Communications System (MCS) and Multipoint Distribution System (MDS) spectrum in the 2500-2690 MHz band. The purpose of the paper was to solicit input from the Corporation and others who are interested in the future uses of this band for both digital broadcasting and broadband wireless access. At approximately the same time, the FCC in the US issued a Report and Order that substantially restructured this band in the US. The Corporation responded to the Industry Canada discussion paper and recommended that Canada adopt a policy that would provide alignment with the US spectrum allocations and uses.

On March 30, 2006 Industry Canada published Gazette Notice DGTP-002-06 – Policy Provisions for the Band 2500 – 2690 MHz to Facilitate Mobile Services. In the notice, Industry Canada reconfirmed its allocation of mobile services to the band and stated that it would harmonize the spectrum with the US band plan at some future date. In the period up to August 2011, the Corporation may continue to operate its video and internet services. The Corporation may, at any time, also apply to Industry Canada for permission to use two-way mobile broadband services in the band. This will require the Department to implement the new band plan and the Corporation would have to return 31 MHz of spectrum (2657 - 2686 and 2688 – 2690 MHz) to the Department. The new policy clearly confirms the Corporation’s position as an MDS Broadcaster and provides additional options for the future development of the Corporation, if it so chooses.

In June 2007, Industry Canada released a new Spectrum Policy Framework, the policy foundation for the management of spectrum. It provided the following overview of spectrum:

“The radio frequency spectrum is a unique resource from which all aspects of society benefit. It provides access for Canadians to a range of private, commercial, consumer, defence, national security, scientific and public safety applications. The radio frequency spectrum is divided into different bands which are used by a variety of communications services including - broadcasting, cellular, satellite, public safety, and two-way radio. It is the only resource that can support practical wireless communications in every day situations. The Department recognizes that there are a number of factors, such as rapidly evolving technology, changing market demands, globalization, and an increased focus on public safety and security, which need to be taken into account in an effective spectrum management program”.

The Framework was based upon “the importance of relying on market forces in spectrum management, to the maximum extent feasible,” a principle that the Corporation endorses.

Canadian Radio-television and Telecommunications Commission (CRTC)

Canadian broadcast undertakings, including the Corporation, are regulated by the CRTC pursuant to, and in accordance with, requirements of the Broadcast Act (Canada) (the “Act”). Under the Act, the CRTC regulates all broadcasters in Canada, including over-the-air broadcasters, MDS providers such as the Corporation, cable TV operators, and satellite TV operators. The Corporation’s licence was extended in August 2004 for another seven years to 2011. Its coverage areas in Ontario and Québec include the major metropolitan markets of Toronto, Montreal, Hamilton, Trois-Rivières, Ottawa, and many other cities from London to Québec City.

As a follow-up announcement to the Industry Canada Notice published on March 30, 2006, on April 12, 2006 the CRTC confirmed in its Notice 2006-47 entitled “Regulatory Framework for Mobile Television Broadcasting Services” that Mobile TV services can be offered by the Corporation under its existing licence. The CRTC went on to request comments on its proposed exemption from regulation relating to any broadcasting to any mobile devices.

The Corporation believes that these policy statements, the spectrum auction in the US that ended on September 18, 2006, and the final policy decisions for the Canadian AWS spectrum auction announced on November 28, 2007 position the Corporation well for the next generation of M³ in Canada.

6. SIGNIFICANT ACCOUNTING POLICIES

Management's Discussion and Analysis of Operating Results and Financial Position are made with reference to the Corporation's annual audited consolidated financial statements and notes thereto, which have been prepared in accordance with Canadian GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Corporation's financial statements, and the reported amount of revenues and expenses during the period. These estimates are based on management's historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the reported amounts of revenues, expenses, assets, and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

The Corporation has identified the accounting policies and estimates in note 2 to its 2007 annual audited consolidated financial statements as well as those below as critical to the understanding of its business operations. The impact and any associated risks related to these policies on its business operations are discussed throughout this MD&A.

The Audit and Corporate Governance Committee of the Board of Directors reviews the Corporation's accounting policies as well as all quarterly and annual filings and recommends adoption of the Corporation's quarterly and annual financial statements to the Corporation's Board of Directors.

Revenue Recognition

Service revenue, comprised of Broadcast, Internet, and Other revenue, is presented net of discounts granted to new subscribers as incentives. Broadcast Service revenue is earned from the provision of digital television services to residential and business subscribers. Internet Service revenue is earned primarily from monthly and annual subscriptions from individuals and businesses for access to the internet. The Corporation earns Other Service revenue by providing web-hosting and other value-added services such as domain name registration and web server co-location. Revenue from domain name registration for all service periods is recognized when invoiced as the Corporation has no future obligation to the consumer. Web-hosting and server co-location charges invoiced or paid for in advance are recorded as revenue when services are provided. Unearned revenue consists of prepayments under certain customer contracts and is amortized to revenue over the term of the contract.

Equipment sales and installations revenue is earned from the sales of digital receivers and internet equipment to subscribers and the installations of such equipment. Revenue from the sale of receiving equipment and modems is recognized in the period in which the services are activated.

Impairment of Long-Lived Assets

The carrying amount of long-lived assets to be held and used is reviewed for impairment on an ongoing basis whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment is recognized when the carrying amount of an asset to be held and used exceeds the projected undiscounted future net cash flows expected from its use and disposal, and is measured as the amount by which the carrying amount of the asset exceeds its fair value. See note 4 to the annual audited consolidated financial statements regarding the impairment recognized during the year ended August 31, 2007.

Government Assistance

Government assistance is recorded as an expense reduction in General and Administrative Expenses in the year that the expenditure is incurred, when reasonable assurance exists that the Corporation has complied with the terms and conditions of the approved grant program, and where there is reasonable assurance that the amounts will be received. The Quebec E-business activities subsidy ended effective December 31, 2006.

Allowance for Doubtful Accounts

A significant portion of the Corporation's revenue is earned from selling on credit to business and consumer residential subscribers. The allowance for doubtful accounts is calculated by taking into account factors such as the Corporation's historical collection and write-off experience, the number of days the subscriber is past due and the status of a subscriber's account with respect to whether or not the subscriber is continuing to receive service. As a result, fluctuations in the aging of subscriber accounts will directly impact the reported amount of bad debt expense.

