

# *DUCKWATER SHOSHONE TRIBE*

*Post Office Box 140068  
Duckwater, Nevada 89314  
Phone: (775) 863-0227  
Fax: (775) 863-0301*

March 15, 2010

Kevin Hayes, Vice President  
Arizona Nevada Tower Corporation  
1641 E. Sunset, Suite B-111  
Las Vegas, Nevada 89119

Re: USDA's Rural Utilities Service Broadband Initiatives Program

Dear Mr. Hayes:

The Duckwater Shoshone Tribe unanimously endorsed the Memorandum of Understanding with Arizona Nevada Tower Corporation to bring high speed internet access to our tribal community at the March 1, 2010 regular meeting of the tribal council. Please find enclosed the signed MOU. The Tribe has identified ten anchors whose employees and clientele would benefit from this necessary service.

The tribal anchors to participate in the service includes the Duckwater Shoshone Elementary School, Tribal Administration Building, the Duckwater Health and Social Services Division, the Tribal Senior Citizens Center, Tribal Police Department/Tribal Court, Tribal Fire Department, Tribal Housing and Community Services Division, Planning Division, Natural Resources Division and our Economic Development Corporation/Trucking Business.

The Tribe is located along an isolated and remote State Route Road in east central Nevada. Current internet services are dial-up or satellite, both services are very unreliable due to electric power outages or surges and the service is extremely slow. A recent power outage interfered with the internet system at our Health and Social Services Division rendering it inoperable. The telemedicine services were discontinued for one week impacting our community of 160 people and 370 tribally enrolled members.

In today's economic and social world, reliable and efficient technology is crucial. It is just as important, if not more so, to our tribal community with a goal of self-sustainability. The Tribe's future is dependent upon access to current technology. Partnering with ANTC is a giant step in the right direction.

The Duckwater Shoshone Tribe fully endorses ANTC's application to USDA for Rural Utilities Service Broadband Initiative Program.

Sincerely,



Virginia M. Sanchez  
Tribal Chairwoman  
Duckwater Shoshone Tribe



## Walker River Paiute Tribe

1022 Hospital Road • Post Office Box 220 • Schurz, Nevada 89427

Telephone: (775) 773-2306

Facsimile: (775) 773-2585

March 24, 2010

Kevin Hayes  
Vice-President, Finance & Administration  
Arizona Nevada Tower Corp.  
1641 East Sunset Road, Suite B-111  
Las Vegas, NV 89119

Dear Mr. Hayes:

This letter is to establish the Walker River Paiute Tribe's support of Arizona Nevada Tower Corp. ("ANTC") application for the proposed USDA RUS Broadband Initiative Program that will impact the rural community on the Walker River Paiute Reservation ("Reservation").

Our understanding is that the proposed funding will provide the infrastructure for broadband data access in an area where there is limited or no existing infrastructure for such technology. Currently residents on the Reservation use dial-up service or need to contract with a satellite company. Certain Tribal government offices have access to T1 lines. All such connections are not reliable. The new system is proposed to provide all residents and governmental departments with reliable service. Government departments that will be offered service include but are not limited to the health clinic, administration, tax, physical fitness, water resources, environmental, housing, education, economic development and existing Tribal businesses. These services will allow the departments to access many resources previously not available due to the Reservation's rural location and unreliable/slow internet connections.

We are excited about the possibility of ANTC bringing this state-of-the-art technology to our community. ANTC has our unequivocal support. We, therefore, urge the approval of ANTC's RUS BIP application

Sincerely,

A handwritten signature in cursive script that reads "Gina Wachsmuth".

Gina Wachsmuth  
Vice-Chairperson



YERINGTON PAIUTE TRIBE  
171 Campbell Lane  
Yerington, Nevada 89447  
(775) 463-3301

March 24, 2010

**Tribal Chairman**  
Elwood L. Emm Jr.

Mr. Kevin Hayes, Vice-President  
Arizona Nevada Tower Corp.

**Vice-Chairman**  
Kenneth Roberts

1641 E. Sunset, Suite B-111  
Las Vegas, NV 89119

**Member**  
Loretta Johnson

Dear Mr. Hayes:

**Member**  
Louina Emm

The Yerington Paiute Tribe wishes to emphasize our support for the efforts of Arizona Nevada Tower collaborating with the Yerington Community and Lyon County Offices to bringing high-speed inter-net alternatives to our rural areas. The efforts of Arizona Nevada Towers to assist Community programs in developing multiple computer centers throughout the area are a perfect example of the "benefit for all" approach.

**Member**  
Claudia Saunders

**Member**  
Lisa Williams

**Member**  
Linda Howard

Competitively priced and efficient inter-net strives is vital to the growth and prosperity to the individual and the business community of any rural area. The economic shortfalls suffered by many in recent times, is only exacerbated in smaller communities that have not, and still do not have these basic tools for success.

**Tribal Manager**  
Michael Sharkey

**Secretary of Record**  
Marlene Smallwood

The Yerington Paiute Tribe recognizes the importance of this effort of Arizona Nevada Towers Inc., by signing the Memorandum of Understanding between Arizona Nevada Tower Corp.

We, therefore, urge the approval of ANTC's RUS BIP application.

Sincerely,

Elwood L. Emm, Tribal Chairman  
Yerington Paiute Tribe

Yomba Shoshone Tribe

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HC 61 Box 6275  
Austin, NV 89310-9301  
Tel. (775) 964-2463  
yomba\_tribe@yahoo.com

March 15, 2010

Arizona Nevada Tower Corp  
1641 E. Sunset, Suite B-111  
Las Vegas, NV 89119

RE: Memorandum of Understanding/Yomba Shoshone Tribe

Dear Sir:

Enclosed is the Memorandum of Understanding from the Yomba Shoshone Tribe, this matter was discussed and approved in a Tribal Council Meeting held on March 12, 2010.

There is a need for improving the existing wireless service in our area; many of our families are now paying large amounts for satellite service as the fiber-optic services are accessible to only the Tribal Administration not the community as a whole.

Should you desire further information, I can be reached at the above number.

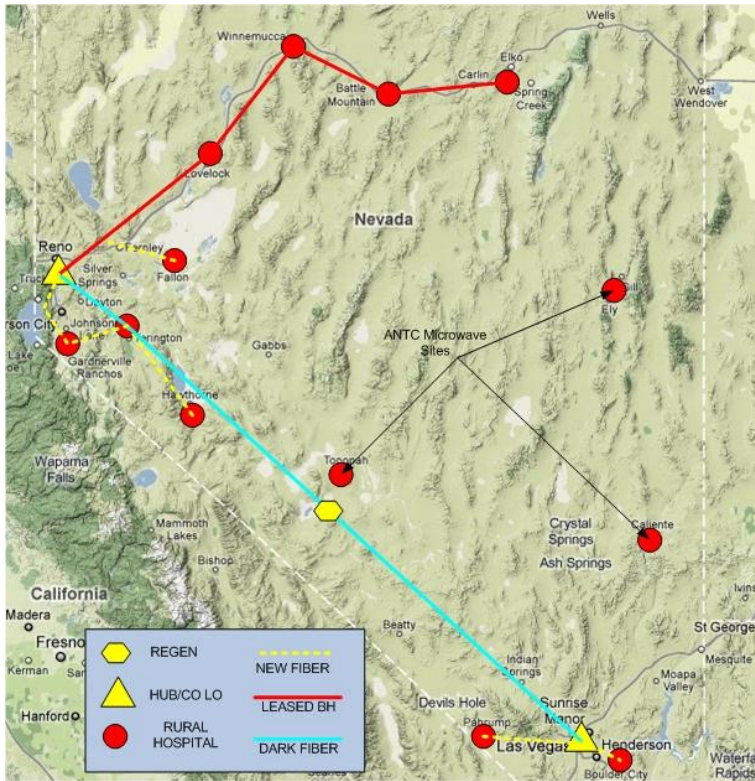
Sincerely,



Elisha A. Mockerman, Vice-Chairman  
YOMBA SHOSHONE TRIBE

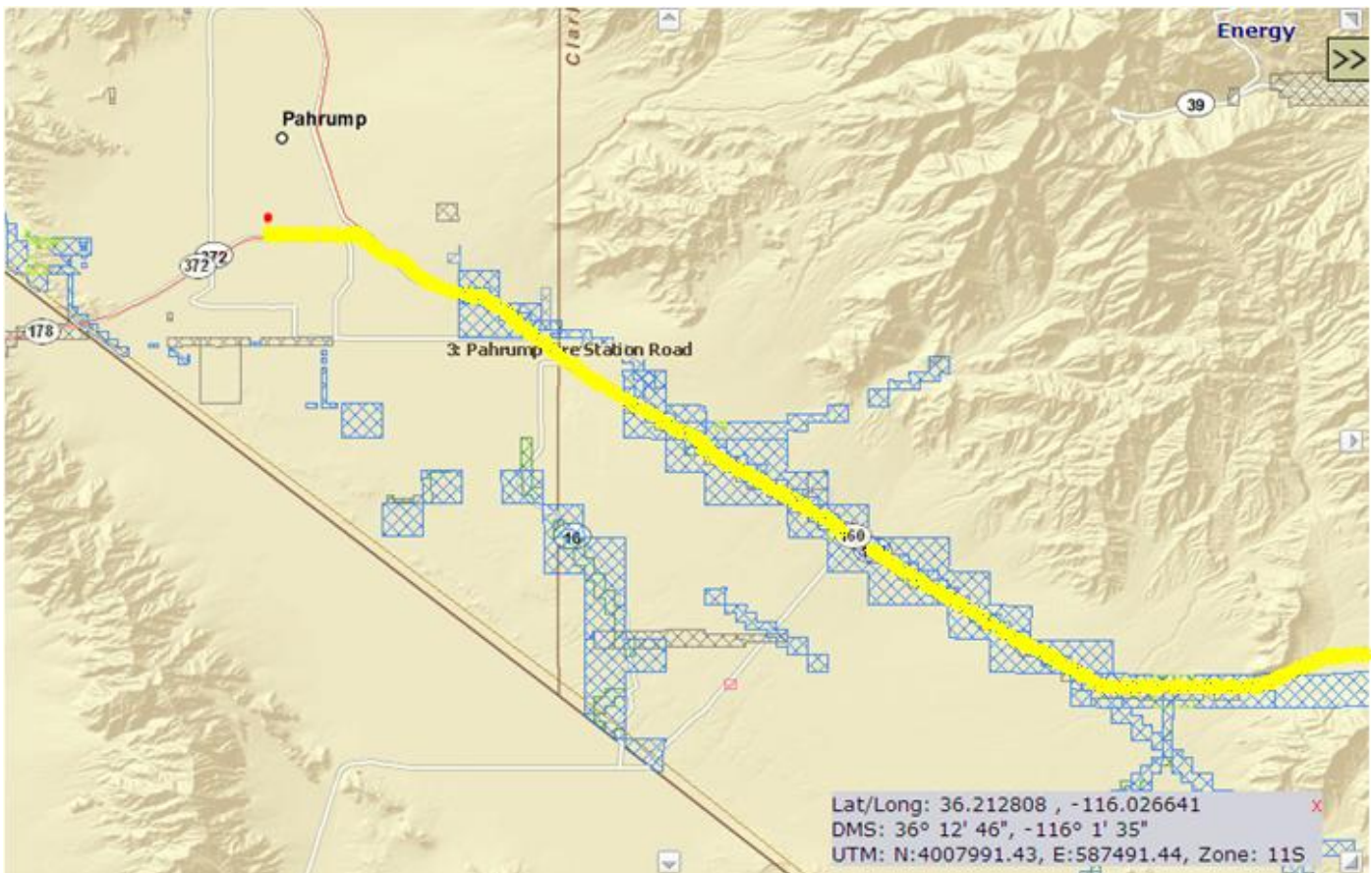
CC: File

Section 18.15 Network Maps: Nevada Hospital Association Telemedicine Project: 7648

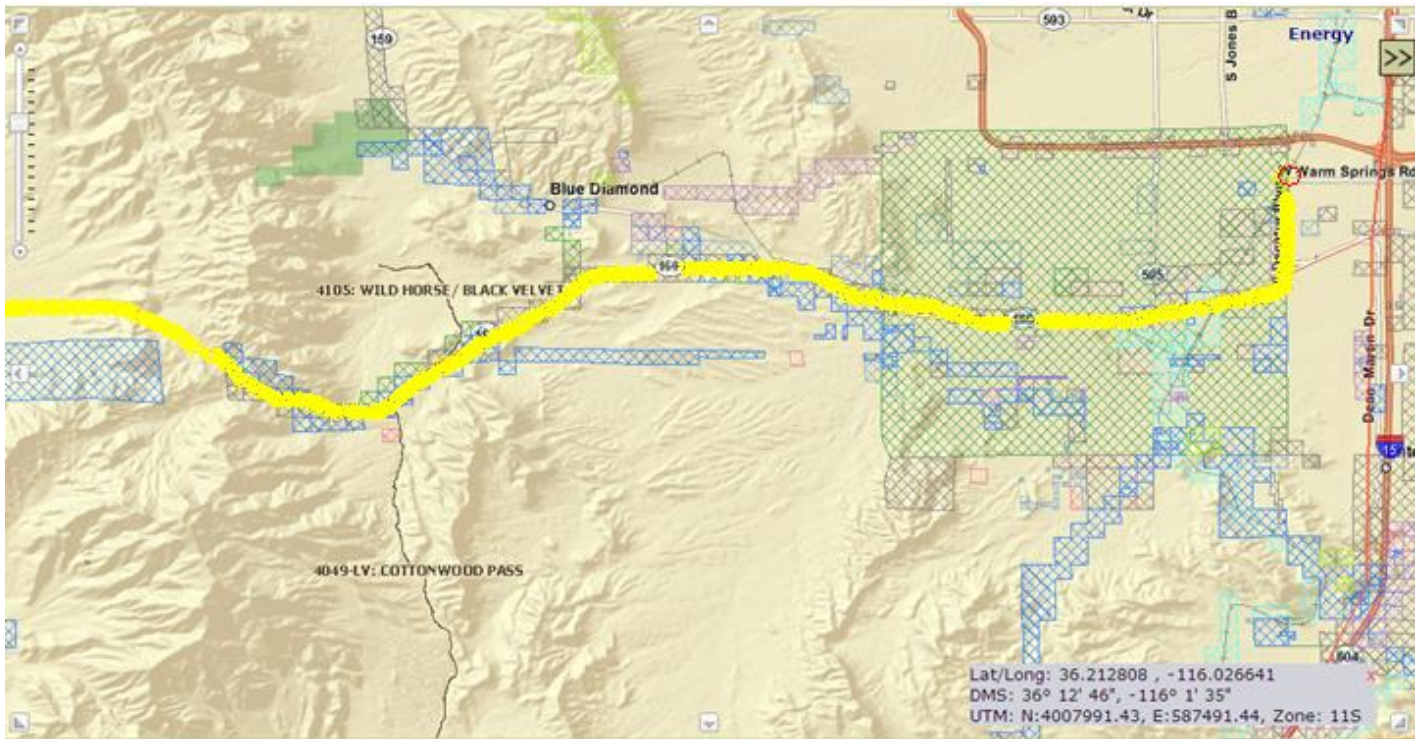


Nevada Hospital Association Proposed Combination Fiber Optic, Leased Fiber and Microwave

Pahrump ROW Fiber Route to Las Vegas



## Pahrump ROW to Las Vegas Fiber Route



### Nevada Healthcare Network - TOTALS for Segment S1

<b>TOTAL FOOTAGE</b>	<b>333,200'</b>
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#### LABOR

Payment Unit Description	Estimated Qty	UOM	Unit Price	Extended
Trench & Place 1.5" Conduit		FT		
Plow & Place 1.5" Conduit	81,634	FT	\$ 3.48	
Trench - Rock & Place 1.5" Conduit	11,662	FT	\$ 32.40	
Direction Drill 1.5" Conduit	23,324	FT	\$ 29.60	
Directional Drill Rock & Place 1.5" Conduit		FT		
Place 1/4" Strand (incl. verticle grounds)		FT		
Double Lash Fiber Cable		FT		
Pole Attachment for ADSS		EA		
Place ADSS Cable		FT		
Place Anchor/Guy Assembly		EA		
Place Aerial Storage Loop		EA		
Make Ready (Raise/Lower Existing)		EA		
Place 19" Equipment Rack	4	EA	\$ 288.00	
Place 2448 Vault	50	EA	\$ 720.00	
Tree Trimming		FT		
Place Electronic Cabinet (Small)		FT		
Place ReGen Cabinet - Complete		EA		

Pull Fiber Cable in New Conduit	122,000	FT	\$ 1.01
Remove & Replace Asphalt - 4"	3,332	SQ.FT.	\$ 12.75
Remove & Replace Concrete - 6"	1,660	SQ.FT.	\$ 17.00
Terminate Fiber	120	EA	\$ 38.40
Fusion Splice Fiber	912	EA	\$ 33.60
Place Splice Case	19	EA	\$ 318.00
Test Fiber Cable	72	EA	\$ 26.40
Core Drill 2" Building Entrance	4	EA	\$ 720.00
Place 1" Plenum Conduit	800	FT	\$ 5.40
Place Fiber Marker	116	EA	\$ 38.40
Place Spiral Damper		EA	
Provide & Place Select Fill	55	TN	\$ 35.00
Engineering/Design/Environmental	333,200	FT	\$ 1.50
Building Entrance Survey	4	EA	\$ 1,000.00

## Nevada Healthcare Network - TOTALS for Segment S1

<b>TOTAL FOOTAGE</b>	<b>333,200</b>
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### Materials

Payment Unit Description	Estimated Qty	UOM	Unit Price
Conduit 1.5" SDR 13.5	119,000	FT	\$ 0.48
Vault - 2448 (H20 Loading)	30	EA	\$ 425.00
Vault - 2448 (H35 Loading)	20	EA	\$ 545.00
1" Plenum Conduit (inc. hardware)	800	FT	\$ 2.20
FOSC 450C Splice Case	19	EA	\$ 490.00
48 Port Rack Mount Patch Panel	1	EA	\$ 820.00
12 Port Rack Mount Patch Panel	3	EA	\$ 306.00
19" x 7' Equipment Rack	4	EA	\$ 305.00
48 Fiber ADSS All Dielectric SM Fiber	232,980	FT	\$ 0.47
48 Fiber All Dielectric SM Fiber	92,000	FT	\$ 0.37
12 Fiber All Dielectric SM Fiber	30,000	FT	\$ 0.19
Fiberlign Limited Tension DE		EA	
Fiberlign Medium Tension DE	492	EA	\$ 62.14
Fiberlign Dielectric Suspension	246	EA	\$ 75.47
Fiberlign Dielectric Support	738	EA	\$ 28.00
Fiber Storage Loop (snowshoe)	82	EA	\$ 250.00

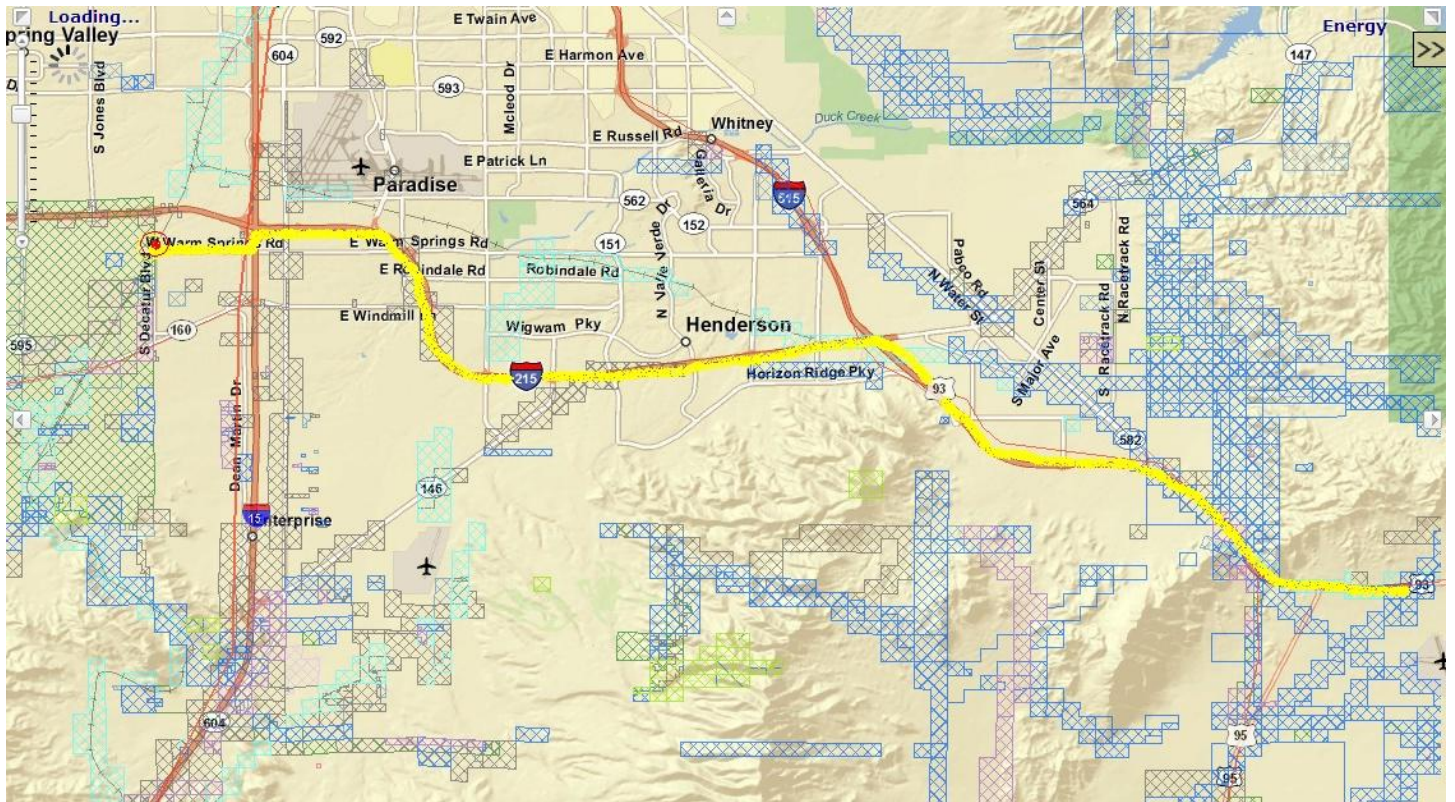


Fiberlign Spiral Damper	1,732	EA	\$ 5.86
Pole Line Hardware (bolts, washers, etc.)	216,580	FT	\$ 0.10
Fiber Markers (every 1,000ft)	116	EA	\$ 23.75
Fiber Tags	1,200	EA	\$ 0.85
Anchor/Guy Assemblies)	205	EA	\$ 69.50
1/4" Strand		FT	
Lashing Wire		EA	
Misc. Materials (3%)	1	EA	\$ 11,525.00

**Boulder City ROW to Las Vegas Fiber Route**



## Boulder City ROW to Las Vegas Fiber Route



### Nevada Healthcare Network - TOTALS for Segment S2

<b>TOTAL FOOTAGE</b>	<b>66,000'</b>
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#### LABOR

Payment Unit Description	Estimated Qty	UOM	Unit Price	Extended Price
Trench & Place 1.5" Conduit	7,920	FT	\$ 40.68	
Plow & Place 1.5" Conduit		FT		
Trench - Rock & Place 1.5" Conduit	13,860	FT	\$ 32.40	
Direction Drill 1.5" Conduit	17,860	FT	\$ 29.60	
Directional Drill Rock & Place 1.5" Conduit		FT		
Place 1/4" Strand (incl. verticle grounds)		FT		
Double Lash Fiber Cable		FT		
Pole Attachment for ADSS		EA		
Place ADSS Cable		FT		
Place Anchor/Guy Assembly		EA		
Place Aerial Storage Loop		EA		
Make Ready (Raise/Lower Existing)		EA		
Place 19" Equipment Rack	3	EA	\$ 288.00	
Place 2448 Vault	43	EA	\$ 720.00	

Tree Trimming		FT	
Place Electronic Cabinet (Small)		FT	
Place ReGen Cabinet - Complete		EA	
Pull Fiber Cable in New Conduit	44,000	FT	\$ 1.01
Remove & Replace Asphalt - 4"	14,000	SQ.FT.	\$ 12.75
Remove & Replace Concrete - 6"	7,500	SQ.FT.	\$ 17.00
Terminate Fiber	72	EA	\$ 38.40
Fusion Splice Fiber	192	EA	\$ 33.60
Place Splice Case	7	EA	\$ 318.00
Test Fiber Cable	72	EA	\$ 26.40
Core Drill 2" Building Entrance	3	EA	\$ 720.00
Place 1" Plenum Conduit	600	FT	\$ 5.40
Place Fiber Marker	40	EA	\$ 38.40
Place Spiral Damper		EA	
Provide & Place Select Fill	120	TN	\$ 35.00
Engineering/Design/Environmental	66,000	FT	\$ 1.50
Building Entrance Survey	3	EA	\$ 1,000.00

## Nevada Healthcare Network - TOTALS for Segment S2

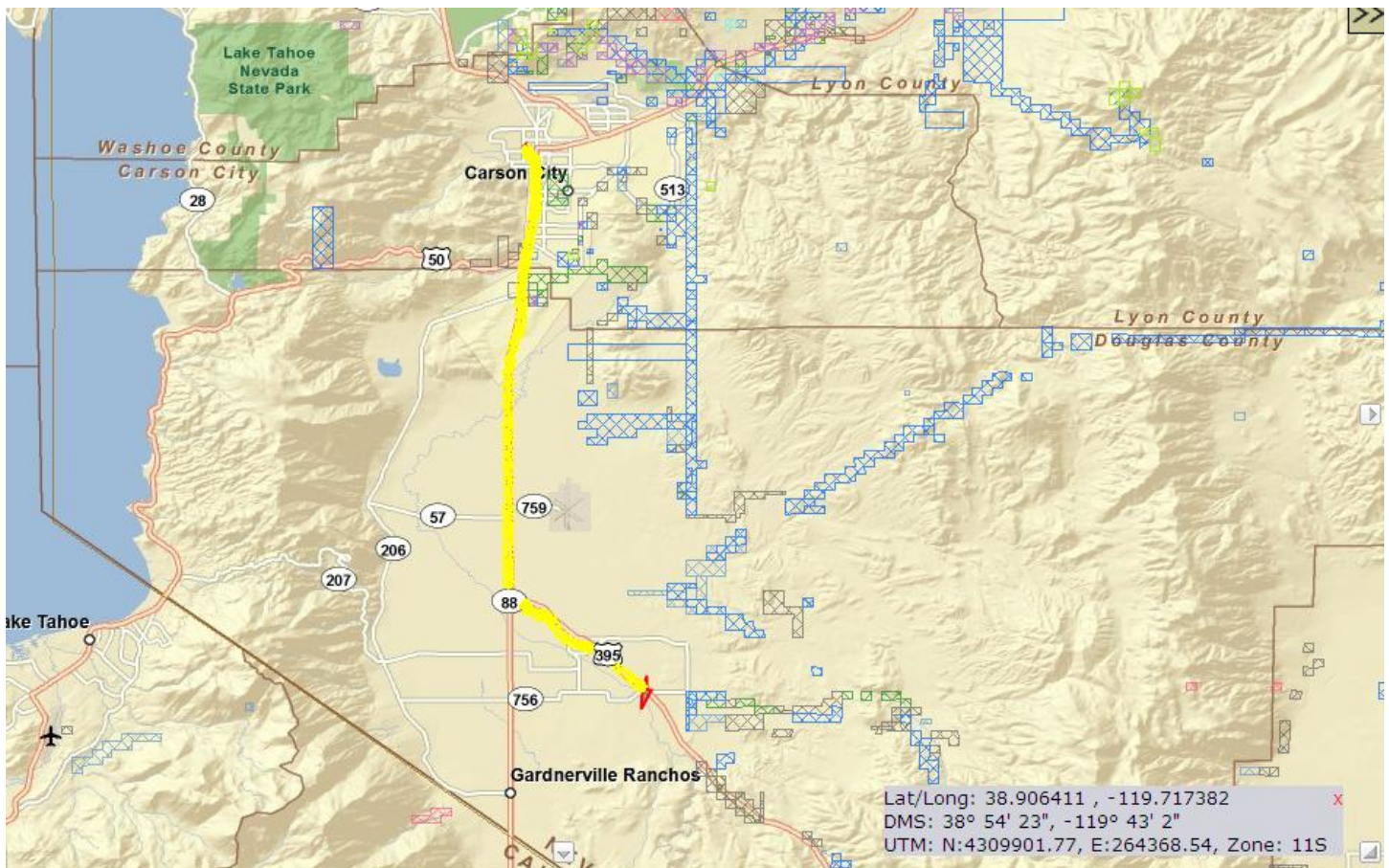
<b>TOTAL FOOTAGE</b>	<b>66,000'</b>
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### Materials

