CHARTERED PROFESSIONAL ACCOUNTANTS



***Time: aiming for 5 hours (the response is targeted to take 4 hours, with the remainder of the time being for reading and filtering the relevant information.)***

*The "role day" of the Common Final Examination is designed to assess a candidate's ability to play one of four roles in depth. Each role will provide the opportunity to demonstrate depth in Financial Reporting and/or Management Accounting*.*

*For licensure, the Assurance role is the only eligible role.*

*Candidates will be provided a common case. Information that is common to all roles will be presented at the beginning of the case, in a "Common Information" section. Information that is specific to a role will be provided in additional appendices and candidates will be directed as to which appendices to read. Candidates need only look at the information they are directed to. There is absolutely no need to review the information presented for the other roles. The requirements for each role are clearly laid out in the "assigned roles" sheets.*

*The four roles will be equated for assessment purposes (considering reading time and answering time, which may vary by role), by the Board of Examiners, to ensure fairness to all candidates.*

**The Day 2 case may present depth opportunities in either or both Financial Reporting and Management Accounting. Over the combined Day 2 and 3 of the exam all candidates have the opportunity to demonstrate depth in one of the two areas.*

## INDEX TO DAY 2 CASE PACKAGE

*Information that is common to all roles is presented in the "Common Information" section. Additional information that is specific to a role is provided in the additional appendices. Candidates are specifically directed as to which appendices to look at for each role in the requireds.*

**Common Information. To be read by all roles.**



**Additional Information. Read only the relevant appendices specified for your role (see your assigned role for details).**

## BACKGROUND

### Common Information for all roles

StarNova is a publicly-traded company that operates exclusively in Canada. Its revenue exceeded $800 million for the year ended August 31, 2014. The company has a diversified portfolio of businesses ranging from consumer goods to high technology. All of StarNova's businesses operate independently and are expected to be self-sufficient. StarNova allows its subsidiaries as much freedom and autonomy as possible to pursue new ventures and maintain an "entrepreneurial" attitude. StarNova typically expects all of its businesses to generate a rate of return that surpasses their respective weighted average cost of capital (WACC).

SableTel Limited (SableTel), is a 100%-owned subsidiary of StarNova and operates in the telecommunications industry. SableTel sells long-distance, local telephone access, mobile, and internet and data services to end users. SableTel's draft 2014 financial statements are in Appendix I.

The telecommunications industry in Canada is highly regulated, and each year SableTel has its operating licence renewed by the Canadian Radio-television and Telecommunications Commission (CRTC). In early September, SableTel received a letter from the CRTC regarding its CRTC fee calculations (Appendix II). SableTel management was not sure if the initial calculations prepared were accurate. See Appendix III.

On September 13, 2014, Dan Wilson, CEO of SableTel, presented an overview of SableTel's 2014 financial results and 2015 strategic plan (Appendix IV) to the Executive Committee (EC) of StarNova.

The EC was confused by the results for 2014 and concerned about the 2015 strategic plan, particularly because SableTel is seeking $ 22 million from StarNova to fund the additional expenditures in its Wireless Technology Project. SableTel appears to be solely relying on getting the funds from StarNova.

Today is September 14, 2014. The EC found they were questioning most of the contents of Dan Wilson's presentation. They wonder whether StarNova's principle of letting each subsidiary run autonomously caused them to miss some of the changes at SableTel. They have concluded that poor management by Dan is a contributing factor. The EC is now seeking another perspective on SableTel.

You, CPA, were copied on an email from John McReynolds, the Chair of the EC, to Dan Wilson, outlining concerns raised by StarNova's Executive Committee (EC). The email is as follows:

*Hi Dan:*

*As you are aware, SableTel has always been the key to strategic growth within the technology segment of StarNova's business. The EC was hoping for a clearer evaluation of SableTel's operating performance, and was disappointed with your presentation. To gain a better understanding of SableTel's future from StarNova's perspective I am asking various individuals to further investigate the details of your presentation, on behalf of the EC. Each person is going to review certain parts of your presentation in detail, based on their area of expertise, and will be focusing on the specific tasks that I have personally assigned to them. They will report back to me a week from now so that I can consolidate their analyses and prepare a full report to the EC on SableTel's performance and a recommended course of action in each area being looked at.*

*Dan, undoubtedly, our external auditors will take their own look at SableTel as the StarNova yearend audit begins soon. Please provide them with whatever information they require to complete their work on time.*

*I am asking for your complete cooperation and support to everyone.*

John McReynolds, FCPA
Chairman, StarNova Executive Committee
Chairman, StarNova Audit Committee

**Assume one of the following four roles to formulate your response. For licensure, the Assurance role is the only eligible role. Answer only the requireds you have been directed to on the role sheet, using only the information you have been directed to use.**

**Requirements for the Assurance role**

You, CPA, are employed by CPA LLP and have just left the office of the engagement partner on the StarNova audit, Langley Markussen. CPA LLP is engaged to audit the consolidated financial statements of StarNova. We have developed a good relationship with StarNova management over the years and have not identified any reasons why our relationship with StarNova should be discontinued.

Our audit plan was completed in June 2014 and the results were presented to the StarNova audit committee.

