

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

LOOK COMMUNICATIONS INC.

Years ended August 31, 2008 and 2007

LOOK COMMUNICATIONS INC.

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

(In thousands of dollars, except shares and per share amounts)
For the years ended August 31, 2008 and 2007

November 21, 2008

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, 2008. The Corporation's annual audited consolidated financial statements and the notes thereto have been prepared on a going concern basis, in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") with respect to the preparation of financial information. The going concern basis of presentation assumes that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. There is significant doubt about the Corporation's use of the going concern assumption because it has incurred significant operating losses and negative cash flows from operations in recent years and has a working capital deficiency of \$10,566 (2007 - \$7,196).

The Corporation will need to raise cash in order to meet the needs of its existing operations beyond fiscal 2009. This requirement and timing for capital may be adversely impacted by, amongst other things, a lack of available financing through traditional banking sources, the outcome of the contingencies, a faster rate of decline in subscribers than experienced during fiscal 2008 and negative pressure on average revenue per user. In order to alleviate this cash requirement, the Corporation will continue to seek any and all ways to obtain financing through, amongst other things, partnering arrangements, debt and equity partners, the sale of certain subscribers, arrangements involving some or all of the Corporation's spectrum and rights offerings to existing shareholders. The outcome of these matters cannot be predicted at this time.

The ability of the Corporation to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities when due is dependent on the successful completion of the actions taken or planned, some of which are described above, which management believes will mitigate the adverse conditions and events which raise doubt about the validity of the going concern assumption used in preparing these consolidated financial statements (See the sections entitled "Liquidity and Capital Resources", "Operating Risks and Uncertainties – Economic Dependence" and "Operating Risks and Uncertainties – Contingencies"). There is no certainty that these and other strategies will be sufficient to permit the Corporation to continue beyond August 31, 2009.

Notwithstanding the above, the consolidated financial statements have been prepared on a going concern basis and do not include any adjustments to the carrying value and balance sheet classifications of assets and liabilities and reported revenue and expenses that would be necessary if the going concern basis was not appropriate. Such adjustments could be material.

In this MD&A, the terms “we”, “us”, “our”, and “Corporation” refer to Look Communications Inc. and subsidiary entities (including other types of business organizations such as partnerships, trusts and other unincorporated business entities) carrying on the business of the Corporation.

2. CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This MD&A includes forward-looking statements and information concerning the future performance of the Corporation, its operations, and its financial performance and condition. These forward-looking statements and information 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 and information are based on current expectations. The Corporation cautions that all forward-looking statements and information are inherently uncertain and actual results may differ materially from the assumptions, estimates, or expectations reflected or contained in the forward-looking statements and 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. New risks and uncertainties arise from time to time, and it is impossible for the Corporation to predict these events or the effect that they may have on the Corporation. Certain statements in this MD&A, other than statements of historical fact, may include forward-looking information that involves various risks and uncertainties. This may include, without limitation, statements based on current expectations involving a number of risks and uncertainties related to all aspects of the wireless communications, broadcast television, and Internet services industries. These risks and uncertainties include, but are not restricted to: (i) the continued operation of the Corporation as a going concern, (ii) the ability of the Corporation to raise adequate and suitable financing or obtain infrastructure assistance, (iii) the outcome of litigation, (iv) changes in spectrum allocation, (v) other risk factors related to the Corporation's business and (vi) other risk factors related to the Corporation's industry. For a more detailed discussion of factors that may affect actual results or cause actual results to differ materially from any conclusion, forecast or projection in these forward-looking statements and information, see the sections entitled "Overview – Significant Current Events," "Liquidity and Capital Resources" and "Operating Risks and Uncertainties" below.

Therefore, future events and results may vary significantly from what the Corporation currently foresees. Readers are cautioned that the forward-looking statements and information made by the Corporation in this MD&A are stated as of the date of this MD&A, are subject to change after that date, and are provided for the purposes of this MD&A and may not be appropriate for other purposes. We are under no obligation to update or alter the forward-looking statements whether as a result of new information, future events, or otherwise, except as required by National Instrument 51-102, and we expressly disclaim any other such obligation.

3. OVERVIEW

Significant Current Events

A. Subsequent Event - Sale of Web hosting and Domain Businesses

On October 17, 2008, the Corporation executed an Asset Purchase Agreement (the "Agreement") with Bluegenesis.com Corp. ("Bluegenesis") for the sale of its web hosting and domain businesses. The Agreement, which closed on November 1, 2008, requires the following:

1. Consideration in the amount of approximately \$3,800 payable to the Corporation, subject to potential post-closing adjustments, and;
2. A 40-month Shared Hosting Marketing and Licensing Agreement with Bluegenesis, whereby the Corporation and Bluegenesis agree to jointly promote the EasyHosting brand and share in the revenue generated therefrom.

B. WiMAX Test Network

On November 3, 2008 the Corporation and Motorola announced that they had commenced a WiMAX IEEE 802.16e Wave2 trial in Milton, Ontario, using Motorola, Inc.'s latest WiMAX equipment. Look's WiMAX system utilizes the latest in 4G (Fourth Generation) technologies, offering a wide variety of mobile services such as high quality Broadcast Television, High Speed Internet and VoIP.

To date, WiMAX has been deployed in more than 100 countries around the globe with great success. In Canada, Look is one of the first to offer a completely mobile WiMAX trial network capable of delivering an experience and speeds equivalent to land-based DSL and cable internet connections. No existing 3G cellular network in Canada can match this consumer experience.

Current WiMAX devices range from mobile handhelds, PCMCIA cards, USB dongles and laptop computers with embedded WiMAX chips. This breadth of devices allows consumers to customize their mobile requirements whether they are at home, at the office, at the cottage or on the road.

Rather than being constrained by the geographic limitations of WiFi, WiMAX allows operators to blanket an entire city or region to offer completely seamless connectivity.

Look can demonstrate this disruptive technology using a state of the art WiMAX demonstration vehicle located at its head office in Milton, Ontario. Passengers can view high quality television with an interactive guide, view video on demand (VOD), place voice calls, browse the internet, and achieve internet speeds capable of 6 Megabits per second while traveling at highway speeds. Other devices such as handhelds and WiMAX embedded laptops are also available for demonstration.

Look believes that WiMAX will give consumers an unparalleled experience that is currently not offered by any mobile or cellular operator in Canada. Look's unique combination of its mobile broadcast license, along with its approximately 100 MHz of spectrum in the 2.6 to 2.7GHz band, allows Mobile WiMAX to become a reality in Canada today.

C. Corporate Reorganization Plan

In December 2007, the Corporation implemented the reorganization plan (the "Plan") approved on October 10, 2007, by transferring certain assets of the Corporation to a 100 per cent controlled entity. The purpose of the Plan is to utilize certain of the Corporation's non-capital losses which would have otherwise expired, to reduce future taxable income.