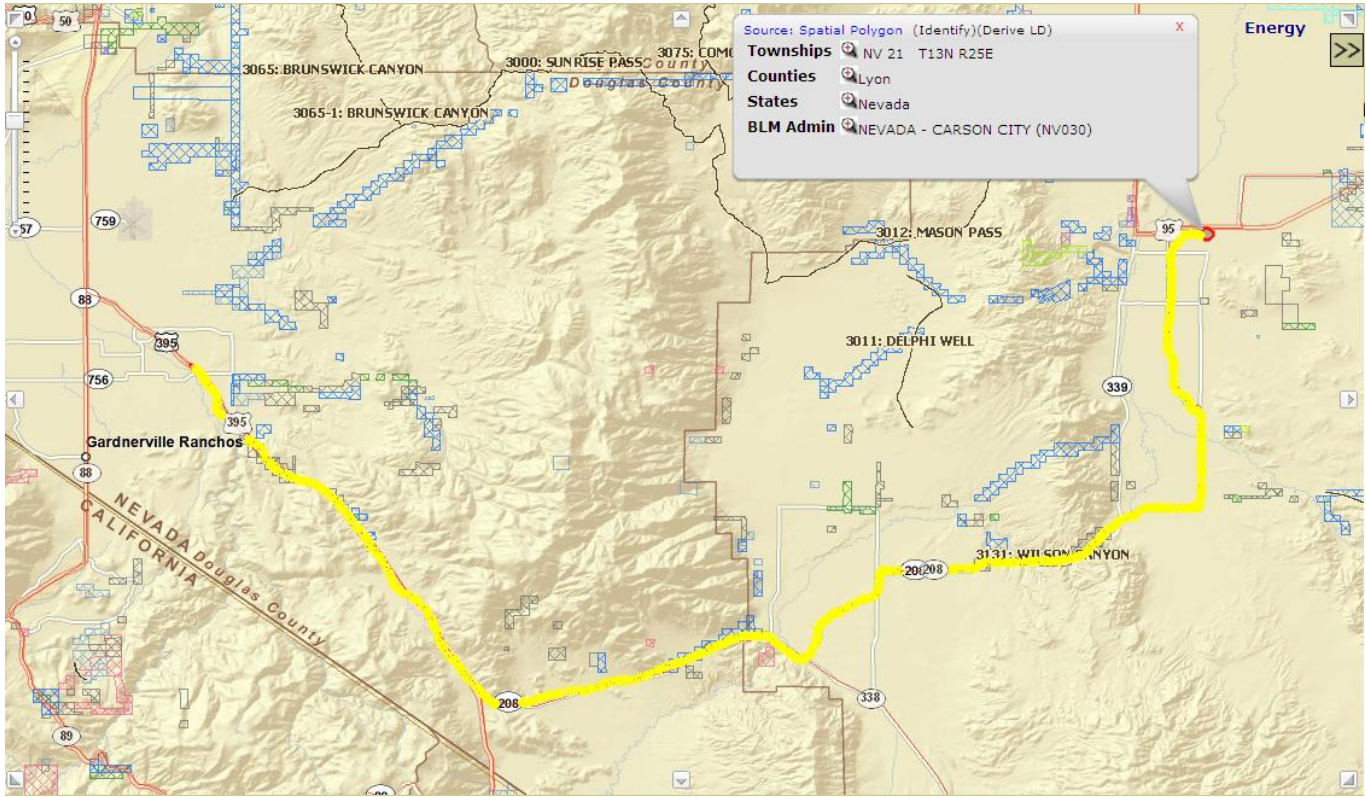
Payment Unit Description	Estimated Qty	UOM	Unit Price
Conduit 1.5" SDR 13.5	42,000	FT	\$ 0.48
Vault - 2448 (H20 Loading)	13	EA	\$ 425.00
Vault - 2448 (H35 Loading)	30	EA	\$ 545.00
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48 Fiber All Dielectric SM Fiber	33,000	FT	\$ 0.37
12 Fiber All Dielectric SM Fiber	12,000	FT	\$ 0.19
Fiberlign Limited Tension DE		EA	
Fiberlign Medium Tension DE	60	EA	\$ 62.14

Fiberlign Dielectric Suspension	30	EA	\$ 75.47
Fiberlign Dielectric Support	90	EA	\$ 28.00
Fiber Storage Loop (snowshoe)	10	EA	\$ 250.00
Fiberlign Spiral Damper	352	EA	\$ 5.86
Pole Line Hardware (bolts, washers, etc.)	26,400	FT	\$ 0.10
Fiber Markers (every 1,000ft)	40	EA	\$ 23.75
Fiber Tags	300	EA	\$ 0.85
Anchor/Guy Assemblies)	20	EA	\$ 69.50
1/4" Strand		FT	
Lashing Wire		EA	
Misc. Materials (3%)	1	EA	\$ 2,880.00

**Carson City to GARDNERVILLE Fiber Route**



### GARDNERVILLE ROW Fiber Route to Yerington



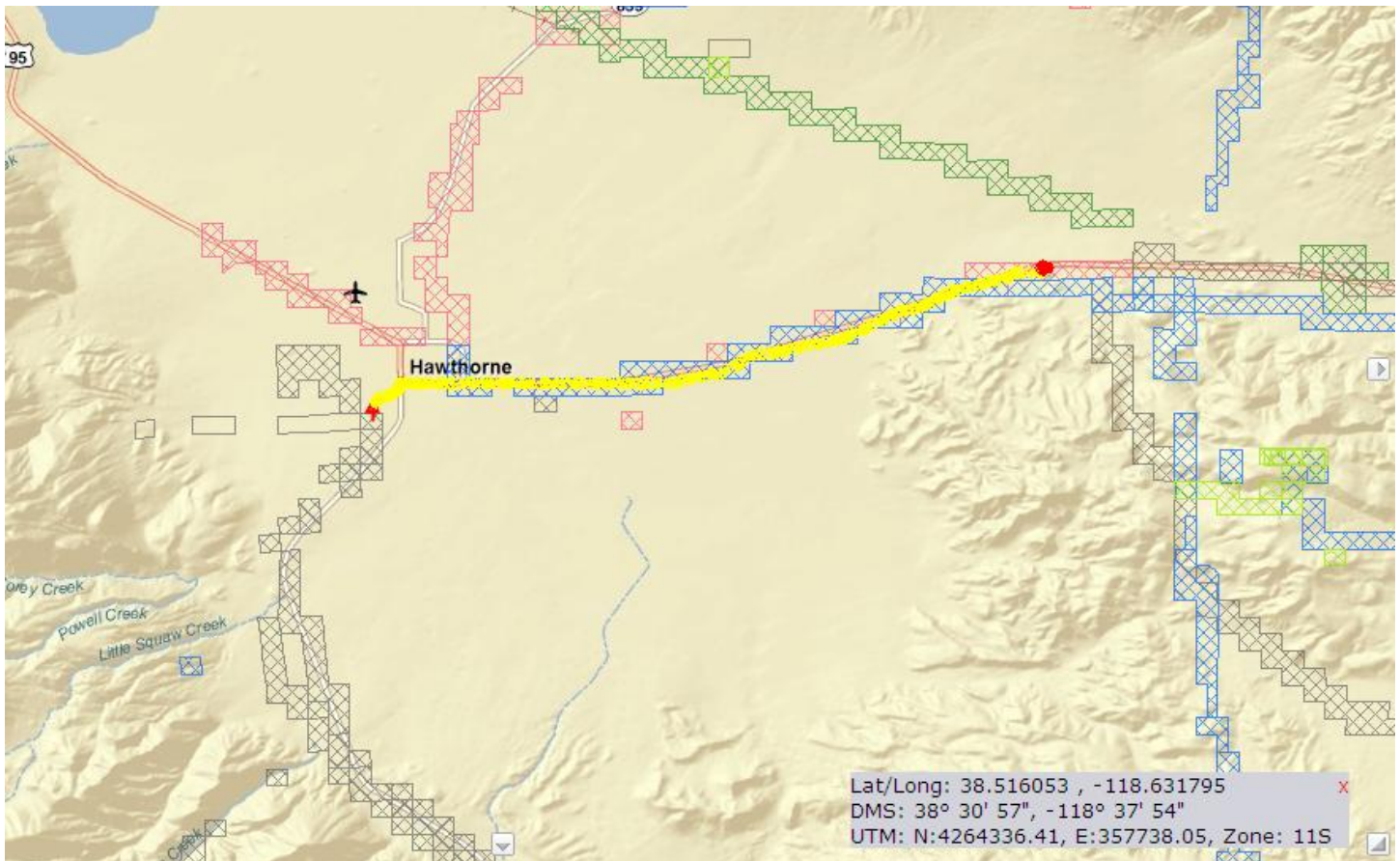
### FALLEN ROW Fiber Route to Fernley SCS Nevada Net POP



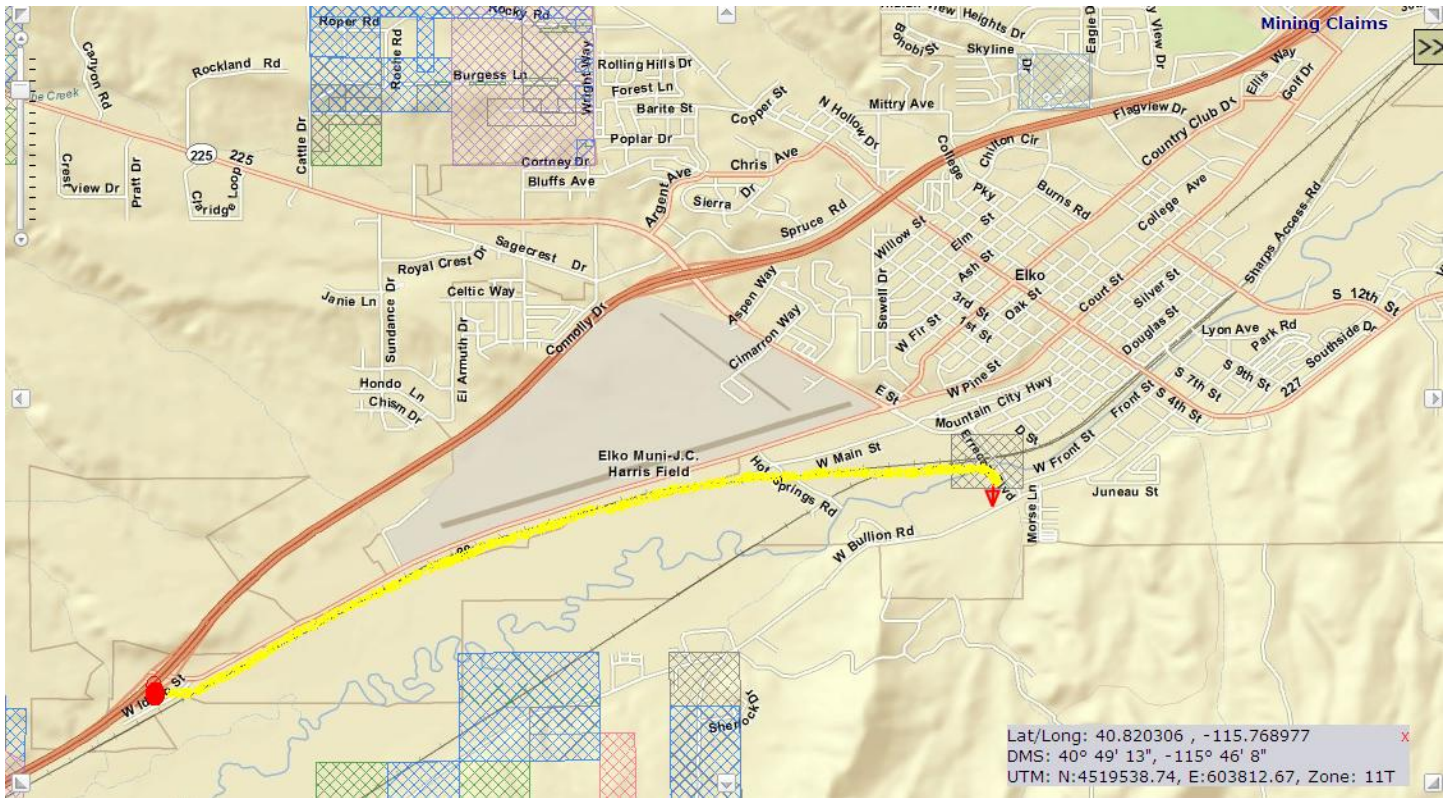
### FALLEN ROW Fiber Route to Fernley Nevada Net POP



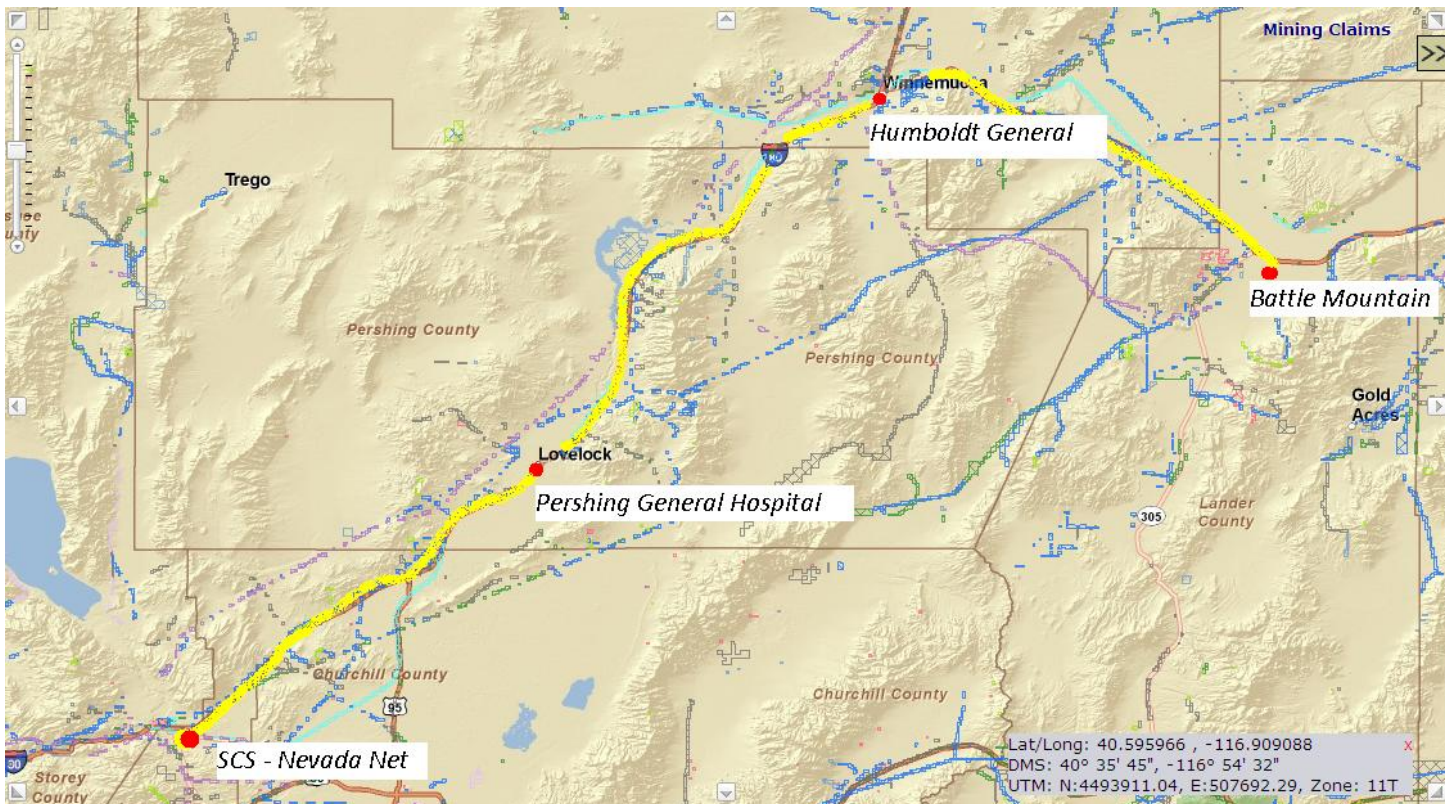
### MT GRANT HOSPITAL to AFS Hub Site



### NORTHEASTERN NEVADA HOSPITAL, ELKO to Nevada Net Hub Site



### BATTLE MOUNTAIN, WIINEMUCCA, LOVELOCK, ELKO backhaul to SCS FERNLEY



# Broadband Technology Opportunities Program



## Waiver Request

EGID: 7648

Project Category: BTOP

Applicant Name: Nevada Hospital Association

Date: March 26, 2010

Project Title: Nevada Broadband Telemedicine Initiative

Contact Name: Michael Pieper

Email Address: mike.pieper@rrpartners.com

Phone No.: 202-289-5356

**Type of Waiver Requested** (*check one*):

- Matching (pursuant to NOFA Section V.C.2.)
- Last Mile Coverage (pursuant to NOFA Section V.C.3.c.ii.)
- Sale or Lease of Assets (pursuant to NOFA Section IX.C.2.b)
- Buy American (pursuant to NOFA Section X.Q)
- General Provision (pursuant to NOFA Section X.N)

### Summary of Waiver Request

*(In the space below please provide a detailed explanation of the waiver request, including all information requested in the corresponding NOFA Section and Grant Guidance.)*

NBTI will not provide last mile service to Lovelock, Winnemucca, Battle Mountain, and Elko except for direct links to community anchor institutions. The Nevada Hospital Association seeks a waiver from last mile obligations for these areas due to the restrictions imposed by the backhaul service provider, Nevada System of Higher Education. The NSHE is prohibited from providing residential or commercial service under its charter. Attached below (and provided for as a Supplemental Upload) is a copy of the terms of service for NSHE that explain this restriction.

NBTI will not provide last mile service to Caliente, Ely, and Tonopah except for direct links to community anchor institutions. The Nevada Hospital Association seeks a waiver from last mile obligations for these areas due to the restrictions imposed by the backhaul service provider, Arizona Nevada Tower Corporation. Attached in the Supplemental Upload section is a copy of the Memorandum of Understanding in which NHA will lease services from Arizona Nevada Tower Corporation.



## Attached Documents

*(If applicable, indicate all attached supporting documentation)*



# NevadaNet Connection Policy

(Revised 9/22/2005)

## 1.0 General

In 1970, the Board of Regents of the Nevada System of Higher Education (NSHE) founded NevadaNet with support from the National Science Foundation (NSF) to provide high-speed telecommunications infrastructure for research and use by higher education within the State of Nevada. NevadaNet currently operates a statewide digital network supporting various voice, data and video applications.

The role of NevadaNet expanded in the mid 1990's with the passage of Nevada Assembly Bill 606 and Senate Bill 204. This legislation provided for the inclusion, to a limited degree, of the rural K-12 educational community within the scope of the NevadaNet mission.

By the late 1990's the role of NevadaNet had expanded to also include support of telemedicine and rural health initiatives throughout the state.

While not its primary mission, NevadaNet also provides support to other nonprofit state and local public service entities on a case-by-case basis.

The network is comprised of a high-speed backbone network connecting main hub locations in Reno, Carson City, Elko, and Las Vegas. From these main hub locations, radial spur circuits extend to numerous communities throughout the state. Capabilities of the network include H.323 video conferencing and centralized scheduling, intra-network data connectivity, and external connection to the commodity Internet (I1) and the high-speed research network called Internet.

## 2.0 Who Can Connect to and/or Use the NevadaNet Network?

The prime directives of NevadaNet are to support the research, instructional, telemedicine/rural health, and administrative needs of NSHE affiliated institutions and to provide K-12 wide area connectivity throughout the state.

Secondarily, NevadaNet may provide, subject to prior approval by the SCS Director – Network Services/NevadaNet, wide area data and video connectivity to non-profit state or local public service entities, when these services are not available from any other state agency or commercial source.

These connections will be evaluated on a case-by-case basis to ascertain that their purpose aligns with the NSHE mission prior to approval. In every instance where a connection is approved, the non-profit entity desiring access to NevadaNet will be required to provide funding to cover the cost of providing service.

Use of the NevadaNet network is limited to those entities meeting NevadaNet connection requirements and directly supporting the research, educational, telemedicine/rural health, administrative, and research objectives of the NSHE and the K-12 communities. Use of the NevadaNet network by for-profit entities or non-profit entities whose purpose is not in direct support of the State of Nevada or NSHE mission is strictly prohibited.

Non-NSHE affiliated entities whose mission is of a non-profit public service nature, and whose purpose directly supports of the needs of the State of Nevada may, on an exception basis, be allowed to utilize the video network on an “as available” basis during normal working hours subject to prior approval by the System Computing Services (SCS) Director – Network Services/NevadaNet. For additional details on non-NSHE video usage, see the **NevadaNet Video Scheduling and Usage Policy**.

### **3.0 Making a Connection to NevadaNet**

Any entity or institution meeting the connection requirements stated in paragraph 2.0 who wishes to make a connection to NevadaNet should submit an email request for connection to SCS Engineering staff at:

ts\_managers@nshe.nevada.edu.

The request should include such information as the purpose of the connection, the anticipated applications to be used, service location, type of service(s) required, required in-service date, and appropriate contact information.

Once a request has been submitted, SCS Network Services personnel will engineer a network connection that adheres to NevadaNet design standards at the location specified. An engineering estimate will be prepared outlining specific equipment and circuit requirements needed to support connection at the desired interconnection point. This estimate will be forwarded to the user along with a copy of a Facilities and Services Agreement detailing the specific terms and conditions relating to the interconnection. Execution of the Facilities and Services Agreement serves as formal approval to proceed with final design and material specification.

Once a final design has been completed and material delivery dates have been established, a final project construction schedule will be completed and forwarded to the service requester.

The connecting entity will be responsible for procuring necessary equipment as specified in the SCS equipment list subject to the terms and conditions outlined in the Facilities and Services Agreement as well as funding the ongoing operation and maintenance costs associated with equipment installed on the connecting entity’s side of the demarcation point.

SCS personnel will install and test equipment and services to the agreed upon point of demarcation.

## **4.0 NevadaNet Operating Policies**

Once connected to NevadaNet, connected entities will be required to abide by all NevadaNet operating policies. These policies will govern the use of network facilities and services.

All NevadaNet participants assume responsibility for providing reasonable publicity of the NevadaNet operating policies at their sites and for communicating these policies to a proper administrative authority at all sites within the participant's internal network.

## **5.0 Cost Recovery**

Because NevadaNet receives substantial funding from the Nevada State Legislature via the NSHE Board of Regents to provide services in support of its research and instructional mission, it is necessary that services provided to nonresearch and instructional entities, if approved, be supplied on a cost recovery basis. NevadaNet bases cost recovery solely on the cost to provide service with no profit included. Should these costs apply, they will be clearly delineated in the Facilities and Services Agreement signed by the NevadaNet Participant prior to connection to the network.

All NevadaNet participants are also responsible for their respective circuit charges associated with ad hoc voice and videoconferences terminating outside the NevadaNet network.

## **6.0 Modifications To This Policy**

NevadaNet reserves the right to modify these policies at any time by notifying appropriate representatives of NevadaNet member institutions.

## **7.0 Information**

Questions related to NevadaNet connection policies should be addressed to:

Ed Anderson  
Director – Network Services/NevadaNet  
1664 N. Virginia St. M/S 270  
Reno, NV 89557-0023  
Ph: (775) 789-3710  
FAX: (775) 789-3700  
Email: [eandrsn@nevada.edu](mailto:eandrsn@nevada.edu)



March 23, 2010

Mr. Bill Welch  
President & Chief Executive Officer  
Nevada Hospital Association  
5250 Neil Road, Suite 302  
Reno NV 89502

Re: Nevada Broadband Telemedicine Initiative (EZ grant ID 6815)

Dear Bill:

As a member hospital of the Nevada Hospital Association (NHA), please accept this letter of support and endorsement for NHA to participate in filing an application for federal stimulus funds to assist in implementing the Nevada Broadband Telemedicine Initiative.

Our hospital is an important contributor to our community's health care needs. As such, we believe a secure, NHA-owned, high-bandwidth fiber network will improve the quality of health care for Nevadans in many ways:

Health Information Exchange - The network will facilitate the Health Information Exchange, allowing the exchange of Electronic Health Records. Dedicated connections will ensure patient privacy and sufficient bandwidth will allow uninterrupted exchange of patient data between providers from different locations. We expect this will improve quality of care, efficiency and care coordination by allowing greater access to specialties and utilization of resources.

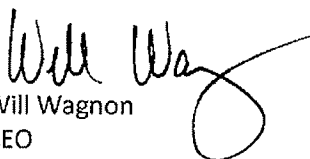
Meaningful Use of Electronic Health Records - Given the mandate from the Centers for Medicare and Medicaid Services regarding Medicare and Medicaid incentives for "meaningful use" of EHR, this network will support Nevada's health care providers to become qualified as "meaningful users" of certified EHR technology.

Telemedicine - We expect this will improve both quality and productivity by giving providers access to up-to-date patient information, and therefore, more accurate medical records. This will reduce redundant screenings and diagnostic testing and improve the delivery of health care services, including medication management.

For these reasons, we are pleased the NHA Board of Directors voted to approve the recommendations of the NHA Broadband Subcommittee and NHA Policy Development Committee to proceed with the grant application.

Please accept our commitment to support the Nevada Hospital Association's Broadband Telemedicine Initiative application. We look forward to working with NHA in deploying the proposed network.

Sincerely,

  
Will Wagnon  
CEO



March 23, 2010

Mr. Bill Welch  
President & Chief Executive Officer  
Nevada Hospital Association  
5250 Neil Road, Suite 302  
Reno NV 89502

Re: Nevada Broadband Telemedicine Initiative (EZ grant ID 6815)

Dear Bill:

As a member of the Nevada Hospital Association (NHA), please accept this letter of support and endorsement for NHA to participate in filing an application for federal stimulus funds to assist in implementing the Nevada Broadband Telemedicine Initiative.

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For these reasons, we are pleased the NHA Board of Directors voted to approve the recommendations of the NHA Broadband Subcommittee and NHA Policy Development Committee to proceed with the grant application.

Please accept our commitment to support the Nevada Hospital Association's Broadband Telemedicine Initiative application. We look forward to working with NHA in deploying the proposed network.

Sincerely,

A handwritten signature in black ink, appearing to read "Carole A. Fisher".

Carole A. Fisher  
President and CEO  
Nathan Adelson Hospice

4141 SWENSON STREET  
LAS VEGAS, NEVADA 89119  
702.733.0320  
FAX 702.938.3900

3391 N. BUFFALO  
LAS VEGAS, NEVADA 89129  
702.733.0320  
FAX 702.938.3900

1480 E. CALVADA BLVD., SUITE 900  
PAHRUMP, NEVADA 89048  
775.751.6700  
FAX 775.751.6700



## BOARD OF COUNTY COMMISSIONERS

### LYON COUNTY NEVADA

27 South Main Street  
Yerington, Nevada 89447

Phone: (775) 463-6531 Fax: (775) 463-6533

Phyllis Hunewill  
Larry McPherson  
Joe Mortensen  
Chuck Roberts  
Don H. Tibbals

Dennis Stark  
County Manager

March 23, 2010

Mr. Bill Welch  
President/Chief Executive Officer  
Nevada Hospital Association  
5250 Neil Road, Suite 302  
Reno, NV 89502

Mr. Welch,

On behalf of the Lyon County Commissioners, we support the Nevada Hospital Association's efforts to obtain federal funding from the Department of Commerce, National Telecommunications and Information Administration (NTIA) for the deployment of a state-wide dedicated broadband network advancing the Telemedicine future of the State of Nevada.

We are particularly interested that "space" on this network will be reserved for and could be accessed by community anchor institutions; particularly those in rural underserved and unserved markets that desperately need high-bandwidth broadband connectivity to meet their information exchange needs.

Our organization is among the many vital community services that would benefit from the expanded broadband network service proposed by the Nevada Hospital Association.

We currently have *low quality internet service* of 5mb upload and download speed that doesn't allow us to meet the needs of our officers and most importantly our residents. Specifically, we would be interested in connecting to the proposed network for the purpose of increasing our internet speed and internet costs.

Lyon County looks forward to partnering with your organization to complete a truly state-wide telemedicine broadband network that will allow for the very latest in technology implementation and use.

Thank you for including our institution in your plans and please let us know if we can be of further assistance in the support of this application.

Sincerely,

Dennis W. Stark  
County Manager

C: Board of Commissioners  
Hazen Adams, IT Director



# Western Nevada College

Carson City • Douglas • Fallon • Fernley • Hawthorne • Lovelock • Smith • Yerington

*The Right Choice*

## COMPUTING SERVICES

March 19, 2010

Mr. Bill Welch  
President/Chief Executive Officer  
Nevada Hospital Association  
5250 Neil Road, Suite 302  
Reno, NV 89502

Mr. Welch,

On behalf of Western Nevada College, we support the Nevada Hospital Association's efforts to obtain federal funding from the Department of Commerce, National Telecommunications and Information Administration (NTIA) for the deployment of a state-wide dedicated broadband network advancing the Telemedicine future of the state of Nevada.

We are particularly interested that "space" on this network will be reserved for and could be accessed by community anchor institutions; particularly those in rural underserved and unserved markets that desperately need high-bandwidth broadband connectivity to meet their information exchange needs.

Our organization is among the many vital community services that would benefit from the expanded broadband network service proposed by the Nevada Hospital Association.

We currently have internet service that doesn't fully meet the needs of our students and residents. This new fiber build would allow for better connectivity for the NSHE community colleges and K-12 constituencies in Carson City, Gardnerville, Yerington, Fallen, Pahrump and Hawthorne.

Western Nevada College looks forward to partnering with the Nevada Hospital Association to complete a truly state-wide telemedicine broadband network that will allow for the very latest in technology implementation and use.

Thank you for including our institution in your plans and please let us know if we can be of further assistance in the support of this application.

Sincerely,

*Susan Schoeffler, Computing Services Administrator*  
*For Ken Sullivan*

Ken Sullivan  
Director of IT  
Western Nevada College

Visit us online at [www.wnc.edu/cs](http://www.wnc.edu/cs)

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2201 West College Parkway • Carson City, Nevada • 89703-7399 • 775-445-4258 • FAX 775-445-3146

*WNC - An Institution of the Nevada System of Higher Education*

## BTOP Comprehensive Community Infrastructure Service Area Template

Please complete the complete the CCI Service Area worksheet. In each line you will provide name of a service area and one of the contiguous Census tracts or block groups that make u service area. Please provide full 11-digit Census tract numbers, includes the 2-digit State FIF the 3-digit county code, followed by a unique 6-digit tract number. For Census block group: please provide the full tract number, plus the 1-digit block group number (12 digits total). If more than one Census tract or block group in a service area, there will be multiple lines in th for that service area. It is critical that the service area names provided in this table match w service area names provided in the Service Area Details page of the application. Please revie document and Service Area Details page for consistency before submitting your application.

Important Note: Excel truncates leading zeros from numbers. Consequently, the tract/block column on the worksheet has been formatted as text. This formatting should not be altered validity of your data may be compromised.

The data provided via this attachment will be subject to automated processing. Applicants a therefore required to provide this attachment as an Excel file, and not to convert it to a PDF submitting a copy of your application on an appropriate electronic medium, such as a DVD, ( ROM, or flash drive. Additionally, Applicants should not modify the format of this file (*e.g.*, l adding or removing worksheets). Do not leave blank lines in the table between service area

### EXAMPLE

Service Area Name	Tract or Block Group #
Big BB Project South	01001020100
Big BB Project South	01001020100
Big BB Project South	010010202001
Big BB Project West	01001020400
Big BB Project North	01001020800
Big BB Project North	010010209002



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**BTOP CCI Service Area Template**

Title: 

Nevada Broadband Telemedicine Initiative
--

  
Easy Grants ID: 

7648
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Service Area Name	Tract or Block Group #
Churchill - Fallon	32001009502
Churchill - Fallon	32001009503
Humboldt - Battle Mountain	32015000002
Humboldt - Winnemucca	32013570201
Clark - Boulder City	32003005504
Carson City - Continuecare	32510000003
Carson City - Carson Tahoe	32510000001
Douglas - Carson Valley	32005000101



Attention BTOP Reviewers: Historical Financials on pages 17-19 with notes following.