On September 14, 2014, John McReynolds asked CPA LLP to undertake an audit of SableTel's unconsolidated financial statements for the 2014 fiscal year-end, as he believes a potential share offering is a possibility in the next year. John McReynolds has some concerns regarding the draft 2014 figures and would like an early indication of the potential accounting adjustments that may be required. In addition to undertaking the year-end audit, John wants CPA LLP to perform procedures to ensure that the CRTC submission is correctly calculated.

In addition to the common appendices (I to IV), the following further information is relevant for the work that StarNova would like you to perform:
Appendix V SableTel Executive Reporting Document for the year ended August 31, 2014
Appendix VI Excerpts from StarNova 2014 Audit Plan presented to the Audit Committee

The audit work related to StarNova's August 31, 2014 year-end is underway. However, the audit senior working on SableTel's financials has been unable to work for the last three weeks due to illness. Langley is anxious to complete the work required for the audit of the consolidated financial statements of StarNova and wants you, CPA, take over the audit work for SableTel, as part of the StarNova consolidated financial statement audit.

Langley would like you to review SableTel's draft financial statements and the executive reporting document and prepare a draft of the overall audit strategy for the 2014 audit of SableTel's financial statements, and provide it for his review by the end of the week. He has also asked you to prepare detailed audit strategy and document procedures that you recommend be undertaken related to SableTel's high-risk financial statement items.

With respect to providing assurance on the accuracy of CRTC submissions, Langley is wondering what type of reporting would be appropriate for this engagement and would like you to make a recommendation in this regard. In addition, Langley has asked you to prepare an audit strategy for SableTel's 2013 CRTC resubmission and 2014 CRTC submission, including a risk analysis and a preliminary assessment of the error. You are also required to provide a description of the relevant audit procedures.

*You have a preliminary meeting with Dan Wilson where he says the following "Since your firm has done the audit for a number of years and not much has changed, I am going to suggest the audit staff not ask many questions of my staff this year-end. We recently lost two key finance staff and are scrambling just to get the bills paid"*

**Requirements for the Finance role**

You, CPA, work as a financial analyst for StarNova.

John McReynolds and the EC are concerned that Dan Wilson's presentation is not a true representation of SableTel and its financial performance. The EC questions the accuracy of the financial information that is behind Dan's assessment of SableTel's performance. Accordingly, the EC would first like you to review the draft 2014 financial statements for any changes that you may wish to highlight.

In addition to the common appendices (I to IV), the following further information is relevant for the additional analysis that EC would like you to perform:

| | |
|---|---|
| Appendix V | SableTel Executive Reporting Document for the year ended August 31, 2014 |
| Appendix VI | Further Information about the Telecommunications Industry and relevant financial information for SableTel |
| Appendix VII | High level Customer Mix as at September 1, 2013 |
| Appendix VIII | Information regarding unsolicited offer to purchase SableTel |

After reviewing the draft financial statements, the EC would like you to provide them with your analysis of SableTel's operating performance, relative to its competitors, and to prior years.

The EC is also questioning the reliability of the 2015 budget presented by Dan Wilson and the likelihood of achieving the projected results. Your critical analysis of the budget including your best estimate of additional capital requirements would also be valuable.

On the assumption that StarNova lends the $22 million in funds requested, the EC would like you to perform an analysis of the Wireless Technology Project and recommend whether SableTel should continue with the project. The EC does not think Dan provided them with a very clear picture of this project.

Alternatively, the EC wonders if StarNova should instead of providing the additional $ 22 million of capital require SableTel to do an initial public offering of shares to raise the required amount. The EC is willing to consider a sale of up to 30% of SableTel's voting and participating shares. The EC would like you to express your views on this suggestion and on SableTel's ability to raise the necessary funds to complete the Wireless technology project.

In light of what is going on at SableTel, StarNova is wondering if perhaps they should accept the unsolicited offer of $46 million instead of investing more money in SableTel, but they are not sure what SableTel's true financial position is and what the company is currently worth. The EC would like you to provide them with a range of possible values for SableTel to determine the reasonableness of the offer using various business valuation methods based on cash flows, normalized income and asset values.

**Requirements for the Taxation role**

You, CPA, work for StarNova in the tax group.

Since you are capable of strong financial statement analysis in addition to doing detailed tax compliance and planning work, John McReynolds asks you do work in additional to your normal tax work. He asks that you assess SableTel's 2014 financial results, in the context of how it might affect the EC's decision with respect to SableTel and recommend changes you believe are necessary.

In addition to the common appendices (I to IV), the following information is relevant for the additional tax analysis that the EC would like you to perform:
Appendix V Summary Proposal for Management Compensation Plan
Appendix VI Information regarding unsolicited offer to purchase SableTel
Appendix VII Tax basis of SableTel's Assets as at September 1, 2013

To help address the staffing shortage in the Finance department at SableTel, John asks you to assist with the preparation of the tax filings for SableTel for 2014. In particular, he would like you to calculate the 2014 taxable income for SableTel so that StarNova can assess the impact on their tax planning.

He would also like you to report to him on the other taxation issues that you saw in Dan's presentation. He assumes the Wireless Technology Project qualifies as a Scientific Research and Experimental Development. And, he would like you to discuss the tax consequences of the bonus plan. And, he would like you to address why the Spacolli non-capital losses and ABIL have been denied by the CRA. Are there any arguments SableTel could use to support the use of the non-capital loss? What about to support the ABIL claim?"

He would like you to provide advice or planning ideas that come to mind with respect to the taxable income and past tax losses.