Our Corporation

The Corporation's mission is to be an M³ - Mobile Multi Media – entertainment and information service provider in Ontario and Québec. The Corporation currently delivers a full range of communications services including high-speed and dial-up Internet access, digital television distribution, and superior customer service to both the business and residential markets. The Corporation provides its digital television distribution and wireless Internet services using its approximately 100 MHz of Multipoint Distribution System spectrum in the 2.5 to 2.7 GHz frequency band covering approximately 18 million people (1.8 billion MHz/Pops) in the provinces of Ontario and Québec. 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, 2008, UBS Wireless owned or controlled 24,864,478 Multiple Voting Shares and 29,084,973 Subordinate Voting Shares of the Corporation, representing an aggregate of 42.8% 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 51.7% 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.

During the first quarter of fiscal 2009, the Corporation sold its web hosting and domain businesses for consideration of approximately \$3,800 (See the section entitled "Overview – Significant Current Events – Subsequent Event").

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 to 2.7 GHz frequency band covering approximately 18 million people in the provinces of Ontario and Québec. 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 which was further extended in August 2004 for another seven years to 2011. This licence covers areas within Ontario and Québec including 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 – 2162 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 consumer's hand rather than to a geographically defined location – the home or the office. It is designed to give consumers personalization and mobility in voice, television, data, and Internet, and it allows these applications to be further delineated into specific services such as text messaging, pictures, video, conferencing, and caller identification.

On November 3, 2008 the Corporation announced that it had launched its Mobile Multi Media WiMAX trial in Milton, Ontario (See "Overview – Significant Current Events – WiMAX Test Network").

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. Pursuant to the Corporation's engagement with UBS, it has acquired access to UBS's expertise and technological know-how in offering consumers the freedom of mobility with the access of broadband. Not only has UBS developed, designed, and built a mobile video network in more than 2,000 public transportation vehicles in Singapore, it was 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. Continue to seek any and all opportunities to obtain financing;
2. Resolve the dispute with Bell Canada to continue servicing existing subscribers;
3. Maximize shareholder value through the strategic repositioning of the Corporation's M³-enabling assets; and
4. Continue to re-negotiate supplier contracts and focus on efficiency improvements.

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]

However, wireless market penetration remains low in Canada – estimated by industry analysts at SeaBoard to be around 60 percent, second to last among member countries in the Organization for Economic Co-operation and Development and approximately 20 percent lower than 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; Spectrum Policy Framework for Canada – Spectrum Management and Telecommunications, Industry Canada, June 2007]

The ongoing development of wireless data transmission technologies has led manufacturers to create wireless devices such as the Apple iPhone 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. Furthermore, 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 2008 – making the cellular phone the fastest-selling single item of consumer electronics. There are more than 2.3 billion global cellular phone subscribers 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. Currently, these services account for approximately 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]

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 suggest this 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]

The Need for Spectrum

The requirement for additional spectrum was addressed in part by the federal government's AWS spectrum auction, which commenced on May 27, 2008. 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.

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. On March 18, 2008, the US FCC completed the auction of 62 MHz in the 700 MHz spectrum band for total proceeds of US\$19.1 billion. Of the 214 qualified bidders, the largest purchasers were Verizon Wireless (US\$9.4 billion at US\$0.73/MHz POP), AT&T Wireless (US\$6.6 billion at US\$3.15/MHz POP) and the satellite TV operator DISH Network (US\$0.8 billion at US\$0.55/MHz POP), together representing approximately 93% of the total auction proceeds.

In the UK, Ofcom is planning to auction 205 MHz of spectrum situated around the 2.6 GHz frequency band which is to be used for, amongst other things, mobile broadband wireless services.

2008 Spectrum Auction

On November 28, 2007, the Minister of Industry announced the final policy decisions for the 2008 AWS spectrum auction of 105 MHz, which commenced on May 27, 2008 and concluded on July 21, 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 former Minister of Industry, the Honourable 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 \$500,000 for all geographic areas covered by AWS spectrum.

The Corporation believes the new policy decisions will foster better and more diverse services for consumers, on the assumption that the policies will encourage new entrants and the additional bandwidth will permit new services. In particular, the spectrum set aside, mandated roaming and antenna tower and site sharing, coupled with binding arbitration to conclude commercial agreements, are assumed to encourage increased competition and potentially lower prices in Canada's wireless industry although the time frame for any reduction (or relative reduction) in consumer prices cannot be projected and may not even occur if these or other assumptions prove incorrect.

In the final policy decisions, Industry Canada adopted the use of Tier 2 and Tier 3 service areas and eliminated the Tier 4 service areas initially proposed in the February 2007 Consultation Paper entitled "Consultation on a Framework to Auction Spectrum in the 2 GHz Range including Advanced Wireless Services". The licences auctioned were divided into two Tiers - 28 Tier 2 Provincial and large regional licences (all of which were set aside for new entrants) and 236 Tier 3 Smaller regional licences (available to all bidders).

On December 22, 2007, Industry Canada released Notice No. DGRB-011-07 – *Licensing Framework for the Auction for Spectrum Licences for Advanced Wireless Services and other Spectrum in the 2 GHz Range*. This notice outlined, amongst other things, the rules and requirements for the competitive bidding process established by the Minister, and the financial deposits that were required on application by bidders. On February 29, 2008 Industry Canada responded to questions and comments submitted by interested parties on January 22, 2008 and February 7, 2008 and clarified the rules related to mandatory roaming and mandatory tower and site sharing.

On March 31, 2008 Industry Canada released the final list of qualified bidders. In aggregate, twenty-seven participants qualified to bid in the auction after depositing approximately \$2.6 billion.

The AWS auction commenced on May 27, 2008 and concluded after 331 rounds on July 21, 2008 with gross proceeds of \$4.26 billion, far in excess of analyst expectations, indicating significant interest in mobile spectrum from both new entrants and incumbents as can be seen from the following chart (in millions of dollars):