# Axia NetMedia Corporation Management's Discussion & Analysis For the year ended June 30, 2008

September 18, 2008

*The following Management's Discussion & Analysis ("MD&A") should be read in conjunction with Axia NetMedia Corporation's audited consolidated financial statements and related notes for the year ended June 30, 2008 all of which were prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Unless otherwise noted, all funds are in Canadian dollars and tabular financial amounts are in thousands of dollars, other than share amounts. Additional information relating to Axia, including our Annual Progress Report and Annual Information Form for the year ended June 30, 2008, is available on SEDAR at [www.sedar.com](http://www.sedar.com). References herein to "Axia", "we", "us" and "our" mean Axia NetMedia Corporation.*

## Forward-looking Financial Statements

This Management's Discussion and Analysis contains forward looking statements, including, without limitation, statements containing the words "should", "believe", "anticipate", "may", "plan", "will", "continue", "intend", "expect", "estimate" and other similar expressions which constitute "forward looking information" within the meaning of applicable Canadian securities laws. These statements are based on our current expectations, estimates, forecasts and assumptions about the operating environment, economies and markets in which we operate and are subject to important assumptions, risks and uncertainties that are difficult to predict. The assumptions, risks and uncertainties that could cause actual results to differ materially from the forward looking information, include, but are not limited to, changes in customer markets, changes in demand for our services, our inability to deliver services in a timely and cost efficient manner, technological change, general economic conditions and other risks detailed from time to time in our ongoing filings with the Canadian securities regulatory authorities, including in our Annual Information Form, which filings can be found at [www.sedar.com](http://www.sedar.com). Given these assumptions, risks and uncertainties, readers are cautioned not to place undue reliance on such forward looking statements. Unless otherwise required by applicable securities laws, we undertake no obligation to publicly update or revise any forward looking statements either as a result of new information, future events or otherwise.

## BUSINESS OVERVIEW

Axia provides Real Broadband™ Internet Protocol (“IP”) services and solutions through planning, designing and operating no conflict Open Access Next Generation Networks (“OAN NextGen”). We lead by example having created the Alberta SuperNet, which we believe is the world’s best regional IP broadband network. We are now exporting our solution to France and other regions around the world.

### The Challenge: Critical Infrastructure for Knowledge Economies

Around the globe, governments are recognizing that the availability of broadband is crucial to the long-term strength of their economies. As much as railways and roads became critical infrastructure in the previous century, broadband is widely recognized as the foundation for high-performing economies during this century.

Engineers now have access to technology that, when properly deployed, creates the connectivity that enables essentially any end user service requirement. No-compromise digital connectivity is in demand to enable individuals, teams and organizations to compete in a modern economy whether they are in the private or public sector. The challenge is not developing the technology, it is applying it through a business approach that creates ubiquitous connectivity and provides a choice of services to end users.

Today, the telecommunications sector is dominated by fully integrated telecommunication companies (“telcos”) and cable companies who were founded on a regulated utility approach focused on voice and television services respectively. This fully integrated approach compromises both performance of the network and choice of services to end users.

Axia created its value proposition by strategically combining modern technology with a business approach that creates the best result for end users. Our approach is based on creating a sustainable value chain of industry players that each excel at delivering their core competency. The result is a transformation to markedly improved performance, lower cost and increased choice to end users.

### The Solution: Axia’s Open Access Network Model

Axia breaks the legacy telco approach into three new segments; passive, active and application service provider/retail service provider (“ASP/RSP”). Axia combines the passive and active to create no-compromise digital connectivity that we call Real Broadband™. It is real time, fully bi-directional and uses IP so that it is fully interoperable with any other IP network. On an OAN NextGen, all the services that an end user experiences, be it voice, video or traditional web, can be separated from the transport/connectivity services. Enabling sustained competition and choice in the ASP/RSP sector is key to end users achieving value from an OAN NextGen. Axia does not participate in the ASP/RSP sector thereby eliminating the conflict of interest with customers that is a fundamental flaw of the integrated telco approach.

Our OAN NextGen model delivers transport/connectivity services to residents of rural, regional and metropolitan communities. Our OAN NextGen model is flexible in respect of regulatory and partnering approaches with governments. It creates high performing transport/connectivity services that add value to big or small businesses, residents, and governments. Axia ensures that end users benefit by being able to choose RSP/ASP services without network limitations.

Axia generates revenue from two sources: Broadband and Other Services. Broadband revenue is earned from sales of bandwidth, fibre access sales and complementary related services. Other Services revenue is generated from project work (network design, completion and commissioning services, network change activities) and sales of value-added services.

### The Alberta SuperNet – Axia’s Innovative Solution

The Government of Alberta (“GoA”) had a vision to make global connectivity available to all Albertans whether they lived in rural or urban areas. Thanks to Axia’s innovative OAN NextGen solution, the GoA has a state-of-the-art IP network that connects 429 communities and provides direct connectivity to over 4,200 government, learning, health, library and municipal locations and a vibrant and competitive environment for retail service providers (“RSPs”) who want to deliver ultra-high-speed services, including Internet access, to their retail and business customers anywhere in Alberta.

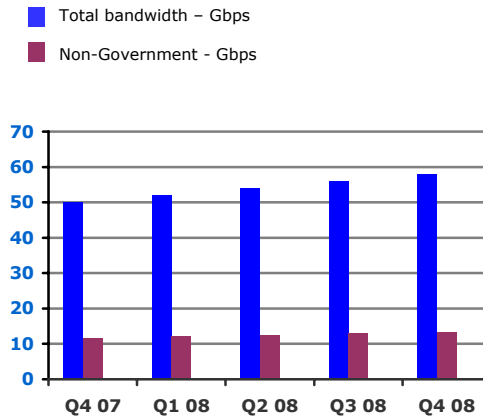
### Axia’s Alberta SuperNet Business

On June 30, 2005, Axia entered into agreements with GoA and Bell which created the Alberta SuperNet. Axia’s Alberta SuperNet Business is comprised of licensing assets from the GoA, procuring services from Bell and other suppliers and selling services to the GoA, Bell and other customers. These arrangements include Axia’s ten year renewable licence from the GoA pursuant to which we operate the Alberta SuperNet and provide Broadband and Other Services to our customers.

In fiscal 2008, we placed substantial focus on connecting new customers to the Alberta SuperNet and increasing bandwidth commitments from existing customers. As a result, we are experiencing growth in bandwidth usage in the government and RSP sectors. We anticipate that as more customers connect to the Alberta SuperNet, customers will increasingly be able to benefit from using our value-added services.

In the government sector, we launched a Gigabit Ethernet Service for customers who require large amounts of bandwidth and a Critical Infrastructure Service for customers who need a SuperNet connection with 99.999% availability of service for both access and the network. In the RSP and enterprise sector, we launched Axia Broadband Connection Services to facilitate connections to the Alberta SuperNet in those sectors.

Alberta SuperNet Bandwidth Growth



As of June 30, 2008, we had 67 RSPs selling services in 254 rural communities and these RSPs have an aggregate of 797 active connections.

	FY08		FY07		
	Q4	Q3	Q2	Q1	Q4
<b>Total Bandwidth (Gbps)</b>	58	56	54	52	50
<b>Non-government Bandwidth (Gbps)</b>	13.2	13.0	12.6	12.3	11.7
<b># of RSPs with Active Connections</b>	67	66	61	59	59
<b># of Active Connections</b>	797	769	712	666	627
<b># of Communities with RSPs</b>	254	250	242	233	225

Using the Alberta SuperNet as their backbone, RSPs are penetrating the Alberta resource and enterprise sector. RSPs are an important component of the Alberta SuperNet’s future growth and we are working closely with them to grow their bandwidth requirements. Our RSP business now represents about 23% of the total bandwidth provided by Axia using the Alberta SuperNet. These results reflect the minimum committed use of the Alberta SuperNet by Bell.

**Axia in France: Coverage**

The Government of France believes that ubiquitous broadband internet access is critical national infrastructure and has implemented a policy framework that supports building open and competitive IP networks. This is the right framework for Axia’s OAN NextGen model to succeed. We have been active in France since 2004 and, in 2006, we formed Covage, a French company jointly owned by Axia Networks France, a wholly owned subsidiary of Axia, and our French partner, VINCI Networks (“VINCI”), a wholly owned subsidiary of VINCI Construction France.

Covage is involved in the acquisition, development and operation of OAN NextGens in France and currently has interests in 12 OAN NextGens, three of which are regional and nine of which are metropolitan. The regional networks are similar to the Alberta SuperNet in that they cover reasonably large areas and provide the backbone infrastructure for a region. Covage’s metropolitan networks extend to medium and large size cities and include their respective suburbs. It is common for these districts to combine resources and tender public services together, including tenders for the design, construction and operation of telecommunications networks.

The table below reflects the stages of completion of Covage’s networks as at June 30, 2008.

Regional Networks	Stage
Hérault Participation	Construction
Moselle Telecom Participation	Active
Sem@for77 (Seine-et-Marne)	Construction
Metropolitan Networks	Stage
3CNET	Active
Arras Networks	Active
Caen.com	Active
Clermont Communauté Networks	Early Stage Activation
Coval Networks	Early Stage Activation
Creusot Montceau Networks	Active
Garonne Networks	Active
Grand Angoulême Networks	Construction
Grand Chalon Networks	Active

We expect to activate Grand Angoulême and Sem@for77 in the fall of 2008 and Hérault Participation in the summer of 2009.

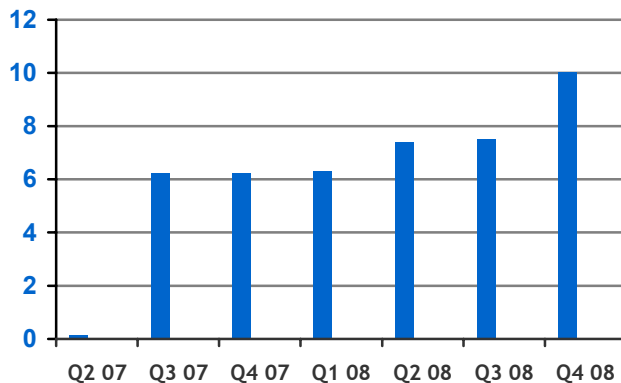
In Covage, we measure market penetration by tracking Broadband revenue in the context of Covage’s addressable market. We define addressable market as business and government sites that have at least one employee within 500 metres from the existing network. As at June 30, 2008, the addressable market was approximately 15,000. Covage expects that its addressable market will be approximately 31,000 upon completion of the currently planned network investments.

When all of Covage’s networks described above are operational, we expect that upon adoption by 3% to 5% of the addressable market, our Broadband revenue will cover our operating costs. Adoption by 15% of the addressable market, we would expect to earn approximately a 20% return before tax on our capital investment. We believe that the development and operation of IP-based networks in France represents a significant business opportunity for Axia which will unfold over the next several years.

Our business in France is evolving and Covage is creating competition which supports local access operators and RSPs as they deliver their IP services to business and retail customers. Covage is targeting different types of RSPs: (i) small local RSPs offering services on only one network; (ii) regional and national RSPs offering services on several of Covage’s networks; and (iii) large international RSPs who target medium and large customers. As well, efforts are focused on contracting specialized application service providers (“**ASPs**”) who offer services remotely using fibre-based connectivity, such as video security surveillance or enterprise data management.

As at June 30, 2008, Covage had 26 RSPs with 131 bandwidth connections. Bandwidth sales have grown to 10 Gigabits per second at the end of June 2008 as compared to 6.2 Gbps at the end of June 2007.

Covage Total Bandwidth Growth (Gbps)



During the third quarter of fiscal 2008, Covage approved a national fibre backbone connectivity project. The project will utilize 1,800 kilometres of existing dark fibre infrastructure to create a ringed network from Arras in northern France to Montpellier in the south of France. On completion, this project will connect Covage's existing networks to each other and to the main interconnect points in Paris with an available bandwidth of 400 Gbps. Covage expects to complete the project by mid-year calendar 2009.

This national infrastructure project will improve Covage's service offering to its current and prospective customers by enabling customers to connect directly to Paris, the global gateway for France, and enhance Covage's competitive position with respect to new network prospects. Covage will also be able to offer guaranteed levels of service differentiating itself in the marketplace and attract and retain RSPs. From an operational perspective, Covage will have quality and cost control of its backhaul to Paris.

The project contemplates an innovative commercial approach that involves a capital contribution by Axia of \$2.0 million and a variable fee structure tied to the volume of use by Covage's customers. Covage believes that the national network will create an attractive value proposition for national operators and large corporate and government customers.

Currently, Covage has four additional OAN NextGen bids outstanding and we expect that decisions will be made on these four bids by the end of calendar 2008. Covage continues to review new opportunities in light of the capital markets and the slowdown in the French economy. Potential opportunities are selected if they complement Covage's existing operations and the national backbone from a geographical perspective and their economic potential is attractive given the investment climate.

Axia's interest in Covage's networks at June 30, 2008 is shown below. In fiscal 2009, we expect our interests in certain of Covage's networks to decrease based on a planned investment by an institution in France. Based on this plan and as at June 30, 2008, we estimate our remaining capital commitment to Covage to be \$15.2 million (€9.5 million) and Axia's planned interest in Covage's networks to be as depicted below.

<b>Networks</b>	<b>Axia's Interest held at June 30, 2008</b>	<b>Axia's Planned Interest</b>
3CNET	50%	50%
Arras Networks	35%	35%
Caen.com	24.95%	35% <sup>(1)</sup>
Clermont Communauté Networks	47.5%	35% <sup>(1)</sup>
Coval Networks	50%	35% <sup>(1)</sup>
Creusot Montceau Networks	35%	35%
Garonne Networks	35%	35%
Grand Angoulême Networks	27.5%	19.5% <sup>(1)</sup>
Grand Chalon Networks	50%	35% <sup>(1)</sup>
Hérault Participation	17.5%	16% <sup>(1)</sup>
Moselle Telecom Participation	15.4%	15.4%
Sem@for77 (Seine-et-Marne)	50%	40% <sup>(1)</sup>

Notes:

1. Network interest based on planned investment.

#### France Accounting Treatment

Axia's financial results for the European segment in any given period may not be meaningfully indicative of results for subsequent periods as each network is at a different stage of acquisition, construction, commissioning and early activation of services. We believe that it will be late in calendar year 2008 before results based on market penetration will provide meaningful indications of successful market penetration. The way we report financial results in France depends on the percentage interest Covage holds in a particular network. When Covage has a controlling interest in the network, we report these activities using the consolidation method of accounting. When Covage has joint control of a network, we use the proportionate consolidation method to report our share of the operating and financial results. For networks where we do not have a controlling interest or joint control but have significant influence over its business and operations, we utilize the equity method of accounting. For minor share equity interests, we employ the cost method of accounting.

As part of our arrangement with VINCI, we agreed to transfer network interests into Covage. During fiscal 2008, we completed the majority of these transfers and for accounting purposes these transfers were treated as acquisitions. During the year we also sold our 9% interest in Manche Telecom to an industry partner. This sale resulted in a minor gain on investment as reported during the current year.

## International Business Development

As a result of our success in Alberta and France, we are pursuing potential OAN NextGen opportunities in other jurisdictions around the world. Currently, these opportunities consist of bid and proposal responses in Singapore and Australia. We also continue to have preliminary discussions in the Middle East and North America.

On May 5, 2008, we announced that we agreed to lead OpenNet, a consortium formed to respond to the Infocomm Development Authority ("IDA") of Singapore's RFP for the rights to construct and provision passive fibre grid services throughout Singapore. Axia's stake in OpenNet is 30% and we have partnered with Singapore Telecommunications Limited (30%), Singapore Press Holdings (25%) and SP Telecommunications Pte Ltd (15%). On this date, OpenNet submitted its formal proposal to the IDA. If OpenNet is successful in this bid, Axia will fund the project with its existing cash resources. This is the first part of IDA's competitive bid process for a complete Next Generation National Broadband Network. The second part is the provision of active broadband services over the fibre grid. Axia is qualified to respond to the second RFP and submissions are due before the end of this calendar year.

In April 2008, the Government of Australia issued a Request for Proposal for NGN implementation(s) in Australia and Axia is a qualified party to respond to this RFP. Submissions are now expected to be delivered in late calendar 2008.

Responding to these requests can be labour-intensive, complex, expensive and very time consuming. In most cases, we enter into competitive bid processes and the likelihood of success cannot be determined until a contract has been awarded. Depending on its complexity and the size of the jurisdiction, the total cost of preparing a response to a RFP can exceed \$1.0 million over a few years. The procurement process is generally much more vigorous where large amounts of public funding are accessible. Axia believes that the risk / reward profile of the opportunities that we pursue is attractive to our shareholders.

## SUMMARY OF CONSOLIDATED FINANCIAL RESULTS

### ANNUAL RESULTS

(\$000s except per share amounts)	2008	2007	2006
Revenue	63,805	50,916	52,663
Gross profit	28,955	24,131	24,644
Net income before tax	11,598	13,648	18,020
Net income from continuing operations	8,101	15,989	19,820
Net income	8,101	15,989	16,075
Net income per share from continuing operations – non-diluted	0.13	0.27	0.37
Net income per share from continuing operations – diluted	0.13	0.26	0.35
Net income per share – non-diluted	0.13	0.27	0.30
Net income per share – diluted	0.13	0.26	0.29

### QUARTERLY RESULTS

(\$000s except per share amounts)	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	16,216	16,003	17,130	14,456	13,632	14,370	11,980	10,934
Gross profit	6,927	6,479	8,309	7,240	6,458	6,935	5,783	4,955
Net income before tax	1,892	2,548	3,351	3,807	2,750	4,361	3,340	3,197
Net income	1,477	3,063	1,088	2,473	1,383	5,001	4,708	4,897
Net income per share – non-diluted	0.02	0.05	0.02	0.04	0.02	0.08	0.08	0.09
Net income per share – diluted	0.02	0.05	0.02	0.04	0.02	0.08	0.08	0.09

We report our operating activities in two business segments: North America and Europe. The North American segment is driven by the Alberta SuperNet and the European segment is currently focused on the acquisition, development and operation of OAN NextGens in France.

The Alberta SuperNet has been fully operational for almost three years. Operational results since that time have been generated primarily from operating and increasing the performance of the Alberta SuperNet. Prior to Q2 of fiscal 2006, operating results were driven by construction and commissioning activities.

During the second quarter of fiscal 2007, we began reporting the financial results for the European segment and fiscal 2008 is the first full year of operational results in France. Each of our OAN NextGens in France are at different stages of construction, commissioning and activation.



Fiscal 2008 was characterized by three significant areas of financial importance: (i) the rapid increase of financial results for the European segment; (ii) the increased emphasis on global business development initiatives as we respond to attractive OAN NextGen opportunities; and (iii) the transition from a period where Axia was not taxable and earning significant income tax assets to one where the Corporation is fully taxable.

## RESULTS OF OPERATIONS

### Revenue

Revenue (\$000)	Years ended June 30		Change		Three Months ended		Change	
	2008	2007	\$	%	June 30, 2008	March 31, 2008	\$	%
<b>Broadband</b>								
North America	43,283	41,184	2,099	5	10,842	10,821	21	0
Europe	2,836	1,417	1,419	100	1,281	858	423	49
Total	46,119	42,601	3,518	8	12,123	11,679	446	4
<b>Other Services</b>								
North America	8,757	7,123	1,634	23	2,483	2,720	(217)	(9)
Europe	8,929	1,192	7,737	649	1,610	1,604	6	0
Total	17,686	8,315	9,371	113	4,093	4,324	(231)	(5)
<b>Total</b>								
North America	52,040	48,307	3,733	8	13,325	13,541	(216)	(2)
Europe	11,765	2,609	9,156	351	2,891	2,462	429	17
	63,805	50,916	12,889	25	16,216	16,003	213	1

Our revenue is categorized as either Broadband or Other Services. Broadband revenue includes sales from bandwidth, fibre access and other directly related services. Other Services include revenue from project work (network design, completion and commissioning, network change activities) and value-added services. Revenue from project work will, by its character, fluctuate quarter to quarter.

Consolidated revenue for the fourth quarter of fiscal 2008 increased \$0.2 million (1%) to \$16.2 million from \$16.0 million for the prior quarter. Revenue for fiscal 2008 was \$63.8 million, an increase of \$12.9 million (25%) from \$50.9 million for fiscal 2007.

#### North America

Total revenue from our North American segment was \$13.3 million for the fourth quarter, a decrease of \$0.2 million (2%) from \$13.5 million for the previous quarter. Revenue for fiscal 2008 was \$52.0 million, an increase of \$3.7 million (8%) over last year.

Broadband revenue increased \$2.1 million (5%) during fiscal 2008 to \$43.3 million from \$41.2 million last year. The increase in Broadband revenue for this fiscal year over last was due to an annual CPI increase that is applied on July 1 of each year pursuant to our Alberta SuperNet agreements. In the fourth quarter Broadband revenue remained constant at \$10.8 million.

Other Services revenue was \$2.5 million for the fourth quarter as compared to \$2.7 million for the previous quarter. Of this \$2.5 million, \$2.2 million is attributable to connecting customers to the Alberta SuperNet. For fiscal 2008, Other Services revenue was \$8.8 million, a \$1.6 million (23%) increase over last year.

#### Europe

Revenue from our European segment was \$2.9 million for the fourth quarter, an increase of \$0.4 million (16%) from \$2.5 million for the previous quarter. For fiscal 2008, revenue was \$11.8 million as compared to \$2.6 million last year. These significant increases relate to an overall increase in Covage's business activities.

Broadband revenue was \$1.3 million for the fourth quarter compared to \$0.9 million for the previous quarter. This \$0.4 million (44%) increase reflects both the increase in the number of networks reporting revenue as we have now transferred all our network interests into Covage and sales to our RSPs.

Other Services revenue was consistent with the previous quarter at \$1.6 million. Other Services revenue is generated by construction, commissioning, operations and maintenance activities on our networks in France. By its nature, this revenue may vary quarter over quarter depending on the volume of work completed in any quarter. We anticipate that as construction and commissioning activities for these networks proceeds, Other Services revenue reported by this segment will continue to vary until the end of fiscal 2009.

## Gross Profit

Gross Profit (\$'000)	Years Ended June 30		Change		Three Months ended		Change	
	2008	2007	\$	%	June 30, 2008	March 31, 2008	\$	%
	North America	24,025	22,966	1,059	5	6,054	6,034	20
Europe	4,930	1,165	3,765	323	873	445	428	96
<b>Total</b>	<b>28,955</b>	<b>24,131</b>	<b>4,824</b>	<b>20</b>	<b>6,927</b>	<b>6,479</b>	<b>448</b>	<b>7</b>

Consolidated gross profit for the fourth quarter was \$6.9 million or 43% of revenue which is an increase of \$0.4 million (6%) compared to \$6.5 million or 41% of revenue in the prior quarter. For fiscal 2008 gross profit increased \$4.8 million (20%) to \$29.0 million or 45% of revenue, compared to \$24.1 million or 47% of revenue last year.

### North America

Gross profit from our North American segment during the fourth quarter was \$6.1 million or 46% of revenue. For fiscal 2008 gross profit from the North American segment increased \$1.1 million (5%) as compared to the same period in the last year.

In accordance with Canadian GAAP, maintenance costs are expensed as they are incurred.

### Europe

Gross profit from our European segment during the fourth quarter was \$0.9 million or 31% of revenue, compared to \$0.4 million or 16% of revenue for the prior quarter. For fiscal 2008, gross profit increased \$3.8 million (317%) to \$4.9 million or 42% of revenue, as compared to \$1.2 million or 46% of revenue last year. As previously noted, this significant growth in gross profit is a result of our increasing OAN NextGen activities in France.

## Expenses

Expenses (\$'000)	Years ended June 30		Change		Three Months ended		Change	
	2008	2007	\$	%	June 30, 2008	March 31, 2008	\$	%
	Marketing	952	1,028	(76)	(7)	224	248	(24)
Administration	3,918	3,161	757	24	1,560	852	708	83
Business development	8,368	3,890	4,478	115	2,406	1,897	509	27
Stock-based compensation	2,299	473	1,826	386	20	238	(218)	(92)
Net interest and financing charges (income)	(2,508)	(1,343)	(1,165)	(87)	(544)	(382)	(162)	(42)
Depreciation and amortization	4,661	3,274	1,387	42	1,369	1,411	(42)	(3)
<b>Total</b>	<b>17,690</b>	<b>10,483</b>	<b>7,207</b>	<b>69</b>	<b>5,035</b>	<b>4,264</b>	<b>771</b>	<b>18</b>

During the fourth quarter total expenses were \$5.0 million as compared to \$4.3 million for last quarter and \$17.7 million for fiscal 2008 compared to \$10.5 million for the prior year. The significant increases are explained below.

### Administration

Administration expense has increased by \$0.8 million (24%) during fiscal 2008, and the majority of which was incurred during the fourth quarter as a result of: (i) non-recurring organizational changes associated with the implementation of business unit teams in Alberta and France; and (ii) increased professional fees in France related to accounting.

### Business Development

Axia invested \$8.4 million in business development during fiscal 2008, an increase of \$4.5 million (115%) over the previous year.

Axia invests significant effort and resources in the pursuit of new OAN NextGen opportunities. Currently, we are pursuing major initiatives in France, Singapore, Australia, North America and other smaller jurisdictions.

Based on our experience, when a jurisdiction decides to undertake a large network initiative, it involves a long and complex bid cycle including initial consultation and a public RFP process which requires substantial effort from a

network engineering, financial analysis, project management, legal and support perspectives. Small and medium size initiatives also involve a significant effort by the bid team but are more limited in scope and timeline.

The types of expenditures incurred during this process involve personnel, travel and third-party costs such as professional legal and accounting fees and the use of specialized consultants.

The following table outlines the major cost categories and the initiatives being pursued during fiscal 2008.

<b>Business Development Expense</b>						
<b>(\$000)</b>						
	<b>France</b>	<b>Singapore</b>	<b>Australia</b>	<b>North America</b>	<b>Other</b>	<b>Total</b>
<b>Personnel</b>	2,835	253	108	226	571	3,993
<b>Travel</b>	638	506	171	86	150	1,551
<b>Legal &amp; accounting</b>	529	226	-	8	23	786
<b>Consultants</b>	922	68	102	237	169	1,498
<b>Other</b>	335	24	10	45	126	540
<b>Total</b>	<b>5,259</b>	<b>1,077</b>	<b>391</b>	<b>602</b>	<b>1,039</b>	<b>8,368</b>

#### Stock-Based Compensation

During fiscal 2008, we incurred \$1.8 million in additional stock-based compensation expense as compared to last year, \$1.7 million of which is attributed to the stock option grant to the Chief Executive Officer in fiscal 2007 which was approved by shareholders in fiscal 2008. This expense was non-recurring, and is non-deductible for income tax purposes.

#### Net Interest and Financing Charges (Income)

Net interest income increased by \$1.2 million (87%) during fiscal 2008, reflecting larger balances in short-term investments. The majority of this interest was earned in the first half of fiscal 2008. Our investment balances have decreased during the year as funds, which were committed to France as part of our joint venture agreement, were invested in network infrastructure in our European segment.

#### Depreciation and Amortization

Depreciation and amortization expense increased to \$4.7 million for fiscal 2008 as compared to \$3.3 million for the prior year. This increase is attributed to increased expenses in the European segment due to the larger number and related cost base of OAN NextGens which are operational in that segment.

#### **Net Income Taxes**

For fiscal 2008, our provision for net income tax expense was \$3.5 million as compared to a recovery of \$2.3 million for the prior year. Changes in our net income tax provision between fiscal 2008 and 2007 accordingly represent a significant \$5.8 million decrease in net income between these two years.

During 2007 and 2006, Axia was not taxable and was recognizing a material benefit of future income tax assets for the North American segment which increased our net income during those periods. The recognition of future income tax assets during 2007 increased net income by \$2.5 million. During fiscal 2008, Axia was recording a draw-down of the future income tax assets of the fully operational North American segment of \$1.8 million which was offset by the recognition of future income tax assets for the European segment of \$3.3 million. The net recognition of future income tax assets for 2008 was accordingly \$1.5 million, a \$1.0 million decrease from the prior year.

Additionally, Axia became fully taxable on a cash basis throughout fiscal 2008. Current income taxes for 2008 amounted to \$5.0 million as compared to \$0.2 million for the prior year. Income tax expense for the North American segment was \$2.3 million for 2008 and was not taxable during 2007. Income tax expense for the European segment for the current year was \$2.7 million as compared to \$0.2 million for 2007. Although we currently report a net loss for the European segment, certain funds we earn on construction activities are taxable and give rise to the current tax provision.

#### **Net Income**

Income before net income taxes for fiscal 2008 was \$11.6 million (\$0.18 per fully diluted share) as compared to \$13.6 million (\$0.22 per fully diluted share) for the prior year, a decrease of \$2.0 million (15%). Although the gross profits from operating activities increased by \$4.8 million during 2008, the following major items contribute significantly to the reported decrease: (i) non-recurring stock-based compensation expense of \$1.7 million

recorded during the current year; and (ii) the \$4.5 million increase in business development initiatives undertaken by the Company during fiscal 2008 in pursuing and commissioning new OAN NextGen opportunities.

Net income before tax for the fourth quarter of fiscal 2008 is \$1.9 million, a \$0.6 million (24%) decrease from the \$2.5 million reported during the third quarter.

On an after tax basis, net income decreased from \$16.0 million (\$0.26 per diluted share) for fiscal 2007 to \$8.1 million (\$0.13 per fully diluted share) for the current year. This \$7.9 million (49%) decrease in net income is explained not only by those items noted above, but also the change in the net income tax provisions between fiscal 2008 and 2007 resulting in a decrease in net income of \$5.8 million (36%) for the current year, as has been discussed herein.