Depreciation Policies and Useful Lives

The Corporation depreciates the cost of capital assets over the estimated useful service lives of those assets. These estimates of useful lives involve considerable judgment. In determining these estimates, the Corporation takes into account wireless industry trends and Corporation-specific factors including changing technologies. On an annual basis, the Corporation reassesses its existing estimates of useful lives to ensure they match the anticipated life of the technology from a revenue-producing perspective. If technological change happens more quickly or in a different manner than the Corporation has anticipated, the Corporation might have to shorten the estimated life of certain capital assets which could result in higher depreciation expense in future periods. As discussed in note 4 to the annual audited consolidated financial statements, during the fourth quarter of fiscal 2007, the Corporation recognized an impairment of certain of its long-lived capital assets.

Contingencies

The Corporation is subject to various claims and contingencies related to lawsuits, taxes, and commitments under contractual and other commercial obligations. The Corporation recognizes liabilities for contingencies when a loss is probable and capable of being reasonably estimated. Significant changes in assumptions as to the likelihood and estimate of the amount of a loss could result in the recognition of an additional liability.

Intercompany and Related Party Transactions

From time to time, the Corporation enters into agreements with UBS and its subsidiaries and other related parties that the Corporation believes are mutually advantageous. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Stock-Based Compensation

(i) Stock option incentive plan:

The Corporation has a stock option incentive plan, which is described in note 7(c) of the annual audited consolidated financial statements for the year ended August 31, 2007. The Corporation accounts for all stock options to employees and non-employees using the fair value based method. Under the fair value based method, compensation cost attributable to awards to employees is measured at fair value at the grant date and recognized over the vesting period. Forfeitures are accounted for as they occur. Consideration paid by employees and non-employees on the exercise of stock options is recorded as share capital.

(ii) Share appreciation rights plan:

The Corporation has a Share Appreciation Rights (SAR) plan, which is described in note 7(d) of the annual audited consolidated financial statements for the year ended August 31, 2007. The Corporation accounts for SAR units as a liability and compensation cost is recorded based on the intrinsic value of the award when it is considered likely that the terms and conditions of the SAR plan will be met.

Recent Accounting Pronouncements

(i) Accounting changes:

In 2006, the CICA issued Handbook Section 1506, Accounting Changes ("CICA 1506"). CICA 1506 prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates, and correction of errors. This new standard will be adopted by the Corporation on September 1, 2007.

(ii) Financial instruments:

In 2005 and 2006, the CICA issued Handbook Section 3855, Financial Instruments – Recognition and Measurement, Handbook Section 1530, Comprehensive Income, Handbook Section 3862, Financial Instruments – Disclosures, and Handbook Section 3863, Financial Instruments - Presentation. Handbook Section 3855 prescribes criteria for the classification of financial assets and liabilities and treatment of derivatives and embedded derivatives. Handbook Section 1530 prescribes the presentation and treatment of other comprehensive income (loss) and accumulated other comprehensive income (loss). Handbook Sections 3862 and 3863 carry forward the existing presentation requirements and expand the disclosure requirements to complement the changes in accounting policy made in accordance with Section 3855. Sections 3855 and 1530 will be adopted by the Corporation on September 1, 2007 and Sections 3862 and 3863 will be subsequently adopted on September 1, 2008.

7. KEY PERFORMANCE INDICATORS

The Corporation measures the success of its strategies using a number of key performance indicators as outlined below:

Subscriber Counts

The Corporation determines the number of subscribers of its services based on active subscribers at reporting dates. When subscribers are deactivated either voluntarily or involuntarily for non-payment, they are considered to be deactivations in the period the services are discontinued. The Corporation reports subscribers in three categories: Broadcast Services, Internet Services, and Other Services. Broadcast Services include customers subscribing to the provision of digital television services. Internet Services include Dial-Up and High Speed wireline and wireless internet access. Other Services include hosting and co-location.

Subscriber Churn

Subscriber churn is calculated on a monthly basis. For any particular month, subscriber churn represents the number of subscribers deactivated in the month divided by the aggregate number of subscribers at the beginning of the month. When used or reported for a period greater than one month, subscriber churn represents the monthly average of the subscriber churn for the period.

Service Revenue

Service revenue is total revenue less revenue received from the sale and installation of equipment. The sale of such equipment does not materially affect the Corporation's operating income as the Corporation generally sells equipment to its subscribers at a price approximating its cost to facilitate competitive pricing.

Average Revenue per User (ARPU)

ARPU is calculated on a monthly basis. For any particular month, ARPU represents monthly network revenue divided by the average number of subscribers during the month. ARPU, when used in connection with a particular type of subscriber, represents monthly service revenue generated from these subscribers divided by the average number of these subscribers during the month. When used or reported for a period greater than one month, ARPU represents the monthly average of the ARPU calculations for each of the months in the period. The Corporation believes that ARPU helps indicate whether the Corporation has been successful in attracting and retaining higher value subscribers.

Carrier Charges and Cost of Sales

Carrier charges and cost of sales include the costs of programming for Broadcast Services, distribution costs for programming to transmitter sites, data distribution on common carriers (telephone companies) for Internet Services, Other Services, customer premise equipment, and installation costs. Programming costs include the service fees paid to networks and other distributors to obtain the video and audio signals for distribution to subscribers. While most of the cost of data distribution and Other Services vary with the number of subscribers, programming costs vary directly with both the number of channels carried and the number of subscribers receiving those channels.

Gross Margin Percentage

The Corporation calculates gross margin percentage by dividing gross margin, excluding equipment and installations, by service revenue. Service revenue is used in the calculation, instead of total revenue, because service revenue excludes the impact of the sale and installation of equipment, which is generally sold at a price that approximates cost.

Cost of Acquisition per Subscriber (COA)

COA, which is also often referred to in the wireless communications industry as "subscriber acquisition cost" or "cost per gross addition", is calculated by dividing total sales and marketing operating expenses for the period by the total number of gross subscriber activations. Subscriber activations include Broadcast, Internet, and web-hosting activations.