Finally, John asks you to calculate the tax liability that would be payable on the sale of assets of SableTel if the unsolicited offer of $46 million is accepted.

**Requirements for the Performance Management role**

You, CPA, work as a financial analyst for StarNova.

John McReynolds and the EC are concerned that Dan Wilson's presentation is not a true representation of SableTel and its financial performance. The EC questions the financial information that is behind Dan's assessment of SableTel's performance. Accordingly, the EC would first like you to review the draft 2014 financial statements for any changes that you may wish to highlight.

In addition to the common appendices (I to IV), the following further information is relevant for the additional analysis that EC would like you to perform:

| | |
|---|---|
| Appendix V | SableTel Executive Reporting Document for the year ended August 31, 2014 |
| Appendix VI | Further Information about the Telecommunications Industry and relevant financial information for SableTel |
| Appendix VII | High level Customer Mix as at September 1, 2013 |
| Appendix VIII | Information regarding unsolicited offer to purchase SableTel |

After reviewing the draft financial statements, the EC would like you to provide them with a complete qualitative and quantitative assessment of Sabletel's historical performance as compared to the industry and the company's mission, vision and strategic objectives. The EC would like a complete and honest assessment of SableTel's strengths and weaknesses.

In addition to evaluating SableTel's current position, you are asked to critique the future plans presented by Dan to the EC., and to provide any recommendations that you may have with respect to Dan's proposed strategies including an analysis of the risks and opportunities.

Finally, John would like you to evaluate from a strategic perspective the pros and cons of the financing options for completing the wireless technology project. The options under consideration are a) directly providing the required funding from StarNova or b) doing an initial public offering of up to 30% of SableTel shares or c) accepting the unsolicited $ 46 million offer for SableTel assets. Since a detailed quantitative analysis is being carried out separately by the Finance department, John asks that you limit your calculations and focus your efforts on a discussion of the qualitative and strategic attributes of each option.

## APPENDIX I
## EXCERPTS FROM 2014 SABLETEL LIMITED
## DRAFT FINANCIAL STATEMENTS

*DRAFT STATEMENT OF FINANCIAL POSITION*
*As at August 31*
*(unaudited)*

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Assets | | | |
| Current assets | | | |
| Cash | $ 351,018 | $ 8,320,677 | $ 8,546,231 |
| Accounts receivable | 15,864,501 | 6,788,745 | 5,034,095 |
| Inventory (Note 3) | 3,219,431 | 883,318 | 880,898 |
| | 19,434,950 | 15,992,740 | 14,461,224 |
| Non-current assets | | | |
| Property, plant and equipment (Note 6) | 62,532,502 | 65,643,101 | 66,342,990 |
| Deferred income tax asset | 35,629 | 35,629 | 35,629 |
| Intangible assets (Note 4) | 10,753,709 | 1,654,530 | 1,666,756 |
| | 92,756,790 | 83,326,000 | 82,506,599 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 13,065,938 | 8,718,978 | 8,712,693 |
| Current portion of long-term debt | 9,200,000 | 7,800,000 | 7,800,000 |
| | 22,265,938 | 16,518,978 | 16,512,693 |
| Non-current liabilities | | | |
| Long-term debt | 44,152,572 | 41,646,742 | 39,545,766 |
| | 66,418,510 | 58,165,720 | 56,058,459 |
| Capital | | | |
| Common shares | 3,000 | 3,000 | 3,000 |
| Retained earnings | 26,335,280 | 25,157,280 | 26,445,140 |
| | 26,338,280 | 25,160,280 | 26,448,140 |
| | $92,756,790 | $83,326,000 | $82,506,599 |

**APPENDIX I (continued)**
**EXCERPTS FROM 2014 SABLETEL LIMITED**
**DRAFT FINANCIAL STATEMENTS**

*DRAFT STATEMENT OF COMPREHENSIVE INCOME*
*For the years ended August 31*
*(unaudited)*

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Revenue (Note 1) | $65,072,224 | $65,176,742 | $63,813,457 |
| Cost of sales (Note 2) | 30,714,869 | 30,591,682 | 30,426,745 |
| Gross profit | 34,357,355 | 34,585,060 | 33,385,545 |
| Expenses | | | |
| Selling and marketing | 16,875,413 | 16,583,825 | 15,094,886 |
| Administration (Note 5) | 13,336,292 | 16,411,245 | 15,417,332 |
| | 30,211,705 | 32,995,070 | 30,512,218 |
| Operating profit | 4,145,650 | 1,589,990 | 2,873,327 |
| Interest expense | 2,967,650 | 2,877,850 | 2,775,900 |
| Profit (loss) before income taxes | 1,178,000 | (1,287,860) | 97,427 |
| Income taxes | – | – | – |
| Profit (loss) and comprehensive income (loss) | $ 1,178,000 | $ (1,287,860) | $ 97,427 |

**APPENDIX I (continued)**
**EXCERPTS FROM 2014 SABLETEL LIMITED**
**DRAFT FINANCIAL STATEMENTS**

**Additional Information and Notes**

The financial statements for SableTel have been prepared using International Financial Reporting Standards (IFRS) since 2012 in order to consolidate with parent company, StarNova. StarNova has been preparing IFRS financial statements since 2012.