Net income for the fourth quarter was \$1.5 million (\$0.02 per common share on a fully diluted basis) as compared to \$3.1 million (\$0.05 per common share on a fully diluted basis) for the previous quarter. This decrease is largely attributable to (i) increased business development activities; (ii) non-recurring costs incurred during the fourth quarter relating to organizational changes; and (iii) a change in the income tax provision from a recovery of \$0.5 million for the third quarter as compared to an expense of \$0.4 million for the fourth quarter.

## LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2008 our working capital was \$22.9 million as compared to \$43.1 million for the prior year. The major use of working capital for the current year is directly attributable to the investment in network construction and acquisitions for our expanding operations in France. As at June 30, 2008, Axia had \$28.1 million in cash and short-term investments and \$4.8 million in restricted short-term investments. Subsequent to year-end, the restricted short-term investments became available for general corporate purposes.

The following table shows Axia's future operating and capital lease obligation payments. These payments are for office premise leases and for a capital lease relating to technology assets on the Alberta SuperNet. This capital lease was entered into in 2005 and is repayable over a five-year period with an interest rate of approximately 7%.

<b>Contractual Obligations</b>	<b>Payments due by Period (in \$000s)</b>				
	<b>Total</b>	<b>&lt; 1 year</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>&gt; 5 years</b>
Lease Obligations	10,620	1,839	4,173	2,304	2,304

We regularly review our level of capital resources and future capital commitments and adjust our capital spending plans accordingly. This review includes an analysis of discretionary capital requirements and potential sources of capital. The evaluation takes into account factors such as the current economic environment, the state of equity markets, the ability to complete equity financings on favourable terms and the availability and prudence of debt financing. We anticipate that we can meet all of the capital expenditure commitments we have at June 30, 2008 through existing cash resources and that the Corporation will continue to generate incremental cash funds in the future.

## COMMITMENTS AND CONTINGENCIES

As at June 30, 2008, our main capital commitment is to fund Covage in order to expand our operations in France and construct new OAN NextGens. This commitment is pursuant to our joint venture arrangements with VINCI.

As at June 30, 2008, we estimate that our share of the remaining net capital commitments for the construction of OAN NextGens in France totals \$15.2 million (€9.5 million), (2007 - \$23.0 million). These funds will be advanced during fiscal 2009 and 2010 as construction of the networks progresses. Axia has also committed to spend \$2.0 million in France for the acquisition of fibre broadband assets which amounts will be paid during fiscal 2009.

All commitments in France reflect market conditions at the time the network contracts are entered into and do not involve related parties. Currently, all of our business transactions in our European segment are conducted through Covage, our joint venture company held equally between Axia and VINCI. Both Axia and VINCI charge Covage for their respective services rendered to this partnership. Axia does not have any interests or management influence in VINCI, or *vice-versa*. Accordingly, VINCI is not considered a 'related party' under Canadian GAAP by virtue of the joint venture arrangement. All of the transactions between VINCI, Covage and Axia, are conducted at fair market value.

During the course of business, the Corporation enters into a number of commitments related to its operations and development of OAN NextGens. In general, these commitments relate to our ability to design and construct networks to certain standards and maintain minimum service levels on these networks. Under the terms of the licence and related agreements to operate the Alberta SuperNet, we are committed to certain operating expenditures and also to provide certain standards of customer service and performance. To maintain these standards, we are required to maintain, or replace where appropriate, certain assets owned by others.

We have a \$1.5 million letter of credit to a third party outstanding pursuant to the terms of a significant operating contract. The letter of credit may be drawn by the holder in the event of a major default in the contract. The amount and timing of any expected draws are not determinable. We have also issued a total of \$7.6 million in letters of credit to support our proposals to build and operate OAN NextGens. These will be returned without penalty if we are not successful. All of the letters of credit issued are secured by short-term investments which are classified as restricted on the balance sheet.

## SHARE CAPITAL

As at September 18, 2008, Axia had 63.6 million common shares outstanding.

During the fourth quarter, Axia granted an additional 0.1 million stock options.

<b>Share Capital (in 000s)</b>	
<b>Share Class</b>	
Common Shares issued and outstanding	63,593
<b>Securities Convertible into Common Shares</b>	
Stock Options	2,750

## NEW CICA REPORTING REQUIREMENTS

Effective July 1, 2007, we adopted CICA Handbook Section 1530 "Comprehensive Income"; Section 3251 "Equity"; Section 3855 "Financial Instruments – Recognition and Measurement"; Section 3861, "Financial Instruments – Disclosure and Presentation"; and Section 3865 "Hedges". In accordance with these new standards, prior periods have not been restated.

The adoption of these standards has had no effect on our net earnings or cash flows from operations. The other effects of the implementation of the new standards are discussed below.

The new standards introduce comprehensive income, which consists of net earnings and other comprehensive income ("OCI"). The cumulative changes in OCI are included in accumulated other comprehensive income ("AOCI") which is presented as a new category within shareholders' equity on the consolidated balance sheet.

The financial instruments standard establishes the recognition and measurement criteria for financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on the classification of the financial instrument.

Section 3855 prescribes when a financial asset, financial liability or non-financial derivatives is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading; held-to-maturity; loans and receivables; available-for-sale financial assets; or other financial liabilities. All financial instruments, including derivatives, are measured at fair value except for loans and receivables, held-to maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in OCI until the investment is disposed of or impaired at which time the amounts would be recorded in net earnings. The methods we used for determining the fair value of financial instruments are unchanged as a result of implementing the new standard.

Under these new standards, we designated our cash as held-for-trading, which is measured at fair value. Accounts receivable and advances to joint venture are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and capital lease obligations are classified as other financial liabilities, which are measured at amortized cost. Short-term investments and restricted short-term investments are designated as available for sale and are measured at fair value with the changes in those fair values recognized in AOI.

Investments that do not have a quoted market price in an active market are measured at cost and are included in other assets in the consolidated balance sheet.

## International Financial Reporting Standards

The Canadian Accounting Standards Board recently ratified a strategic plan that will see Canadian GAAP converged with, and replaced by, International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. We are in the process of assessing the impact of this convergence on our financial reporting.

## ACCOUNTING POLICIES

The audited consolidated financial statements and related notes have been prepared by management in accordance with Canadian GAAP for interim financial information and using the same accounting policies and methods of computation as the audited consolidated financial statements for the fiscal year ended June 30, 2008, except as discussed above under "New CICA Reporting Requirements".

In applying these policies and methods, management is required to make judgments, assumptions and estimates that have a significant impact on our financial results. Areas which involve a significant amount of judgment and employ many estimates and assumptions include the determination of the carrying value of assets such as goodwill, the useful life and applicable depreciation and amortization policies for property and equipment and intangible assets, accounting for acquisitions, the recognition of future income tax assets, the presentation of our accounting results from foreign operations and the assessment of potential commitments and contingencies, among others. Actual results could differ materially from these estimates and assumptions as additional information becomes available in the future. Significant accounting policies are detailed in our audited consolidated financial statements for the year ended June 30, 2008, some of which are detailed as follows:

1. **Consolidation:** Our consolidated financial statements include the accounts of Axia NetMedia Corporation and our wholly owned subsidiaries. Our interests in jointly controlled companies are accounted for as joint ventures using the proportionate consolidation method of accounting whereby our *pro rata* share of assets, liabilities, revenues and expenses of the jointly controlled entities are included in the consolidated financial statements.
2. **Revenue recognition:** Revenue from network operations is recognized as the services are provided. Revenue from fixed price and long-term construction contracts is recorded on a percentage of completion basis. Estimated earnings from these contracts are accrued based upon the costs incurred to date as a percentage of total estimated costs to complete the project. Projected losses are provided in full as soon as they become apparent. Revisions in estimated costs and earnings during the course of work are reflected during the accounting period in which the data that determines such revisions becomes known. Revenue generated from subscriptions is recognized over the term of the related subscription. Disbursement and fee income are recognized at the time the work is performed and collection is determined to be reasonably assured. Revenue includes both fees and recoverable expenses.
3. **Intangible assets:** Intangible assets are determined based on the purchase price of an acquisition and the value of the related net assets acquired. The identification of intangible assets and the valuation thereof is a specialized and highly judgemental area where the use of business valuation specialists is employed. The Corporation's consolidated financial statements have been prepared based on an allocation of the purchase price of an acquisition between tangible and intangible assets and conservative amortization periods. Intangible assets are amortized over the term of the related broadband network contract, which expire from fiscal years 2012 to 2029. Amortization expense of intangible assets during the year was \$0.3 (2,007 - \$nil).
4. **Investments:** Investments in companies which are not proportionately consolidated and where we retain a minor ownership position and do not exert significant influence thereon are recorded using the cost basis of accounting. Where we exert significant influence on the operations of the investee company, the equity basis of accounting is employed. All investments are written down from book value when there is clear evidence that a decline in the value of the investment that is other than temporary has occurred.
5. **Income taxes:** We use the liability method of accounting for income taxes, whereby future income tax liabilities and future income tax assets are recorded based on temporary differences being the difference between the carrying amount of an asset and liability in the consolidated balance sheet and its underlying tax basis.

## TRENDS, EVENTS, RISKS AND UNCERTAINTIES

We operate in competitive and evolving markets locally, nationally and globally. These markets are subject to rapid technological change and changes in customer preferences and demand. The telecommunications, technology and managed services sectors involve business and regulatory risks that could significantly impact the operating results, financial condition and future development plans of Axia. Markets for our products and services are often unproven and undeveloped, highly competitive, and subject to rapid technological change. Axia faces price competition, the challenge of developing new markets, and creating market awareness for many of these products and services.

We compete for a substantial portion of our business on a competitive bid basis. There is no certainty that we will be successful in obtaining future contracts or that they will ultimately prove to be profitable. In addition, there is

no certainty that the new products and services being developed by us will meet long-term customer acceptance. The life cycle of our products and services can be short and subject to rapid technological change.

A significant portion of our business activities are related to the Alberta SuperNet network under contracts with the Government of Alberta and Bell Canada and contracts for the development of OAN NextGens in France. Our current and future business operations would be adversely affected in the event of a dispute or a failure to perform any of these contracts by any party, or in the event these contracts are not renewed upon their expiry.

Axia's current and future development opportunities are partly related to geographical areas outside of Canada. There are a number of risks inherent in international business activities, including government policies concerning the import and export of goods and services, costs of localizing products and subcontractors in foreign countries, costs associated with the use of foreign agents, potentially adverse tax consequences, limits on repatriation of earnings, the burdens of complying with a wide variety of foreign laws, nationalization and possibly social, labour, political and economic instability. There can be no assurance that such risks will not adversely affect Axia's business, financial condition and results of operations.

Our success is largely dependent upon the quality of our management, marketers, technical personnel and other employees, as well as third party relationships. There is no assurance that we will be able to retain existing personnel and third party relationships or attract new ones as required.

We counter these and other business risks with our ability to attract and retain professional and well-trained managers, marketers, technical staff and other employees. We continue to attract, retain and motivate personnel by creating a dynamic working environment and by rewarding employees with a comprehensive remuneration package that may include stock options, benefits, performance-based remuneration and the ability to purchase common shares through the Axia Employee Share Purchase Plan.

## **OUTLOOK**

Next Generation Network opportunities typically involve deploying substantial capital in return for long term reliable profits. The opportunities available to Axia are growing at a time when traditional debt and equity capital markets are, to say the least, unreliable. Axia's Management and Board assess the attractiveness of each new opportunity taking into account the value of momentum and market position as well as Axia's role with respect to deploying capital. At the same time, Axia's Management and Board remains vigilant in considering the potential dilution shareholders may face as a consequence of Axia choosing to raise capital in the current environment. Axia plans to maintain its strong balance sheet approach. Management and the Board will consider all these factors as the Corporation seeks the path that it believes will maximize shareholder value.

## **DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

We operate in an evolving environment with respect to regulatory reporting requirements, changes to Canadian GAAP and financial reporting requirements. Our growing initiatives in France also represent a specific area of additional accounting, legal and financial reporting complexity. Due to the small scale in-house accounting, finance and legal expertise, management believes accounting for these complex and evolving issues represents a material weakness. We mitigate this weakness by using the services of outside professionals for accounting, taxation and legal matters on an international basis.

The Chief Executive Officer and the Chief Financial Officer are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The Chief Executive Officer and Chief Financial Officer have concluded, as of the date hereof, that our internal controls over financial reporting have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP, and that no material weakness has been identified in the disclosure controls other than those that may arise due to the weakness in internal controls noted above.

There have been continual improvements to but no material changes in the design of our disclosure control systems and internal controls over financial reporting during fiscal 2008. However, we regularly review our controls and procedures by engaging independent consultants to review and test the controls and procedures, identify weaknesses and suggest improvements.

It should be noted that a control system, no matter how well conceived or operated, can provide only reasonable and not absolute assurance that the objectives of the control system are met.

## GLOSSARY

### **Active Network Segment**

Includes the electronics, bandwidth and services such as throughput guarantees or monitoring services that improve or enhance the quality of a network connection. Axia's no conflict Open Access Next Generation Network (OAN NextGen) model combines the passive and active segments to create no-compromise digital connectivity that we call Real Broadband™. *See also Passive Network Segment, ASP/RSP Network Segment, OAN NextGen.*

### **Application/Retail Service Provider (ASP/RSP)**

Application or Retail service providers purchase wholesale bandwidth and related network services on Axia's no conflict Open Access Next Generation Networks. This allows them to deliver Internet access or various application services to business or residential customers. Those application services can range from centralized payroll applications to collaborative meeting spaces or games and online entertainment applications.

### **ASP/RSP Network Segment**

All of the services that an end user can purchase from Application and Retail service providers (ASPs/RSPs) are separated from the transport and connectivity segments in Axia's no conflict Open Access Next Generation Network (OAN NextGen) model. This enables sustained competition and choice of services for the end user. Axia does not participate in the ASP/RSP sector, eliminating the conflict of interest with customers that is a fundamental flaw of the integrated telco approach. *See also Active Network Segment, Passive Network Segment.*

### **Bandwidth**

Bandwidth is the amount of data that can be transmitted over a network. Bandwidth on digital networks is measured in kilobits (Kbps, one thousand bits), megabits (Mbps, one million bits), gigabits (Gbps, one billion bits) or terabits (one trillion bits) per second.

### **Dark fibre**

Fibre optic cable that is already in the ground and on which bandwidth can be leased in long-term contracts.

### **Gigabit Ethernet Service (GigE)**

A network service that gives customers data speeds of 1 or more Gigabits per second, or high-bandwidth services offered on a 1 Gb network connection. Axia offers fractional Gigabit services of 100 to 800 Mbps over a 1 Gb connection.

### **Knowledge Economy**

While there is no single, commonly accepted definition, Axia uses Knowledge Economy to refer to the current global shift toward sharing knowledge and learning to drive economic production and personal growth.

### **No conflict Open Access Next Generation Network (OAN NextGen)**

OAN NextGen delivers no-compromise digital transport/connectivity services that we call Real Broadband™ to large geographic areas or cities. It is real time, fully bi-directional and uses IP so that it is fully interoperable with any other IP network. In an OAN NextGen all the services that an end user experiences, be it voice, video or traditional web can be separated from the transport/connectivity services. Axia operates as an impartial, expert buyer or manager of transport/connectivity services on behalf of its customers, which ensures that competition results in the best service at the lowest cost for the end user.

### **Passive Network Segment**

Includes the dark fibre, infrastructure and facilities of a network. Axia's no conflict Open Access Next Generation Network (OAN NextGen) model combines the passive and active segments to create no-compromise digital connectivity that we call Real Broadband™. *See also Active Network Segment, ASP/RSP Network Segment, Real Broadband™.*

### **Real Broadband™**

Real Broadband™, a term trademarked by Axia, gives clients the ability to quickly and reliably share large amounts of data, audio, video and graphics. Connectivity levels are guaranteed in Real Broadband™, as opposed to other network technologies such as DSL or cable, which offer "best-effort" connectivity.



AXIA NETMEDIA CORPORATION  
AUDITED CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2008

## MANAGEMENT'S REPORT TO SHAREHOLDERS

The accompanying consolidated financial statements of Axia NetMedia Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles.

The Corporation's accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable. Management is satisfied that these financial statements have been prepared accordingly and within reasonable limits of materiality. Further, management is satisfied that the financial information throughout the balance of this report is consistent with the information presented in the consolidated financial statements.

The Audit Committee, consisting of independent directors, has reviewed these statements with management and the auditors and has reported the results of this review to the Board of Directors. The Board of Directors has approved the consolidated financial statements.

(Signed)  
Arthur Price  
CEO and Chairman  
September 18, 2008

(Signed)  
Peter L. McKeown, CA  
Chief Financial Officer

## AUDITORS' REPORT TO SHAREHOLDERS

We have audited the consolidated balance sheets of Axia NetMedia Corporation as at June 30, 2008 and 2007, and the consolidated statements of operations and retained earnings, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP (Signed)  
Chartered Accountants  
Calgary, Canada  
September 18, 2008

CONSOLIDATED BALANCE SHEETS

(\$000s)	June 30, 2008	June 30, 2007
<b>Assets</b>		
Current assets:		
Cash	\$ 2,210	\$ 10,862
Short-term investments	25,867	41,309
Restricted short-term investments (note 8)	4,763	-
Accounts receivable	25,222	7,623
Prepaid expenses	1,326	1,527
Future income tax asset (note 10)	24	-
	59,412	61,321
Technology and product development costs (note 3)	-	528
Property and equipment (note 4)	49,373	12,666
Intangible assets (note 5)	6,699	-
Goodwill	4,201	4,201
Advances to joint venture	1,785	12,932
Other assets (note 6)	816	719
Restricted long-term investments (note 8)	4,310	-
Future income tax asset (note 10)	4,608	4,753
	\$131,204	\$ 97,120
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 29,826	\$ 16,659
Income taxes payable (note 10)	5,306	20
Current portion of deferred revenue	1,061	1,197
Current portion of lease obligation (note 7)	284	270
Current portion of cost of excess space	61	80
	36,538	18,226
Deferred revenue	1,503	825
Lease obligation (note 7)	77	360
Cost of excess space	115	187
Shareholders' equity: (note 9)		
Share capital	48,074	47,740
Contributed surplus	2,893	702
Retained earnings	38,986	30,885
Accumulated other comprehensive income (loss) (note 13)	3,018	(1,805)
	42,004	29,080
	92,971	77,522
Economic dependence (note 17)		
Contingencies, commitments and guarantees (note 18)		
Related party transactions (note 19)		
	\$131,204	\$ 97,120

See accompanying notes to the consolidated financial statements  
On behalf of the board:

(Signed)  
C. Kent Jespersen

(Signed)  
Art Price

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

For the years ended June 30, 2008 and 2007  
(\$000s except per share amounts)

	2008	2007
Revenue	\$ 63,805	\$ 50,916
Cost of products and services sold	34,850	26,785
Gross profit	28,955	24,131
Expenses		
Marketing	952	1,028
Administration	3,918	3,161
Business development	8,368	3,890
Stock-based compensation	2,299	473
Net interest and financing charges (income) (note 16)	(2,508)	(1,343)
Depreciation and amortization	4,661	3,274
	17,690	10,483
Income before the following	11,265	13,648
Gain on sale of investment (note 11)	333	-
Income before income tax	11,598	13,648
Current income tax (note 10)	(5,031)	(189)
Future income tax recovery (note 10)	1,534	2,530
	(3,497)	2,341
Net income	8,101	15,989
Retained earnings, beginning of year	30,885	14,896
Retained earnings, end of year	\$ 38,986	\$ 30,885
Net income per share		
Basic	\$ 0.13	\$ 0.27
Diluted	\$ 0.13	\$ 0.26
Weighted average shares outstanding		
Basic	63,537	59,316
Diluted	63,844	60,867

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended June 30, 2008 and 2007  
(\$000s)

	2008	2007
Net income	\$8,101	\$15,989
Other comprehensive income, net of tax:		
Unrealized gains on short-term investments	192	-
Unrealized gains on translation of self sustaining operations	4,599	-
Other comprehensive income	4,791	-
Comprehensive income	\$12,892	\$15,989

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30, 2008 and 2007

(\$000s)	2008	2007
Cash provided by (used in):		
Operating activities:		
Net income	\$ 8,101	\$ 15,989
Items not involving cash		
Depreciation and amortization	4,661	3,274
Future income tax (recovery) (note 10)	(1,534)	(2,521)
Gain on disposal of investment (note 11)	(333)	-
Cost of excess space	(91)	(78)
Stock-based compensation (note 9(c)ii)	2,299	473
	13,103	17,137
Changes in non-cash working capital items	(24,481)	5,371
Cash provided by (used in) operations	(11,378)	22,508
Cash used in discontinued operations	-	(92)
	(11,378)	22,416
Financing activities:		
Decrease (increase) in restricted cash and investments	(9,028)	162
Issue of common shares	226	22,847
Repayment of lease obligation	(270)	(255)
	(9,072)	22,754
Investing activities:		
Short-term investments	17,865	(28,874)
Acquisitions (note 11)	(2,230)	-
Advance to joint venture	11,710	(12,932)
Purchase of property and equipment	(24,629)	(6,329)
Disposal of investment	21	-
Purchase of property and equipment included in accounts payable	8,020	-
Technology and product development costs	-	(374)
	10,757	(48,509)
Effect of currency translation on cash balances and cash flows	1,041	(1,805)
Decrease in cash	(8,652)	(5,144)
Cash, beginning of period	10,862	16,006
Cash, end of period	\$ 2,210	\$ 10,862

See accompanying notes to the consolidated financial statements

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended June 30, 2008 and 2007 (tabular amounts in thousands except per share amounts)

### 1. DESCRIPTION OF BUSINESS

Axia NetMedia Corporation (the "Corporation") provides Real Broadband™ Internet Protocol services and solutions through planning, designing and operating no conflict Open Access Next Generation Networks ("OAN NextGen"). The Corporation currently operates OAN NetGens in the Province of Alberta (Alberta SuperNet) whose operating results are reported in the North American Segment, and several regions in France which comprise the European segment. The Corporation is also bidding on new OAN NetGen opportunities globally.

### 2. SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation: The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries. The Corporation's interest in jointly controlled companies are accounted for as joint ventures using the proportionate consolidation method of accounting whereby the Corporation's pro rata share of assets, liabilities, revenues and expenses of the jointly controlled entities are included in the consolidated financial statements.

(b) Financial instruments: Effective July 1, 2007, the Corporation adopted CICA Handbook Section 1530 "Comprehensive Income"; Section 3251 "Equity"; Section 3855 "Financial Instruments - Recognition and measurement"; Section 3861, "Financial Instruments - Disclosure and Presentation"; and Section 3865 "Hedges". In accordance with these new standards, prior periods have not been restated.

The adoption of these standards has had no effect on the Corporation's net earnings or cash flows from operations. The other effects of the implementation of the new standards are discussed below.

The new standards introduce comprehensive income, which consists of net earnings and other comprehensive income ("OCI"). The cumulative changes in OCI are included in accumulated other comprehensive income ("AOCI") which is presented as a new category within shareholders' equity on the consolidated balance sheet.

The financial instruments standard establishes the recognition and measurement criteria for financial assets, financial liabilities and derivatives. Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments, including derivatives, are initially measured on the balance sheet at fair value. Subsequent measurement will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in OCI until the investment is disposed of or impaired at which time the amounts would be recorded in net earnings. Loans and receivables, held-to-maturity investments and other financial liabilities are subsequently measured at amortized cost.

Under these new standards, the Corporation designated its cash as held-for-trading, which is measured at fair value. Accounts receivable and advances to joint venture are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost. Short-term investments and restricted short-term investments are designated as available for sale and are measured at fair value with changes in those fair values recognized in AOCI. The methods used by the Corporation in determining the fair value of financial instruments are unchanged as a result of implementing the new standards.

Investments that do not have a quoted market price in an active market are measured at cost and are included

in other assets.

Three new Canadian accounting standards have been issued which will require additional disclosure in the Corporation's financial statements commencing July 1, 2008 as follows:

- i) CICA Handbook Section 1535 "Capital Disclosures" establishes standards for disclosing information about an entity's capital and how it is managed. It requires the disclosure of information about an entity's objectives, policies and processes for managing capital. This Section is effective for annual periods beginning on or after October 1, 2007 and will be adopted by the Corporation for fiscal 2009.
- ii) CICA Handbook Section 3862 "Financial Instruments – Disclosures". Section 3862 requires entities to provide disclosures in their financial statements that enable the user to evaluate the significance of financial instruments on the entity's financial position and its performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. This Section is effective for annual and interim periods relating to fiscal years beginning on or after October 1, 2007, and will be adopted by the Corporation for fiscal 2009.
- iii) CICA handbook section 3064 "Goodwill and Intangible Assets" establishes revised criteria for when an internally developed intangible asset meets the criteria for recognition as an asset. These changes are effective for fiscal years beginning on or after October 1, 2008 and will be adopted by the Corporation for fiscal 2009.

The Corporation has reviewed and assessed the impact of these standards and has determined that adoption of the standards will not have a material impact on the Corporation's financial statements.

- (c) Revenue recognition: Revenue from broadband network operations is recognized as the services are provided. Revenue from fixed price and long-term construction contracts is recorded on a percentage of completion basis. Estimated earnings are accrued based upon the costs incurred to date as a percentage of total estimated costs to complete the project. Projected losses are provided in full as soon as they become apparent. Revisions in estimated costs and earnings during the course of work are reflected during the accounting period in which the data that determines such revisions becomes known. Revenue generated from subscriptions is recognized over the term of the related subscription. Disbursement and fee income are recognized at the time the work is performed and collection is determined to be reasonably assured. Revenue includes both fees and recoverable expenses.
- (d) Technology and product development costs: Research costs are expensed as incurred. Development costs of new interactive application systems are capitalized if they meet generally accepted accounting criteria for deferral. Amortization is determined using the straight-line method over their estimated economic life. The book value of technology and product development costs is reviewed when events or changes in circumstances indicate the carrying value may be impaired. Where there is considered to be an impairment in the estimated net recoverable amount of these costs, based upon expected future cash flows, the costs are written down to their estimated recoverable value. Technology and product development costs for the current year were fully amortized during the year, amortization was \$528,360 (2007 - \$497,313).
- (e) Property and equipment: Property and equipment are recorded at cost. Depreciation and amortization is recorded on property and equipment, other than broadband networks, at rates consistent with their expected useful lives using straight-line methods ranging from 10 percent to 100 percent. Depreciation and amortization recorded on broadband networks is based on the term of the appropriate network contract, which expires from fiscal years 2012 to 2029. Depreciation expense during the year was \$3,855,746 (2007 - \$2,777,107). Broadband networks is presented net of grants, which during the current year totaled \$35,586,032 (€22,184,423) relating to the construction of broadband networks. Grants receivable are recorded in accounts receivable until they have been received pursuant to the terms of the grant agreement. The total amount of grants receivable recorded in accounts receivable at year end is \$409,848 (€255,500)

- (f) Intangible assets: Intangible assets are determined based on the purchase price of an acquisition and the value of the related net assets acquired. The identification of intangible assets and the valuation thereof is a specialized and highly judgemental area where the use of business valuation specialists is employed. The Corporation's consolidated financial statements have been prepared based on an allocation of the purchase price of an acquisition between tangible and intangible assets and conservative amortization periods. Intangible assets are amortized over the term of the related broadband network contract, which expire from fiscal years 2012 to 2029. Amortization expense of intangible assets during the year was \$277,283 (2,007 - \$nil).
- (g) Goodwill: Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated, as of the date of the business combination, to the Company's reporting units that are expected to benefit from the synergies of the business combination. Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying value of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss. The impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the consolidated statement of operations before extraordinary items and discontinued operations. No impairment loss was recorded for 2008 and 2007.
- (h) Investments: Investments in companies which are not proportionately consolidated and where the Corporation retains a minor ownership position and does not exert significant influence thereon are recorded using the cost basis of accounting. Where the Corporation exerts significant influence on the operations of the investee, the equity method of accounting is utilized. All investments are written down from book value when a decline in the value of the investment that is other than temporary has occurred.
- (i) Leases: Leases are classified as capital or operating based upon the terms and conditions of the lease contracts.
- (j) Foreign currency translation: The Corporation uses the current rate method of foreign currency translation to translate the accounts of its foreign subsidiary, which is considered a self-sustaining foreign operation. The assets and liabilities of foreign operations are translated into Canadian dollars using the exchange rate in effect at the consolidated balance sheet date, and revenues and expenses are translated at the average rate during the period. Exchange gains or losses on translation of the Corporation's net investment in these foreign operations are deferred in the cumulative translation adjustment component of shareholders' equity. Other exchange gains and losses are included in net income. Foreign exchange losses during the year which are included in interest and financing charges is \$4,696 (2007 - \$47,224).
- (k) Income taxes: The Corporation uses the liability method of accounting for income taxes, whereby future income tax liabilities and future income tax assets are recorded based on temporary differences which represent the difference between the carrying amount of an asset and liability in the consolidated balance sheet and its underlying tax basis.
- (l) Stock-based compensation: For stock options issued to employees and directors, compensation expense related to those awards is recognized based on the fair value of the options issued on the date of the grant which is determined using a recognized option-pricing model. The fair value of the options expected to vest is recognized over the vesting period of the options granted as compensation expense and contributed surplus.
- (m) Cost of Excess space: The Corporation regularly reviews its lease commitments to ensure that they provide an economic benefit over the term of the lease. Any cost of excess space is recorded in the period when it is determined that no economic benefit exists by expensing the future lease cost less any estimated recoveries through sublease arrangements.
- (n) Per share amounts: These are calculated using the weighted average number of common shares outstanding for



the year. Diluted earnings per share is calculated using the treasury stock method to determine the dilutionary impact of warrants and options outstanding.

- (o) Use of estimates and measurement uncertainty: The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the applicable period. The Corporation operates in a highly competitive and technology driven environment. The telecommunications, software and managed services sectors are undergoing substantial change and are subject to a high level of uncertainty. The Corporation's operations include developing and marketing broadband network solutions, services and software systems for new and evolving markets. Accordingly, management's determination as to the recoverability of costs deferred in relation to these operations includes a forecasting process based on estimates of future events which are often made with limited information. The Corporation has estimated the recoverability of goodwill, intangible assets and technology and product development costs based upon rapidly changing industry trends, an intense and competitive environment, changing technology trends and anticipated economic factors. Should the Corporation's business environment conditions or business change, it may result in an impairment of these assets and may in turn result in an adjustment of the future carrying values of these assets by a material amount. Other areas requiring use of estimates include expenses to be charged under construction and operating contracts, amortization and depreciation periods for assets, cost of excess space, future income tax assets and potential contingencies. Actual results could differ from management's best estimates and underlying assumptions, as additional information becomes available in the future.
- (p) Comparative figures: Certain comparative figures have been reclassified to conform with the financial statement presentation for the current year.