Earnings Before Interest Expenses, Income Taxes, Depreciation, and Amortization (EBITDA)

EBITDA is defined as earnings before net interest expenses, income taxes, depreciation, and amortization. EBITDA is a common measure used in the communications industry to assist in understanding and comparing operating results and is often referred to by our peers and competitors as operating profit or OIBDA (operating income before depreciation and amortization). Management views EBITDA as an important measure of operating performance of the Corporation; however, since EBITDA does not have any standardized meaning prescribed by Canadian GAAP and is unlikely to be comparable to similar measures presented by other issuers, it may not be considered in isolation of GAAP measures such as (1) net income/loss, as an indicator of operating performance or (2) cash flows from operating, investing, and financing activities, as a measure of liquidity. We believe, however, that it is an important measure as it allows us to assess our ongoing business without the

impact of depreciation or amortization expenses as well as non-operating factors. It is intended to indicate the Corporation's ability to incur or service debt and invest in capital assets.

8. SELECTED ANNUAL INFORMATION

	Year ended August 31, 2007	Year ended August 31, 2006	Year ended August 31, 2005
Revenues	\$24,620	\$29,877	\$37,956
EBITDA*	(940)	(274)	(930)
Interest expenses and loss on disposition of capital assets, net of interest income	290	406	594
Depreciation, amortization, and impairment	10,710	5,951	6,789
Loss before income taxes	(11,940)	(6,631)	(8,313)
Income taxes	-	-	(37)
Net loss	(11,940)	(6,631)	(8,276)
Net loss per share	\$(0.10)	\$(0.05)	\$(0.08)
Total assets	22,035	30,690	36,370
Total long term debt	1,800	1,814	1,253
Liability component of convertible debentures	2,702	2,726	2,994

* See the section below entitled Earnings Before Interest Expense, Taxes, Depreciation, and Amortization ("EBITDA") for a more detailed reconciliation of Net Loss to EBITDA.

Fiscal 2007 Relative to Fiscal 2006

- Revenues for the year ended August 31, 2007 were \$24,620, a decrease of 17.6% over August 31, 2006.
- The decline in revenues was essentially caused by a 14.1% or \$1,795 decrease in Broadcast Services revenue coupled with a 33.1% or \$1,761 decrease in Internet Dial-Up revenue when compared to fiscal 2006. The drop in Broadcast Services revenue is due primarily to a declining subscriber base as a result of aggressive product bundling by our competitors while the Dial-Up revenue decline is due to the combined impact of the continuous migration of Dial-Up subscribers to higher speed solutions along with general subscriber attrition. The Corporation does not have a High Speed product for sale in Western Canada and therefore saw a 30.0% decline in Western Canada subscribers.
- High Speed subscribers decreased by 12.1% to 10,050 while High Speed revenue decreased by 12.0% to \$5,815. High Speed revenue is 24.0% of total service revenues in 2007 compared to 22.6% in 2006.

-
- Operating expenses before amortization and impairment for the year ended August 31, 2007 were \$13,564, a cumulative decrease of 20.4% or \$3,471 over the year ended August 31, 2006. This decrease is the result of contract renegotiations, improved efficiencies, and head count reductions.
 - The total number of full-time equivalent employees was 88 at August 31, 2007 versus 135 at August 31, 2006.

Fiscal 2006 Relative to Fiscal 2005

- Revenues for the year ended August 31, 2006 were \$29,877 a decrease of 21.3% since August 31, 2005.
- The decline in revenues was essentially caused by a 23.3% or \$3,858 decrease in Broadcast Services revenue coupled with a 36.4% or \$3,037 decrease in Internet Dial-Up revenues when compared to fiscal 2005. The drop in Broadcast Services revenue is due primarily to a declining subscriber base as a result of aggressive product bundling by our competitors while the Dial-Up revenue decline is due to the continuous migration of Dial-Up subscribers to higher speed solutions along with general subscriber attrition. The Corporation does not have a High Speed product for sale in Western Canada and therefore saw a 32.8% decline in Western Canada subscribers.
- High Speed subscribers decreased by 12.2% to 11,428 while High Speed revenue decreased by 3.0% to \$6,607. High Speed revenue is 22.6% of total service revenues in 2006 compared to 18.4% in 2005.
- Gross service margins increased from 49.5% for the year ended August 31, 2005 to 57.8% for the year ended August 31, 2006.
- Operating expenses before amortization for the year ended August 31, 2006 were \$17,035, a cumulative decrease of 11.6% or \$2,242 since August 31, 2005. This decrease is the result of contract renegotiations, improved efficiencies, and head count reductions.
- The total number of full-time equivalent employees was 135 at August 31, 2006 versus 147 at August 31, 2005.

9. RESULTS OF OPERATIONS

Highlights of the Year End Results for 2007 include the following:

- For the year ended August 31, 2007, service revenues were \$24,230 compared to \$29,250 for the year ended August 31, 2006. Gross service margins decreased from 57.8% for fiscal 2006 to 52.1% for fiscal 2007 partly as a result of non-recurring adjustments to telecommunications and programming costs.
- For the year ended August 31, 2007, EBITDA was \$(940) compared to EBITDA of \$(274) for the year ended August 31, 2006. The net loss for fiscal 2007 was \$11,940, or \$0.10 per share, compared to a net loss of \$6,631, or \$0.05 per share, for fiscal 2006.
- Overall ARPU increased year-over-year by \$1.90 or 5.9% to \$34.34 reflecting the continued activation and retention of higher-valued subscribers and the increased penetration of enhanced services.
- The Corporation's subscriber base was 51,830 as at August 31, 2007 compared to 65,856 as at August 31, 2006.

Service Revenue

A summary of revenue, cost of sales, and gross margin percentage by major segment is set out in the following table:

	Year ended August 31, 2007			Year ended August 31, 2006		
	Revenues	Cost of Sales	Gross Margin	Revenues	Cost of Sales	Gross Margin
Service						
Broadcast Services	\$10,903	\$ 6,163	43.5%	\$12,698	\$ 5,739	54.8%
Internet Services	9,370	3,954	57.8%	11,923	5,012	58.0%
Other Services	3,957	1,483	62.5%	4,629	1,592	65.6%
Total	24,230	11,600	52.1%	29,250	12,343	57.8%
Sales and Installations	390	396		627	773	
Total Service and Sales	\$24,620	\$11,996		\$29,877	\$13,116	

Total Revenue and Gross Margin

Total revenue for the year ended August 31, 2007 of \$24,620 was \$5,257 or 17.6% lower than the comparable period in fiscal 2006. This was due primarily to the net loss of Broadcast and Dial-Up subscribers.