\$'millions	Advanced Wireless Services						PCS	L-Band	Total	MHz/Pop (millions)
	Open	New Entrants Set Aside			Open		Open	Open		
	A	B	C	D	E	F	G	I		
Block Size	20MHz	20MHz	10MHz	10MHz	10MHz	20MHz	10MHz	5MHz	105MHz	
Rogers	\$953				\$0	\$47	\$0	\$0	\$999	600
Telus	\$32				\$162	\$687	\$0	\$0	\$880	383
Bell	\$15				\$311	\$414	\$0	\$1	\$741	355
Total Incumbents	\$999	\$0	\$0	\$0	\$473	\$1,147	\$0	\$1	\$2,620	
Videotron	\$0	\$227	\$115	\$207	\$5	\$0	\$0	\$0	\$555	381
Globalive	\$0	\$279	\$89	\$52	\$20	\$0	\$1	\$1	\$442	342
DAVE	\$0	\$0	\$161	\$82	\$0	\$0	\$0	\$0	\$243	174
Shaw	\$0	\$134	\$14	\$25	\$17	\$0	\$0	\$0	\$190	188
MTS	\$0	\$39	\$0	\$0	\$0	\$0	\$1	\$1	\$41	39
Others	\$0	\$48	\$26	\$15	\$2	\$0	\$73	\$0	\$164	
Total New Entrants	\$0	\$727	\$406	\$381	\$44	\$0	\$75	\$2	\$1,635	
Total	\$999	\$727	\$406	\$381	\$517	\$1,147	\$75	\$3	\$4,255	
\$/MHz/POP	\$1.67	\$1.21	\$1.35	\$1.27	\$1.72	\$1.91	\$0.25	\$0.02	\$1.35	

The overall \$/MHz/POP of \$1.55 for AWS (90 MHz of spectrum) is significantly higher than the total opening reserve bid at \$0.19/MHz/POP, and exceeds the 2001 PCS auction (\$1.29/MHz/POP) by approximately 20%. Consistent with the 2001 PCS auction, spectrum in Look's service areas was the most expensive where eight of the top ten high bids were for licences in Ontario and Québec:

Rank	Block	Service Area	High Bid (in millions)	Size (MHz)	Price/MHz/POP
1	F	Toronto	\$314	20	\$2.79
2	B	Southern Ontario	\$279	20	\$1.58
3	A	Toronto	\$235	20	\$2.08
4	F	Montreal	\$234	20	\$3.09
5	A	Montreal	\$192	20	\$2.54
6	B	Southern Québec	\$168	20	\$1.63
7	C	Southern Ontario	\$131	10	\$1.49
8	E	Montreal	\$128	10	\$3.38
9	A	Vancouver	\$117	20	\$2.53
10	F	Vancouver	\$117	20	\$2.53

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.

6. SIGNIFICANT ACCOUNTING POLICIES

Management’s discussion and analysis of operating results and financial condition 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 2008 annual audited consolidated financial statements 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.

Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated upon consolidation.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. Significant estimates are used in determining allowances for doubtful accounts, useful lives of property and equipment, property and equipment impairment assessments, income tax valuation allowances, certain liabilities for cost of carrier services, stock-based compensation expense and contingent liabilities.

Cash and cash equivalents

Cash and cash equivalents consist of all bank balances and highly liquid short-term investments with original maturities of less than 90 days. Cash equivalents have been classified as held-for-trading. As at August 31, 2008 and 2007, the Corporation held no cash equivalents.

Inventory

Inventory, which consists primarily of modems, antennae and remote controls, is recorded at the lower of cost and net realizable value.

Property and equipment

Property and equipment is recorded at cost less accumulated amortization. Amortization is provided at rates and on bases designed to amortize the cost of the assets over their estimated useful lives as follows:

Asset	Basis	Rate
Building	Declining balance	4%
Headend and network equipment	Straight line	8 - 10 years
Customer connections	Straight line	5 - 10 years
Computer hardware	Declining balance	30%
Computer software	Straight line	Up to 1 year
Office equipment and other	Declining balance	20%
Vehicles under capital leases	Declining balance	30%

Property and equipment associated with the Corporation's network and customer connections is subject to technological risks and market changes due to new products and services and changing customer demands. These changes may result in changes to the estimated useful lives of these assets.

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 2008 annual audited consolidated financial statements regarding the impairment recognized during the year ended August 31, 2007.

Deferred charges

Deferred charges consist primarily of licence renewal application costs and deferred financing charges. Licence renewal application costs represent expenditures incurred in the course of obtaining the licence renewals from the Canadian Radio-television and Telecommunications Commission ("CRTC") and are being amortized on a straight-line basis over the term of the licence of approximately seven years. On September 1, 2007, upon adoption of the financial instrument standards, certain deferred charges were reclassified with an adjustment to long-term debt (note 2(m)(ii) to the 2008 annual audited consolidated financial statements).

Revenue recognition

Services revenue, comprised of Broadcast, Internet and Other, is presented net of discounts granted to new subscribers as incentives. Broadcast Services revenue is earned from the provision of digital television services to residential and business subscribers. Internet Services revenue is earned primarily from monthly and annual subscriptions from individuals and businesses for access to the internet. The Corporation earns Other Services 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.

Government assistance

Government assistance is recorded as an expense reduction in the period that the expenditure is incurred and when reasonable assurance exists that the Corporation has complied with the terms and conditions of the approved grant program and there is reasonable assurance that the proceeds will be received. Refer to note 9 to the 2008 annual audited consolidated financial statements for additional details.

Foreign currency translation

Monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate in effect at the balance sheet date. Revenue and expense items are translated at the exchange rate in effect at the date of the transaction. Resulting exchange gains or losses are included in the loss for the year.

Income taxes

Under the asset and liability method of tax allocation, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that are expected to be in effect in the years in which the future income tax assets or liabilities are expected to be settled or realized. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

Stock option incentive plan

The Corporation has a stock option incentive plan, which is described in note 7(d) to the 2008 annual audited consolidated financial statements. 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.

Share appreciation rights plan

The Corporation has a share appreciation rights ("SAR") plan ("SAR Plan"), which is described in note 7(e) to the 2008 annual audited consolidated financial statements. 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 that govern the awards will be met.

Basic and diluted loss per share

Basic loss per share is calculated using the weighted average number of Multiple Voting and Subordinate Voting Shares outstanding during the year. Diluted loss per share reflects the dilution that would occur if outstanding stock options were exercised or converted into the Corporation's Subordinate Voting Shares using the treasury stock method. For the years ended August 31, 2008 and 2007, the inclusion of the Corporation's stock options in the computation of diluted loss per share would have an anti-dilutive effect on loss per share and are, therefore, excluded from the computation.

Changes in Accounting Policies

In 2006, The Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 1506, Accounting Changes ("Section 1506"). Section 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 was adopted by the Corporation on September 1, 2007.

Financial Instruments

Effective September 1, 2007, the Corporation adopted retrospectively without adjustment of prior years, the recommendations of Section 1530, Comprehensive Income; Section 3855, Financial Instruments - Recognition and Measurement; Section 3861, Financial Instruments - Disclosure and Presentation; Section 3865, Hedges; and Section 3251, Equity. These sections provide standards for recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives, and describe when and how hedge accounting may be applied.

Section 1530 provides standards for the reporting and presentation of comprehensive income, which represents the change in equity from transactions and other events and circumstances from non-owner sources. Other comprehensive income is defined by revenue, expenses, gains and losses that are recognized in comprehensive income, but excluded from net income, in conformity with Canadian GAAP.