### 3. TECHNOLOGY AND PRODUCT DEVELOPMENT COSTS

	Cost	Accumulated amortization	Net book value
June 30, 2008	\$ 1,026	\$ 1,026	\$ -
June 30, 2007	\$ 1,026	\$ 498	\$ 528

#### 4. PROPERTY AND EQUIPMENT

	Cost	Accumulated amortization	Net book value
June 30, 2008			
Technology hardware	\$ 12,519	\$ 7,025	\$ 5,494
Broadband networks	44,934	3,156	41,778
Computer software	2,029	1,068	961
Furniture and fixtures	408	405	3
Leasehold improvements	3,070	1,933	1,137
	<b>\$ 62,960</b>	<b>\$ 13,587</b>	<b>\$ 49,373</b>
June 30, 2007			
Technology hardware	\$ 10,274	\$ 4,679	\$ 5,595
Broadband networks	5,294	88	5,206
Computer software	667	280	387
Furniture and fixtures	408	402	6
Leasehold improvements	3,059	1,587	1,472
	<b>\$ 19,702</b>	<b>\$ 7,036</b>	<b>\$ 12,666</b>

Included in the amounts reported as technology hardware are amounts financed under capital lease obligations (note 7) with a cost of \$1,132,559 (2007 - \$1,132,559), accumulated amortization of \$851,844 (2007- \$624,200) and current year amortization of \$227,644 (2007 - \$227,806).

Included in the amounts reported as Broadband networks, the net carrying amount under construction that is not yet being amortized is \$13,726,640 (€8,557,222).

#### 5. INTANGIBLE ASSETS

	Cost	Accumulated amortization	Net book value
June 30, 2008	\$ 6,976	\$ 277	\$ 6,699
June 30, 2007	\$ -	\$ -	\$ -

Intangible assets acquired during the current year relate to the Corporation's acquisition of private broadband network companies in France.

#### 6. OTHER ASSETS

	2008	2007
Deferred costs	\$ 239	\$ 306
Deposits	296	121
Investment in companies	281	292
	<b>\$ 816</b>	<b>\$ 719</b>

## 7. LEASE OBLIGATION

During fiscal 2005, the Corporation entered into a capital lease to purchase technology assets to be used on the Alberta SuperNet. The capital lease is repayable over a five-year period with an interest rate of approximately seven percent. Pursuant to this lease, the Corporation sold \$855,000 of technology equipment to the lessor during September 2004. The resulting book gain of \$172,000 is being recognized over the term of the lease.

The estimated future minimum payments due on capital lease obligations are as follows:

2009	265
2010	88
	353
Amounts representing interest	(35)
Unamortized portion of gain on sale of assets under capital lease	43
	361
Less: Current portion of lease obligation	284
	\$ 77

## 8. BANKING FACILITY

During the current year, the Corporation established a credit facility with its primary banker which provides for the following loan facilities :

Loan	Purpose	Amount	Rate of Interest
Operating	Current operations	\$1,500,000	Bank prime plus 0.5% per annum
Letter of credit facility	To issue letters of credit and bid bonds for new OAN NetGen opportunities	\$10,000,000	A fee equal to 1.25% per annum for the value of each letter of credit issued
Guarantee line	To issue bank guarantees	\$1,500,000	A fee equal to 1.25% per annum for the value of each guarantee issued

The security for this facility includes a first secured charge on all of the assets of the Corporation and guarantees. Any instruments issued under the letter of credit facility and the guarantee line must be secured by cash or investment balances. As at June 30, 2008, the Corporation had issued a total of \$8,463,000 of bid bonds and bank guarantees under these facilities, and accordingly the same amount of short-term investments has been classified as restricted on the balance sheet. The restricted short-term investments are reported as either a current or long-term asset depending on the expiry date of the related bid bond or guarantee.

As at June 30, 2007, the Corporation had not drawn any amount on a previous bank facility but had issued a \$1,500,000 bank guarantee for which cash security was not required.

## 9. SHARE CAPITAL

- (a) Authorized: Unlimited number of common shares  
 Unlimited number of first and second preferred shares, issuable in series.
- (b) Shares issued: Common shares

	June 30, 2008,		June 30, 2007	
	Number	Amount	Number	Amount
Balance, beginning of year	63,364	\$ 47,740	54,546	\$ 23,981
Issued for cash:				
Exercise of options	229	226	199	281
Exercise of warrants	-	-	2,569	1,991
Private placement	-	-	6,050	21,456
Transfer from contributed surplus on exercise of options	-	108	-	31
	63,593	\$ 48,074	63,364	\$ 47,740

(c) Stock options:

- i) The Corporation may grant stock options to directors, officers, employees, advisors and consultants. At June 30, 2008 there were 2,640,000 (2007 - 1,708,334) stock options outstanding to acquire common shares at prices ranging from \$0.50 to \$6.37 per share, with expiry dates ranging from April 2009 to May 2013. The following table sets forth a reconciliation of stock options granted, exercised and cancelled during the years ended June 30, 2008 and 2007:

	2008		2007	
	Shares	Weighted-average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of year	1,708	\$ 2.64	612	\$ 0.74
Granted	1,650	2.77	1,413	3.21
Exercised	(229)	0.99	(200)	1.41
Forfeited	(479)	4.12	(117)	2.91
Outstanding, end of year	2,650	\$ 3.21	1,708	\$ 2.64
Exercisable	508	\$ 2.30	328	\$ 0.83

- ii) During the current year, the Corporation granted 1,650,000 (2007 - 1,413,332) stock options. The fair value of stock options granted is estimated on the date of grant using an option pricing model with the following weighted average assumptions used for options granted in fiscal 2008: weighted-average volatility of 46 percent; risk-free interest rate of 4 percent; and the expected life of the option of five years. During the year, the Corporation recorded \$2,298,771 (2007 - \$473,028) as compensation expense related to these stock options. The weighted average fair value of options granted during the year was \$3.56 per option.

iii) The following table sets forth information relating to stock options outstanding at June 30, 2008.

Range of exercise prices	Number outstanding at June 30, 2008	Weighted average remaining contractual life	Weighted-average exercise price
\$0.50 - \$2.00	198	1.25	\$ 0.67
\$2.01 - \$4.00	2,264	3.67	3.29
\$4.01 - \$6.37	188	3.94	5.65
	2,650	2.89	\$ 3.26

iv) The following table sets forth information relating to stock options outstanding at June 30, 2007.

Range of exercise prices	Number outstanding at June 30, 2007	Weighted average remaining contractual life	Weighted-average exercise price
\$0.50 - \$2.00	400	1.78	\$ 0.70
\$2.01 - \$4.00	1,220	4.31	3.03
\$4.01 - \$6.37	88	4.81	5.97
	1,708	3.52	\$ 2.64

v) Included in the stock options granted for the current year were 1,000,000 stock options granted to the Chief Executive Officer during fiscal 2007 which were approved by the shareholders during fiscal 2008. The compensation expense related to these options was \$1,651,493 which was recorded during fiscal 2008.

(d) Contributed surplus:

The Corporation records stock-based compensation expense using the fair value method. Fair values are determined using an option pricing model. Compensation costs are recognized over the vesting period as an increase to stock based compensation expense and contributed surplus. When options are subsequently exercised, the fair value of such options in contributed surplus is credited to share capital. During the year, contributed surplus changed as follows:

	2008	2007
Contributed surplus, beginning of year	\$ 702	\$ 260
Stock-based compensation expense	2,299	473
Stock options exercised	(108)	(31)
Balance, end of year	\$ 2,893	\$ 702

## 10. INCOME TAXES

- (a) The income tax provision differs from the amount which would result from applying the expected income tax rate to net income from operations before income taxes. The differences between the computed "expected" income tax provision and the actual income tax provision are summarized as follows:

Income tax provision	Total	
	2008	2007
Net income before tax from operations	\$ 11,598	\$ 13,648
Expected income tax rate	30.7%	32.2%
Computed "expected" income tax expense	3,555	4,384
Difference resulting from:		
Non-deductible expenses and other	112	315
Change in valuation allowance	105	(7,308)
Change in prior year tax pools	(440)	(452)
Change in enacted tax rates	165	720
Income tax provision	\$ 3,497	\$ (2,341)

- (b) The components of the Corporation's net future income tax assets at June 30, 2008 and 2007, of which a portion have been recorded in these financial statements, are as follows:

Net future income tax asset	North America		Europe		Total	
	2008	2007	2008	2007	2008	2007
Non-capital losses	\$ 563	\$ -	\$ 1,147	\$ 252	\$ 1,710	\$ 252
Capital losses	1,205	1,336	-	-	1,205	1,336
Capital assets	1,636	3,662	3,967	-	5,603	3,662
Share issue costs	340	362	-	-	340	362
Other	137	477	142	-	279	477
	3,881	5,837	5,256	252	9,137	6,089
Less: valuation allowance	(1,205)	(1,336)	(236)	-	(1,441)	(1,336)
	2,676	4,501	5,020	252	7,696	4,753
Intangible assets	-	-	(2,236)	-	(2,236)	-
Deferred revenue	-	-	(828)	-	(828)	-
Net future income tax asset	2,676	4,501	1,956	252	4,632	4,753
Less: current portion	(24)	-	-	-	(24)	-
Net future income tax asset	\$ 2,652	\$ 4,501	\$ 1,956	\$ 252	\$ 4,608	\$ 4,753

The Corporation has non-capital loss carryforwards in Canada of approximately \$1,939,000 (2007 - \$nil) available to reduce future years taxable income. These losses will start to expire in 2028. The company also has net operating losses in Europe of \$3,540,000 (2007 - \$780,000) available to reduce future years taxable income and have no expiry.

## 11. ACQUISITIONS

Acquisitions are accounted for using the purchase method, whereby the purchase price is allocated to the fair value of assets and liabilities at the acquisition date, and the results of operations are included in the consolidated financial statements from the date of acquisition.

During the current year the Corporation acquired interests in private broadband network companies in France, which may be incremental to those it already held. The Corporation acquired these interests at the following acquisition dates:

Private Network Company	Accounting Treatment	Acquisition Date	Percentage acquired during the year	Net interest held at June 30, 2008
3CNET	Full consolidation	October 12, 2007	50.0%	50.0%
Arras Networks	Proportionate consolidation	March 31, 2008	35.0%	35.0%
Caen.Com	Proportionate consolidation	December 14, 2007	24.95%	24.95%
Clermont Communaute Networks	Full consolidation	October 12, 2007	42.5%	47.5%
Coval Networks	Full consolidation	January 17, 2008	50.0%	50.0%
Creusot Montceau Networks	Full consolidation	December 17, 2007	35.0%	35.0%
Garonne Networks	Proportionate consolidation	February 29, 2008	35.0%	35.0%
Grand Chalon Networks	Full consolidation	October 12, 2007	50.0%	50.0%
Moselle Telecom Participation	Proportionate consolidation	November 27, 2007	7.7%	15.4%
SEM@for77	Full consolidation	October 1, 2007	25.0%	50.0%

The allocations of the purchase price to the fair value of the net assets of the acquisitions completed during the year is as follows:

	3CNet	Arras	Caen	Clermont	Coval	Creusot	Garonne	Grand Chalon	Moselle	SEM@for 77	Total
Non-cash operating working capital	\$ (627)	\$ (1,443)	\$ (1,341)	\$ (2,648)	\$ (2,491)	\$ (906)	\$ 181	\$ (2,734)	\$ (509)	\$ (3,687)	\$ (16,205)
Future tax asset (liability)	(60)	(400)	(168)	46	(15)	(304)	(52)	(251)	(211)	(11)	(1,426)
Property and equipment	605	832	927	2,523	1,715	554	524	2,419	476	2,969	13,544
Intangible assets	128	1,107	704	132	1,004	760	226	666	276	1,314	6,317
Net cost	\$ 46	\$ 96	\$ 122	\$ 53	\$ 213	\$ 104	\$ 879	\$ 100	\$ 32	\$ 585	\$ 2,230
Consideration:											
Cash	\$ 19	\$ 68	\$ 94	\$ 27	\$ 184	\$ 77	\$ 848	\$ 74	\$ 4	\$ 559	\$ 1,954
Acquisition costs	27	28	28	26	29	27	31	26	28	26	276
	\$ 46	\$ 96	\$ 122	\$ 53	\$ 213	\$ 104	\$ 879	\$ 100	\$ 32	\$ 585	\$ 2,230

The Corporation holds its interests in private broadband network companies based in France equally with its joint venture partner and accounts for the joint venture on the proportionate consolidation method. The joint venture accounts for these private companies using either the cost, equity, proportionate consolidation or full consolidation methods of accounting as appropriate. A minority interest position may be recognized in the financial statements of the Corporation for those entities where the consolidation method of accounting is utilized.

During the current year, the Corporation sold its minority share interest in a private broadband network company resulting in a gain on sale of \$333,120.

## 12. SEGMENTED INFORMATION

The Corporation designs, builds, operates and sells value-added services for high performance networks in two geographical segments. Substantially all of the activities and results for the European segment are conducted under a joint venture.

Segmented results of operations for the year ended June 30, 2008 and 2007 are as follows:

	North America		Europe		Total	
	2008	2007	2008	2007	2008	2007
Revenue	\$ 52,040	\$ 48,307	\$ 11,765	\$ 2,609	\$ 63,805	\$ 50,916
Cost of products and services sold	28,015	25,341	6,835	1,444	34,850	26,785
Gross profit	24,025	22,966	4,930	1,165	28,955	24,131
Expenses						
Marketing	849	1,028	103	-	952	1,028
Administration	3,146	2,913	772	248	3,918	3,161
Business development	3,109	1,814	5,259	2,076	8,368	3,890
Stock-based compensation	2,299	473	-	-	2,299	473
Net interest expense and financing charges (income)	(1,297)	(1,335)	(1,211)	(8)	(2,508)	(1,343)
Depreciation and amortization	3,391	3,154	1,270	120	4,661	3,274
	11,497	8,047	6,193	2,436	17,690	10,483
Income (loss) before the following	12,528	14,919	(1,263)	(1,271)	11,265	13,648
Gain on sale of investment	-	-	333	-	333	-
Income (loss) before income tax	12,528	14,919	(930)	(1,271)	11,598	13,648
Income tax expense	(2,331)	-	(2,700)	(189)	(5,031)	(189)
Future income tax recovery (expense)	(1,786)	2,270	3,320	260	1,534	2,530
	(4,117)	2,270	620	71	(3,497)	2,341
Net income (loss)	\$ 8,411	\$ 17,189	\$ (310)	\$ (1,200)	\$ 8,101	\$ 15,989
Capital expenditures	\$ 2,148	\$ 1,409	\$ 22,482	\$ 5,294	\$ 24,630	\$ 6,703

Cash provided by (used in):

Operating activities	\$ (12,621)	\$ 5,359	\$ 1,243	\$ 17,057	\$ (11,378)	\$ 22,416
Financing activities	\$ (8,507)	\$ 22,754	\$ (565)	\$ -	\$ (9,072)	\$ 22,754
Investing activities	\$ 7,011	\$ (31,543)	\$ 3,746	\$ (16,966)	\$ 10,757	\$ (48,509)

Selected balance sheet items are as follows:

	North America		Europe		Total	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Current assets	\$ 32,366	\$ 45,151	\$ 27,046	\$ 16,170	\$ 59,412	\$ 61,321
Technology and product development costs	-	528	-	-	-	528
Property and equipment	6,744	7,459	42,629	5,207	49,373	12,666
Intangible asset	-	-	6,699	-	6,699	-
Goodwill	4,201	4,201	-	-	4,201	4,201
Advance to joint venture	-	-	1,785	12,932	1,785	12,932
Minority interest	-	-	-	-	-	-
Other assets	685	719	131	-	816	719
Restricted long-term investments	3,700	-	610	-	4,310	-
Future income tax asset	2,652	4,501	1,956	252	4,608	4,753
	\$ 50,348	\$ 62,559	\$ 80,856	\$ 34,561	\$ 131,204	\$ 97,120
Current liabilities	\$ 9,322	\$ 7,212	\$ 27,216	\$ 11,014	\$ 36,538	\$ 18,226
Long-term liabilities	\$ 808	\$ 1,372	\$ 887	\$ -	\$ 1,695	\$ 1,372



### 13. ACCUMULATED OTHER COMPREHENSIVE INCOME

The Corporation's financial instruments recognized on the interim financial statements consist of cash, accounts receivable, short-term investments and restricted investments, advances to joint venture, other assets and accounts payable and accrued liabilities. The fair value of cash, accounts receivable, advance to joint venture and accounts payable and accrued liabilities are measured at amortized cost. Short-term investments and restricted investments are designated as "available for sale" and are measured at fair value. The change in the value of short-term investments and restricted investments and unrealized gains and losses on translation of net foreign operations is recorded in AOCI as follows:

Balance, July 1, 2007 as a result of reclassification of foreign currency translation adjustment	\$	(1,805)
Adjustment as a result of the adoption of financial instruments		32
Unrealized gains of short-term investments		192
Unrealized gains on translation of net foreign operations		4,599
Balance, June 30, 2008	\$	3,018

The amount recorded in future income tax asset allocated to the unrealized gains of short term investments was \$40,805.

### 14. SUPPLEMENTAL CASH FLOW INFORMATION

	2008	2007
Interest paid	\$ 756	\$ 66
Taxes	-	-
Interest received	(3,030)	(1,231)

### 15. OPERATING LEASE COMMITMENTS

Future minimum payments under operating leases for the following five fiscal years are as follows:

2009	\$ 1,839
2010	1,650
2011	1,362
2012	1,161
2013	1,152
Thereafter	3,456

The Corporation has sublease agreements in the amount of \$1,847,420 over the next five years to reduce the operating lease commitments.

### 16. NET INTEREST AND FINANCING CHARGES (INCOME)

	2008	2007
Interest expense (income)	\$ (3,521)	\$ (1,524)
Interest and financing charges	1,013	181
	\$ (2,508)	\$ (1,343)

## **17. ECONOMIC DEPENDENCE**

Substantially all of the revenues reported in the North America business segment for the fiscal years ended June 30, 2008 and 2007 were generated from the Alberta SuperNet and related agreements. All of the revenues reported for the Europe segment for the same fiscal periods were earned pursuant to a joint venture relationship with a partner based in France.

## **18. CONTINGENCIES, COMMITMENTS AND GUARANTEES**

The Corporation may periodically be subject to litigation and claims from customers, suppliers, former employees and other third parties. The Corporation will defend itself against these claims pursuant to legal means, and may also register counterclaims and seek damages from the plaintiffs. Due to the nature and status of these claims, it is not possible to determine the timing, amount or outcome of any potential judgments. However, management does not believe that any such judgments resulting from current claims will have a material adverse impact on the financial position of the Corporation.

During the course of business, the Corporation enters into a number of commitments related to its operations and development of OAN NextGens. In general, these commitments relate to the Corporation's ability to design and construct networks to certain standards and maintain minimum service levels on these networks. Under the terms of the licence and related agreements to operate the Alberta SuperNet, the Corporation is committed to certain operating expenditures and also to provide certain standards of customer service and performance. To maintain these standards, the Corporation is required to maintain, or replace where appropriate, certain assets owned by others.

The Corporation has issued a \$1,500,000 letter of credit to a third party pursuant to the terms of a significant contract. The letter of credit may be drawn by the holder in the event of a major default in the contract. The amount and timing of any expected draws on the letter of credit are not determinable. The Corporation has also issued a total of \$6,963,000 of letters of credit to support its proposals to build and operate OAN NextGens. These will be returned without penalty if the Corporation's proposals are not successful.

As at June 30, 2008, the Corporation estimates its remaining net capital commitment to the joint venture in France totals \$15,200,000 (€9,500,000) (2007 - \$23,046,000). These funds will be advanced during fiscal 2009 and 2010 as construction of OAN NextGens in France progresses.

## **19. RELATED PARTY TRANSACTIONS**

The Corporation's operations in France are conducted through a joint venture. This joint venture conducts operations with other parties who are considered related. All of these related party transactions are conducted at fair value.

## **20. SUBSEQUENT EVENT**

Subsequent to June 30, 2008, the Corporation's performance under a bid bond was guaranteed by a third party to the Corporation's primary banker. Accordingly, \$4,476,600 of restricted short-term investments classified as a current asset at year end became unrestricted and available for business purposes.



Attention BTOP Reviewers: Historical Financials on pages 21-23 with notes following.

## Axia NetMedia Corporation Management's Discussion & Analysis For the year ended June 30, 2009

September 21, 2009

*The following Management's Discussion & Analysis ("MD&A") should be read in conjunction with Axia NetMedia Corporation's audited consolidated financial statements and related notes for the year ended June 30, 2009 and the audited consolidated financial statements and related notes for the year ended June 30, 2008, all of which were prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Unless otherwise noted, all funds are in Canadian dollars and tabular financial amounts are in thousands of dollars, other than per share amounts. Additional information relating to Axia, including our Annual Progress Report and Annual Information Form for the year ended June 30, 2009 and 2008, is available on SEDAR at [www.sedar.com](http://www.sedar.com). References herein to "Axia", "we", "us", "our" and "Corporation" mean Axia NetMedia Corporation.*

## FORWARD-LOOKING STATEMENTS

With the exception of historical information, the discussion of matters in this MD&A are forward-looking statements that involve assumptions, risks and uncertainties that could cause actual results to differ materially from projections or estimates contained herein. These forward looking statements typically contain the words “should”, “believe”, “anticipate”, “may”, “plan”, “will”, “continue”, “intend”, “expect”, “estimate” and other similar expressions which constitute “forward looking information” within the meaning of applicable Canadian securities laws. These statements are based on our current expectations, estimates, forecasts and assumptions about the operating environment, economies and markets in which we operate and are subject to important assumptions, risks and uncertainties that are difficult to predict. Such forward-looking statements include statements regarding our forecasts for potential success and timing in winning new OAN NextGen contracts, the timing of completion and estimated total costs of these new networks, operating costs and business development expenses associated with our existing and new networks, revenue and market share expectations, our ability to generate future cash flows and the availability of financing alternatives, particularly given current market conditions. Factors that could cause actual results to differ materially from these forward-looking statements include, among others:

- changes in customer markets and demand for our services
- an inability to deliver services in a timely and cost efficient manner
- technological change
- failure to perform by counterparties under significant contracts
- retention of key personnel
- economic and market conditions including but not limited to access to equity or debt capital on favourable terms
- future capital requirements and commitments
- federal, provincial and foreign laws and regulations applicable to us
- risks associated with conducting business in foreign jurisdictions, including application of foreign laws to contract and other disputes and uncertain political and economic environments

The factors listed above are in addition to other factors which are described elsewhere in this MD&A and other reports filed from time to time in our ongoing filings with the Canadian securities regulatory authorities, including those in our Annual Information Form, which filings can be found at [www.sedar.com](http://www.sedar.com). Given these assumptions, risks and uncertainties, readers are cautioned not to place undue reliance on such forward looking statements as future events and actual results could differ materially from those set forth in, contemplated by or underlying the forward-looking statements. Unless otherwise required by applicable securities laws, we undertake no obligation to publicly update or revise any forward looking statements either as a result of new information, future events or otherwise. All subsequent forward-looking statements, whether written or oral, attributable to Axia or persons acting on Axia's behalf, are expressly qualified in their entirety by these cautionary statements.

## BUSINESS OVERVIEW

Axia provides Real Broadband™ Internet Protocol (“IP”) services and solutions through planning, designing and operating no conflict Open Access Next Generation Networks (“OAN NextGens”). We lead by example having created the Alberta SuperNet, which we believe is the world’s best rural/regional IP broadband network. We are now exporting our solution to France, Singapore and other regions around the world.

### **The Challenge: Critical Infrastructure for Knowledge Economies**

Around the globe, governments are recognizing that the availability of broadband is crucial to the long-term strength of their economies. As much as railways and roads became critical infrastructure in the previous century, broadband is widely recognized as the foundation for high-performing economies during this century.

Network Engineers now have access to technology that, when properly deployed, creates the connectivity that enables essentially any end user service requirement. Uncompromised digital connectivity is in demand to enable individuals, teams and organizations to compete in a modern economy whether they are in the private or public sector. The challenge is not in developing the technology, it is applying it through a business approach that creates ubiquitous connectivity and provides a choice of services to end users.

Today, the telecommunications sector is dominated by fully integrated telecommunication companies (“telcos”) and cable companies who were founded on a regulated utility approach focused on voice and television services respectively. This fully integrated approach compromises both performance of the network and choice of services to end users.

Axia created its value proposition by strategically combining modern technology with a business approach that creates the best result for end users. Our approach is based on creating a sustainable value chain of industry players that each excel at delivering their core competency without the conflict of competing with their customers. The result is a transformation to markedly improved performance, lower cost and increased choice to end users.

## **The Solution: Axia's Open Access Next Generation Network Approach**

Axia breaks the legacy telco approach into three new segments; passive, active and web service provider/retail service provider ("**ASP/RSP**"). Axia combines the passive and active segments to create no-compromise digital connectivity that we call Real Broadband™. It is real time, fully bi-directional and uses IP so that it is fully interoperable with any other IP network. On an OAN NextGen, all the services that an end user experiences, be it voice, video or traditional web, can be separated from the transport/connectivity services. Enabling sustained competition and choice in the web services sector is key to end users achieving value from an OAN NextGen. Axia does not participate in the web services sector thereby eliminating the conflict of interest of competing with its customers that is a fundamental flaw of the integrated telco approach.

Our OAN NextGen model delivers transport/connectivity services to residents of rural, regional and metropolitan communities. There are two fundamental components to Axia's OAN NextGen Networks. The Community Interconnect Grid ("**CIG**"), which is comprised of a fibre grid throughout a jurisdiction, interconnects all communities to at least one global gateway for access to web services. The second component is local access connectivity within the community. Our approach provides for the optimal evolution of both wireless and fibre to the premise ("**FTTP**") local access technologies. Our OAN NextGen model is flexible in respect of regulatory and partnering approaches with governments. It creates high performing transport/connectivity services that add value to big or small businesses, residents and governments. Axia ensures that end users benefit by being able to choose web services from suppliers of their choice without being limited by network performance.

Axia has proven that this model will work in the rural/remote sector through the Alberta SuperNet, in medium density regions with our networks in France and in high-density metropolitan cities with the network we are building in Singapore.

This "do not compete with your customer" Next Generation Network approach is fully compatible with the transformation of the Information and Communication Technology ("**ICT**") sector to the new paradigm dominated by the Software as a Service, Cloud Computing and 3G / 4G wireless based data services.

Axia generates revenue from two sources: Broadband and Other Services. Broadband revenue is earned from sales of bandwidth, fibre access sales and complementary related services. Other Services revenue is generated from project work (network design, completion and commissioning services, network change activities) and sales of value-added services.

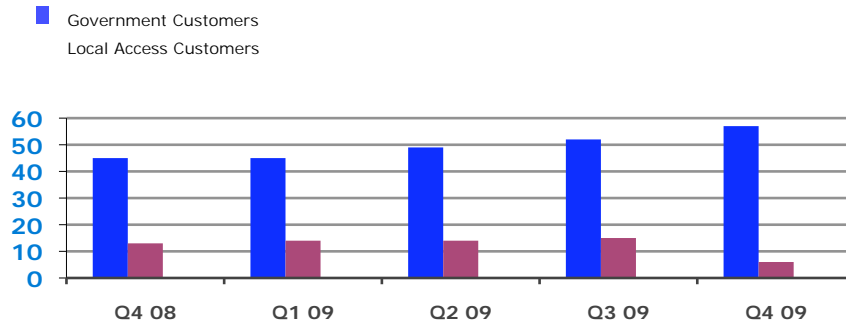
### **Axia's Alberta Business: The Alberta SuperNet**

The Government of Alberta ("**GoA**") had a vision to make global connectivity available to all Albertans whether they lived in rural or urban areas. Thanks to the Axia solution, the Alberta SuperNet was created and has been operational since 2005. The Alberta SuperNet is a state of the art CIG connecting 429 communities in Alberta. Axia sells Real Broadband™ services directly to over 4,400 government, learning, health, library and municipal locations and to local access customers in over 283 communities in rural Alberta. By doing so, Axia fosters a vibrant and competitive environment for local access customers who want to deliver ultra-high-speed services to end users.

In June 2005, Axia was granted a ten year renewable licence from the GoA to operate and provide services on the Alberta SuperNet throughout Alberta. In addition to this licence, Axia entered into a suite of agreements with Bell and the GoA which formed the foundation for the Alberta SuperNet. Axia's Alberta SuperNet business is comprised of Axia owned assets complemented by licensing assets from the GoA, procuring services from Bell and other suppliers and selling services to the GoA and local access customers.

Axia is seeing opportunity for high availability network services as our customers' needs evolve and the replacement or augmentation of their existing services is required. This drives greater consideration of the Alberta SuperNet as a cost competitive and capable network alternative to support the delivery of our customers' significant investments in new and planned network centric business and public safety systems. We are working with the GoA to leverage the Alberta SuperNet to enable the GoA to take advantage of the Software as a Service and Cloud Computing services. This new approach increases ICT-based services and can be delivered for less cost.

Alberta SuperNet Bandwidth (Gbps)



Bandwidth	FY09				FY08
	Q4	Q3	Q2	Q1	Q4
Government Customer Bandwidth	57	52	49	45	45
Local Access Customer Bandwidth	6	15	14	14	13

As of June 30, 2009, we had 73 local access customers in 283 communities with an aggregate total of 733 active connections. Local access customer bandwidth was reduced in the fourth quarter due to an adjustment of Bell's usage related to the take or pay nature of our Alberta SuperNet agreements.