Gross margin percentage declined during fiscal 2007 to 52.1% (2006 – 57.8%). This was due partly to a general reduction in telecommunication costs, costs related to hosting services, and domain name registrations, coupled with the re-negotiation of certain supplier contracts. These costs savings were more than offset by certain components of cost of sales that are fixed in nature.

Broadcast Services Revenue and Gross Margin

The decrease in Broadcast Services revenue for the year ended August 31, 2007 of \$1,795, or 14.1% over 2006 was a result of a lower subscriber base. This was due largely to the very aggressive competition in this sector and reduced marketing activity for new subscribers by the Corporation. Gross margin for the year ended August 31, 2007 decreased to 43.5% (2006 – 54.8%) due primarily to non-recurring broadcast adjustments and general increases in the cost of programming services. Fiscal 2007 gross margin represents a moderate increase over the 41.6% gross margin realised in Broadcast Services in fiscal 2005.

Internet Services Revenue and Gross Margin

Internet Services revenue in 2007 declined by \$2,553, or 21.4% over 2006 due primarily to a decrease in the number of Dial-Up subscribers. Of the revenue from Internet Services, revenue from Dial-Up accounted for \$3,555 in 2007 (2006 - \$5,316) while revenue from High Speed was \$5,815 (2006 - \$6,607). The decrease in Internet revenue resulted from the continuous migration of Dial-Up subscribers to High Speed products and the loss of some High Speed bundled subscribers who discontinued service as a result of the aggressive product bundling implemented by the Corporation's competitors.

Internet Services gross margin for the year ended August 31, 2007 remained largely unchanged at 57.8% (2006 – 58.0%) as a result the Corporation's active management and renegotiation of supplier contracts to parallel subscriber movement.

Other Services Revenue and Gross Margin

Revenue from Other Services in 2007 declined by \$672, or 14.5%, over 2006 due both to a slight decrease in the number of subscribers and an 11.3% drop in ARPU. The decline was due mostly to attrition of hosting subscribers, where revenue in fiscal 2007 declined by \$449 relative to fiscal 2006.

Gross margin declined during the year to 62.5% (2006 – 65.6%) due to the decline in the higher-margin hosting subscribers coupled with changes to the structure of co-marketing agreements.

Sales and Installation Revenue

Revenue derived from Sales and Installations decreased by 37.8% or \$237 for the year ended August 31, 2007. This decline was the result of a 36.9% decrease in new installations during the year.

Subscriber Statistics

	<u>2007</u>	<u>2006</u>	<u>% Change</u>
Broadcast Services			
Gross additions	1,831	3,262	(43.9%)
Net reductions	(5,027)	(6,391)	21.3%
Total subscribers	15,356	20,383	(24.7%)
ARPU	\$50.33	\$45.84	9.8%
Churn	3.2%	3.6%	0.4%
Internet Services			
High Speed Services			
Gross additions	2,692	4,127	(34.8%)
Net reductions	(1,378)	(1,593)	13.5%
Total subscribers	10,050	11,428	(12.1%)
ARPU	\$44.95	\$44.91	0.1%
Churn	3.1%	3.8%	0.7%
Dial-Up Services			
Gross additions	1,755	3,478	(49.5%)
Net reductions	(7,067)	(12,025)	41.2%
Total subscribers	15,226	22,293	(31.7%)
ARPU	\$16.05	\$16.03	0.1%
Churn	3.9%	4.6%	0.7%
Total Internet Services			
Gross additions	4,447	7,605	(41.5%)
Net reductions	(8,445)	(13,618)	38.0%
Total subscribers	25,276	33,721	(25.0%)
ARPU	\$26.74	\$24.95	7.2%
Churn	3.6%	4.4%	0.8%
Other Services			
Gross additions	2,790	3,497	(20.2%)
Net reductions	(554)	(721)	23.2%
Total subscribers	11,198	11,752	(4.7%)
ARPU	\$21.80	\$24.59	(11.3%)
Churn	2.4%	2.9%	0.5%
Grand Total			
Gross additions	9,068	14,364	(36.9%)
Net reductions	(14,026)	(20,730)	32.3%
Total subscribers	51,830	65,856	(21.3%)
ARPU	\$34.34	\$32.44	5.9%
Churn	3.2%	3.9%	0.7%

See section 7 for explanation of how the above statistics are calculated.

Total Subscribers and ARPU

The decrease in subscribers for the year ended August 31, 2007 of 14,026 or 21.3% was due largely to the continuing decline of our residential and business Dial-Up subscribers, the loss of video subscribers, and the loss of some High Speed subscribers due to the aggressive product bundling by the Corporation's competitors. During fiscal 2007, the Corporation also minimized marketing campaigns that have historically proven to be very expensive.

For the year ended August 31, 2007, total ARPU was \$34.34 (2006 - \$32.44). This increase of 5.9% was due largely to the improvement in Broadcast ARPU attributable primarily to the implementation of the digital video fee coupled with the DSL price increase and a relative shifting of subscribers from lower-ARPU Dial-Up products to a more complete higher-speed solution.

Broadcast Subscribers and ARPU

Broadcast subscribers totalled 15,356 as of August 31, 2007 representing a decrease of 5,027 or 24.7% from August 31, 2006. Of the 15,356 subscribers, 4,175 represented subscribers in multiple-unit dwellings and 11,181 were single family homes. The number of subscribers continued to decline in the year ended August 31, 2007 as a result of reduced sales and marketing activities by the Corporation, aggressive bundling campaigns by the competition, and the implementation of the digital video fee. Primarily as a result of the digital video fee, ARPU for the year ended August 31, 2007 increased by 9.8% to \$50.33 (2006 - \$45.84).

For the year ended August 31, 2007, Broadcast subscriber churn was an average of 3.2% compared with 3.6% one year prior.

Internet Subscribers and ARPU

Internet subscribers totalled 25,276 as of August 31, 2007 representing a decrease of 8,445 or 25.0% from August 31, 2006. The decrease was essentially in the residential Dial-Up subscriber base which lost 7,028 subscribers in the year reflecting a continuous customer migration to High Speed products.