Under the new standards, all financial assets are classified as held-for-trading, held-to-maturity investments, loans and receivables or available-for-sale. Also, all financial liabilities must be classified as held-for-trading or other financial liabilities. The financial instruments are measured at their fair values, except for held-to-maturity investments, loans and receivables and other financial liabilities, which are measured at amortized cost using the effective interest method. The change in the fair value of a financial asset or financial liability classified as held-for-trading is included in operations in the period in which it arises, and the change in the fair value of available-for-sale financial assets is recognized in other comprehensive income until the financial asset is derecognized and any cumulative gain or loss is then recognized in operations.

As a result of the adoption, the Corporation's financial liabilities must be measured at amortized cost using the effective interest rate method. On adoption, this resulted in an increase of the liability component of convertible debentures of \$340 and an offsetting adjustment to deficit.

As a result of the implementation of the standards, the Corporation has classified cash equivalents as held-for-trading. Accounts receivable and other receivables have been classified as held-for-trading. Accounts payable and accrued liabilities have been classified as held-for-trading. Long-term debt and the liability component of the convertible debentures have been classified as financial liabilities. The Corporation has not classified any financial asset as available-for-sale or held-to-maturity. The remeasurement of held-for-trading financial assets and liabilities on adoption to fair value did not have a material impact on the consolidated financial statements.

All derivatives, including embedded derivatives, that must be separately accounted for, are measured at fair value with changes in fair value recorded in the consolidated statement of operations and deficit unless they are effective cash flow hedges. As part of the process of implementing these new standards, all significant contracts signed after January 1, 2003 were reviewed to identify embedded derivatives requiring separation from the host contract. No material embedded derivatives requiring separation were identified.

The Corporation has historically capitalized and amortized deferred financing charges. Effective September 1, 2007, the Corporation reclassified the unamortized costs against the related financial liabilities. The impact on adoption was to decrease the deferred financing charges and long-term debt by \$27.

The Corporation has determined that it has no other comprehensive income or loss transactions during the year and no opening or closing balances in accumulated other comprehensive income or loss.

Recent Accounting Pronouncements

The following accounting pronouncements have been released but have not yet been adopted by the Corporation:

(i) Capital disclosures:

In December 2006, the Accounting Standards Board ("AcSB") issued Section 1535, Capital Disclosures, which establishes standards for disclosing information about an entity's capital and how it is managed. This standard requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital, and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, being the interim period beginning on September 1, 2008 for the Corporation. The Corporation does not expect the adoption of this standard to have a material impact on its financial statements.

(ii) Financial instruments - disclosures:

In December 2006, the CICA issued Section 3862, Financial Instruments - Disclosures, and Section 3863, Financial Instruments - Presentation, which supersedes Section 3861, Financial Instruments - Disclosure and Presentation. Section 3862 places an increased emphasis on disclosures about the risks associated with both recognized and unrecognized financial instruments and how these risks are managed.

Section 3862 requires disclosures, by class of financial instrument that enables users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income and other comprehensive income would have been affected by reasonably possible changes in the relevant risk variable.

This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, being the interim period beginning on September 1, 2008 for the Corporation. The Corporation does not expect the adoption of this standard to have a material impact on its financial statements.

(iii) Financial instruments - presentation:

In December 2006, the AcSB approved Section 3863, Financial Instruments - Presentation, which supersedes Section 3861, Financial Instruments - Disclosure and Presentation. The existing requirements on presentation of financial instruments have been carried forward unchanged to Section 3863, Financial Instruments - Presentation.

This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, being the interim period beginning on September 1, 2008 for the Corporation. The Corporation does not expect the adoption of this standard to have a material impact on its financial statements.

(iv) Inventory:

In June 2007, the AcSB issued Section 3031, Inventories, which replaces Section 3030, Inventories. The standard revises guidance on the determination of cost, recognition and subsequent measurement and disclosures of inventory.

The standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, specifically September 1, 2008 for the Corporation. The Corporation does not expect the adoption of this standard to have a material impact on its financial statements.

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. The Corporation monitors the number of subscribers of its services as an indicator of future revenue to be used in fiscal planning.

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 each of the months in the period. The Corporation uses subscriber churn as a measure of its success in retaining its subscriber base.

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. Accordingly, the Corporation believes that service revenue is a more meaningful metric to examine fluctuations in gross margin.

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. As a result, gross margin percentage better reflects the Corporation's core service activities.

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 Services, Internet Services, web-hosting, and co-location activations. The Corporation feels that COA is indicative of its ability to efficiently attract new customers.

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

EBITDA is defined as earnings before net interest expenses, income taxes, depreciation, amortization, and gain/loss on disposition of property and equipment. 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) loss and comprehensive 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 property and equipment.

8. SELECTED ANNUAL INFORMATION

	Year ended August 31, 2008	Year ended August 31, 2007	Year ended August 31, 2006
Revenue	\$20,312	\$24,620	\$29,877
EBITDA*	(1,669)	(940)	(274)
Interest expenses and (gain) loss on disposition of property and equipment, net of interest income	479	290	406
Depreciation, amortization, and impairment	5,171	10,710	5,951
Loss and comprehensive loss before income taxes	(7,319)	(11,940)	(6,631)
Income taxes	-	-	-
Loss and comprehensive loss	(7,319)	(11,940)	(6,631)
Net loss per share	(0.06)	(0.10)	(0.05)
Total assets	14,770	22,035	30,690
Total long term debt	-	1,800	1,814
Liability component of convertible debentures	3,222	2,764	2,789

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

Fiscal 2008 Relative to Fiscal 2007

- Revenue for the year ended August 31, 2008 was \$20,312, a decrease of 17.5% over fiscal 2007.
- The decline in revenue was essentially caused by a 20.1% or \$2,192 decrease in Broadcast Services revenue coupled with a 24.5% or \$872 decrease in Internet Dial-Up revenue when compared to fiscal 2007. 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.
- High Speed subscribers decreased by 20.6% to 7,979 while High Speed revenue decreased by 11.6% to \$5,141. High Speed revenue is 25.6% of total service revenue in 2008 compared to 24.0% in 2007.
- Operating expenses before amortization for the year ended August 31, 2008 were \$11,670, a cumulative decrease of 14.0% or \$1,894 over the year ended August 31, 2007. This decrease is the result of contract renegotiations, improved efficiencies, and head count reductions.
- The total number of full-time equivalent employees was 70 at August 31, 2008 versus 88 at August 31, 2007.

Fiscal 2007 Relative to Fiscal 2006

- Revenue for the year ended August 31, 2007 was \$24,620, a decrease of 17.6% over fiscal 2006.
- The decline in revenue over 2006 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 revenue 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.