Connections	FY09				FY08
	Q4	Q3	Q2	Q1	Q4
# of Local Access Customers with Active Connections	73	73	72	69	67
# of Active Connections	733	987	916	853	797
# of Communities with Local Access Customers	283	278	269	260	254

Local access customers are an important component of the Alberta SuperNet's future growth and we are working closely with these customers to meet their bandwidth requirements as demand by their end users continues to grow. Their business represents about 10% of the total bandwidth sold by Axia. Despite the challenges in the global economy, we continue to experience steady growth in Alberta. The Alberta SuperNet value proposition of high performance for low cost is aligned with businesses that focus on productivity and cost efficiency. During the last quarter, Axia saw some deferral in the plans of our customers which has led to slower growth in demand for Axia's SuperNet services.

**Axia's France Business: Covage**

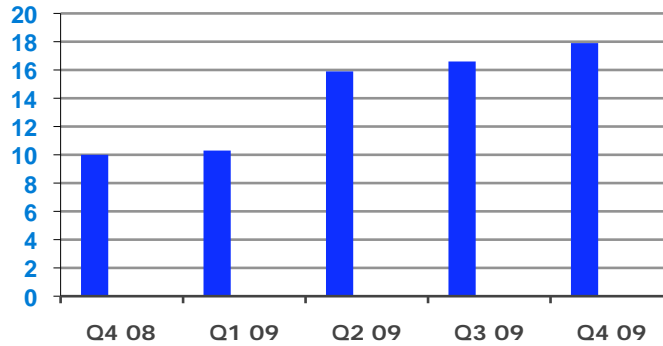
The Government of France believes that ubiquitous broadband Internet access is critical national infrastructure and has implemented a policy framework that supports building open and competitive IP networks. This is the right framework for Axia's solution to succeed. We have been active in France since 2004 and in 2006, we formed Covage, a French company jointly owned by Axia Networks France, a wholly owned subsidiary of Axia, and our French partner, VINCI Networks ("VINCI"), a wholly owned subsidiary of VINCI Construction France.

Covage's national network is comprised of 15 segments. During the fourth quarter, Covage added the A75 segment to its national network, an existing dark fibre corridor along the 340 kilometre highway that runs from Clermont-Ferrand in the centre of France to Béziers into Hérault in the south of France. Covage will light, operate and sell services on this segment pursuant to a ten-year renewable contract. A75 is very strategic for Covage as it will connect its existing regional segments in Clermont and Hérault and its national fibre backbone. Covage is marketing its services and believes there is also a potential market to connect the communities along the A75 highway to its national fibre backbone.

Our business in France is evolving and Covage is creating competition which supports RSPs as they deliver services to business and retail customers. Covage is targeting different types of RSPs: (i) local RSPs offering services on only one segment; (ii) regional and national RSPs offering services on several of Covage's segments; and (iii) large international RSPs who target mid- and large-size customers. In addition, Covage's efforts are focused on contracting specialized web services providers who offer services remotely using fibre based connectivity, such as video security surveillance or enterprise data management.

As at June 30, 2009, Covage had 44 RSPs with 659 broadband connections that consist of 334 bandwidth connections and 325 dark fibre connections. Bandwidth sales have grown to 17.9 Gbps at the end of June 2009 as compared to 16.6 Gbps at the end of March 2009.

Covage Total Bandwidth (Gbps)



In Covage, we measure market penetration by tracking Broadband revenue in the context of Covage's addressable market. We define addressable market as business and government sites that have at least one employee within 500 metres from the existing network. Covage's addressable market is approximately 34,000 sites as at June 30, 2009.

When all of Covage's segments described below are fully operational, we expect that upon adoption by 3% to 5% of the addressable market, our Broadband revenue will cover our operating costs. With adoption by 15% of the addressable market, we would expect to earn approximately a 20% return before tax on our capital investment. We believe that the development, operation and sale of Real Broadband™ and other services on next generation networks in France represents a significant business opportunity for Axia which will unfold over the next several years. At the end of June 30, 2009, we estimate that Covage's market penetration was approximately 2%.

The table below reflects the stages of completion of Covage's segments as at June 30, 2009.

Regional Segments	Stage
A75	Active
3CNET	Active
Arras Networks	Active
Caen.com	Active
Clermont Communauté Networks	Active
Coval Networks	Active
Creusot Montceau Networks	Active
Dunkerque Grand Littoral Networks	Construction (anticipated completion in June 2010)
Garonne Networks	Active
Grand Chalon Networks	Active
Hérault Participation	Early Stage Activation
Moselle Telecom Participation	Active
Sem@for77	Early Stage Activation
Solstice Grand Angoulême Networks	Early Stage Activation
National Fibre Backbone Infrastructure	Construction (anticipated completion by end of calendar 2009)

Covage is on schedule to complete its national fibre backbone by the end of calendar year 2009. The national fibre backbone is comprised of 3,100 kilometres of existing dark fibre infrastructure to create a ringed network from

Paris to Montpellier in the south of France with an available bandwidth of 400 Gbps (expandable to 800 Gbps). This national fibre backbone has improved Covage's service offering to its current and prospective customers by enabling customers to connect directly to Paris, the global gateway for France, and enhance Covage's competitive position with respect to new prospective segments. Covage will also be able to offer guaranteed levels of service differentiating itself in the marketplace and attract and retain RSPs. From an operational perspective, Covage will have quality and cost control of its backhaul to Paris. Covage believes that the national fibre backbone creates an attractive value proposition for national operators and large corporate and government customers. Covage is actively seeking out new customers for the backbone and has successfully connected its existing customers.

Covage is focused on leveraging its national infrastructure in partnership with key RSPs in order to accelerate its market penetration. Covage is developing a new offer targeting 200 specific business parks with close to 5,000 businesses for which the connection costs would be minimized through the deployment of fibre in existing infrastructure. This strategy is supported by a government initiative to encourage migration of business parks from DSL to fibre.

The French government has announced an initiative to create a consortium of operators to deploy FTTP in medium density areas and Covage is interested in participating in this initiative. As of today, Covage has two outstanding bids for regional segments and decisions are expected by the end of calendar 2009. During the fourth quarter, Covage withdrew from one bid process with the view that the opportunity was not attractive. Covage continues to review all potential opportunities in light of current market conditions and the degree to which the opportunity complements Covage's existing assets. Covage's network deployment, initial market adoption and construction schedules remain on track in France.

### **Axia's Singapore Business: OpenNet**

On September 26, 2008, Axia announced that OpenNet had been selected by the Infocomm Development Authority of Singapore ("IDA") to provide passive fibre services to every premise in Singapore. Axia was the OpenNet Consortium lead through the procurement and contract award process and owns a 30 percent interest of OpenNet through our wholly owned Singapore subsidiary, Axia NGNetworks Asia. The other owners and respective interests are: Singapore Telecommunications Limited - 30 percent, Singapore Press Holdings - 25 percent and SP Telecommunications Pte Ltd - 15 percent. As a result of IDA's open access regulations, parties were limited to 30 percent ownership.

The Singapore solution is the first comprehensive metropolitan FTTP deployment and will demonstrate that compelling prices, performance and choice can be achieved using the Axia's "do not compete with your customer" approach. Now, Axia has proven that its approach to implementing these new next generation networks meets visionary public interest requirements and provides compelling value and performance in a modern metropolitan city. Singapore has set a new standard for infrastructure in the knowledge economy.

In May 2009, OpenNet completed the necessary steps in order to proceed with the construction of its passive fibre grid. This includes OpenNet being granted its Facilities-Based Operator Licence from the IDA to provide passive fibre-based services for an initial standard term of 25 years. Construction to 60 percent of premises in Singapore is expected to be complete in 2010 and to 95 percent of premises in 2012. OpenNet is expected to begin offering commercial services, as the grid is rolled out, with the first services being available by the first half of 2010. During the summer of 2009, OpenNet began its nationwide fibre deployment which is on schedule.

OpenNet will own the only FTTP grid that provides passive fibre-based services to essentially every residential and commercial premise in Singapore. OpenNet's business is providing these passive services on an open access level playing field basis to all telecom parties licensed to do so by the IDA. OpenNet's price structure is designed to be attractive for adoption and to promote end-users choice of services.

During fiscal 2009 and 2010, the activities of OpenNet will be focused on the construction of the passive fibre grid. The majority of the costs being incurred by OpenNet to build and commission the fibre grid will be capitalized during this construction and commissioning phase. Axia believes that OpenNet's network will become the network of choice for fixed wired line connectivity by 2015. Axia's equity share of earnings depends on market penetration. As the market matures, Axia forecasts its ownership share of pre-tax earnings to be in the range of SGD\$6.0 million to SGD\$14.0 million per annum.

Our intention is to pursue other Asia-based Next Generation Network opportunities as a result of Axia's unique market positioning which includes Axia's leadership in respect of OpenNet in Singapore.

### **Newfoundland and Labrador Negotiations**

On August 7, 2009, we announced the Government of Newfoundland and Labrador Government had selected Axia's proposal in response to the Government's 2008 Request for Proposal ("RFP") to build and manage distinct aspects of its Government Broadband Initiative ("GBI"). Contract negotiations have begun and will continue over the next few months. Construction is anticipated to begin in April 2010.



When completed, the GBI will connect more than 1,000 government facilities that include healthcare institutions, libraries, schools, and other offices in communities spanning all regions of the province. It will also enhance the ability of retail service providers to offer similar services to local residential and business customers in Newfoundland and Labrador.

Axia is pleased to have been selected by the Government of Newfoundland and Labrador to deliver on the GBI. As the Corporation moves through the negotiation process, Axia's unique OAN NextGen solution will demonstrate our ability to add value to the Government of Newfoundland and Labrador and meet its policy objectives.

#### **Axia's Global Business Development**

As a result of our success in Alberta, France and Singapore, we are pursuing potential next generation network opportunities in jurisdictions around the world. Axia continues to evaluate potential opportunities in Asia, Australia, New Zealand and the United States. Responding to these requests can be labour intensive, complex, expensive and very time consuming. In most cases, we enter into competitive bid processes and the likelihood of success cannot be determined until a contract has been awarded. Depending on its complexity and the size of the jurisdiction, the total cost of preparing a response to a specific RFP can exceed \$1.0 million and often take more than a year. The procurement process is generally much more vigorous where large amounts of public funding are accessible. Axia believes that the risk/reward profile of the opportunities that we pursue is attractive to our shareholders.

## SUMMARY OF CONSOLIDATED FINANCIAL RESULTS

### ANNUAL RESULTS

(\$000s except per share amounts)	2009	2008	2007
Revenue	69,847	63,805	50,916
Gross profit	28,273	28,955	24,131
Net income before tax	9,213	11,598	13,648
Net income	5,986	8,101	15,989
Net income per share – non-diluted	0.09	0.13	0.27
Net income per share – diluted	0.09	0.13	0.26

Operating results for the fiscal year are lower than the prior year due to the following major items: i) the non-recurring costs incurred for the financing of the Singapore IntelliNet proposal, which was not successful, amounting to \$0.8 million; ii) increased expense in the European segment reflecting the growth in the France business, including direct costs associated with newly activated networks, development of sales and marketing channels in advance of the associated Broadband revenues and increased depreciation and amortization expenses as networks are activated; iii) losses of \$0.3 million from our equity investment in Singapore related to our portion of the start-up costs for OpenNet, and iv) an increased tax rate to 38% of income before income tax as compared to 30% for the prior year. These items are further described herein.

### QUARTERLY RESULTS

(\$000s except per share amounts)	2009				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	17,277	17,846	18,893	15,831	16,216	16,003	17,130	14,456
Gross profit	6,504	6,380	7,988	7,401	6,927	6,479	8,309	7,240
Net income before tax	1,141	1,044	3,547	3,481	1,892	2,548	3,351	3,807
Net income	412	660	2,450	2,464	1,477	3,063	1,088	2,473
Net income per share – basic	0.01	0.01	0.04	0.04	0.02	0.05	0.02	0.04
Net income per share – diluted	0.01	0.01	0.04	0.04	0.02	0.05	0.02	0.04

We report our operating activities in four business segments: North America, Europe, Asia and Corporate. The North American segment is driven by the Alberta SuperNet and its operational results. The European segment is driven by the Covage business in France. The Asia segment comprises Axia's investment in Singapore's OpenNet for which we began reporting the financial results in the second quarter of fiscal 2009 and includes other business development initiatives in Asia. The Corporate segment includes expenses incurred for the overall management of Axia, its subsidiaries and investments, including Axia's operation as a public company. Expenses allocated to the Corporate segment include administrative, legal, accounting, investor relations and new business development expenses that are not specific to a business unit.

## RESULTS OF OPERATIONS

### Revenue

Revenue (\$000)	Years ended June 30		Change		Three Months ended		Change	
	2009	2008	\$	%	June 30, 2009	March 31, 2009	\$	%
<b>Broadband</b>								
North America	45,168	43,283	1,885	4	11,563	11,209	354	3
Europe	8,298	2,836	5,462	193	2,748	2,129	619	29
<b>Total</b>	<b>53,466</b>	<b>46,119</b>	<b>7,347</b>	<b>16</b>	<b>14,311</b>	<b>13,338</b>	<b>973</b>	<b>7</b>
<b>Other Services</b>								
North America	9,863	8,757	1,106	13	2,214	3,197	(983)	(31)
Europe	6,518	8,929	(2,411)	(27)	752	1,311	(559)	(43)
<b>Total</b>	<b>16,381</b>	<b>17,686</b>	<b>(1,305)</b>	<b>(7)</b>	<b>2,966</b>	<b>4,508</b>	<b>(1,542)</b>	<b>(34)</b>
<b>Total</b>								
North America	55,031	52,040	2,991	6	13,777	14,406	(629)	(4)
Europe	14,816	11,765	3,051	26	3,500	3,440	60	2
<b>Total</b>	<b>69,847</b>	<b>63,805</b>	<b>6,042</b>	<b>9</b>	<b>17,277</b>	<b>17,846</b>	<b>(569)</b>	<b>(3)</b>

Our revenue is categorized as either Broadband or Other Services. Broadband revenue includes sales from bandwidth, fibre access and other directly related services. Other Services include revenue from project work (network design, completion, commissioning, and network change activities) and value-added services. Revenue from project work will, by its character, fluctuate quarter to quarter.

Consolidated revenue for the quarter was \$17.3 million, a decrease of \$0.6 million (3%) from \$17.8 million for the prior quarter. The decrease in consolidated revenues was attributable to lower Other Services revenues which can fluctuate significantly quarter by quarter. Revenue for fiscal 2009 was \$69.8 million, a decrease of \$6.0 million (9%) from the \$63.8 million reported for fiscal 2008.

#### North America

Total revenue from our North American segment was \$13.8 million for the quarter, a decrease of \$0.6 million (4%) from \$14.4 million for the prior quarter. Revenue for fiscal 2009 was \$55.0 million, an increase of \$3.0 million (6%) over last year.

Broadband revenue was \$11.6 million for the quarter, an increase of \$0.4 million (3%) from \$11.2 million for the previous quarter. This increase in the current quarter relates to a minor one-time revenue adjustment related to the take or pay nature of our Alberta SuperNet agreements. Revenue for fiscal 2009 was \$45.2 million, an increase of \$1.9 million (4%) from \$43.3 million for fiscal 2008. The increase in Broadband revenue is primarily due to an annual CPI adjustment that is applied on July 1 of each year pursuant to our Alberta SuperNet agreements. For the next fiscal year, the CPI index is down 0.7% and this will decrease the minimum revenue we earn on Alberta SuperNet for fiscal 2010.

Other Services revenue was \$2.2 million for the quarter as compared to \$3.2 million for the previous quarter. Other Services revenue was down \$1.0 million versus the third quarter due to lower connecting services activity. For fiscal 2009, Other Services revenue was \$9.9 million, an increase of \$1.1 million (13%) from \$8.8 million last year. This increase is attributable to increased connection services projects which include the design, construction, installation and activation of new customers and connections on the Alberta SuperNet. In addition to generating Other Services revenue, connection services projects result in additional ongoing Broadband revenue as a result of the increased number of active connections and communities served.

#### Europe

Revenue from our European segment was \$3.5 million for the quarter, an increase of \$0.1 million (2%) from \$3.4 million for the previous quarter. Revenue for fiscal 2009 was \$14.8 million, an increase of \$3.1 million (26%) from \$11.8 million for fiscal 2008.

Broadband revenue was \$2.7 million for the quarter, an increase of \$0.6 million (29%) from \$2.1 million for the previous quarter. Broadband revenue increased \$5.5 million (193%) during fiscal 2009 to \$8.3 million from \$2.8 million last year. This increase is a result of increased broadband usage as new segments became active and there was increased traffic and commercial operations in all segments. Our growth in Broadband revenues in France is exemplified by a 3 million Euro 15 year dark fibre contract for a large bank customer on the Sem@for77 network that was entered into before year end.

Other Services revenue was \$0.8 million for the fourth quarter, a decrease of \$0.5 million (38%) compared to \$1.3 million for the previous quarter. For fiscal 2009, Other Services Revenue was \$6.5 million, a decrease of \$2.4 million (27%) from \$8.9 million last year. The decrease in Other Services revenues is a result of a lower level of construction activity during the past year as the majority of networks are built and are beginning commercial operations.

Other Services revenue for the European segment can be expected to fluctuate materially on a quarter by quarter basis depending on the level of construction and activation activity being undertaken during any quarter.

### Gross Profit

Gross Profit (\$000)	Years ended June 30		Change		Three Months ended		Change	
	2009	2008	\$	%	June 30, 2009	March 31, 2009	\$	%
North America	26,635	24,025	2,610	11	6,006	7,230	(1,224)	(17)
Europe	1,638	4,930	(3,292)	(67)	498	(850)	1,348	(159)
<b>Total</b>	<b>28,273</b>	<b>28,955</b>	<b>(682)</b>	<b>(2)</b>	<b>6,504</b>	<b>6,380</b>	<b>124</b>	<b>2</b>

Consolidated gross profit for the quarter was \$6.5 million or 38% of revenue which is an increase of \$0.1 million (2%) as compared to \$6.4 million or 36% of revenue for the prior quarter. As compared to fiscal 2008, gross profit decreased by \$0.7 million (2%) from \$29.0 million to \$28.3 million.

### North America

Gross profit for the quarter from our North American segment was \$6.0 million or 44% of revenue, a decrease of \$1.2 million (17%) from \$7.2 million or 50% of revenue for the prior quarter. As previously noted, a decrease in Other Services revenue for the current quarter produced lower gross profits as compared to the third quarter. For fiscal 2009, gross profit was \$26.6 million or 48% of revenue, an increase of \$2.6 million (11%) as compared to last year. The Gross profit percentage remains relatively consistent in our North American segment, which is in line with our expectations.

### Europe

Gross profit from our European segment this quarter was \$0.5 million, compared to \$(0.9) million for the prior quarter. During the prior quarter the initial costs associated with the activation of the Sem@for77 segment contributed to lower margins. For fiscal 2009, gross profit decreased \$3.3 million (67%) to \$1.6 million or 14% of revenue from \$4.9 million or 42% of revenue last year. Other Services revenue and associated gross profit for the European segment can be expected to fluctuate materially on a quarter by quarter basis.

### Expenses

Expenses (\$000)	Years ended June 30		Change		Three Months ended		Change	
	2009	2008	\$	%	June 30, 2009	March 31, 2009	\$	%
Marketing	1,303	952	351	37	375	333	42	13
Administration	5,369	3,918	1,451	37	1,948	1,214	734	60
Business development	7,131	8,368	(1,237)	(15)	1,030	2,108	(1,078)	(51)
Stock-based compensation	865	2,299	(1,434)	(62)	256	235	21	9
Net interest and financing charges (income)	(1,467)	(2,508)	1,041	(42)	(60)	(386)	326	(84)
Depreciation and amortization	5,908	4,661	1,247	27	1,809	1,751	58	3
<b>Total</b>	<b>19,109</b>	<b>17,690</b>	<b>1,419</b>	<b>8</b>	<b>5,358</b>	<b>5,255</b>	<b>103</b>	<b>2</b>

During the quarter, total expenses were \$5.4 million, an increase of \$0.1 million (2%) from \$5.3 million in the prior quarter. Total expenses for fiscal 2009 increased 8% to \$19.1 million from \$17.7 million in the prior year. Marketing, administration and business development expenses totalled \$13.8 million for 2009 which is a \$0.6 million increase from fiscal 2008, but declined as a percentage of revenue over this period from 20.7 percent to 19.5 percent.

### Administration

Administration expense for the current quarter was \$1.9 million as compared to \$1.2 million for the prior quarter. Administration expense for fiscal 2009 was \$5.4 million as compared to \$3.9 million for last year. The increase in administration expense in fiscal 2009 is a result of additional personnel costs and professional service fees for

operating, accounting, tax and legal services incurred due to increases in operating activities and our expanding international operations. During the year, administration expense in the Europe segment rose by \$0.5 million (67%) to \$1.3 million. This increase in France reflects the shift in focus from business development to building, operating and selling services. Although administrative expenses can be expected to increase over time, commensurate with the overall growth of the Corporation, we intend to maintain tight cost control in this area and remain sensitive to increased staffing requirements.

### Business Development

Axia invested \$7.1 million in business development during the year, a decrease of \$1.2 million (15%) from the prior year which totalled \$8.4 million. The decrease in business development this year occurred primarily in the European segment where the current economic conditions have slowed the release of new bids and efforts are shifting to the expansion of FTTP initiatives within their existing OAN NextGen portfolio. Business development expense for the quarter decreased \$1.0 million (51%) over the prior quarter. This quarter, the formal bid process in Australia was cancelled and our bid for the operating contract in Singapore was not successful and accordingly expenses in those regions also decreased. Third quarter business development expense for the Asia segment also include the non-recurring costs related to the bought financing deal associated with our IntelliNet consortium bid to be Singapore's NGNBN OpCo which totalled \$0.8 million.

Based on our experience, when a jurisdiction decides to undertake a large network initiative, it involves a long and complex bid cycle including initial industry consultation followed by a public RFP process which requires substantial effort from network engineering, financial analysis, project management, legal and support perspectives. Small and medium size initiatives also involve a significant effort by the bid team but are more limited in scope and timeline.

Axia invests significant effort and resources in the pursuit of new OAN NextGen opportunities. During the last fiscal year, we were pursuing initiatives in North America, Europe, Asia, Australia and other smaller jurisdictions. The types of expenditures incurred during this process involve personnel, travel and third party costs such as professional legal and accounting fees, the use of consultants and bid financing costs. The following table outlines the major cost categories for the initiatives that were pursued during the fourth quarter of 2009.

	North America	Europe	Asia	Corporate		Total
				Australia	Other	
<b>Personnel</b>	1	156	48	122	50	377
<b>Travel</b>	12	45	75	90	62	284
<b>Legal &amp; accounting</b>	0	64	75	16	0	155
<b>Consultants</b>	55	5	13	43	93	209
<b>Other</b>	0	4	1	0	0	5
<b>Total</b>	68	274	212	271	205	1,030

### Stock-Based Compensation

Stock-based compensation expense for the current year was \$0.9 million as compared to \$2.3 million for last year. The decrease in stock-based compensation expense compared to the prior year relates to a large non-recurring expense of \$1.7 million reported in fiscal 2008 for stock options granted to the Chief Executive Officer.

### Net Interest and Financing Charges (Income)

Net interest income and financing charges for the quarter decreased by \$0.3 million (84%) compared to the prior quarter. The interest income we earn on our investment balances decreased every quarter this fiscal year as funds were invested in broadband network infrastructure in both the Europe and Asia segments. Additionally, we net fees we paid on letters of credit and guarantees we issue to support global business development activities against our interest income earned. Therefore, the net amount earned can fluctuate quarter by quarter depending on how many opportunities we are pursuing which require us to post a letter of credit or guarantee. Compared to fiscal 2008, net interest income and financing charges has decreased \$1.0 million (42%) to \$1.5 million, reflecting the reduced balances in interest bearing short term investments and a reduced return on these investments. Our investment capital is deposited in government bonds and low risk money market funds.

### Depreciation and Amortization

Depreciation and amortization expense for the current year was \$5.9 million as compared to \$4.7 million for last year. This increase is attributable to a higher level of network assets that are currently activated in our European segment. Depreciation and amortization expense was \$1.8 million for the fourth quarter as compared to \$1.4 for the same quarter in the prior year and is indicative of the increased number of networks which are activated.

## Income Taxes

For the current quarter the provision for income tax expense was \$0.7 million (64% of net income before tax), compared to \$0.4 million (37% of net income before tax) from the prior quarter. For the current fiscal year, income tax expense was \$3.5 million (38% of net income before tax), compared to \$3.5 million (30% of net income before tax) from the prior year. Our current income tax expense frequently appears higher as a percentage of net income before tax than normally would be anticipated. The primary driver of this increased current income tax rate is because profits we earn constructing OAN NextGens in France are subject to current income tax, but for accounting purposes these profits are reported as a reduction of the related costs of these networks. For example, during the current year, our income (loss) before tax for the Europe segment was \$(3.5) million but resulted in a current income tax provision of \$1.7 million. This current income tax provision was booked based on the profits we earned from constructing OAN NextGens, which negatively impact our segment net income for the year. We anticipate that as network construction activities in France wind-down, our current income tax provision will decrease as a percentage of segmented net income before tax.

## Net Income

Income before income tax for the current quarter was \$1.1 million (\$0.02 per fully diluted share) as compared to \$1.0 million (\$0.02 per fully diluted share) for the prior quarter. As compared to fiscal 2008, income before income tax for fiscal 2009 of \$9.2 million (\$0.14 per fully diluted share) decreased from \$11.6 million (\$0.18 per fully diluted share).

Net income for the current quarter was \$0.4 million (\$0.01 per fully diluted share), and \$6.0 million for fiscal 2009 (\$0.09 per fully diluted share), a decrease of \$0.3 million from \$0.7 million (\$0.01 per fully diluted share) from the previous quarter and a decrease of \$2.1 million from \$8.1 million (\$0.13 per fully diluted share) from fiscal 2008.

## LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2009, our working capital was \$11.6 million as compared to \$22.1 million for the prior quarter. Compared to June 30, 2008, working capital has decreased \$11.3 million (49%) from \$22.9 million. The Corporation continues to deploy both its available cash and the cash it generates from operating activities, in network construction in France and in funding the capital required by OpenNet in Singapore. As at June 30, 2009, Axia had \$24.3 million in cash and unrestricted short-term investments.

The following table shows Axia's future operating and capital lease obligation payments. These payments are for office premise leases and for a capital lease relating to technology assets on the Alberta SuperNet. The capital lease was entered into in 2005 and is repayable over a five-year period with an interest rate of approximately 7%.

<b>Contractual Obligations</b>	<b>Payments due by Period (in \$000s)</b>				
	<b>Total</b>	<b>&lt; 1 year</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>&gt; 5 years</b>
Lease Obligations	9,052	1,746	3,850	2,304	1,152

We regularly review our level of capital resources and future capital commitments and adjust our capital spending plans accordingly. This review includes an analysis of discretionary capital requirements and potential sources of additional capital. The evaluation takes into account factors such as the current economic environment, the state of equity markets, the ability to complete equity financings on favourable terms, the availability and prudence of debt and lease financing and the availability of bonding and guarantee facilities. Based on our current cash forecast, we anticipate that we can meet all of the capital expenditure commitments we have at June 30, 2009 through both our existing cash resources and the continued ability of the Corporation to generate incremental cash funds in the future.

In the current economic climate, Axia does not reasonably foresee any material impairment issues with the values of its cash resources and accounts receivable at June 30, 2009. The majority of our receivables are with large government or corporate customers and historically we have had very few collection issues and do not reasonably foresee any material collection issues going forward.

## COMMITMENTS AND CONTINGENCIES

As at June 30, 2009, our main capital commitments consist of funds required to expand our operations in France and Singapore.

In accordance with our contractual commitments, as at June 30, 2009, we estimate that our share of the remaining net capital commitments for the construction of OAN NextGens in France totals up to \$17.0 million (€10.4 million) and that these funds will be advanced during fiscal 2010 and 2011 as construction of the networks progresses. This revised net capital commitment includes funds which will be required for our acquisition of an additional equity interest in the Solstice Grand Angoulême Network.

Currently, all of our business transactions in our European segment are conducted through Covage, our joint venture company held equally between Axia and VINCI. Both Axia and VINCI charge Covage for their respective services rendered to Covage. Axia does not have any interests or management influence in VINCI and *vice versa*. Accordingly, VINCI is not considered a "related party" under Canadian GAAP by virtue of the joint venture arrangement. All of the transactions between VINCI, Covage and Axia are conducted at fair market value.

Our remaining capital commitment to OpenNet in Singapore is up to \$26.5 million (SGD\$33.0 million) and we expect the remainder will be contributed over the construction and commissioning period of the fibre network. We anticipate that the fibre network will be completed by mid 2012.

During the course of business, we enter into a number of commitments related to our operations and development of OAN NextGens. In general, these commitments relate to our ability to design and construct networks to certain standards and maintain minimum service levels on these networks. Under the terms of the licence and related agreements to operate the Alberta SuperNet, we are committed to certain operating expenditures and also to provide certain standards of customer service and performance. To provide these standards of service and performance, we are required to maintain and, where appropriate, replace certain assets owned by others.

We have issued to third parties a bank guarantee of \$1.5 million and a letter of credit for \$5.8 million (\$7.2 million), both of which were outstanding pursuant to the terms of significant operating contracts and may be drawn by the holder in the event of a major default in the contracts. The amount and timing of any expected draws are not determinable. We have also issued a \$4.0 million (SGD\$5.0 million) letter of credit to support our IntelliNet proposal in Singapore. When a bank guarantee or letter of credit is issued it must be secured by either short-term investments or guaranteed by a third party. Axia's performance under the \$4.0 million (SGD\$5.0 million) letter of credit is guaranteed by a third party. The remaining letters of credit are secured by short term investments, which are classified as restricted on the balance sheet.

## SHARE CAPITAL

As at September 21, 2009, Axia had 63,757,734 million common shares outstanding. Pursuant to Axia's Stock Option Plan (the "**Plan**"), 4,940,000 common shares have been reserved for issuance pursuant to stock options granted under the Plan. Since March 31, 2009, Axia granted 30,000 common share stock options at an exercise price of \$1.78, 56,667 common share stock options at an exercise price of \$1.60, 300,000 common share stock options at an exercise price of \$1.48 and 1,235,000 common share stock options at an exercise price of \$1.53.

The table below depicts Axia's Share Capital as at June 30, 2009.