ARPU on Internet Services was \$26.74 for the year ended August 31, 2007 (2006 - \$24.95). While ARPU on both Dial-Up and High Speed products for the year ended August 31, 2007 remained stable at \$16.05 (2006 - \$16.03), and \$44.95 (2006 - \$44.91) respectively, the Corporation has increased its year-over-year internet access ARPU through the movement of subscribers to higher value services.

Other Services and ARPU

Other subscribers totalled 11,198 as of August 31, 2007 representing a decrease of 554 or 4.7% from August 31, 2006. The Corporation also recorded sales of 30,198 domain names for the year ended August 31, 2007 (2006 - 36,368).

ARPU on Other Services for the year ending August 31, 2007 averaged \$21.80 (2006 - \$24.59). The decrease in ARPU was attributable to product mix, with subscribers moving to lower priced hosting products.

Operating Expenses

	Year ended August 31, 2007	Percentage of service revenues	Year ended August 31, 2006	Percentage of service revenues
Marketing and Sales	\$ 150	0.6%	\$ 662	2.3%
Customer Care	1,978	8.2%	3,193	10.9%
Engineering and Operations	3,325	13.7%	5,002	17.1%
General and Administration	8,111	33.5%	8,178	28.0%
Total before amortization and impairment of capital assets and amortization of deferred charges	13,564	56.0%	17,035	58.3%
Amortization and impairment of capital assets and amortization of deferred charges	10,710	44.2%	5,951	20.3%
Total operating expenses	\$24,274	100.2%	\$22,986	78.6%

Marketing and Sales

Marketing and Sales expenses include the costs of media and other advertising fees for direct sales agencies, direct marketing costs, costs of producing and distributing product media, and commissions on retail sales.

For the year ended August 31, 2007, marketing and sales expenses were \$150 or 0.6% of service revenues, compared to \$662 or 2.3% of service revenues for the year ended August 31, 2006. After the limited success of advertising campaigns in 2005 and early 2006, the Corporation has focused on retention of its high-value subscribers.

For the year ended August 31, 2007, cost of acquisition per subscriber ("COA") was \$16.54 compared to \$46.09 for the year ended August 31, 2006 and \$81.00 for the year ended August 31, 2005.

Customer Care

Customer care expenses are primarily salaries and benefits associated with the operation of the call center for both technical and service support.

For the year ended August 31, 2007, customer care expenses were \$1,978 or 8.2% of service revenues, compared to \$3,193 or 10.9% of service revenues for the year ended August 31, 2006. As a percentage of revenues, customer care expenses declined slightly for the year ended August 31, 2007 reflecting the Corporation's ability to achieve efficiencies in customer care while maintaining its customer focus in its call centre operations.

Engineering and Operations

Engineering and operations expenses in the Corporation's digital broadcast television distribution activities include the costs associated with operating and maintaining the broadcast distribution head-end facilities where television and audio signals are received, digitally encoded, and distributed to transmission sites. These expenses also include the network and transmission towers by which digital signals are transmitted via microwave to subscribers and the costs of providing services to the subscribers.

Engineering and operations expenses in the Corporation's Internet Services activities consist primarily of the costs of the telecommunications facilities necessary to provide service to subscribers and the operating and maintaining of network servers. Telecommunications facilities costs include: (i) the costs of providing local telephone lines into each Corporation-owned point of presence; (ii) the cost of leased lines into non-Corporation owned ports and related facilities charges; and (iii) the cost of connecting the Corporation's hub to the internet backbone. Network server costs include the costs of contracts for software and hardware support with third parties.

For the year ended August 31, 2007, engineering and operations expenses declined to \$3,325 or 13.7% of service revenues, compared to \$5,002 or 17.1% of service revenues for the year ended August 31, 2006. The reductions, totalling \$1,677, during fiscal 2007 resulted primarily from the re-negotiation of hardware and software maintenance agreements and the continued focus on cost management.

General and Administration

General and administration expenses include general administrative salaries, human resources, general occupancy, management fees paid to UBS, and other administrative overhead expenses. Costs relating to information technology, that comprise the development and maintenance of the Corporation's customer service and billing systems, are also included. Some of these costs are variable and fluctuate with changes in the customer base.

For the year ended August 31, 2007, general and administration expenses were \$8,111 or 33.5% of service revenues, compared to \$8,178 or 28.0% of service revenues for the year ended August 31, 2006.

As a percentage of service revenues, general and administration expenses have increased for the year ended August 31, 2007 versus 2006. This increase is due, in part, to a portion of these costs being fixed despite a decline in service revenues along with an increase in professional services fees related to, amongst other things, the action that the Corporation is pursuing against Bell Canada as discussed under the section "Operating Risks and Uncertainties - Contingencies."

Amortization and Impairment of Capital Assets, and Amortization of Deferred Charges and Deferred Financing Charges

For the year ended August 31, 2007, amortization of capital assets was \$5,461 and amortization of deferred financing charges totalled \$67 compared to \$5,876 and \$75 respectively for the year ended August 31, 2006. During fiscal 2007, the Corporation also recognized an impairment write-down of certain of its long-lived capital assets in the amount of \$5,182 as discussed in note 4 of its annual audited consolidated financial statements.

Interest and Financing Charges

	Years ended August 31		
	2007	2006	2005
Accretion on liability component of convertible debentures	\$369	\$391	\$444
Interest and financing charges	204	187	251
Interest income	(297)	(172)	(101)
Total	\$276	\$406	\$594

For the year ended August 31, 2007, \$369 (2006 – \$391) was recorded as the accretion on the liability component of the convertible debentures and \$204 (2006 – \$187) was recorded in interest expense on mortgage financing, supplier-financed credit facilities, capital lease obligations, and financing fees. The interest and financing charges were more than offset by \$297 (2006 - \$172) in interest income recognized on liquid assets.

Net Loss

The net loss for the year ended August 31, 2007 amounted to \$11,940 or \$0.10 per share compared with a net loss of \$6,631 or \$0.05 per share for the year ended August 31, 2006.

10. EARNINGS BEFORE INTEREST EXPENSE, TAXES, DEPECIATION, AND AMORTIZATION ("EBITDA")

As a result of the foregoing factors, EBITDA for the year ended August 31, 2007 was negative \$940 versus negative \$274 for the year ended August 31, 2006.