Note 1 - Revenue

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Long-distance | $ 28,050,628 | $ 33,069,103 | $ 34,875,666 |
| Local access | 24,567,800 | 23,679,870 | 23,076,555 |
| Mobile | 4,238,967 | 3,963,200 | 3,076,875 |
| Internet and data services | 3,789,070 | 2,896,739 | 1,296,752 |
| Internet and data services – routers and modems | 1,675,759 | 1,567,830 | 1,487,609 |
| Government grant (see below) | 2,750,000 | – | – |
| | $ 65,072,224 | $ 65,176,742 | $63,813,457 |

During the year, SableTel received $2,750,000 from Industry Canada (IC) to assist with the development of its Wireless Technology Project. Once the project is complete, SableTel must share its technology with IC. IC will then formally approve the technology and will use the technology to support its own wireless initiatives.

Note 2 - Cost of sales

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Long-distance | $ 11,943,020 | $ 12,561,728 | $13,897,609 |
| Local access | 11,067,818 | 10,684,562 | 10,192,832 |
| Mobile | 2,204,529 | 2,087,618 | 1,615,623 |
| Internet and data services | 1,002,159 | 795,119 | 356,444 |
| Internet and data services – routers and modems | 679,859 | 619,865 | 568,557 |
| CRTC Fee | 3,817,484 | 3,842,790 | 3,795,680 |
| | $ 30,714,869 | $ 30,591,682 | $30,426,745 |

Included in long-distance expenses is $897,500 (2013 – $788,000) that was paid to a US supplier for infrastructure charges and $1,357,850 (2013 – $1,458,760) paid to a related party for telecommunication distribution services.

**APPENDIX I (continued)**
**EXCERPTS FROM 2014 SABLETEL LIMITED**
**DRAFT FINANCIAL STATEMENTS**

Note 3 - Inventory

Inventory consists of routers and modems that SableTel typically sells to end users to support its Internet and data services. Inventory is carried at cost. SableTel realizes a gross margin of approximately 60% on these items. Inventory tends to have a short life (typically 12 months) because of rapid technological change. In September 2013, SableTel purchased $2,500,000 of inventory at a substantial discount. SableTel has not provided for obsolescence in the inventory balance at August 31, 2013 or 2014 because on an overall basis the inventory is still generating a profit.

Note 4 - Intangible assets

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Software | $ 1,593,459 | $ 1,654,530 | $1,666,756 |
| Deferred research and development costs (Note 5) | 9,160,250 | – | – |
| | $ 10,753,709 | $ 1,654,530 | $1,666,756 |

Note 5 - Research and Development

Research and development (R&D) expenditures include projects in process that may or may not become commercially viable. All research and development costs are expensed as incurred in Administration on the statement of comprehensive income unless they have been capitalized as noted below.

The largest project is the Wireless Technology Project which is expected to improve margins by 5% for all products and services due to more efficient distribution methods. In 2014, management declared its intention to carry this project to market. All costs associated with this project are now being capitalized. In 2014, $5,702,390 was spent on this project and the entire amount was capitalized. As well, costs of $3,457,860 that were originally expensed in 2013 were reversed and capitalized in 2014.

**APPENDIX I (continued)**
**EXCERPTS FROM 2014 SABLETEL LIMITED**
**DRAFT FINANCIAL STATEMENTS**

Note 6 - Hurricane Baylee

On August 24, 2014, a Class 4 hurricane (Hurricane Baylee) devastated the south shore of Nova Scotia. 60 of SableTel's 340 communication towers were damaged disabling the entire mobile network. Each tower had a carrying value of $35,000. SableTel is currently assessing whether the mobile network can be fixed. It is also contemplating replacing the entire tower system with a new faster system. While these assessments are ongoing, no accounting adjustments have been made. Revenues from the mobile network will be negligible until it is restored. SableTel has submitted an insurance claim to mitigate the loss through its policy that provides a maximum payout of $2,000,000.

**APPENDIX II**
**LETTER RECEIVED FROM CANADIAN RADIO-TELEVISION AND COMMUNICATIONS COMMISSION (CRTC)**

September 5, 2014

Mr. Dan Wilson, CEO
SableTel Limited
2435 Highwayman Road
Westbrook, NS B4D 1H4

Third Notice

**Regarding: CRTC Regulations Violations**

Mr. Wilson:

This letter is to inform you of our intentions to revoke your operating license based on your continuing failure to comply with CRTC regulations regarding your 2013 CRTC Fee. Your license will be revoked on November 30, 2014, if you do not provide us with the following:

1. Resubmission of your 2013 CRTC Fee calculation.
2. Submission of your 2014 CRTC Fee calculation.
3. Payment of all amounts owing for 2013 and 2014.

Should you have any questions, you may reach us at the number provided below.

Sincerely,

Ima Bulldog
Assessment Manager
1-888-555-1234
CRTC

## APPENDIX III
## INFORMATION REGARDING SABLETEL'S 2014 CRTC FEE CALCULATIONS

Below are SableTel's 2013 Fee calculation (submitted to the CRTC on June 6, 2014) and the draft 2014 Fee calculation.

| | 2014 | 2013 |
|---|---|---|
| Revenue | $ 65,072,224 | $ 65,176,742 |
| Less: Qualifying costs | 26,897,386 | 26,748,892 |
| Add: 200% of negative margin customers | 0 | 0 |
| Base as calculated | 38,174,838 | 38,427,850 |
| CRTC Fee percentage | 10% | 10% |
| CRTC Fee | $ 3,817,484 | $ 3,842,785 |

The information technology (IT) department produced a margin report on a per-customer/per-product basis for the Finance department from the Finance database. The report showed that there were several customers with negative margins that totaled $1,130,000 for the 2014 fiscal year. This report was reviewed by the Marketing department, which used its own database to produce a similar report; the Marketing report showed no negative margin customers and as a result this report was used in the CRTC Fee calculation. In explaining the discrepancy, IT said that the difference is in the databases, but they were not sure why.