<u>Share Capital (in 000s)</u>	<u>June 30, 2009</u>
<b>Share Class</b>	
Common Shares issued and outstanding	<u>63,632,734</u>
<b>Securities Convertible into Common Shares</b>	
Stock Options	<u>3,830,000</u>

## Business Segment Accounting

### France

Axia's financial results for the European segment in any given period may not be meaningfully indicative of results for subsequent periods as each network is at a different stage of acquisition, construction, commissioning and early activation of services. We are starting to see results based on market penetration and we should start to see meaningful indications of successful market adoption in the next fiscal year. The way we report financial results in France depends on Covage's ownership position and degree of control in a particular private network company. When Covage has a controlling interest in the network, we report these activities using the consolidation method of accounting. When Covage has joint control of a private network company, we use the proportionate consolidation method to report our share of the operating and financial results. For private network companies where we do not have a controlling interest or joint control but have significant influence over its business and operations, we utilize the equity method of accounting. For minor share equity interests, we employ the cost method of accounting.

### Singapore

As is typical in the development of large OAN NextGen initiatives, the early construction and commissioning years involve start-up losses and then become profitable as they gain increasing market share. Axia believes that its investment in OpenNet will result in sustainable cash flows and profits that will be attractive to shareholders. Axia's financial results for the Asia Segment this fiscal year consist largely of business development and related expenses related to the two RFPs in Singapore to which Axia responded in this fiscal year. Also, this segment recognizes Axia's share of OpenNet's financial results, an OAN NextGen for which we do not have a controlling

interest or joint control but have significant influence over its business and operations. Accordingly, we employ the equity method of accounting in recognizing OpenNet's operating results.

### **NEW CICA REPORTING REQUIREMENTS**

On July 1, 2009, the Corporation adopted the new CICA accounting standard, Section 3064, "Goodwill and Intangible Assets". This section establishes criteria for the recognition, measurement, presentation, and disclosure of goodwill and intangible assets. We do not anticipate that the adoption of this standard will have a material impact on our asset balances.

### **International Financial Reporting Standards**

The Canadian Accounting Standards Board recently ratified a strategic plan that will see Canadian GAAP converged with, and replaced by, International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. Accordingly, effective July 1, 2011, we will report our financial results in accordance with IFRS. We are in the process of assessing the impact of this convergence on our current financial reporting practices. The Corporation has put in place a plan for the implementation of these new standards. The Corporation does not expect the current global economic crisis to negatively impact its efforts and initiatives in implementing these new standards. We do not foresee that implementing these standards will have a significant impact on our current staffing requirements and we will be able to dedicate the resources required for this initiative. We have an IFRS adoption plan pursuant to which we have completed an initial gap analysis to determine where there are significant differences between IFRS and GAAP. We will start to quantify these differences and assess their impact on our systems and processes over the next fiscal year. In addition, our finance team has completed initial IFRS training and further training will continue over the next fiscal year.

### **ACCOUNTING POLICIES**

The audited consolidated financial statements and related notes as at June 30, 2009, have been prepared by management in accordance with Canadian GAAP for annual financial information and using the same accounting policies and methods of computation as the audited consolidated financial statements for the fiscal year ended June 30, 2008.

In applying these policies and methods, management is required to make judgments, assumptions and estimates that have a significant impact on our financial results. Areas which involve a significant amount of judgment and employ many estimates and assumptions include the determination of the carrying value of assets such as goodwill, the useful life and applicable depreciation and amortization policies for property and equipment and intangible assets, accounting for acquisitions, the recognition of future income tax assets, the presentation of our accounting results from foreign operations and the assessment of potential commitments and contingencies. Actual results could differ materially from these estimates and assumptions as additional information becomes available in the future. Significant accounting policies are detailed in our audited consolidated financial statements for the year ended June 30, 2009, some of which are detailed as follows:

1. **Consolidation:** Our consolidated financial statements include the accounts of Axia NetMedia Corporation and our wholly owned subsidiaries. Our interests in jointly controlled companies are accounted for as joint ventures using the proportionate consolidation method of accounting whereby our pro rata share of assets, liabilities, revenues and expenses of the jointly controlled entities are included in the consolidated financial statements. Our interest in companies where it has significant influence are accounted for under the equity method of accounting, whereby the Corporation's pro rata share of the investee's income is included in the consolidated financial statements.
2. **Revenue recognition:** Revenue from broadband network operations is recognized as the services are provided. Revenue from fixed price and long-term construction contracts is recorded on a percentage of completion basis. Estimated earnings from these contracts are accrued based upon the costs incurred to date as a percentage of total estimated costs to complete the project. Projected losses are provided in full as soon as they become apparent. Revisions in estimated costs and earnings during the course of work are reflected during the accounting period in which the data that determines such revisions becomes known. Revenue generated from long-term contracts is recognized over the term of the contract. Revenue includes both fees and recoverable expenses.
3. **Intangible assets:** Intangible assets are determined based on the purchase price of an acquisition and the value of the related net assets acquired. The identification of intangible assets and the valuation thereof is a specialized and highly judgmental area where the use of business valuation specialists is employed. The Corporation's consolidated financial statements have been prepared based on an allocation of the purchase price of an acquisition between tangible and intangible assets and conservative amortization periods. Intangible assets are amortized over the term of the related broadband network contract, which expire from fiscal years 2012 to 2029.



4. Investments: Investments in companies which are not proportionately consolidated and where we retain a minor ownership position and do not exert significant influence thereon are recorded using the cost basis of accounting. Where we exert significant influence on the operations of the investee company, the equity basis of accounting is utilized. All investments are written down from book value when there is clear evidence that a decline in the value of the investment that is other than temporary has occurred.
5. Income taxes: We use the liability method of accounting for income taxes, whereby future income tax liabilities and future income tax assets are recorded based on temporary differences being the difference between the carrying amount of an asset and liability in the consolidated balance sheet and its underlying tax basis.

## TRENDS, EVENTS, RISKS AND UNCERTAINTIES

We operate in competitive and evolving markets locally, nationally and globally. These markets are subject to rapid technological change and changes in customer preferences and demand. The telecommunications, technology and managed services sectors involve business and regulatory risks that could significantly impact the operating results, financial condition and future development plans of Axia. Markets for our products and services are often unproven and undeveloped, highly competitive, and subject to rapid technological change. Axia faces price competition, the challenge of developing new markets and creating market awareness for many of these products and services.

We compete for a substantial portion of our business on a competitive bid basis. There is no certainty that we will be successful in obtaining future contracts or that they will ultimately prove to be profitable. In addition, there is no certainty that the new products and services being developed by us will meet long-term customer acceptance. The life cycle of our products and services can be short and subject to rapid technological change.

A significant portion of our business activities are related to the Alberta SuperNet under contracts with the Government of Alberta and Bell Canada and contracts for the development of OAN NextGens in France. Our current and future business operations would be adversely affected in the event of a dispute or a failure to perform any of these contracts by any party or in the event these contracts are not renewed upon their expiry.

A large number of Axia's current and future business development opportunities are in geographical areas outside of Canada. There are a number of risks inherent in international business activities, including government policies concerning the import and export of goods and services, costs of localizing products and subcontractors in foreign countries, costs associated with the use of foreign agents, potentially adverse tax consequences, limits on repatriation of earnings, the burdens of complying with a wide variety of foreign laws, nationalization and possibly social, labour, political and economic instability. There can be no assurance that such risks will not adversely affect Axia's business, financial condition and results of operations.

Our success is largely dependent upon the quality of our management, sales, marketing and technical personnel and other employees, as well as third party relationships. There is no assurance that we will be able to retain existing personnel and third party relationships or attract new ones as required.

We counter these and other business risks with our ability to attract and retain professional and well-trained employees. We continue to attract, retain and motivate personnel by creating a dynamic working environment, emphasizing career and professional development and by rewarding employees with a comprehensive remuneration package that may include stock options, benefits, performance-based variable compensation and the ability to purchase common shares through the Axia Employee Share Purchase Plan.

## OUTLOOK

Axia's business is based on next generation digital networks that are increasingly seen as critical infrastructure to enable end users to improve their productivity and efficiency. Most of the digital based technology being developed depends on next generation network connectivity. These characteristics are becoming better understood by progressive governments and as a result, next generation network investments are being considered in some jurisdictions as economic stimulus initiatives.

Since our last quarterly report, large cap issuers in the ICT sector have typically experienced marked improvement in their share values while share values of small cap ICT issuers, in particular those listed in Canada, have only increased marginally. In spite of Axia's sound fundamentals and performance, Axia shares are being valued in the market in the range of \$1.30 to \$1.50. Axia's Management and Board of Directors (the "**Board**") are evaluating the trends in the capital markets as they relate to Axia to ensure that decisions made are aligned with providing Axia's shareholders with the best prospects to receive value for their investment.

Although the current economic climate appears to be stabilizing, it remains volatile and the global capital markets are unstable. We continue to review the level and timing of any future capital commitments for new OAN NextGen opportunities and our ability to raise funds on favourable terms prior to committing to any new contracts.

However, as a consequence of the instability in the capital markets, and the low price of our common stock at this time, we may decide not to pursue certain OAN NextGen opportunities.

We will continue to invest business development funds to investigate and assess the best available global opportunities. Axia's management and Board assesses the attractiveness of each new opportunity, including the value of momentum and market position, and considers the need for any additional capital required and the cost of such capital from available sources. The Corporation intends to maintain its strong balance sheet approach. Management and the Board will consider all these factors as it seeks the path that it believes will maximize longer-term shareholder value.

## **DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

The Chief Executive Officer and the Chief Financial Officer are responsible for designing disclosure controls and internal controls over financial reporting, as such terms are defined in National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings, or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The Chief Executive Officer and the Chief Financial Officer have concluded that our disclosure controls and procedures are not effective due to the material weakness in internal controls over financial reporting as noted below, which weakness has the potential to result in material misstatements in the Corporation's financial statements due to the complexity of such issues.

**Complex International Accounting Issues:** We operate in an evolving environment with respect to regulatory reporting requirements, changes to Canadian GAAP and financial reporting requirements. Our growing international initiatives also represent a specific area of additional accounting and financial reporting complexity. Due to the small scale in-house accounting, finance and legal expertise, management has concluded that, as at June 30, 2009, the Corporation did not have adequate levels of expertise with respect to complex international accounting and reporting issues. During the previous quarter, we added an additional accounting resource to our team in France and will also be adding to the reporting resources of the Corporate segment. To further mitigate this weakness, we continue to use the services of outside professionals for accounting, taxation and legal matters on an international basis.

There have been continual improvements but no material changes in the design of our disclosure control systems and internal controls over financial reporting during the current year. However, we regularly review our controls and procedures by engaging independent consultants to review and test the controls and procedures, identify weaknesses and suggest improvements.

It should be noted that a control system, no matter how well conceived or operated, can provide only reasonable and not absolute assurance that the objectives of the control system are met.

## GLOSSARY

### 3G and 4G Networks

3G and 4G refer to the third and fourth generation of mobile phone networks. Both allow for significantly greater upload and download data speeds, allowing mobile phone providers to offer web services to their customers in addition to regular mobile phone service.

### Active Network Segment

Includes the electronics, bandwidth and transport services, such as throughput guarantees or monitoring services that improve or enhance the quality of a network connection. Axia's no conflict Open Access Next Generation Network ("OAN NextGen") model combines the passive and active segments to create no-compromise digital connectivity that we call Real Broadband™. See also *Passive Network Segment, ASP/RSP and OAN NextGen*.

### Application/Retail Service Provider (ASP/RSP)

Application or Retail service providers purchase wholesale bandwidth and related network services on Axia's no conflict Open Access Next Generation Networks. This allows them to deliver Internet access or various application services to business or residential customers. Those application services can range from centralized payroll applications to collaborative meeting spaces or games and online entertainment applications.

### Bandwidth

Bandwidth is the amount of data that can be transmitted over a network. Bandwidth on digital networks is measured in kilobits (Kbps, one thousand bits), megabits (Mbps, one million bits), gigabits (Gbps, one billion bits) or terabits (Tbps, one trillion bits) per second.

### Community Interconnect Grid (CIG)

A fibre optic network that interconnects all the communities in a region creating high capacity digital IP transport services that are available at points of interconnect. It includes a core network within the community to key sites that typically includes health, learning and other government sites and access points for private use by wireless and fixed wireline local access providers

### Dark fibre

Fibre optic cable that is already in the ground and on which bandwidth can be leased in long-term contracts.

### Fibre to the Home (FTTH) or to the Premise (FTTP)

FTTH uses fibre optic cable to connect individual homes, buildings or businesses to a large network, providing direct access to high-speed, high-capacity broadband services. Many existing networks use lower-capacity copper or coaxial cable for the "last mile" between the network and individual locations.

### Gigabit Ethernet Service (GigE)

A network service that gives customers data speeds of 1 or more Gbps, or high-bandwidth services offered on a 1 GB network connection. Axia offers fractional Gigabit services of 100 to 800 Mbps over a 1 Gb connection.

### Knowledge Economy

While there is no single, commonly accepted definition, Axia uses Knowledge Economy to refer to the current global shift toward sharing knowledge and learning to drive economic production and personal growth.

### Local Access Customers

Parties that provide connectivity between the Community Interconnect Grid and end users.

### No conflict Open Access Next Generation Network (OAN NextGen)

OAN NextGen delivers no-compromise digital transport/connectivity services that we call Real Broadband™ to large geographic areas or cities. It is real time, fully bi-directional and uses IP so that it is fully interoperable with any other IP network. In an OAN NextGen all the services that an end user experiences, be it voice, video or traditional web can be separated from the transport/connectivity services. Axia operates as an impartial, expert buyer or manager of transport/connectivity services on behalf of its customers, which ensures that competition results in the best service at the lowest cost for the end user. Typically, an OAN NextGen is built primarily using a fibre optic platform although outlying areas may employ wireless technology if that is a more efficient alternative.

### **Passive Network Segment**

Includes the dark fibre, infrastructure and facilities of a network. Axia's no conflict OAN NextGen model combines the passive and active segments to create no-compromise digital connectivity that we call Real Broadband™. *See also Active Network Segment, ASP/RSP and Real Broadband™.*

### **Real Broadband™**

Real Broadband™, a term trademarked by Axia, gives clients the ability to quickly and reliably share large amounts of data, audio, video and graphics. Connectivity levels are guaranteed in Real Broadband™, as opposed to other network technologies such as DSL or cable, which offer "best-effort" connectivity.

### **Web Services Sector**

This sector delivers ICT-based services to end users that travel from a server environment to end users utilizing transport services provided by Next Generation Networks. These services are digital and are typically IP enabled. and include voice, video and data services and the many new and evolving services available over the Internet. *See also Active Network Segment, Passive Network Segment.*

AXIA NETMEDIA CORPORATION  
AUDITED CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2009

## MANAGEMENT'S REPORT TO SHAREHOLDERS

The accompanying consolidated financial statements of Axia NetMedia Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles.

The Corporation's accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable. Management is satisfied that these financial statements have been prepared accordingly and within reasonable limits of materiality. Further, management is satisfied that the financial information throughout the balance of this report is consistent with the information presented in the consolidated financial statements.

The Audit Committee, consisting of independent directors, has reviewed these statements with management and the auditors and has reported the results of this review to the Board of Directors. The Board of Directors has approved the consolidated financial statements.

(Signed)  
Arthur Price  
CEO and Chairman  
September 21, 2009

(Signed)  
Peter L. McKeown, CA  
Chief Financial Officer

## AUDITORS' REPORT TO SHAREHOLDERS

We have audited the consolidated balance sheets of Axia NetMedia Corporation as at June 30, 2009 and 2008, and the consolidated statements of operations and retained earnings, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at June 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP (Signed)  
Chartered Accountants  
Calgary, Canada  
September 17, 2009

CONSOLIDATED BALANCE SHEETS

(000s)	June 30, 2009	June 30, 2008
<b>Assets</b>		
Current assets:		
Cash	\$ 10,040	\$ 2,210
Short-term investments	14,266	25,867
Restricted short-term investments (note 8)	4,014	4,763
Accounts receivable (note 14)	28,083	25,222
Prepaid expenses	2,038	1,326
Future income tax asset (note 10)	20	24
	<u>58,461</u>	<u>59,412</u>
Property and equipment (note 3)	69,041	49,373
Intangible assets (note 4)	8,459	6,699
Goodwill	4,201	4,201
Advances to joint venture	-	1,785
Other assets (note 5)	1,299	816
Investment under equity accounting (note 6)	3,798	-
Restricted long-term investments (note 8)	2,915	4,310
Future income tax asset (note 10)	5,127	4,608
	<u>\$153,301</u>	<u>\$131,204</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 37,254	\$ 29,826
Income taxes payable (note 10)	4,479	5,306
Current portion of deferred revenue	4,962	1,061
Current portion of lease obligation (note 7)	77	284
Current portion of cost of excess space	66	61
	<u>46,838</u>	<u>36,538</u>
Deferred revenue	5,041	1,503
Lease obligation (note 7)	-	77
Cost of excess space	56	115
Shareholders' equity: (note 9)		
Share capital	48,111	48,074
Contributed surplus	3,741	2,893
Retained earnings	44,972	38,986
Accumulated other comprehensive income (note 15)		
Unrealized gain on short-term investments	76	225
Unrealized gain on translation of foreign operations	4,466	2,793
	<u>49,514</u>	<u>42,004</u>
	<u>101,366</u>	<u>92,971</u>
Economic dependence (note 19)		
Contingencies, commitments and guarantees (note 20)		
Related party transactions (note 21)		
	<u>\$153,301</u>	<u>\$131,204</u>

See accompanying notes to the consolidated financial statements

On behalf of the board:

(Signed)  
C. Kent Jespersen

(Signed)  
Art Price

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

For the years ended June 30, 2009 and 2008  
(000s except per share amounts)

	2009	2008
Revenue	\$ 69,847	\$ 63,805
Cost of products and services sold	41,574	34,850
Gross profit	28,273	28,955
Expenses		
Marketing	1,303	952
Administration	5,369	3,918
Business development	7,131	8,368
Stock-based compensation (note 9)	865	2,299
Net interest and financing charges (income) (note 18)	(1,467)	(2,508)
Depreciation and amortization	5,908	4,661
	19,109	17,690
Income before the following	9,164	11,265
Share of loss of equity investment (note 6)	(325)	-
Gain on disposal (note 11)	374	333
Income before income tax	9,213	11,598
Current income tax (note 10)	4,724	5,031
Future income tax (reduction) (note 10)	(1,253)	(1,534)
	3,471	3,497
Net income before non-controlled interest	5,742	8,101
Net loss attributable to non-controlled interest	244	-
Net income	5,986	8,101
Retained earnings, beginning of year	38,986	30,885
Retained earnings, end of year	\$ 44,972	\$ 38,986
Net income per share		
Basic	\$ 0.09	\$ 0.13
Diluted	\$ 0.09	\$ 0.13
Weighted average shares outstanding		
Basic	63,602	63,537
Diluted	66,578	63,844

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended June 30, 2009 and 2008  
(000s)

	2009	2008
Net income	\$5,986	\$8,101
Other comprehensive income, net of tax:		
Transfer losses on sale of short-term investments	110	-
Unrealized gains (losses) on short-term investments	(227)	193
Unrealized gain on translation of foreign operations	1,641	4,598
Other comprehensive income	1,524	4,791
Comprehensive income	\$7,510	\$12,892

See accompanying notes to the consolidated financial statements



CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30, 2009 and 2008

(000s)	2009	2008
Cash provided by (used in):		
Operating activities:		
Net income	\$ 5,986	\$ 8,101
Items not involving cash		
Depreciation and amortization	5,908	4,661
Future income tax (reduction) (note 10)	(1,253)	(1,534)
Share of income (loss) of equity investment (note 6)	325	-
Gain on disposal of investments (note 11)	(374)	(333)
Non-controlled interest	(244)	-
Cost of excess space	(54)	(91)
Stock-based compensation (note 9(c)ii)	865	2,299
	11,159	13,103
Changes in non-cash working capital items	6,582	(24,481)
	17,741	(11,378)
Financing activities:		
Decrease (increase) in restricted cash and investments	2,144	(9,028)
Issue of common shares	40	226
Repayment of lease obligation	(284)	(270)
	1,900	(9,072)
Investing activities:		
Short-term investments	11,601	17,865
Business combinations (note 11)	(2,985)	(2,230)
Reduction in advance to joint venture	1,785	11,710
Investment under equity accounting (note 6)	(4,123)	-
Purchase of property and equipment	(23,619)	(24,629)
Disposal of investment	3,382	21
Purchase of property and equipment included in accounts payable	274	8,020
	(13,685)	10,757
Effect of currency translation on cash balances	1,874	1,041
Decrease in cash	7,830	(8,652)
Cash, beginning of year	2,210	10,862
Cash, end of year	\$ 10,040	\$ 2,210

Supplemental cash flow information (note 16)

See accompanying notes to the consolidated financial statements

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended June 30, 2009 and 2008 (tabular amounts in thousands of Canadian dollars except per share amounts)

### 1. DESCRIPTION OF BUSINESS

Axia NetMedia Corporation (the "Corporation") provides Real Broadband™ Internet Protocol services and solutions through planning, designing and operating no conflict Open Access Next Generation Networks ("OAN NextGens"). The Corporation currently has OAN NextGens in the Province of Alberta, in France and Singapore and continues to evaluate potential opportunities to implement its OAN NextGen solution globally.

### 2. SIGNIFICANT ACCOUNTING POLICIES

- (a) Consolidation: The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries. The Corporation's interest in jointly controlled companies are accounted for as joint ventures using the proportionate consolidation method of accounting whereby the Corporation's pro rata share of assets, liabilities, revenues and expenses of the jointly controlled entities are included in the consolidated financial statements.
- (b) Financial instruments: Financial instruments are classified into one of five categories: held for trading, held to maturity, loans and receivables, available for sale financial assets, or other financial liabilities. All financial instruments, including derivatives, are initially measured on the balance sheet at fair value. Subsequent measurement will depend on their initial classification, as follows: held for trading financial assets are measured at fair value and changes in fair value are recognized in net income; available for sale financial instruments are measured at fair value with changes in fair value recorded in Other comprehensive income until the investment is disposed of or impaired at which time the amounts would be recorded in net income. Loans and receivables, held to maturity investments and other financial liabilities are subsequently measured at amortized cost. The Corporation designated its Cash as held for trading, which is measured at fair value. Accounts receivable and Advances to joint venture are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost. Short-term investments and Restricted short-term investments are designated as available for sale and are measured at fair value with changes in those fair values recognized in Accumulated other comprehensive income. Equity investments that do not have a quoted market price in an active market are measured at cost and are included in Other assets.
- (c) Revenue recognition: Revenue from broadband network operations is recognized as the services are provided. Revenue from fixed price and long-term construction contracts is recorded on a percentage of completion basis. Estimated earnings are accrued based upon the costs incurred to date as a percentage of total estimated costs to complete the project. Projected losses are provided in full as soon as they become apparent. Revisions in estimated costs and earnings during the course of work are reflected during the accounting period in which the data that determines such revisions becomes known. Revenue generated from long-term contracts is recognized over the term of the contract. Revenue includes both fees and recoverable expenses.
- (d) Property and equipment: Property and equipment are recorded at cost. Depreciation and amortization is recorded on property and equipment, other than broadband networks, at rates consistent with their expected useful lives using straight-line methods ranging from 10 percent to 100 percent per annum. Depreciation and amortization recorded on broadband networks is based on the term of the related

- network operations contract, which expire at various times from 2012 to 2029.
- (e) Intangible assets: Intangible assets are determined based on the purchase price and the value of the related net assets acquired. The identification of intangible assets and the valuation thereof is a specialized and highly subjective area where the use of business valuation specialists is employed. The Corporation's consolidated financial statements have been prepared based on an allocation of the purchase price of an acquisition between tangible and intangible assets and amortization periods. Intangible assets are amortized over the term of the related broadband network operations contract, which expire at various times from fiscal 2012 to 2029.
  - (f) Goodwill: Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair value. As of the date of the business combination goodwill is allocated to the Corporation's reporting units that are expected to benefit from the synergies of the business combination. Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying value of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss. The impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the Consolidated statements of operations before extraordinary items and discontinued operations. No impairment loss was recorded for fiscal 2009 and 2008.
  - (g) Investments: Investments in companies which are not proportionately consolidated and where the Corporation retains a minor ownership position and does not exert significant influence thereon are recorded using the cost basis of accounting. Where the Corporation exerts significant influence on the operations of the investee, the equity method of accounting is utilized. The Corporation's operations in Singapore are reported using the equity method. All investments are written down from book value when a decline in the value of the investment that is other than temporary has occurred.
  - (h) Leases: Leases are classified as capital or operating based upon the terms and conditions of the lease contracts.
  - (i) Foreign currency translation: The Corporation uses the current rate method of foreign currency translation to translate the accounts of its foreign subsidiaries, which are considered self-sustaining foreign operations. The assets and liabilities of foreign operations are translated into Canadian dollars using the exchange rate in effect at the consolidated balance sheet date, and revenues and expenses are translated at the average rate during the period. Exchange gains or losses on translation of the Corporation's net investment in these foreign operations are deferred in Accumulated other comprehensive income component of Shareholders' equity. Other exchange gains and losses are included in Net income. Foreign exchange losses during the year which are included in interest and financing charges is \$(108,241) (2008 - \$4,696).
  - (j) Income taxes: The Corporation uses the liability method of accounting for income taxes, whereby future income tax liabilities and future income tax assets are recorded based on temporary differences which represent the difference between the carrying amount of an asset and liability in the consolidated balance sheet and its underlying tax basis.
  - (k) Stock-based compensation: For stock options issued to employees and directors, compensation expense related to those awards is recognized based on the fair value of the options issued on the date of the grant which is determined using a recognized option-pricing model. The fair value of the options expected to vest is recognized over the vesting period of the options granted as stock-based compensation expense and contributed surplus. For stock options issued to consultants, the fair value of the options is recognized

and re-measured over the contractual performance.

- (l) Cost of excess space: The Corporation regularly reviews its lease commitments to ensure that they provide an economic benefit over the term of the lease. Any cost of excess space is recorded in the period when it is determined that no economic benefit exists by expensing the future lease cost less any estimated recoveries through sublease arrangements.
- (m) Per share amounts: These are calculated using the weighted average number of common shares outstanding for the year. Diluted earnings per share is calculated using the treasury stock method to determine the dilutionary impact of options outstanding.
- (n) Use of estimates and measurement uncertainty: The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the applicable period. The Corporation operates in a highly competitive and technology driven environment. The telecommunications, software and managed services sectors are undergoing substantial change and are subject to a high level of uncertainty. The Corporation's operations include developing and marketing broadband network solutions, services and software systems for new and evolving markets. Accordingly, management's determination as to the recoverability of costs deferred in relation to these operations includes a forecasting process based on estimates of future events which are often made with limited information. The Corporation has estimated the recoverability of property and equipment, intangible assets and goodwill costs based upon rapidly changing industry trends, an intense and competitive environment, changing technology trends and anticipated economic factors. Should the Corporation's business environment conditions or business change, it may result in an impairment of these assets and may in turn result in an adjustment of the future carrying values of these assets by a material amount. Other areas requiring use of estimates include expenses to be charged under construction and operating contracts, amortization and depreciation periods for assets, cost of excess space, future income tax assets and potential contingencies. Actual results could differ from management's best estimates and underlying assumptions, as additional information becomes available in the future.
- (o) Change in Accounting Policies: In the current year, the Corporation adopted additional accounting pronouncements by the Canadian Institute of Chartered Accountants ("CICA"). The adoption of these new standards resulted in additional disclosures and did not impact the classification and measurement of the transactions in the Corporation's interim and annual consolidated financial statements.
  - i) CICA Handbook Section 1535 "Capital Disclosures" establishes standards for disclosing information about an entity's capital and how it is managed. It requires the disclosure of information about an entity's objectives, policies and processes for managing capital including: (i) qualitative data about an entity's definition of capital; and (ii) whether the entity has complied with externally imposed capital requirements. See note 13.
  - ii) CICA Handbook Section 3862 "Financial Instruments - Disclosures" requires an entity to provide disclosures in their financial statements that will enable the user to evaluate: (i) the significance of financial instruments on the entity's financial position and performance; and (ii) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period as well as at the balance sheet date, and how the entity manages those risks. See note 14.
  - iii) CICA Handbook Section 3863 "Financial Instruments - Presentation" establishes presentation standards for financial instruments and non-financial derivatives. See note 14.
- (p) Recent accounting pronouncements: CICA released the following new standard that will apply to the Corporation's financial statements for the year commencing July 1, 2009: Section 3064 "Goodwill and Intangible Assets". This section establishes standards for recognition, measurement, presentation, and disclosure of goodwill and intangible assets. The Corporation does not anticipate that the adoption of this

standard will have a material impact on its asset balances.

- (q) Future Accounting Changes: In adhering to Canadian accounting standards, effective July 1, 2011, the Corporation will report its financial results in accordance with International Financial Reporting Standards. Axia's financial statements up to and including the June 30, 2011 annual financial statements will continue to be reported in accordance with Canadian GAAP.
- (r) Comparative figures: Certain comparative figures have been reclassified to conform with the financial statement presentation for the current year.

### 3. PROPERTY AND EQUIPMENT

June 30, 2009	Cost	Accumulated amortization	Net book value
Technology hardware	\$ 14,122	\$ 9,267	\$ 4,855
Broadband networks	64,323	2,126	62,197
Computer software	1,599	958	641
Furniture and fixtures	712	429	283
Leasehold improvements	3,356	2,291	1,065
	<u>\$ 84,112</u>	<u>\$ 15,071</u>	<u>\$ 69,041</u>

June 30, 2008	Cost	Accumulated amortization	Net book value
Technology hardware	\$ 12,519	\$ 7,025	\$ 5,494
Broadband networks	44,934	3,156	41,778
Computer software	2,029	1,068	961
Furniture and fixtures	408	405	3
Leasehold improvements	3,070	1,933	1,137
	<u>\$ 62,960</u>	<u>\$ 13,587</u>	<u>\$ 49,373</u>

Depreciation expense during the year was \$5,325,373 (2008 - \$3,855,746). Broadband networks are presented net of grants, which during the current year totalled \$14,163,595 (2008 - \$35,586,032) relating to the construction of broadband networks. Grants receivable are recorded in accounts receivable until they have been received pursuant to the terms of the grant agreement. The total amount of grants receivable recorded in accounts receivable at year end was \$275,642 (2008 - \$409,848).