Revenues are following the same trend that started in June 2004 with internet Dial-Up subscribers migrating to High Speed products. The efforts by the Corporation to move costs from fixed to variable in nature and the Corporation's ability to respond quickly to the declining subscriber base are reflected in the moderate declines in EBITDA over time despite the revenue attrition.

The following table reconciles EBITDA to net loss for the respective periods as determined under Canadian Generally Accepted Accounting Principles (GAAP):

	Years ended August 31		
	2007	2006	2005
Net loss for the year	\$(11,940)	\$(6,631)	\$(8,276)
Add:			
Amortization of capital assets	5,461	5,876	6,694
Impairment of capital assets	5,182	-	-
Amortization of deferred charges	67	75	95
Accretion on liability component of convertible debentures	369	391	444
Interest and financing charges	204	187	251
Interest income	(297)	(172)	(101)
Loss on disposal of capital assets	14	-	(37)
EBITDA*	\$(940)	\$(274)	\$(930)

*Management views EBITDA as an important measure of operating performance of the Corporation; however, since EBITDA does not have any standardized meaning prescribed by Canadian GAAP, it may not be considered in isolation of GAAP measures such as (1) net loss, as an indicator of operating performance or (2) cash flows from operating, investing, and financing activities, as a measure of liquidity. We believe, however, that it is an important measure as it allows us to assess our ongoing business without the impact of depreciation or amortization expenses as well as non-operating factors. It is intended to indicate our ability to incur or service debt and invest in capital assets while allowing us to compare our business to our peers and competitors. This measure is not a defined term under Canadian GAAP and might not be comparable to similar measures presented by other issuers.

11. QUARTERLY FINANCIAL INFORMATION

The table below sets out financial information for the past eight quarters.

	2007				2006			
	Nov 30	Feb 28	May 31	Aug 31	Nov 30	Feb 28	May 31	Aug 31
Revenues	\$6,636	\$6,346	\$6,013	5,625	\$8,359	\$7,850	\$7,063	\$6,605
Carrier charges & cost of sales	3,142	3,019	2,975	2,860	4,034	3,138	3,344	2,600
Gross margin	3,494	3,327	3,038	2,765	4,325	4,712	3,719	4,005
Operating expenses before amortization and impairment	3,403	3,252	3,431	3,478	3,986	4,500	4,009	4,540
EBITDA	91	75	(393)	(713)	339	212	(290)	(535)
Interest, taxes, depreciation, amortization, and impairment	(1,471)	(1,435)	(1,471)	(6,623)	(1,689)	(1,627)	(1,532)	(1,509)
Net loss	(1,380)	(1,360)	(1,864)	(7,336)	(1,350)	(1,415)	(1,822)	(2,044)
Net loss per share ⁽ⁱ⁾	(0.01)	(0.01)	(0.02)	(0.06)	(0.01)	(0.01)	(0.01)	(0.02)

⁽ⁱ⁾ Net loss per share is basic and diluted.

Dial-Up revenue has declined significantly over the past year. For the year ended August 31, 2006, Dial-Up revenue was \$5,316 and represented 18.2% of total service revenues of the Corporation. For the year ended August 31, 2007, Dial-Up revenue had declined to \$3,555 or 14.7% of total service revenues. The Corporation is able to offer alternatives such as wireless access products and DSL to subscribers in Ontario and Quebec and is therefore able to retain some subscribers wishing to migrate to high speed internet access. However, the Corporation is not able to offer any alternative high speed products in Western Canada where the Corporation has lost a significant number of migrating subscribers.

In order to align operating costs with declining subscriber numbers, all departments have been impacted by internal restructurings that have occurred from time to time over the past four years. Full-time equivalent employees have been reduced from 299 at August 31, 2003 to 88 at August 31, 2007 which, together with renegotiated contracts and reduced sales and marketing expenses are a few of the key components of the reduction in operating expenses.

Results of Operations for the Fourth Quarter Ended August 31, 2007

Operating Highlights

- For the three months ended August 31, 2007, total revenues were \$5,625 compared to \$6,605 for the three months ended August 31, 2006.
- Dial-Up revenues decreased to \$773 during the fourth quarter of fiscal 2007 which represents a 29.4% decline over the same period one year prior. This decrease is not unexpected and reflects both the general attrition of Dial-Up subscribers along with the continuous migration of Dial-Up subscribers to high speed products.
- Gross margin for the three months ended August 31, 2007 based on service revenues decreased to 50.3% from 62.7% when compared to the three months ended August 31, 2006. This was largely the result of non-recurring telecommunications-related adjustments in the fourth quarter of fiscal 2006.
- Total operating expenses before amortization and impairment were \$3,478 for the three months ended August 31, 2007 compared to \$4,540 for the three months ended August 31, 2006.
- For the three months ended August 31, 2007, the EBITDA was negative \$713 compared to a negative EBITDA of \$535 for the three months ended August 31, 2006.
- The net loss was \$7,336, or \$0.06 per share for the three months ended August 31, 2007, compared to a net loss of \$2,044, or \$0.02 per share, for the three months ended August 31, 2006. The increase in the net loss year-over-year was largely the result of the \$5,182 impairment of certain long-lived capital assets realized during the fourth quarter of fiscal 2007.
- For the three months ended August 31, 2007, overall ARPU increased by \$2.69 or 8.4% to \$34.59 over the comparable period in fiscal 2006, reflecting the timely price increases implemented by the Corporation during the year.

12. LIQUIDITY AND CAPITAL RESOURCES

The Corporation had a cash balance of \$7,828 at August 31, 2007 compared with a cash balance of \$5,102 at August 31, 2006.

The cash flow for the year ended August 31, 2007 and August 31, 2006 is set out below:

	2007	2006
Cash provided by / (used in) operating activities	\$2,882	\$(634)
Cash provided by / (used in) financing activities	(35)	524
Cash used in investing activities	(121)	(154)
Net increase / (decrease) in cash and cash equivalents	\$2,726	\$(264)

Cash provided by operating activities for the year ended August 31, 2007 was \$2,882 compared to cash used in operating activities of \$634 for the year ended August 31, 2006. This was largely due to changes in operating working capital.