**Extract of the CRTC regulations pertaining to fee calculations.**

SableTel, like all other telecommunication companies, is required to contribute a percentage of its adjusted margin (the Fee) to a fund administered by the CRTC that subsidizes services to rural and remote regions of Canada as defined in the table below. On September 1, 2012, the calculation of the Fee changed in an effort to better balance the cost of the Fee with the services subsidized.

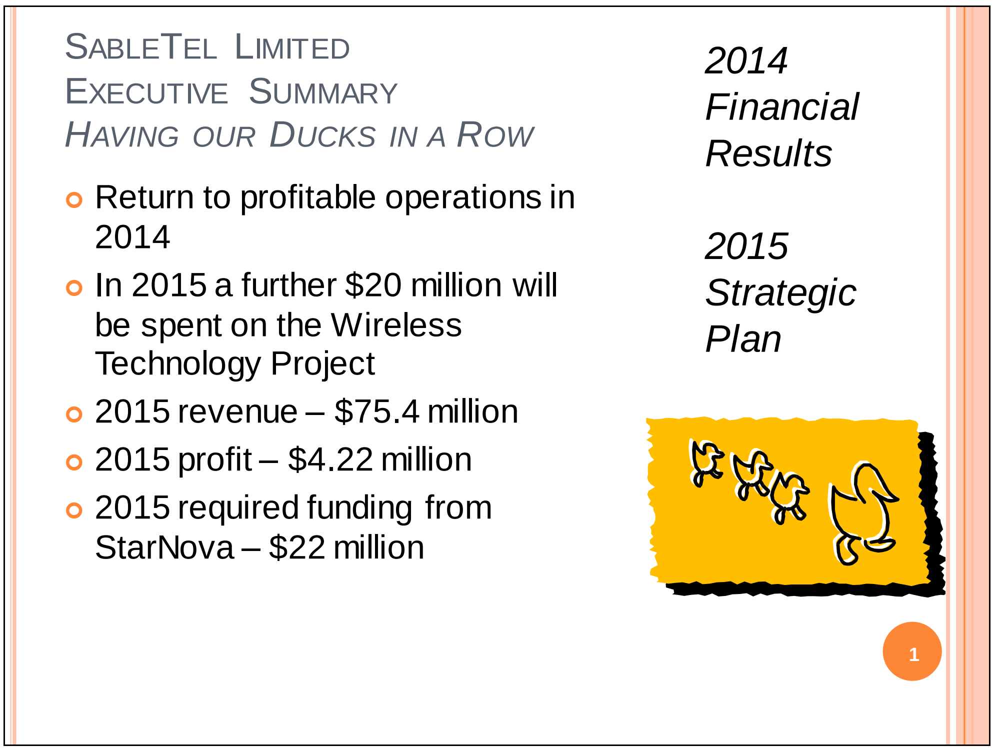
**APPENDIX III (continued)**
**INFORMATION REGARDING SABLETEL'S 2014 CRTC FEE CALCULATIONS**

| Description | Until August 31, 2012 | After August 31, 2012 |
|---|---|---|
| Revenue | 100% of revenue. | 100% of net Canadian telecommunications revenue (after any discounts) from long-distance, local access and mobile services. Related party revenue is excluded. |
| Less: Qualifying costs | Qualifying costs are amounts paid that are directly attributable to providing telecommunications services to customers. | Qualifying costs are defined as cost of sales associated with long-distance, local access and mobile services. Costs paid to non-Canadian entities and related parties are excluded from this calculation. |
| Add: 200% of the negative margin for any customers with a negative margin | Negative margin customers are defined as customers where any product is priced below cost. | No change. |
| Contribution percentage | 10% | 12% |

Fees with supporting calculations are due three months following the company's year-end.

**APPENDIX IV**
**PRESENTATION FROM DAN WILSON**

The following presentation of the 2014 financial results and the 2015 strategic plan for SableTel was given to StarNova's EC on September 13, 2014, by Dan Wilson, CEO of SableTel. After each slide there are notes regarding discussions that ensued between Dan and the EC.




**Discussion:**

EC – "Why did you choose the slogan *Having our Ducks in a Row"?*

Dan – "Having our ducks in a row contributes to our preparation for growth and prosperity following difficult times."

EC – "You have requested $22 million total for the Wireless Technology Project, of which $20 million will be spent next year. Assuming the other $2 million you are requesting gets spent in 2016, how confident are you that $22 million will be enough to complete the Wireless Technology Project?"

Dan – "That's a great question. I am not sure how accounting came up with the $22 million. I will need to get back to you with an answer."