9. RESULTS OF OPERATIONS

Highlights of the results for the year ended August 31, 2008 include the following:

- For the year ended August 31, 2008, service revenue was \$20,065 compared to \$24,230 for the year ended August 31, 2007. Gross margins decreased from 52.1% for fiscal 2007 to 49.7% for fiscal 2008 partly as a result of non-recurring adjustments to telecommunications and programming costs and certain components of cost of sales that are fixed in nature.
- For the year ended August 31, 2008 EBITDA was negative \$1,669 compared to EBITDA of negative \$940 for the comparable period ended August 31, 2007 with losses and comprehensive losses of \$7,319 or \$0.06 per share and \$11,940 or \$0.10 per share respectively. (refer to the "Earnings Before Interest Expenses, Income Taxes, Depreciation, and Amortization ["EBITDA"]" section below for a reconciliation of EBITDA to loss and comprehensive loss).
- Overall ARPU increased by \$2.40 or 7.0% to \$36.74 during the year ended August 31, 2008 over fiscal 2007 reflecting the continued activation and retention of higher-valued subscribers, the increased penetration of enhanced services, and price increases implemented by management.
- The Corporation's subscriber base was 40,471 at August 31, 2008 compared to 51,830 at August 31, 2007.

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, 2008			Year ended August 31, 2007		
	Revenue	Cost of Sales	Gross Margin	Revenue	Cost of Sales	Gross Margin
Service						
Broadcast Services	\$ 8,711	\$ 5,256	39.7%	\$10,903	\$ 6,163	43.5%
Internet Services	7,825	3,556	54.6%	9,370	3,954	57.8%
Other Services	3,529	1,275	63.9%	3,957	1,483	62.5%
Total Service Revenue	20,065	10,087	49.7%	24,230	11,600	52.1%
Sales and Installations	247	224		390	396	
Total Service and Sales Revenue	\$20,312	\$10,311		\$24,620	\$11,996	

Total Revenue and Gross Margin

Total revenue for the year ended August 31, 2008 of \$20,312 was \$4,308 or 17.5% lower than fiscal 2007. This was due primarily to the net loss of Broadcast Services and Dial-Up subscribers.

Gross margin for the year ended August 31, 2008 decline to 49.7% (2007 - 52.1%). This was due primarily to certain components of cost of sales that were fixed in nature and was partly offset by, amongst other things, timely fee increases and the cost savings obtained through the re-negotiation of certain supplier contracts.

Broadcast Services Revenue and Gross Margin

The decrease in Broadcast Services revenue for the year ended August 31, 2008 of \$2,192 or 20.1% over fiscal 2007 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, 2008 decreased to 39.7% (2007 – 43.5%) due primarily to non-recurring broadcast adjustments and general increases in the cost of programming services.

Internet Services Revenue and Gross Margin

Internet Services revenue in 2008 declined by \$1,545 or 16.5% over the comparable period ended one year prior due primarily to a decrease in the number of Dial-Up subscribers. Of the revenue from Internet Services, revenue from Dial-Up accounted for \$2,684 in 2008 (2007 - \$3,555) while revenue from High Speed was \$5,141 (2007 - \$5,815). The decrease in Internet Services revenue resulted from the continued 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, 2008 declined moderately to 54.6% (2007 – 57.8%) primarily as a result of the fixed nature of certain components of cost of sales which were partially offset by the Corporation’s active management and renegotiation of supplier contracts.

Other Services Revenue and Gross Margin

Revenue from Other Services for the year ended August 31, 2008 declined by \$428, or 10.8% over the comparable period in 2007 due both to a slight decrease in the number of subscribers and a drop in ARPU. The decline was due mostly to the attrition of hosting subscribers, where revenue in the year ended August 31, 2008 declined by \$278 relative to fiscal 2007.

Gross margin increased slightly for the year ended August 31, 2008 to 63.9% (2007 – 62.5%) due to the active management of costs.

Refer to the section entitled “Overview – Significant Current Events” for details on the sale of the web hosting and domain businesses.

Sales and Installation Revenue

Revenue derived from Sales and Installations for the year ended August 31, 2008 decreased by \$143, or 36.7%. This decline was the result of, amongst other things, a general reduction in new installations during fiscal 2008.

Subscriber Statistics

	<u>2008</u>	<u>2007</u>	<u>% Change</u>
Broadcast Services			
Gross additions	3,098	1,831	69.2%
Net reductions	(3,624)	(5,027)	27.9%
Total subscribers	11,732	15,356	(23.6%)
ARPU	\$53.40	\$50.33	6.1%
Churn	4.0%	3.2%	(0.8%)
Internet Services			
High Speed Services			
Gross additions	1,801	2,692	(33.1%)
Net reductions	(2,071)	(1,378)	(50.3%)
Total subscribers	7,979	10,050	(20.6%)
ARPU	\$48.18	\$44.95	7.2%
Churn	3.6%	3.1%	(0.5%)
Dial-Up Services			
Gross additions	962	1,755	(45.2%)
Net reductions	(5,104)	(7,067)	27.8%
Total subscribers	10,122	15,226	(33.5%)
ARPU	\$18.55	\$16.05	15.6%
Churn	4.0%	3.9%	(0.1%)
Total Internet Services			
Gross additions	2,763	4,447	(37.9%)
Net reductions	(7,175)	(8,445)	15.0%
Total subscribers	18,101	25,276	(28.4%)
ARPU	\$31.16	\$26.74	16.5%
Churn	3.8%	3.6%	(0.2%)
Other Services			
Gross additions	1,837	2,790	(34.2%)
Net reductions	(560)	(554)	(1.1%)
Total subscribers	10,638	11,198	(5.0%)
ARPU	\$20.32	\$21.80	(6.8%)
Churn	1.8%	2.4%	0.6%
Grand Total			
Gross additions	7,698	9,068	(15.1%)
Net reductions	(11,359)	(14,026)	19.0%
Total subscribers	40,471	51,830	(21.9%)
ARPU	\$36.74	\$34.34	7.0%
Churn	3.4%	3.2%	(0.2%)

See section 7 for an explanation of how the above statistics are calculated and utilized by the Corporation.

Total Subscribers and ARPU

The decrease in subscribers for the year ended August 31, 2008 of 11,359 or 21.9% 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. The Corporation has also minimized the use of marketing campaigns that have historically proven to be very expensive and ineffective.

For the year ended August 31, 2008, total ARPU was \$36.74 (2007 - \$34.34). This increase of 7.0% was due largely to the implementation of fee increases coupled with a declining proportion of subscribers with lower-ARPU Dial-Up products.