Cash used in financing activities for the year ended August 31, 2007 was \$35 compared to cash provided of \$524 for the year ended August 31, 2006. The cash provided in fiscal 2006 related primarily to the refinancing of the mortgage on the Milton site resulting in a corresponding increase in the mortgage liability from \$1,200 to \$1,800 while in fiscal 2007 the cash used related mostly to the repayment of obligations under capital leases.

For the year ended August 31, 2007, cash used in investing activities amounted to \$121, resulting primarily from the purchase of \$159 of capital assets which was partially offset by the proceeds of disposition on capital assets of \$27 and a decrease of \$11 in restricted cash. This compares with cash used in investing activities of \$154 for the year ended August 31, 2006 which consisted essentially of the acquisition of \$771 of capital assets related primarily to the M³ network. This was partially offset by a decrease in restricted cash of \$659.

As at August 31, 2007, the Corporation had contractual obligations that require future payments as follows:

	Total	2008	2009	2010	2011	2012	Thereafter
Mortgage payable	\$1,800	-	1,800	-	-	-	-
Operating leases	\$1,660	714	346	236	186	178	-
Capital leases	\$14	14	-	-	-	-	-

The Corporation is required to pay \$2,400 annually to UBS for a wide range of services designed to maximize the Corporation's full commercial potential. The initial term of the agreement with UBS is for a moving three-year period commencing on May 19, 2004. On each anniversary of that date, the term will automatically recommence unless, prior to an annual anniversary, the Corporation's Board of Directors has communicated in writing to UBS its intent that the agreement not recommence, in which event, the agreement expires on the completion of the remaining term. For additional information, see note 10 (i) to the annual audited consolidated financial statements.

The mortgage on the Corporation's Milton building was renegotiated during fiscal 2006 and increased to \$1,800 with a new expiry date of August 21, 2009.

Pursuant to CRTC regulation, the Corporation is required to make annual contributions to the Canadian Television Fund ("CTF"), which is a cable industry fund designed to foster the production of Canadian television programming. Contributions to the CTF are based on a formula, including gross broadcast revenue and the number of subscribers. The Corporation may elect to spend a portion of the above amount for local television programming and may also elect to contribute a portion to another CRTC approved independent production fund. The Corporation estimates that its total contributions to the CTF and CRTC for 2007 will amount to approximately \$600.

Cash required for the Corporation's contractual obligations identified above and capital assets related to the existing network and customer premise equipment are expected to be funded by cash on hand and cash provided by operating activities.

Management believes that the Corporation has sufficient cash and cash equivalents available to meet the needs of its existing operations for the foreseeable future. This projection may be adversely impacted by the outcome of the dispute with Bell Canada, a faster rate of decline in subscribers than experienced during fiscal 2006 and fiscal 2007, and negative pressure on ARPU. Significant external funds will, however, be required to expand the M³ network to achieve the Corporation's mission of being an M³ information, communication, and entertainment service provider throughout the Windsor to Québec City corridor. The foregoing includes forward looking information that is subject to risks and uncertainties described under "Operating Risks and Uncertainties" below. No assurance can be given that the Corporation will be able to achieve these results.

The working capital deficiency at August 31, 2007 was \$6,696 compared to \$5,821 at August 31, 2006. The Corporation is actively controlling its operating expenses on an ongoing basis. Management continues to reposition the Corporation as an M³ service provider so that it can better utilize the Corporation's main assets, which include the licence to use approximately 100 MHz of spectrum in the 2.5 to 2.7 GHz band and the broadcast licence.

13. SHARE CAPITAL

At August 31, 2007, the Corporation had issued 59,831,603 Multiple Voting Shares and 65,372,157 Subordinate Voting Shares for total issued shares of 125,203,760 (August 31, 2006 – 123,938,976) and there were options outstanding to acquire 4,591,450 Subordinate Voting Shares of the Corporation (2006 – 3,947,228).

As at November 30, 2007, there were 59,851,603 Multiple Voting Shares and 65,395,383 Subordinate Voting Shares issued and the number of options outstanding to purchase Subordinate Voting Shares of the Corporation was 4,535,893. The number of share appreciation right units of the Corporation outstanding as of November 30, 2007 was 33,666,578.

14. STOCK BASED COMPENSATION

During the year ended August 31, 2007, the Corporation recorded stock-based compensation expense of \$113 (2006 - \$52) related to the options granted.

15. RELATED PARTY TRANSACTIONS

The Corporation monitors its intercompany and related party agreements to ensure that the agreements remain beneficial to the Corporation. All material related party transactions are reviewed by the Audit and Corporate Governance Committee of the Corporation's Board of Directors.

(a) Related party transactions with UBS

The following amounts were paid/(received) by the Corporation during the years noted:

	Years ended August 31	
	2007	2006
Management fees expense ⁽ⁱ⁾	\$2,400	\$2,400
Interest expense ⁽ⁱⁱ⁾	210	210
Rent revenue ⁽ⁱⁱⁱ⁾	(74)	(73)

- (i) On May 19, 2004, the Corporation and UBS entered into an agreement under which UBS will provide the Corporation with a wide range of services designed to maximize the Corporation's full commercial potential.
- (ii) During the year the Corporation paid \$210 (2006 - \$210) by way of issuance of shares to UBS related to interest expense on the convertible debentures held by UBS.
- (iii) During the year, the Corporation subleased a portion of its premises to UBS in the amount of \$74 (2006 - \$73), which has been recorded as a reduction of general and administrative expenses.

(b) Other related party transactions

The Corporation paid \$240 (2006 - \$240) for fees related to services rendered by the Executive Chairman of the Board of Directors of the Corporation which are included in general and administrative expenses.

On November 26, 2003, the Corporation pledged a security interest in all of its personal property to UBS for any liabilities owing by the Corporation to UBS.

16. OPERATING RISKS AND UNCERTAINTIES**Going Concern**

The Corporation's ability to continue as a going concern is dependent upon achieving and maintaining profitable operations, the successful implementation of the Corporation's business strategy, the availability of financing alternatives, and an acceptable outcome to the Corporation's contingencies (See the sections entitled "Operating Risks and Uncertainties – Economic Dependence" and "Operating Risks and Uncertainties – Contingencies"). The outcome of these matters cannot be predicted at this time. The annual audited consolidated financial statements have been prepared on a going concern basis and do not include any adjustments to the amounts and classifications of the assets and liabilities, and reported revenues and expenses that would be necessary if the going concern basis was not appropriate. Such adjustments could be material.