**APPENDIX IV (continued)**
**PRESENTATION FROM DAN WILSON**

## 2014 Financial Results

| | 2014 Actual | 2013 Actual |
|---|---|---|
| Revenue ($000's) | 65,072 | 65,177 |
| Gross profit ($000's) | 34,357 | 34,585 |
| Gross margin (%) | 53% | 53% |
| SM&A(1) and interest ($000's) | 33,179 | 35,873 |
| Profit (loss) ($000's) | 1,178 | (1,288) |
| Key financial ratios: | | |
| Profit as a % of revenue | 1.8 | (2.0) |
| Profit as a % of gross profit | 3.4 | (3.7) |
| Profit as a % of SM&A and interest | 3.6 | (3.6) |

(1) SM&A – Selling, Marketing and Administration

2

**Discussion:**

Dan – "I am proud to announce that SableTel generated a profit for 2014 and improved all its key financial ratios despite the difficult economy."

EC – "Why is 2014 revenue slightly lower than 2013 revenue?"

Dan – "Revenue has decreased for two reasons. First, the sales team didn't meet its quota because of high staff turnover. Second, and more importantly, two large customers each with monthly recurring revenue exceeding $25,000 were lost in June 2014. These customers have not yet been replaced, but we plan to hire additional sales staff to increase sales. On a good note, our margins are holding up pretty well."

EC – "Why did we lose those customers?"

Dan – "I'm not sure. I believe pricing was the main issue. I haven't spoken directly to the customers to find out exactly what happened."

**APPENDIX IV (continued)**
**PRESENTATION FROM DAN WILSON**

## 2014 Variance Analysis

| 2014 vs. 2013 Actual Results (000's) | Variance |
|---|---|
| Increase in net income (2013 – loss $1,288K, 2014 income $1,178K) | $ 2,466 |
| Sales decrease | (105) |
| Cost of sales increase | (123) |
| Expenses decrease | 2,784 |
| Other variance (net) | (90) |
| Total variance explained | 2,466 |
| Unexplained variance | $ 0 |

3

**Discussion:**

EC – "I see that overall expenses have declined, which on the surface is a good thing. Can you provide me with further details regarding what specific expenses were reduced?"

Dan – "I understand from our marketing department that the reduction is the result of their cost containment."

EC – "Do you know what accounts for the *Other variance* of $90,000?"

Dan – "I think it may be made up of many smaller expense items such as lower depreciation charges, but I will check and get back to you."

**APPENDIX IV (continued)**
**PRESENTATION FROM DAN WILSON**

### Information Technology (IT)

- Goal – To introduce new technology to reduce cost of sales
  - Completion of the Wireless Technology Project to improve margins by 5%
  - Implementation date – January 1, 2016
  - IT will focus all of its resources on this project in 2015

### Human Resources

- Goal – Increase retention of existing employees
  - Introduce new management bonus plan in 2015 to ensure we maintain our top talent

SableTel 2014 Strategic Plan

4

**Discussion:**

EC – “Does the IT department have the resources it needs to complete the Wireless Technology Project on a timely basis?”

Dan – “Yes I think they have all the brain power they need. They just need the money to complete the project. Without the financial support of StarNova we would not be able to proceed.”

EC – “How sound is the technology supporting this project?”

Dan – “We are currently waiting for a third party feasibility assessment of the project which we expect within the next 60 days.”

EC – “How many employees will be covered by the new bonus plan and how much are you expecting it to cost?”

Dan – “The plan will cover seven senior employees. The total bonus could range anywhere from $500,000 to $1,000,000 based on future profitability

**APPENDIX IV (continued)**
**PRESENTATION FROM DAN WILSON**

**Customer Service**

- Goal – To increase customer satisfaction
  - The customer service department will visit 20% of all customers on a yearly basis. As a result, all customers will be visited once every five years (on a rotation)
  - Customer service staff will increase from 55 to 70

**Sales**

- Goal – To increase sales by 15% in 2015 and 10% in 2016
  - 16 additional sales staff will be hired (bringing the total sales staff to 120)
  - Each sales person will be given a higher sales quota

SableTel 2015 Strategic Plan

5

**Discussion:**

EC – "How many customers does SableTel have? How will you decide which customers to visit first?"

Dan – "Currently SableTel serves approximately 25,000 customers. Revenue from the largest customers is approximately $300,000 each annually. Smaller customers provide annual revenue of $1,000 each. See attached (APPENDIX VII for a high-level breakdown of customer mix. Customer service staff will first visit any customers that are close to our main office to keep travel costs down.")

EC – "How do you plan to increase sales as budgeted?"

Dan – "To meet targets, sales staff will be given higher quotas. Senior sales staff will be asked to lead by example, and hopefully when they are successful, there will be a trickledown effect."

EC – "How do the wages paid to the sales force compare with the industry?"

Dan – "Our salespeople are paid a base salary of $45,000 per year. If they meet their quota, they can earn up to $85,000 per year including commissions. Comparable positions in the industry are paid a base salary of $65,000 plus commissions. I believe that keeping our sales force motivated to earn commissions through a lower base salary encourages them to make sales."

**APPENDIX IV (continued)**
**PRESENTATION FROM DAN WILSON**

### Marketing

- Goal #1 – 60% gross margin
  - 60% will be used for all standard pricing
  - Implementation of "non-standard pricing policy" that can be used under specific circumstances
- Goal #2 – Increase cross-selling
  - Insert a targeted advertising flyer with monthly invoices to cross-sell products and services – $450,000 required to modify billing software

### Finance

- Goal – Increase profitability
  - See budget (attached)

SableTel 2015 Strategic Plan

6

**Discussion:**

EC – "Can you explain the non-standard pricing policy?"