Included in the amounts reported as Technology hardware are amounts financed under capital lease obligations (note 7) with a cost of \$1,132,559 (2008 - \$1,132,559), accumulated amortization of \$1,073,737 (2008 - \$851,844) and current year amortization of \$221,893 (2009 - \$227,644).

The net carrying amount of networks under construction that are not yet being amortized is \$15,308,373 (2008 - \$13,726,640) and is included in Broadband networks.

#### 4. INTANGIBLE ASSETS

	Cost	Accumulated amortization	Net book value
June 30, 2009	\$ 9,336	\$ 877	\$ 8,459
June 30, 2008	\$ 6,976	\$ 277	\$ 6,699

Intangible assets relate to the Corporation's acquisition of private broadband network companies, fibre assets and customer contracts in France.

Amortization expense of intangible assets during the year was \$582,754 (2008 - \$277,283).

#### 5. OTHER ASSETS

	2009	2008
Deferred costs	\$ 844	\$ 239
Deposits	174	296
Investments in companies held at cost	281	281
	\$ 1,299	\$ 816

#### 6. INVESTMENT UNDER EQUITY ACCOUNTING

The Corporation's interest in companies where it has significant influence are accounted for under the equity method of accounting whereby the investment is initially recorded at cost and subsequently adjusted by the Corporation's pro rata share of the investee's income or loss which is included in the consolidated financial statements. Accordingly, the Corporation has accounted for its 30 percent equity interest in a Singapore private network company, as follows:

	2008	2008
Opening balance, October 1, 2008	\$ -	\$ -
Investment	4,123	-
Share of loss of equity investment	(325)	-
Balance, June 30, 2009	\$ 3,798	\$ -

## 7. CAPITAL LEASE OBLIGATION

During fiscal 2005, the Corporation entered into a capital lease to purchase technology assets to be used on the Alberta SuperNet. The capital lease is repayable over a five-year period with an implicit interest rate of approximately seven percent. Pursuant to this lease, the Corporation sold \$855,000 of technology equipment to the lessor in September 2004. The resulting book gain of \$172,000 is being recognized over the term of the lease.

The estimated future minimum payments due on capital lease obligations are as follows:

	2009	2008
2009	\$ -	\$ 265
2010	70	88
	70	353
Amounts representing interest	(2)	(35)
Unamortized portion of gain on sale of assets under capital lease	9	43
	77	361
Less: Current portion of lease obligation	77	284
	\$ -	\$ 77

## 8. BANKING FACILITY

During the current year, the Corporation revised a credit facility with its primary banker which provides for the following loan facilities as at June 30, 2009:

Loan	Purpose	Amount	Rate of Interest
Operating	Current operations	\$5,600,000	Bank prime plus 0.5% per annum
Letter of credit facility	To issue letters of credit and bid bonds for new OAN NextGen opportunities	\$19,000,000	A fee equal to 1.25% per annum for the value of each letter of credit issued
Guarantee line	To issue bank guarantees	\$1,500,000	A fee equal to 1.25% per annum for the value of each guarantee issued

The security for this facility includes a first secured charge on all of the assets of the Corporation and guarantees. Any instruments issued under the letter of credit facility and the guarantee line must be secured by cash, investment balances or a third party. As at June 30, 2009, the Corporation had issued a total of \$5,514,000 of letters of credit and bank guarantees under these facilities and accordingly, this amount is included with the restricted investments related to France operations, which have been classified as restricted on the balance sheet. These restricted investments are reported as either a current or long-term asset depending on the expiry date of the related letter of credit or guarantee. Of this amount, \$1,500,000 is a bank guarantee issued to a third party pursuant to the terms of a significant contract. The bank guarantee may be drawn by the holder in the event of a major default in the contract. The remaining \$4,014,000 (SGD\$5,000,000) represents a letter of credit required as a bid bond to support the Corporation's proposal to build an OAN NextGen in Singapore. The Corporation also has a \$5,776,950 (SGD\$7,196,000) letter of credit outstanding to support a performance bond which has been guaranteed by a third party.

As at June 30, 2008, the Corporation had issued a total of \$8,463,000 in letters of credit issued under these facilities.

## 9. SHARE CAPITAL

(a) Authorized: Unlimited number of common shares

Unlimited number of first and second preferred shares, issuable in series.

(b) Shares issued: Common shares

	June 30, 2009,		June 30, 2008	
	Number	Amount	Number	Amount
Balance, beginning of year	63,593	\$ 48,074	63,364	\$ 47,740
Issued for cash:				
Exercise of options	40	20	229	226
Transfer from contributed surplus on exercise of options	-	17	-	108
	63,633	\$ 48,111	63,593	\$ 48,074

(c) Stock options:

- i) The Corporation may grant stock options to directors, officers, employees, advisors and consultants. At June 30, 2009 there were 3,830,000 (2008 - 2,650,000) stock options outstanding to acquire common shares at prices ranging from \$0.50 to \$6.37 per share, with expiry dates ranging from August 2009 to May 2014. The following table sets forth a reconciliation of stock options granted, exercised and cancelled during the years ended June 30, 2009 and 2008:

	2009		2008	
	Shares	Weighted-average exercise price	Shares	Weighted-average exercise price
Outstanding, beginning of year	2,650	\$ 3.21	1,708	\$ 2.64
Granted	1,290	1.93	1,650	2.77
Exercised	(40)	0.53	(229)	0.99
Forfeited	(70)	2.92	(479)	4.12
Outstanding, end of year	3,830	\$ 2.82	2,650	\$ 3.21
Exercisable	1,599	\$ 3.17	508	\$ 2.30

- ii) During the current year, the Corporation granted 1,290,000 (2008 - 1,650,000) stock options. The fair value of stock options granted is estimated on the date of grant using an option pricing model with the following weighted average assumptions used for options granted in fiscal 2009: weighted-average volatility of 48 to 54 percent (2008 - 46 percent); risk-free interest rate of 1.8 to 2.9 percent (2008 - 4 percent); and the expected life of the option of five years. During the year, the Corporation recorded \$864,741 (2008 - \$2,298,771) as stock-based compensation expense related to stock options. The weighted average fair value of stock options granted during the year was \$1.93 per option.



iii) The following table sets forth information relating to stock options outstanding at June 30, 2009.

Range of exercise prices	Number outstanding at June 30, 2009	Weighted-average remaining contractual life	Weighted-average exercise price
\$0.50 - \$2.10	645	2.78	\$ 1.40
\$2.11 - \$3.60	2,997	3.77	2.99
\$3.61 - \$6.37	188	2.94	5.65
	3,830	3.41	\$ 2.85

iv) The following table sets forth information relating to stock options outstanding at June 30, 2008.

Range of exercise prices	Number outstanding at June 30, 2008	Weighted-average remaining contractual life	Weighted-average exercise price
\$0.50 - \$2.10	198	1.25	\$ 0.67
\$2.11 - \$3.60	2,264	3.67	3.29
\$3.61 - \$6.37	188	3.94	5.65
	2,650	2.89	\$ 3.26

(d) Contributed surplus:

During the year, contributed surplus changed as follows:

	2009	2008
Contributed surplus, beginning of year	\$ 2,893	\$ 702
Stock-based compensation expense	865	2,299
Stock options exercised	(17)	(108)
Balance, end of year	\$ 3,741	\$ 2,893

## 10. INCOME TAXES

- (a) The income tax provision differs from the amount which would result from applying the expected income tax rate to Income before income tax. The differences between the computed "expected" income tax provision and the actual income tax provision are summarized as follows:

Income tax provision	Total	
	2009	2008
Income before income tax	\$ 9,213	\$ 11,598
Expected income tax rate	29.25%	30.7%
Computed "expected" income tax expense	2,695	3,555
Difference resulting from:		
Non-deductible expenses and other	376	112
Change in valuation allowance	281	105
Change in prior year tax pools	-	(440)
Change in enacted tax rates	23	165
Non-deductible losses related to Asia	194	-
Foreign operations subject to different tax rates	(98)	-
Income tax provision	\$ 3,471	\$ 3,497

- (b) The components of the Corporation's Future income tax assets at June 30, 2009 and 2008, of which a portion have been recorded in these financial statements, are as follows:

Future income tax assets	North America		Europe		Asia		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Non-capital losses	\$ 434	\$ 563	\$ 3,062	\$ 1,147	\$ -	\$ -	\$ 3,496	\$ 1,710
Capital losses	1,189	1,205	-	-	-	-	1,189	1,205
Capital assets	890	1,636	4,640	3,967	-	-	5,530	5,603
Share issue costs	158	340	-	-	-	-	158	340
Other	110	137	155	142	-	-	265	279
	2,781	3,881	7,857	5,256	-	-	10,638	9,137
Less: valuation allowance	(1,165)	(1,205)	(557)	(236)	-	-	(1,722)	(1,441)
	1,616	2,676	7,300	5,020	-	-	8,916	7,696
Intangible assets	-	-	(2,816)	(2,236)	-	-	(2,816)	(2,236)
Deferred revenue	-	-	(832)	(828)	-	-	(832)	(828)
Other	-	-	-	-	(121)	-	(121)	-
Future income tax assets	1,616	2,676	3,652	1,956	(121)	-	5,147	4,632
Less: current portion	(20)	(24)	-	-	-	-	(20)	(24)
Net future income tax assets	\$ 1,596	\$ 2,652	\$ 3,652	\$ 1,956	\$ (121)	\$ -	\$ 5,127	\$ 4,608

The Corporation has non-capital loss carryforwards in Canada of approximately \$1,523,000 (2008 - \$1,939,000) available to reduce future years taxable income. These losses will start to expire in 2028. The Corporation also has net operating losses in France of \$9,198,000 (2008 - \$3,430,000) available to reduce future years taxable income and have no expiry date.

## 11. BUSINESS COMBINATIONS

Business combinations are accounted for using the purchase method, whereby the purchase price is allocated to the fair value of assets and liabilities at the acquisition date, and the results of operations are included in the consolidated financial statements from the date of acquisition.

The Corporation holds its interests in private broadband network companies based in France equally with its joint venture partner and accounts for the joint venture on the proportionate consolidation method. The joint venture accounts for its interest in these private companies using either the cost, equity, proportionate consolidation or full consolidation methods of accounting as appropriate. A non-controlled interest position may be recognized in the financial statements of the Corporation for those entities where the consolidation method of accounting is utilized.

- (a) During the current year, the Corporation acquired additional indirect interests in private broadband network companies in France, which are incremental to the interests already held and also acquired fibre assets and customer contacts from a third party in France. The Corporation acquired the additional interests as follows:

Private Network Company	Effective Acquisition Date	Percentage acquired during the period	Net interest held at June 30, 2009
Solstice Grand Angoulême Networks	April 15, 2009	22.5%	50%
Caen.com	July 1, 2008	25.05%	50%
Hérault Participation	October 1, 2008	5%	22.5%

The allocation of the purchase price to the net assets of the Business combinations completed during the year are as follows:

	Caen.com	Hérault Participation	Fibre and contracts purchased	Solstice Grand Angoulême Networks	Total
Non-cash working capital	\$ (1,188)	\$ (197)	\$ -	\$ (2,438)	\$ (3,823)
Future income tax liability	(186)	(56)	-	(349)	(591)
Property and equipment	973	14	1,475	2,593	5,055
Intangible assets	498	164	789	630	2,081
Other assets	-	84	-	179	263
<b>Net cost</b>	<b>\$ 97</b>	<b>\$ 9</b>	<b>\$ 2,264</b>	<b>\$ 615</b>	<b>\$ 2,985</b>
Consideration:					
Cash	\$ 97	\$ 6	\$ 2,248	\$ 615	\$ 2,966
Acquisition costs	-	3	16	-	19
	<b>\$ 97</b>	<b>\$ 9</b>	<b>\$ 2,264</b>	<b>\$ 615</b>	<b>\$ 2,985</b>

- (b) During the current year, the Corporation divested a portion of its indirect interests in private broadband network companies as a result of an investment by an institution in France. The Corporation divested these interests on the following dates:

Private Network Company	Effective Divestiture Date	Percentage divested during the period	Net interest held at June 30, 2009
Grand Chalon Networks	December 18, 2008	15%	35%
Clermont Communauté Networks	October 3, 2008	15%	32.5%
Coval Networks	December 12, 2008	15%	35%

The net funds received by the Corporation for the disposition of these interests was \$3,381,949, which resulted in a gain on sale of \$374,245.

- (c) During fiscal 2008, the Corporation acquired indirect interests in private broadband network companies in France, which for certain Business combinations, was incremental to those it already held. The Corporation acquired these interests as follows:

Private Network Company	Acquisition Date	Percentage acquired during the year	Net interest held at June 30, 2008
3CNET	October 12, 2007	50.0%	50.0%
Arras Networks	March 31, 2008	35.0%	35.0%
Caen.com	December 14, 2007	24.95%	24.95%
Clermont Communauté Networks	October 12, 2007	42.5%	47.5%
Coval Networks	January 17, 2008	50.0%	50.0%
Creusot Montceau Networks	December 17, 2007	35.0%	35.0%
Garonne Networks	February 29, 2008	35.0%	35.0%
Grand Chalon Networks	October 12, 2007	50.0%	50.0%
Moselle Telecom Participation	November 27, 2007	7.7%	15.4%
<u>SEM@for77</u>	<u>October 1, 2007</u>	<u>25.0%</u>	<u>50.0%</u>

The allocations of the purchase price to the net assets of the Business combinations completed during fiscal 2008 are as follows:

	3CNet	Arras	Caen	Clermont	Coval	Creusot	Garonne	Grand Chalon	Moselle	SEM@for77	Total
Non-cash operating working capital	\$ (627)	\$ (1,443)	\$ (1,341)	\$ (2,648)	\$ (2,491)	\$ (906)	\$ 181	\$ (2,734)	\$ (509)	\$ (3,687)	\$ (16,205)
Future tax asset (liability)	(60)	(400)	(168)	46	(15)	(304)	(52)	(251)	(211)	(11)	(1,426)
Property and equipment	605	832	927	2,523	1,715	554	524	2,419	476	2,969	13,544
Intangible assets	128	1,107	704	132	1,004	760	226	666	276	1,314	6,317
<u>Net cost</u>	<u>\$ 46</u>	<u>\$ 96</u>	<u>\$ 122</u>	<u>\$ 53</u>	<u>\$ 213</u>	<u>\$ 104</u>	<u>\$ 879</u>	<u>\$ 100</u>	<u>\$ 32</u>	<u>\$ 585</u>	<u>\$ 2,230</u>
Consideration:											
Cash	\$ 19	\$ 68	\$ 94	\$ 27	\$ 184	\$ 77	\$ 848	\$ 74	\$ 4	\$ 559	\$ 1,954
Acquisition costs	27	28	28	26	29	27	31	26	28	26	276
	<u>\$ 46</u>	<u>\$ 96</u>	<u>\$ 122</u>	<u>\$ 53</u>	<u>\$ 213</u>	<u>\$ 104</u>	<u>\$ 879</u>	<u>\$ 100</u>	<u>\$ 32</u>	<u>\$ 585</u>	<u>\$ 2,230</u>

During fiscal 2008, the Corporation sold its non-controlled equity interest in a private broadband network company resulting in a gain on sale of \$333,120.

## 12. SEGMENTED INFORMATION

The Corporation designs, constructs and operates OAN NextGens in Alberta, France and Singapore whose operating results comprise the North American, European and Asian business segments respectively. Substantially all of the activities for the European segment are conducted pursuant to a joint venture. During the current fiscal year, the Corporation commenced operations in Singapore, where a private company, in which it owns a 30 percent equity interest, is constructing a fibre grid network which is anticipated to be completed by June 2012. These operations comprise the Asian business segment. The Corporate segment includes expenses incurred for the overall management of the Corporation, its subsidiaries, including its operations as a public company and include expenses that are not specific to a business segment.

Segmented results of operations for the year ended June 30, 2009 are as follows:

	North America	Europe	Asia	Corporate	Total
Revenue	\$ 55,031	\$ 14,816	\$ -	\$ -	\$ 69,847
Cost of products and services sold	28,396	13,178	-	-	41,574
Gross profit	26,635	1,638	-	-	28,273
Expenses					
Marketing	837	466	-	-	1,303
Administration	423	1,287	-	3,659	5,369
Business development	138	2,192	2,859	1,942	7,131
Stock-based compensation	-	-	-	865	865
Net interest expense and financing charges (income)	23	(1,288)	39	(241)	(1,467)
Depreciation and amortization	2,159	2,809	-	940	5,908
	3,580	5,466	2,898	7,165	19,109
Income (loss) before the following	23,055	(3,828)	(2,898)	(7,165)	9,164
Share of loss of equity investment	-	-	(325)	-	(325)
Gain on disposal	-	374	-	-	374
Income (loss) before income tax	23,055	(3,454)	(3,223)	(7,165)	9,213
Current income tax	6,014	1,652	(847)	(2,095)	4,724
Future income tax (reduction)	549	(2,399)	122	475	(1,253)
	6,563	(747)	(725)	(1,620)	3,471
Net income (loss) before non-controlled interest	16,492	(2,707)	(2,498)	(5,545)	5,742
Non-controlled interest	-	244	-	-	244
Net income (loss)	\$ 16,492	\$ (2,463)	\$ (2,498)	\$ (5,545)	\$ 5,986
Capital expenditures	\$ 2,234	\$ 20,713	\$ -	\$ 672	\$ 23,619
Cash provided by (used in)					
Operating activities	\$ (17,766)	\$ 22,875	\$ 4,788	\$ 7,844	\$ 17,741
Financing activities	\$ (283)	\$ (4,801)	\$ -	\$ 6,984	\$ 1,900
Investing activities	\$ (2,234)	\$ (17,362)	\$ (4,795)	\$ 10,706	\$ (13,685)

Segmented results of operations for the year ended June 30, 2008 are as follows:

	North America	Europe	Asia	Corporate	Total
Revenue	\$ 51,890	\$ 11,765	\$ -	\$ 150	\$ 63,805
Cost of products and services sold	28,015	6,835	-	-	34,850
Gross profit	23,875	4,930	-	150	28,955
Expenses					
Marketing	792	103	-	57	952
Administration	204	772	-	2,942	3,918
Business development	-	5,259	1,028	2,081	8,368
Stock-based compensation	-	-	-	2,299	2,299
Net interest expense and financing charges (income)	(100)	(1,211)	-	(1,197)	(2,508)
Depreciation and amortization	2,381	1,270	-	1,010	4,661
	3,277	6,193	1,028	7,192	17,690
Income (loss) before the following	20,598	(1,263)	(1,028)	(7,042)	11,265
Gain on disposal	-	333	-	-	333
Income (loss) before income tax	20,598	(930)	(1,028)	(7,042)	11,598
Current income tax	-	2,700	-	2,331	5,031
Future income tax (reduction)	387	(3,320)	-	1,399	(1,534)
	387	(620)	-	3,730	3,497
Net income (loss)	\$ 20,211	\$ (310)	\$ (1,028)	\$ (10,772)	\$ 8,101
Capital expenditures	\$ 2,136	\$ 22,482	\$ -	\$ 11	\$ 24,629
<b>Cash provided by (used in)</b>					
Operating activities	\$ (27,638)	\$ 1,243	\$ (1,028)	\$ 16,045	\$ (11,378)
Financing activities	\$ (270)	\$ (565)	\$ -	\$ (8,237)	\$ (9,072)
Investing activities	\$ 754	\$ 3,746	\$ -	\$ 6,257	\$ 10,757

Selected balance sheet items as at June 30, 2009 are as follows:

	North America	Europe	Asia	Corporate	Total
Current assets	\$ 9,579	\$ 33,777	\$ -	\$ 15,105	\$ 58,461
Property and equipment	4,001	63,162	-	1,878	69,041
Intangible assets	-	8,459	-	-	8,459
Goodwill	4,201	-	-	-	4,201
Other assets	172	60	672	395	1,299
Investments under equity accounting	-	-	3,798	-	3,798
Restricted long-term investments	1,500	1,415	-	-	2,915
Future income tax asset	574	3,652	(121)	1,022	5,127
	\$ 20,027	\$ 110,525	\$ 4,349	\$ 18,400	\$ 153,301
Current liabilities	\$ 5,838	\$ 38,997	\$ -	\$ 2,003	\$ 46,838
Long-term liabilities	\$ 43	\$ 4,595	\$ -	\$ 459	\$ 5,097

Selected balance sheet items as at June 30, 2008 are as follows:

	North America	Europe	Asia	Corporate	Total
Current assets	\$ 1,948	\$ 27,046	\$ -	\$ 30,418	\$ 59,412
Property and equipment	4,650	42,629	-	2,094	49,373
Intangible assets	-	6,699	-	-	6,699
Goodwill	4,201	-	-	-	4,201
Advance to joint venture	-	1,785	-	-	1,785
Other assets	303	131	-	382	816
Restricted long-term investments	3,700	610	-	-	4,310
Future income tax asset	1,142	1,956	-	1,510	4,608
	\$ 15,944	\$ 80,856	\$ -	\$ 34,404	\$ 131,204
Current liabilities	\$ 5,963	\$ 27,216	\$ -	\$ 3,359	\$ 36,538
Long-term liabilities	\$ 77	\$ 887	\$ -	\$ 731	\$ 1,695

### 13. CAPITAL MANAGEMENT

The Corporation's capital resources include working capital and ongoing funds generated by operating activities. The objective of the Corporation's management of capital resources is to: (i) ensure the Corporation will continue as a financially profitable venture; (ii) ensure the availability of the capital resources required to pursue attractive OAN NextGen opportunities; and (iii) ensure the availability of capital required to develop and sustain existing OAN NextGens. The Corporation prefers to avoid the use of debt financing and therefore funds working capital requirements and capital commitments from internally generated cash flows or other market sources. The Corporation's long-term revenue and operating contracts present an opportunity to generate ongoing cash flows to fund capital requirements.

The Corporation actively manages its capital structure and makes adjustments to it in light of changes in economic conditions and financial markets.

The Corporation is in compliance with its imposed capital requirements. The Corporation has historically not paid out any dividends and has no current plans to pay these in the future. The Corporation's investment policy is to invest its available cash in liquid low-risk investments.

### 14. FINANCIAL INSTRUMENTS

- (a) Classification of financial instruments:

The Corporation has classified its financial instruments as follows:

	June 30, 2009	June 30, 2008
Financial assets:		
Available for sale, measured at fair value:		
Short-term investments	14,266	25,867
Restricted short-term investments	4,014	4,763
Restricted long-term investments	2,915	4,310
	<u>\$ 21,195</u>	<u>\$ 34,940</u>
Loans and receivables, measured at amortized cost:		
Accounts receivable	\$ 28,083	\$ 25,222
Advances to joint venture	-	1,785
	<u>\$ 28,083</u>	<u>\$ 27,007</u>
Financial liabilities, measured at amortized cost:		
Accounts payable and accrued liabilities	\$ 37,254	\$ 29,826

- (b) The Corporation is exposed to a number of financial risks associated with its financial assets and liabilities including market risk (including foreign exchange and interest), credit risk and liquidity risk. The Corporation's overall risk management program currently focuses on maintaining a strong debt free balance sheet given the unpredictability of the financial markets as well as minimizing potential adverse effects on the Corporation's financial performance.

#### Interest rate risk:

The Corporation's interest rate risk is primarily attributable to cash and short-term investments. The Corporation's objective of managing its cash and short-term investments is to ensure sufficient funds are maintained and are on hand at all times to meet day to day requirements. Any excess cash balances are invested in interest bearing low-risk investments. These investments include money market funds and government bonds.

#### Foreign currency risk:

The Corporation's currency risk from ongoing operations is primarily attributable to the joint venture in France. The European segment's revenues and expenses are denominated in Euros. The Corporation's sensitivity to foreign currency fluctuation is such that for every €10,000 increase in income before income tax, from the European

segment a 10 percent strengthening or weakening of the Euro would result in a respective \$1,600 increase to the Corporation's income before income tax for the current year. The Corporation is also exposed to currency risk for its remaining net capital commitments to the joint venture in France and to fund its commitments in Singapore. These funds are required over several fiscal years and the Corporation has not entered into any forward currency hedging transactions with respect to these commitments. The Corporation maintains a significant portion of its cash and short-term investments in Euros.

**Credit risk:**

The Corporation's credit risk from ongoing operations is primarily attributable to fluctuations in the realizable values of its cash, short-term investments and accounts receivable. Cash and short-term investment accounts are maintained with major international financial institutions of reputable credit and therefore bear minimal credit risk. In the normal course of business, the Corporation is exposed to credit risk from its customers and the related accounts receivable are subject to normal industry credit risk. To mitigate this risk the Corporation reviews the creditworthiness of material new customers, monitors customer payment performance and, where appropriate, reviews the financial conditions of existing customers. The Corporation establishes an allowance for doubtful accounts that corresponds to the specific credit risk of its customers and economic circumstances. A substantial portion of the Corporation's accounts receivable are concentrated with a limited number of large industry or government customers and joint venture partners all of which the Corporation believes are subject to normal industry credit risks.

The Corporation's accounts receivable aging is as follows:

	June 30, 2009	June 30, 2008
Current	\$ 13,312	\$ 24,183
30-60 days	1,505	29
61- 90 days	1,143	667
Over 90 days	12,123	343
	\$ 28,083	\$ 25,222

The large increase in accounts receivable which have been outstanding for over 90 days at June 30, 2009 as compared to the prior year, relates to construction profits which have been earned and collection is reasonably assured but will not be paid until the completion of the construction contract.

**Liquidity risk:**

The Corporation manages its liquidity risk by maintaining sufficient cash and short-term investments to meet liabilities as they become due. The Corporation also manages liquidity risk by continuously monitoring cash flow, actual and budgeted expenses and major capital commitments. As at 2009, the Corporation had cash balances of \$10,039,560, unrestricted short-term investments of \$14,265,745 and a bank operating line of \$5,600,000. At June 30, 2009, no amounts were drawn on the bank operating line.

The following are the contractual maturities of financial liabilities and associated interest payments as at 2009:

Financial liability:	1 Year
Accounts payable and accrued liabilities	\$ 37,254



## 15. ACCUMULATED OTHER COMPREHENSIVE INCOME

The change in the fair value of short-term and restricted investments and unrealized gains and losses on translation of net foreign operations is recorded as follows:

	2009	2008
Opening balance	\$ 3,018	\$ (1,773)
Transfer losses on sale of short-term investments	110	-
Unrealized gains (losses) on short-term investments	(227)	193
Unrealized gains on translation of net foreign operations	1,641	4,598
Balance, end of year	\$ 4,542	\$ 3,018

The amount recorded in future income tax asset allocated to the unrealized gains of short term investments was \$40,805 (2008 - \$7,669).

## 16. SUPPLEMENTAL CASH FLOW INFORMATION

	2009	2008
Interest paid	\$ 1,216	\$ 756
Taxes paid	4,773	-
Interest received	(2,937)	(3,030)

## 17. OPERATING LEASE COMMITMENTS

At June 30, 2009, future minimum payments pursuant to operating leases for the following five fiscal years are as follows:

2010	\$ 1,746
2011	1,458
2012	1,228
2013	1,164
2014	1,152
Thereafter	2,304

The Corporation has sublease agreements in the amount of \$2,158,464 over the next seven years which produce lease revenue to offset the operating lease commitments. During the current year, the Corporation received \$866,450 of sublease payments which were recovered against administration expense.

## 18. NET INTEREST AND FINANCING CHARGES (INCOME)

	2009	2008
Interest income	\$ (3,008)	\$ (3,521)
Interest and financing charges	1,541	1,013
	\$ (1,467)	\$ (2,508)

## 19. ECONOMIC DEPENDENCE

The Corporation is in the business of designing, constructing and operating OAN NextGens. Currently, the Corporation operates networks in both the North American and European segments under contractual arrangements with government organizations, customers and joint venture partners. If any of these contracts are brought into dispute for any reason, uncertainty would exist as to the future level of profitability of the Corporation's operations.

Substantially all of the revenues in the North American segment for the periods ended June 30, 2009 and 2008 were generated from the Alberta SuperNet and related agreements.

To date, the Corporation's ongoing operations have not been materially impacted by the adverse economic conditions which commenced during fiscal 2008. However, the future growth plans for revenues and network enhancements on existing networks may be delayed or postponed depending upon future economic conditions. Similarly, future economic conditions may impact the timing for the construction and development of existing or new OAN NextGen opportunities in other jurisdictions. The Corporation evaluates the current state of financial markets, and its ability to raise any required capital on favourable terms, before it commits to any new OAN NextGen opportunity.

## **20. CONTINGENCIES, COMMITMENTS AND GUARANTEES**

The Corporation may periodically be subject to litigation and claims from customers, suppliers, former employees and other third parties. The Corporation will defend itself against these claims pursuant to legal means, and may also register counterclaims and seek damages from the plaintiffs. Due to the nature and status of these claims, it is not possible to determine the timing, amount or outcome of any potential judgments. However, management does not believe that any such judgments resulting from current claims will have a material adverse impact on the financial position of the Corporation.

During the course of business, the Corporation enters into a number of commitments related to its operations and development of OAN NextGens. In general, these commitments relate to the Corporation's ability to design, construct and operate networks to certain standards and maintain minimum service levels on these networks. Under the terms of the licence and related agreements to operate the Alberta SuperNet, the Corporation is committed to certain operating expenditures to ensure certain standards of customer service and performance. To maintain these standards, the Corporation is required to maintain, or replace where appropriate, certain assets owned by others.

As at June 30, 2009, the Corporation estimates its remaining net capital commitment to the joint venture in France totals \$17,014,000 (€10,440,000) (2008 - \$15,200,000 (€9,500,000)). These funds will be advanced during fiscal 2010 and 2011 as construction of OAN NextGens in France progresses. The Corporation also estimates its remaining capital commitment to its investment in Singapore to be \$26,500,000 (SGD\$32,955,000) (2008 - \$nil). These funds are expected to be advanced during the construction phase of the Singapore project which is currently expected to end in 2012.

## **21. RELATED PARTY TRANSACTIONS**

The Corporation's operations in France are conducted through a joint venture. This joint venture conducts operations with other parties who are considered related. All of these related party transactions are conducted at fair value.