Economic Dependence

The Corporation purchases a significant portion of its telecommunications needs from Bell Canada. As a result, the provision of many of the Corporation's service offerings to its subscribers and the revenue generated therefrom are dependent upon Bell Canada continuing to provision its network services to the Corporation (refer to the "Operating Risks and Uncertainties - Contingencies" section below).

Financing Risks

The Corporation's M³ mission is dependent on raising sufficient capital or partnering with other service providers who can provide the necessary infrastructure and the capital requirements to design and develop the network in Toronto and Montreal in the first instance and then the corridor from Windsor to Québec City. There is no guarantee that the Corporation will be able to obtain financing arrangements that are acceptable to the Corporation and therefore, there is no assurance that the network as outlined in the Corporation's strategy will be built.

Subscriber Retention

The Corporation's ability to retain its profitable subscriber base is a prime determining factor in its long-term success. The Corporation attempts to ensure retention of profitable subscribers by maintaining its infrastructure and technical and subscriber support capabilities. The Corporation has also implemented targeted retention strategies designed to reduce the rate of subscriber attrition. However, it is easy for the Corporation's subscribers to switch to competing internet and television distribution service providers. Any significant loss of profitable subscribers will adversely affect the Corporation's business, financial condition, and results of operations in the future.

Subscriber Acquisition

The Corporation's revenue depends on its ability to attract and retain new subscribers. However, the very strong competitive environment in which the Corporation operates could adversely affect the Corporation's business, financial condition, and results of operations in the future.

Regulatory Risks

As discussed in the section entitled "Overview of Government Regulation and Regulatory Developments", the Corporation's operations are subject to government regulation that could, and frequently do, impact the business. The Corporation continually monitors these developments and comments directly on those policies that affect it.

Technology Risks

The Corporation is pursuing a new strategy that will transition its network to M³ technology. The development and implementation of any new technology brings with it inherent uncertainties and risks related to the features included, the timing of implementation, and the cost and availability of equipment.

This implementation will rely, in part, on new and unproven technology, although UBS has experience in related areas. The Corporation cannot be certain that this new service can be implemented in the time frame and within the investment capital required to generate an appropriate risk related return for investors.

Contingencies

Bell Canada

In response to Bell Canada's April 10, 2007 "Notice of Intent to Disconnect" the Corporation's services, on April 27, 2007, the Corporation filed a Statement of Claim with the Ontario Superior Court of Justice against Bell Canada. The Corporation claims damages in the aggregate amount of \$25,000 plus interest, costs, and any applicable taxes for, amongst other things, Bell Canada's breach of contract, misrepresentation, and unlawful interference with economic relations. The Corporation is also seeking \$10,000 in aggravated and/or punitive damages.

On May 8, 2007, the Corporation filed a Notice of Motion seeking Interim and Interlocutory Injunctions (the "Injunctions") preventing Bell Canada from terminating, reducing, restricting, or in any way interfering with the telecommunications services provided by Bell Canada to the Corporation pending the final determination of the motion or until such other time as the Court may direct. The Injunctions were heard by the Ontario Superior Court of Justice on July 23, 2007 and granted on July 31, 2007. In light of the Injunctions granted, the Corporation believes it will be able to carry on business in the normal course of operations.

The major Terms and Conditions of the Injunctions are as follows:

1. The Corporation will pay Bell Canada \$360 per month from May 1, 2007;
2. The Corporation may not encumber or transfer its spectrum licence without the consent of the Court; and
3. Bell Canada will pay the Corporation's costs of the Injunctions.

The Corporation is fully complying with the Terms and Conditions set forth by the Ontario Superior Court of Justice. The Corporation will expeditiously continue to vigorously pursue its aforementioned Statement of Claim against Bell Canada.

On July 5, 2007, Bell Canada filed its Statement of Defence and Counterclaim against the Corporation claiming, amongst other things, damages for trade payables in the amount of \$13,689, damages in the amount of \$2,300 for credit notes improperly issued by Bell Canada, and \$1,000 in aggravated and/or punitive damages.

The hearing date for these actions has yet to be determined and the outcome of these actions cannot be predicted at this time.

These claims are significant to the Corporation's shareholders. In the Corporation's opinion, Bell Canada's Counterclaim is without merit and the Corporation intends to vigorously pursue its rights.

Craig Wireless International Inc.

On February 19, 2004, Craig Wireless International Inc. ("Craig Wireless") filed a statement of claim against the Corporation before the Ontario Superior Court of Justice. In its action, Craig Wireless seeks numerous sanctions against the Corporation and other parties.

On May 4, 2004, the Corporation obtained an order from the Ontario Superior Court of Justice dismissing with prejudice the motion brought by Craig Wireless for, amongst other things, an injunction that would prevent UBS from voting its shares of the Corporation and converting into common shares its convertible debentures pursuant to the Corporation's February 2004 rights offering. At the same time, Craig Wireless also withdrew its challenge to the CRTC approval of UBS acquiring a controlling interest in the Corporation. Craig Wireless is still pursuing its claim that the Corporation conducted its affairs in a manner that was oppressive and unfairly prejudicial to Craig Wireless and requests damages in the aggregate amount of \$12,000.

On October 27, 2006 the Ontario Superior Court of Justice heard a motion brought by Craig Wireless to amend its claim so as to add additional defendants. The Court denied Craig Wireless' motion on January 24, 2007 and awarded costs in favor of the Corporation. The Corporation has been advised that, at this time, Craig Wireless does not intend to further amend its claim. The Corporation believes that the entire claim is unfounded and intends to vigorously defend itself. Accordingly, no accrual has been recorded in the accounts for this claim.

17. DISCLOSURE CONTROLS

Management has evaluated the Corporation's disclosure controls and procedures and has determined that, as at August 31, 2007, the controls are effective.

18. INTERNAL CONTROLS OVER FINANCIAL REPORTING

Internal control over financial reporting ("ICOFR") is designed to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and its compliance with GAAP in its financial statements. Management has evaluated whether there were changes to its ICOFR during the year ended August 31, 2007 that have materially affected, or are reasonably likely to materially affect, its ICOFR. No such changes were identified.

19. ADDITIONAL INFORMATION

Additional information regarding the Corporation's financial statements and activities is available at www.sedar.com.