Broadcast Subscribers and ARPU

Broadcast subscribers totalled 11,732 at August 31, 2008 representing a decrease of 3,624 or 23.6% from August 31, 2007. Of the 11,732 subscribers, 3,861 represented subscribers in multiple-unit dwellings and 7,871 were subscribers in single family homes. The number of subscribers continued to decline during the year ended August 31, 2008 as a result of reduced sales and marketing activities by the Corporation, aggressive bundling campaigns by the competition, and the implementation of video-related fee increases. Primarily as a result of the video fee increases, ARPU for the year ended August 31, 2008, increased to \$53.40 (2007 - \$50.33).

For the year ended August 31, 2008, Broadcast Services subscriber churn was an average of 4.0% compared with 3.2% for the same period one year prior.

Internet Subscribers and ARPU

Internet subscribers totalled 18,101 at August 31, 2008 representing a decrease of 7,175 or 28.4% from August 31, 2007. The decrease was primarily in the residential Dial-Up subscriber base which lost 5,077 subscribers in the year reflecting a continuous customer migration to higher speed products.

ARPU on Internet Services was \$31.16 for the year ended August 31, 2008 (2007 - \$26.74) as a result of an increase in both Dial-Up and High Speed ARPU to \$18.55 (2007 - \$16.05) and \$48.18 (2007 - \$44.95) respectively as well as a movement of subscribers to higher value services. The increases in ARPU were driven both by timely price increases as well as a relative shift to higher value services.

Other Services Subscribers and ARPU

Other Services subscribers totalled 10,638 at August 31, 2008 representing a decrease of 560 or 5.0% from August 31, 2007. The Corporation also recorded sales of 27,706 domain names for the year ended August 31, 2008 (2007 - 30,198).

ARPU on Other Services for the year ended August 31, 2008 averaged \$20.32 (2007 - \$21.80). The decrease in ARPU was attributable to product mix, with subscribers generally moving to lower priced hosting products.

Operating Expenses

	Year ended August 31, 2008	Percentage of service revenue	Year ended August 31, 2007	Percentage of service revenue
Marketing and sales	\$ 20	0.1%	\$ 150	0.6%
Customer care	1,447	7.2%	1,978	8.2%
Engineering and operations	2,903	14.5%	3,325	13.7%
General and administration	7,300	36.4%	8,111	33.5%
Total before amortization and impairment of property and equipment and deferred charges	11,670	58.2%	13,564	56.0%
Amortization and impairment of property and equipment and deferred charges	5,171	25.8%	10,710	44.2%
Total operating expenses	\$ 16,841	84.0%	\$ 24,274	100.2%

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, 2008, marketing and sales expenses were \$20 or 0.1% of service revenue, compared to \$150, or 0.6% of service revenue one year prior as the Corporation has limited the use of advertising campaigns and focused on the retention of its high-value subscribers.

For the year ended August 31, 2008, the cost of acquisition per subscriber ("COA") was \$2.60 compared with \$16.54 for the year ended August 31, 2007.

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, 2008, customer care expenses were \$1,447, or 7.2% of service revenue compared to \$1,978, or 8.2% of service revenue for the year ended August 31, 2007.

As a percentage of revenue, customer care expenses declined slightly for the year ended August 31, 2008 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 costs related to the network and transmission towers through 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 operation and maintenance 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, 2008, engineering and operations expenses declined to \$2,903 or 14.5% of service revenue, compared to \$3,325 or 13.7% of service revenue for the year ended August 31, 2007.

The reductions, totalling \$422, during fiscal 2008 resulted primarily from the re-negotiation of hardware and software maintenance agreements, efficiencies attained in servicing the Corporation's existing subscriber base, and the continued focus on cost management.

General and Administration

General and administration expenses include administrative salaries, human resources, general occupancy, information technology, professional fees, and other administrative overheads for the Corporation. 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.

A summary of the key components in general and administration expenses is set out below:

	Year ended August 31, 2008	Year ended August 31, 2007
Compensation and benefits	\$ 1,944	\$ 2,011
Professional fees	3,914	4,364
Office and general	1,442	1,736
Total general and administrative expenses	\$ 7,300	\$ 8,111

For the year ended August 31, 2008, general and administration expenses were \$7,300 or 36.4% of service revenue, compared to \$8,111 or 33.5% of service revenue for the year ended August 31, 2007. The year over year decrease in total general and administrative expenses of \$811 or 10% was due mainly to reduced professional fees and the continued focus on the management of office and general expenses.

Amortization of Property and Equipment, Deferred Charges, and Deferred Financing Charges

For the year ended August 31, 2008, amortization of property and equipment was \$5,132 (2007 - \$5,461) and amortization of deferred financing charges totalled \$39 (2007 - \$67).

Interest and Financing Charges

	Years ended August 31		
	2008	2007	2006
Accretion on liability component of convertible debentures	\$ 416	\$ 369	\$ 391
Interest and finance charges	282	204	187
Interest income	(209)	(297)	(172)
Total	\$ 489	\$ 276	\$ 406

For the year ended August 31, 2008, \$416 (2007 – \$369) was recorded as the accretion on the liability component of the convertible debentures and \$282 (2007 – \$204) was recorded in interest expense on mortgage financing, supplier-financed credit facilities, other liabilities, capital lease obligations, and financing fees. The interest and financing charges were partially offset by \$209 (2007 – \$297) in interest income recognized on liquid assets.

Loss and Comprehensive Loss

The loss and comprehensive loss for the year ended August 31, 2008 amounted to \$7,319 or \$0.06 per share compared with a loss and comprehensive loss of \$11,940 or \$0.10 for the year ended August 31, 2007.

10. EARNINGS BEFORE INTEREST EXPENSES, INCOME TAXES, DEPRECIATION, AND AMORTIZATION ("EBITDA")

As a result of the foregoing factors, EBITDA, as defined in section 7 above, for the year ended August 31, 2008 was negative \$1,669 versus negative \$940 for the year ended August 31, 2007.

Revenue is 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 benefit of these initiatives has been offset by, amongst other things, professional fees incurred by the Corporation as it pursues an action against Bell Canada as discussed under the section entitled "Operating Risks and Uncertainties - Contingencies."