Dan – "This policy will allow discounts to be offered to larger, higher-volume customers. Non-standard pricing requests will be approved by the VP Marketing. Discounts could range from 1% to 15%. We expect to make up these discounts with sales volume."

**APPENDIX IV (continued)**
**PRESENTATION FROM DAN WILSON**

## BUDGETED FINANCIAL INFORMATION

| ( all in $000's) | 2014 Actual | 2015 Budget |
|---|---|---|
| Revenue | $ 65,072 | $ 75,400 |
| Gross profit | 34,357 | 41,470 |
| Gross margin % | 53% | 55% |
| SM&A and interest | 33,179 | 37,250 |
| Profit | 1,178 | 4,220 |
| Add Back: Depreciation and amortization (included above) | 10,790 | 7,500 |
| Less: Capital expenditures | (19,858) | (32,000) |
| Cash flow | (7,890) | (20,280) |
| Financing requested | N/A | 21,000 |

7

**Discussion:**

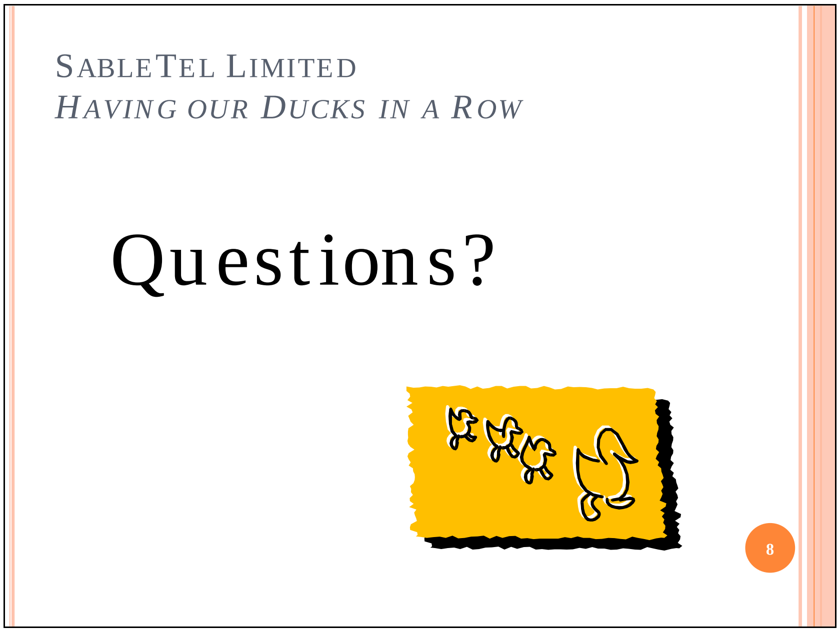
EC – "Why is there a significant increase in Selling, Marketing, Administration and interest expenses for 2015?"

Dan – "We have budgeted an inflationary increase of 2% for 2015. Plus we anticipate hiring 31 additional employees."

EC – "Where are the costs associated with the Wireless Technology Project?"

Dan – "In 2015, the $20 million of expenditures will all be capitalized."

**APPENDIX IV (continued)**
**PRESENTATION FROM DAN WILSON**




**Discussion:**

EC – “What information is provided to the Vice-Presidents for them to execute the strategic plan?”

Dan – “They receive all the information required to complete their functions. Marketing receives product margin information. Finance monitors budget and actual financial results. Sales gets monthly sales. Human Resources receives staff-count information. As a result each department will focus on accomplishing its individual goals. Information resides in various departmental folders on the file server. IT has estimated that it would cost $50,000 to provide cross-functional access to the files. However, the cost of this project is not justified given management’s philosophy that information should be restricted in use.”

EC – “Are there any regulatory or legal issues that we should be aware of.”

**APPENDIX IV (continued)**
**PRESENTATION FROM DAN WILSON**

Dan – "We received a letter from the CRTC asking us to resubmit our Fee calculation for last year. I will send the EC a copy of the letter following this meeting. As well, we received a reassessment from the Canada Revenue Agency (CRA) on July 15, 2014. The reassessment relates to losses that we utilized in 2012 to offset taxes payable. On January 1, 2012, SableTel acquired all the shares of an inactive shell company, Spacolli Enterprises Inc. (Spacolli), a former cell phone manufacturer and distributor. At the time of the acquisition, Spacolli had no assets or liabilities other than some inventory on hand which SableTel sold in 2012 for $235,000 to one of its large customers. The two corporations were amalgamated that day. Spacolli had $500,000 in unused non-capital losses on its 2011 federal tax return which SableTel used in 2012.

SableTel paid $50,000 for the shares of Spacolli to an unrelated third party. On the amalgamation, SableTel calculated a $50,000 capital loss on the shares (proceeds of disposition $0, ACB $50,000) and disclosed this loss on its 2012 T2SSCH6. The capital loss was used to offset income in SableTel's 2012 tax return because it was an "allowable business investment loss" (ABIL).

