

**NUNAVUT BROADBAND DEVELOPMENT CORPORATION
PRESIDENT'S REPORT
ANNUAL GENERAL MEETING ON APRIL 30, 2008**

As the President of Nunavut Broadband Development Corporation, I am pleased to report on the activities of NBDC and the QINIQ network that was launched by NBDC in 2005.

Since our last Annual General Meeting we have faced significant challenges and made important progress toward stabilizing the future of broadband in Nunavut over the next few years.

For the next few minutes I will report on those challenges and our plans for the future. But first I would like to clarify the role that NBDC plays in Nunavut and the relationship that NBDC has with the QINIQ network.

NBDC and QINIQ

NBDC is a not-for-profit corporation established to ensure that people have reliable, affordable access to broadband in every single Nunavut community.

As part of this mandate, NBDC initiated the QINIQ network using funds obtained from the Government of Canada, agencies of the Government of Nunavut and the Inuit land claim organizations. NBDC owns the trademark "QINIQ" and owns certain assets of the QINIQ network for the sole purpose of securing borrowed money and making the network possible in every community.

Through a formal public RFP, NBDC selected SSI Micro Ltd to operate the QINIQ network. NBDC arranged the financing for the QINIQ network,

NBDC ensures that the borrowed funds are repaid and watches to make sure that SSI makes QINIQ available in every Nunavut community at the same affordable price.

Although NBDC owns the QINIQ name, and NBDC operates its projects under the name and subsidiary corporation QINIQ Inc., NBDC does not manage the day to day QINIQ network – that is the job of the QINIQ network operator, currently SSI Micro. NBDC does not receive any financial benefit from the operation of the QINIQ network and we pay for our accounts on that network just like all other subscribers.

In addition to encouraging the QINIQ network in Nunavut, NBDC strongly supports the growth of all the Nunavut broadband networks in as many communities and sectors as possible. Later in this report I will outline NBDC's efforts to ensure there continues to be several healthy broadband networks in Nunavut to support the social and economic growth of Nunavut.

Qulliq Energy Corporation Dispute

Now, I would like to address an unfortunate situation that has taken significant attention and funds away from the more positive growth opportunities. The QINIQ network was initiated by NBDC in 2005. As part of the initial project NBDC purchased assets from Qulliq Energy Corporation that, in the past, had been part of a joint venture between Qulliq predecessor power corporations and the QINIQ network operator, SSI Micro Ltd. In addition to the asset purchase, the signed agreement between NBDC and Qulliq authorized lease agreements that allow NBDC to locate satellite antennas and related equipment on Qulliq premises in most Nunavut

communities. While based on a signed agreement, the final lease and financial documents were delayed for various legal and technical reasons and the signed agreement was apparently not implemented to the satisfaction of Qulliq.

In May of 2007, NBDC was informed by Qulliq that NBDC and its network operator would not be allowed access to the QINIQ network equipment except for maintenance. Specifically, NBDC was instructed to cancel a planned air charter for the summer of 2007, a trip to all communities to upgrade the network, to implement Voice Over IP (VOIP) services and to install wireless hotspots for the use of visitors. In response to this action by Qulliq, NBDC launched a court action to enforce the signed agreement between Qulliq and NBDC and requested an injunction from the Nunavut Court of Justice to lift the lockout.

On October 9, 2007 the parties to the dispute appeared in court regarding the injunction and I am happy to report that NBDC was granted an immediate court order lifting the lockout in all respects pending an attempt by the parties to settle the dispute. Unfortunately, by the time the lockout was lifted by the Court, the opportunity for a summer air charter had passed and VOIP and hotspots continue to be unavailable in Nunavut until the summer of 2008 at the earliest.

During November 2007 the parties to this dispute engaged in mediation. A settlement was reached during mediation but as a not-for-profit organization, the NBDC Board is unable to approve the result of mediation without additional financial resources. All of NBDC's existing

sources of funds are tied to specific government contribution agreements and NBDC has no claim on the revenue from the QINIQ network to cover the QEC expectations. Essentially, NBDC has no current source of funds to cover the increased costs that are part of the mediated settlement.

We do expect that either the Government of Nunavut or Canada will announce funding or a guarantee that will provide the required financial capacity and allow the NBDC Board to approve the mediated settlement. We expect the dispute will be settled by June 11, 2008 when we are due back in the Nunavut Court of Justice to explain our settlement progress. More details of the public documents on this file are available on our web site.

We hope and expect that this unfortunate situation will be over soon and we regret the new service delays and general legal and business uncertainty that has clouded the QINIQ network over the last year.

Astonishing QINIQ Growth

The QINIQ network was launched in May 2005. When the project was funded by the Government of Canada we obtained committed funding to accommodate up to 2,000 subscribers. This number of subscribers was not expected to be reached until 2013.

This Federal funding was important because the real cost of a basic QINIQ account is \$150 per month. Due to Government of Canada contributions the subscribers are only charged \$60 per month for that basic account.

But the Federal funding only covered the first 2,000 subscribers. In fact QINIQ passed that mark in less than one year and now 3 years later,

there are 4,000 subscribers and still growing. Normally this would be excellent news for a commercial service. Unfortunately, it still costs \$150 for each of the new basic accounts and most subscribers continue to pay only \$60. The QINIQ network operator cannot continue to purchase the satellite capacity that is needed for the subscribers over 2,000 without additional federal assistance.

In 2007, NBDC instructed the network operator to review the nature of the subscribers and to ensure that subscribers doing government work and subscribers who do not live in Nunavut pay the real cost for the service. This so-called Real Cost Factor of 2.5 times the regular price list was implemented in the summer of 2007 and now only the appropriate subscribers receive the lower assisted cost.