The following table reconciles EBITDA to loss and comprehensive loss for the respective years as determined under Canadian GAAP:

	Years ended August 31		
	2008	2007	2006
Loss and comprehensive loss for the year	\$ (7,319)	\$ (11,940)	\$ (6,631)
Add:			
Amortization of property and equipment	5,132	5,461	5,876
Impairment of property and equipment	-	5,182	-
Amortization of deferred charges	39	67	75
Accretion on liability component of convertible debentures	416	369	391
Interest and financing charges	282	204	187
Interest income	(209)	(297)	(172)
(Gain)/Loss on disposition of property and equipment	(10)	14	-
EBITDA*	\$ (1,669)	\$ (940)	\$ (274)

*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) loss and comprehensive 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 property and equipment 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 RESULTS

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

	2008				2007			
	Aug 31	May 31	Feb 29	Nov 30	Aug 31 ⁽ⁱⁱ⁾	May 31	Feb 28	Nov 30
Revenue	\$4,704	\$4,945	\$5,244	\$5,419	\$5,625	\$6,013	\$6,346	\$6,636
Carrier charges and cost of sales	2,375	2,584	2,661	2,691	2,860	2,975	3,019	3,142
Gross margin	2,329	2,361	2,583	2,728	2,765	3,038	3,327	3,494
Operating expenses before amortization	2,526	2,882	3,060	3,202	3,478	3,431	3,252	3,403
EBITDA	(197)	(521)	(477)	(474)	(713)	(393)	75	91
Interest, taxes, depreciation, amortization, impairment, and gain/loss on disposition of property and equipment	(1,434)	(1,454)	(1,421)	(1,341)	(6,623)	(1,471)	(1,435)	(1,471)
Net loss/loss and comprehensive loss	(1,631)	(1,975)	(1,898)	(1,815)	(7,336)	(1,864)	(1,360)	(1,380)
Loss per share ⁽ⁱ⁾	(0.01)	(0.02)	(0.02)	(0.01)	(0.06)	(0.02)	(0.01)	(0.01)

⁽ⁱ⁾ Loss per share is basic and diluted.

⁽ⁱⁱ⁾ During the fourth quarter of Fiscal 2007, the Corporation recorded an impairment of its property and equipment in the amount of \$5,182.

Dial-Up revenue has declined significantly over the past year. For the year ended August 31, 2007, Dial-Up revenue was \$3,555 and represented 14.7% of total service revenue of the Corporation. For the year ended August 31, 2008, Dial-Up revenue had declined to \$2,684 or 13.4% of total service revenue. The Corporation is able to offer alternatives such as wireless access products and DSL to subscribers in Ontario and Québec and is therefore able to retain some subscribers wishing to migrate to high speed Internet access. The Corporation, however, is not able to offer any alternative high speed products in Western Canada where the Corporation has lost a significant number of migrating subscribers. Broadcast revenue has declined by \$2,192 or 20.1% relative to fiscal 2007 and now represents 43.4% of service revenue (2007 – 45.0% of service revenue) primarily as a result of a 23.6% decline in the subscriber base.

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 70 at August 31, 2008 which, together with renegotiated contracts and reduced sales and marketing, are the key components of the reduction in operating expenses.

Results of Operations for the Fourth Quarter Ended August 31, 2008

Operating Highlights

- For the three months ended August 31, 2008, total revenue was \$4,704 compared to \$5,625 for the three months ended August 31, 2007.
- Dial-Up revenue decreased to \$601 during the fourth quarter of fiscal 2008 which represents a 22.3% 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, 2008 based on service revenue increased to 50.5% from 50.3% when compared to the three months ended August 31, 2007.
- Total operating expenses before amortization were \$2,526 for the three months ended August 31, 2008 compared to \$3,478 for the three months ended August 31, 2007.
- For the three months ended August 31, 2008, the EBITDA was negative \$197 compared to a negative EBITDA of \$713 for the three months ended August 31, 2007.
- The loss and comprehensive loss was \$1,631, or \$0.01 per share for the three months ended August 31, 2008, compared to a net loss of \$7,336, or \$0.06 per share, for the three months ended August 31, 2007. The decrease in the net loss year-over-year was largely the result of the \$5,182 impairment of certain long-lived property and equipment realized during the fourth quarter of fiscal 2007 along with the continuation of the Corporation's cost-management strategy.
- For the three months ended August 31, 2008, overall ARPU increased by \$2.64 or 7.6% to \$37.23 over the comparable period in fiscal 2007, reflecting the timely price increases implemented by the Corporation during the year.

12. LIQUIDITY AND CAPITAL RESOURCES

The Corporation had cash and cash equivalents of \$3,565 at August 31, 2008 compared with cash and cash equivalents of \$7,828 at August 31, 2007. Cash and cash equivalents consists of all bank balances and highly liquid short-term guaranteed investment certificates with original maturities of less than 90 days.

The change in cash and cash equivalents is summarized as follows:

	2008	2007
Cash provided by/(used in) operating activities	\$ (4,193)	\$ 2,882
Cash used in financing activities	(13)	(35)
Cash used in investing activities	(57)	(121)
Increase/(decrease) in cash and cash equivalents	\$ (4,263)	\$ 2,726

Cash used in operating activities for the year ended August 31, 2008 was \$4,193 compared to cash provided by operating activities of \$2,882 for the comparative period in 2007. This was largely due to changes in operating working capital resulting from the management fees paid in advance (as discussed below), the payments to Bell Canada (see section entitled "Operating Risks and Uncertainties – Contingencies"), as well as the Corporation's loss and comprehensive loss.

Cash used in financing activities for the year ended August 31, 2008 was \$13 compared to cash used of \$35 for the year ended August 31, 2007 and was substantially all related to the repayment of obligations under capital leases.

For the year ended August 31, 2008, \$57 of cash was used in investing activities. This resulted from \$127 of property and equipment purchases offset by proceeds on disposition of property and equipment of \$10 and a decrease of \$60 in restricted cash. This compares with cash used in investing activities of \$121 for the year ended August 31, 2007 consisting of the acquisition of \$159 of property and equipment which was partially offset by proceeds on disposition of property and equipment of \$27 and a decrease in restricted cash of \$11.

As at August 31, 2008, the Corporation had contractual obligations that require future payments as follows:

	Total	2009	2010	2011	2012	2013	Thereafter
Mortgage payable	\$1,787	1,787	-	-	-	-	-
Operating leases	\$1,718	534	395	345	325	119	-

On May 19, 2004, the Corporation and UBS entered into an agreement under which UBS is providing the Corporation with a wide range of services designed to maximize the Corporation's full commercial potential.

The Corporation paid, in September 2007, in advance, an annual fee of \$2,400. On a twelve month rolling basis, the Corporation maintains the annual prepaid fee. The annual prepaid is recorded in the caption prepaid expenses and deposits. The Corporation may, from time to time, recognize the performance of UBS in the form of cash bonus payments, direct grant of treasury shares of the Corporation, or options for the purchase of Subordinate Voting Shares from treasury. All options shall conform to the Corporation's stock option plan. The Corporation shall also reimburse UBS for certain expenses and disbursements incurred in respect of the agreement and the services provided by UBS. The initial term of the agreement is for a moving three-year period commencing on May 19, 2004 (the "execution date"). On each anniversary of the execution 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.

The mortgage payable bears interest at 10.5% per annum and matures on August 21, 2009. The mortgage is collateralized by a general security agreement over the assets at the Corporation's Milton, Ontario premises, and a first legal charge over the land and building of the Corporation.

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 fiscal 2009 will amount to approximately \$350.

The environment in which the Corporation operates is characterized by continuing turmoil in the capital markets and continuing uncertainty in the telecommunications landscape in Canada, caused by, amongst other things, the potential privatization of Bell Canada Enterprises, the AWS spectrum auction, which is likely to result in the introduction of new competitors, and the rapid technological changes underway. The Corporation will need to raise cash in order to meet the needs of its existing operations beyond fiscal 2009. This requirement and timing for capital may be adversely impacted by, amongst other things, a lack of available financing through traditional banking sources, the outcome of the contingencies (see section entitled "Operating Risks and Uncertainties - Contingencies"), a faster rate of decline in subscribers than experienced during fiscal 2008 and negative pressure on ARPU. In order to alleviate this cash requirement, the Corporation will continue to seek any and all ways to obtain financing through, amongst other things, partnering arrangements, debt and equity partners, the sale of certain subscribers, arrangements involving some or all of the Corporation's spectrum and rights offerings to existing shareholders. Significant external funds will, however, be required to rollout 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 the "Operating Risks and Uncertainties" section below. No assurance can be given that the Corporation will be able to achieve these results or raise capital given the existing market conditions in both Canada and the United States and the continuing restriction on foreign ownership.

The Corporation's working capital deficiency at August 31, 2008 was \$10,566 compared with \$7,196 at August 31, 2007. The change in working capital deficiency is related to, amongst other things, the reclassification of the mortgage to current liabilities and the negative EBITDA incurred by the Corporation in the year. Management continues to reposition the Corporation as an M³ service provider so that it can better utilize the Corporation's main assets, which include, amongst other things, a licence to use approximately 100 MHz of spectrum in the 2.5 to 2.7 GHz band covering approximately 18 million people in the provinces of Ontario and Québec and a broadcast distribution undertaking licence.

13. SHARE CAPITAL

At August 31, 2008, the Corporation had issued 59,871,603 Multiple Voting Shares and 66,074,725 Subordinate Voting Shares for total issued shares of 125,946,328 (August 31, 2007 – 125,203,760) and there were options outstanding to acquire 6,690,607 Subordinate Voting Shares of the Corporation (August 31, 2007 – 4,591,450).

As at November 21, 2008, there were 59,871,603 Multiple Voting Shares and 66,074,725 Subordinate Voting Shares issued and the number of options outstanding to purchase Subordinate Voting Shares of the Corporation was 6,678,714. The number of share appreciation right units of the Corporation outstanding as of November 21, 2008 was 36,945,347.

14. STOCK BASED COMPENSATION

During the year ended August 31, 2008, the Corporation recorded stock-based compensation expense of \$200 (2007 - \$113) 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 expensed/(earned) by the Corporation during the periods noted:

	Years ended August 31	
	2008	2007
Management fees expense ⁽ⁱ⁾	\$2,400	\$2,400
Interest ⁽ⁱⁱ⁾	210	210
Rent revenue ⁽ⁱⁱⁱ⁾	(75)	(74)

- (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 (2007 - \$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 \$75 (2007 - \$74), which has been recorded as a reduction of 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.

(b) Other related party transactions

During the year ended August 31, 2008, the Corporation paid \$240 (2007 - \$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.

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 "Introduction", "Liquidity and Capital Resources", "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 revenue 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 services from Bell Canada. These telecommunications services are not available from other service providers and, 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 provide 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, Montreal and Ottawa first and then the corridor from Windsor to Québec City. Given the existing market conditions in both Canada and the United States and the continuing restriction on foreign ownership, 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.

Refer also to the comments in the "Liquidity and Capital Resources" section for a review of the Corporation's short-term financing requirements and risks.

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 due to, amongst other things, continuously-advancing technology and aggressive competition in the telecommunications industry, 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. 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.

On March 18, 2008 the Corporation was granted an Order from the Ontario Superior Court of Justice compelling Bell Canada to, amongst other things, deliver its Affidavit of Documents to the Corporation by no later than October 1, 2008 (the "deadline"). Despite agreeing to a Court-imposed timetable on August 13, 2007 to exchange an Affidavit of Documents with the Corporation by November 16, 2007, Bell Canada has failed to adhere to its obligations before the Ontario Superior Court of Justice prompting the action initiated by the Corporation.

As such, the Corporation obtained an Order from the Honourable Justice Spence that granted the following:

1. The Defendant, Bell Canada, deliver its sworn Affidavit of Documents by no later than the deadline;
2. Bell Canada is to continue reporting to the Ontario Superior Court of Justice on a monthly basis as to its progress in preparing its Affidavit of Documents, and that Bell Canada will provide the Corporation with a written report in advance of this monthly attendance outlining:
 - a. The number of people who are reviewing the Bell Canada documents; and
 - b. The number of documents reviewed during the month and the number of documents remaining to review; and

-
3. In the event that Bell Canada fails to deliver its Affidavit of Documents by the deadline, or if, in advance of the deadline, it is shown that the efforts Bell Canada is making will not likely allow it to meet the deadline, the Corporation may seek an order to reduce the \$360 per month payment to Bell Canada, or seek an order for such other relief as the Court may permit, after July 1, 2008 based on the reports from Bell Canada to that date and any other relevant material.

The legal outcome of the claims described herein may result in the obligation recognized as of August 31, 2008 being materially different, either positively or negatively, than the amount ultimately settled.

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. On October 31, 2008, the Corporation filed a statement of defence. 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.

Border Broadcasters Inc. et al.

On December 27, 2007, Border Broadcasters Inc. et al. ("Border Broadcasters") served a statement of claim against the Corporation filed before the Federal Court. In its action, Border Broadcasters is seeking, amongst other things:

1. Payment of royalties due in the amount of \$4,500 for the retransmission of distant television signals pursuant to:
 - a. The Statement of Royalties to be Collected for the Retransmission of Distant Radio and Television Signals in Canada in 1998 through to 2003 as certified by the Copyright Board of Canada; and
 - b. The Interim Tariffs for the Retransmission of Distant Radio and Television Signals in Canada for the period commencing January 1, 2004.
2. Pre-judgment interest on unpaid royalties in the amount of \$2,500.

The Corporation believes that all debts, including any royalties due up to and including February 11, 2002, were extinguished by virtue of the Plan of Implementation approved by the Court under the Plan of Arrangement effective February 11, 2002. In addition, the Corporation notes that the Interim Tariffs referred to above for the period commencing January 1, 2004 remain uncertified by the Copyright Board of Canada.

The Corporation intends to vigorously defend itself and the outcome of this action cannot be predicted at this time.

17. ADDITIONAL INFORMATION

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