New Funding Needed for QINIQ Subscribers over 2,000

While the network operator is now charging the Real Cost Factor where appropriate, the only permanent solution to the astonishing growth of QINIQ is new funding from the federal government to cover the subscribers over 2,000. To make our case to Infrastructure Canada, NBDC was assisted by Indian and Northern Affairs Canada and the Government of Nunavut Department of Economic Development and Transportation. I am pleased to report that on March 31, 2008 a Business Plan for additional funding for QINIQ was submitted to Infrastructure Canada including a support letter from the Government of Nunavut. This request is under review in Ottawa and we are looking forward to a positive response. When concluded, this request will cover the necessary funding for the QINIQ network through 2013.

The Next Five Years – User Needs

As part of the Business Plan Project – Infrastructure Phase II – NBDC carried out comprehensive surveys of individuals and held several half-day workshops in Cambridge Bay, Rankin Inlet and Iqaluit for users of broadband. All this activity was designed to learn what users need for the next few years. A parallel review of needs within the Government of Nunavut was carried out by the GN. All these needs have been examined and documented in the Business Plan recently submitted to Infrastructure Canada. In summary, three generic needs were identified by almost every sector of the users.

Meet Online

Almost every sector of Nunavut identifies the need to “Meet Online”. This generic term describes the need for audio, video and shared document capabilities for education and training, for healthcare, for management and governance, for business and for private use. The Business Plan submitted to Infrastructure Canada defines the need to fund and implement “Meet Online” services from multiple vendors serving Nunavut.

Time Shift Services

Almost every user we talked to needs to move large files by satellite to other Nunavut communities or to and from the south. Examples are moving maps, X-rays, video for education and copies of servers for replication locally. Much of the email and other traffic during the day on Nunavut’s satellite networks could be shifted to overnight or to a weekend, freeing up prime

shift capacity for the truly on-line traffic. Our Business Plan addresses this urgent need to spread our work out over all shifts, not just at peak time.

Local Connect

Several separate networks exist in Nunavut including QINIQ, NorthwesTel DSL, GN networks and other private networks. In most cases email and other traffic between these networks, even if it is just going across the street, moves to Yellowknife, Iqaluit or Ottawa to be sorted and re-routed back to the same community. This is a waste of valuable satellite capacity by all networks. The Local Connect project documented in our Business Plan will provide the technology to sort Internet traffic locally in most Nunavut communities and will avoid unnecessary satellite traffic for everybody.

Competitive RFPs for Private Sector Suppliers

The Business Plan submitted to Infrastructure Canada includes a commitment to issue RFPs to select one or more competitive private sector vendors to meet the network needs described above. NBDC believes it is important to have competition, to award contracts to more than one vendor when possible and to use the private sector to deliver network services. NBDC does not support the growth of internal government or government agency networks unless all possible vendors have a proper chance of winning that business. The growth of successful Nunavut networks for all users depends on continued service and support for Nunavut's private sector.

Managing Broadband – Nunavut’s Road Ahead

The astonishing growth of broadband in Nunavut over the last few years is only the beginning. Five years from now, I’m sure that we will again be astonished by the growth. However, there is a limit for Nunavut communities not faced in the south – the satellite doesn’t get faster and cheaper year after year. In five years, satellite capacity will cost just about what it costs today and that is a serious problem for Nunavut unless we learn to use the existing capacity much more effectively.

The Business Plan that was submitted to Infrastructure Canada in March was subtitled “*Managing Bandwidth – Nunavut’s Road Ahead*”. And that is exactly what we must do over the next five years – manage satellite bandwidth.

Operational Issues for Nunavut Broadband Development Corporation

NBDC plays an important role in the economic, social, educational and cultural health of Nunavut residents, in ensuring affordable broadband services are delivered by the private sector. Nunavut needs an advocate to keep ensuring broadband services evolve in the long term. NBDC was set up to be that advocate for Nunavut.

NBDC receives operational support from the Government of Nunavut, Department of Economic Development and Transportation. EDT provides a total of \$200,000 each year to help cover the core costs of operating NBDC. While critically important for the basic operations of NBDC, this amount in no way covers the real costs of running NBDC.

NBDC requires continued, increased long term support from the territorial and federal governments for core operations, along with long term support from Inuit organizations at a level that will allow for the successful operation of the organization in the future. Securing stable core funds is a challenge that has yet to be met. NBDC has been unable to staff an office in Iqaluit since the relocation of Lorraine Thomas, who continues work from Winnipeg at the request of the Board. NBDC continues to operate in a framework of fiscal uncertainty, reliant on semi-volunteer staff working for a committed group of volunteer board members. NBDC's role has matured to the point that it cannot continue to operate on a volunteer basis without permanent staff.

NBDC does not receive any revenue from the provision of broadband services. NBDC is also forbidden from using any federal funds secured in the Infrastructure investment to cover core operations. NBDC's challenge will be to find governmental and Inuit organization support to cover the costs of operating, to ensure that the federal investment reaches Nunavut residents in a fair and transparent manner. NBDC needs the support of Nunavut institutions to continue to evolve for the benefit of Nunavut residents into the future.

Finally, I would like to say that I appreciate the opportunity to be a part of the growth in Nunavut. I look forward to working to complete this next round of financing for broadband in Nunavut. After that I hope NBDC will have the support of various governmental and Inuit organizations, and I look forward to assisting new staff in running the organization.

Next year, I hope to enjoy a lot more time off and watch from the sidelines while the incredible change and growth in Nunavut continues, led by our directors and the new staff based in Nunavut.

Thank you.

David E. Smith
President
Nunavut Broadband Development Corporation
April 30, 2008