The CRA has denied the use of the non-capital loss and ABIL. The CRA reassessed federal income tax and interest in the amount of $160,000. SableTel management, on the advice of Dan Wilson's nephew, a business student at a local university, has indicated that they do not intend to challenge the reassessment. SableTel has accrued the $160,000 in Accounts Payable and Accrued Liabilities in the 2014 financial statements"

## ADDITIONAL INFORMATION PACKAGE FOR ASSURANCE

## APPENDIX V
## ADDITIONAL INFORMATION FOR ASSURANCE

StarNova's executive committee (EC) felt that they were required to attend far too many meetings last year, and decided to change the procedure starting with the 2014 fiscal year. StarNova's executive committee (EC) now meets in-person with the CEO of each subsidiary company once every fiscal year. Each September, subsidiary CEOs present their preliminary financial results for the year ended August 31 and their operating budget for the upcoming fiscal year. Subsidiaries continue to report results to StarNova's finance department every quarter for consolidation.

Each subsidiary's executive reporting document is expected to meet StarNova's Management Discussion and Analysis (MD&A) requirements so that StarNova's management can easily incorporate it in StarNova's annual report to shareholders.

*SABLETEL EXECUTIVE REPORTING DOCUMENT*
*For the year ended August 31, 2014*
*(prepared by Dan Wilson)*

*The following is dated September 13, 2014, and should be read in conjunction with the financial statements of SableTel for the year ended August 31, 2014.*

Our parent company, StarNova, operates within Canada to provide both private and corporate customers with their technology and telecommunication needs. StarNova does this through attention to the future, ensuring customers are provided with the security of being supported by leading edge technology in all aspects of the services and products provided.

To undertake this mission, StarNova has mandated that each subsidiary be run independently, but be required to achieve specific goals and support overarching mandates. To this end, annual performance is expected to show a 25% improvement in net income year over year, and maintain a leadership position in the delivery or use of technology. (Knowing, however that the nature of technology is extremely volatile, that when any one year has shown a negative income the goal is to provide plans to return to and recover lost profitability within the timeframe of the planning cycle).

Maximizing shareholder value through diverse Canadian operations with growth focused on their industry.

**APPENDIX V (continued)**
**ADDITIONAL INFORMATION FOR ASSURANCE**

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Owning a diversified family of companies recognized for leading their industry with technology and people.

SableTel aligns to this by creating value through its people, technology and exceptional service.

As a leading Canadian telecommunications company, SableTel is committed to using leading edge technology, to meet the telecommunication and other needs of its customers.

SableTel had an outstanding year in 2014. We turned the corner from a loss in 2013 to profitable operations in 2014 despite difficult economic conditions. We continue to benefit from decisions our excellent management team implemented over the past several years. We plan to do even better in the future by increasing revenue and decreasing expenses. We also expect the impact of our new Wireless Technology Project to be substantial in the short term.

We have also taken strides to decrease our risk profile. We established an occupational health and safety committee in 2014, which decided to remove all fried foods from the cafeteria menu and installed hand sanitizers at all doorways as a result of the H1N1 pandemic. Reducing our risk was mandated by our parent company, StarNova, and we believe we have met this objective.

We are not aware of any new significant lawsuits to which SableTel has been named defendant.

We continue to focus on evolving our core business. We have no new significant projects planned for the foreseeable future.

Finally, we would like to request that StarNova's MD&A thank a long-time employee of our company who will be retiring next month. Mr. Dudley (Dude) Oldmun has been working with our sales department for 25 years.

## APPENDIX VI
## ADDITIONAL INFORMATION FOR ASSURANCE

*EXCERPTS FROM STARNOVA 2014 AUDIT PLAN PRESENTED TO THE AUDIT COMMITTEE*

The following preliminary planning was done in June 2014 for the August 31, 2014 year end consolidated audit of StarNova.

<u>Changes to the Entity and its Environment</u>
StarNova is pursuing a strategy of organic growth, especially within key subsidiaries. This will require additional investment by StarNova over the next number of years.

SableTel is in the early stages of considering an initial share offering to generate additional funds, and we will need to follow up with them at year end as to how that affects the SableTel audit.

<u>Areas of Risk – StarNova 2014 Audit</u>
StarNova's consolidated financial results are expected to remain fairly close to the previous year in terms net income and total revenue.

No new areas of risk relevant to the audit have been identified for the company as a whole.

As in previous years, risks of material misstatement are to be assessed for individual subsidiaries, as they operate in a wide variety of industries.

<u>Materiality</u>
Materiality for StarNova for the August 31, 2014 fiscal year will be set at $4 million (same as the prior year).

<u>Other Information</u>
We will be provided with copies of the subsidiary Presentations to the Executive Committee (2014 results and 2015 strategic plan) in September, as well as the meeting and discussion notes from these presentations.

The audit committee meeting is scheduled for October 20, 2014.

## ADDITIONAL INFORMATION PACKAGE FOR FINANCE

## APPENDIX V
## ADDITIONAL INFORMATION FOR FINANCE

StarNova's executive committee (EC) felt that they were required to attend far too many meetings last year, and decided to change the procedure starting with the 2014 fiscal year. StarNova's executive committee (EC) now meets in-person with the CEO of each subsidiary company once every fiscal year. Each September, subsidiary CEOs present their preliminary financial results for the year ended August 31 and their operating budget for the upcoming fiscal year. Subsidiaries continue to report results to StarNova's finance department every quarter for consolidation.

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## APPENDIX VI
## ADDITIONAL INFORMATION FOR FINANCE

*FURTHER INFORMATION ABOUT THE TELECOMMUNICATIONS INDUSTRY AND RELEVANT FINANCIAL INFO FOR SABLETEL*

The telecommunications industry in Canada is dominated by three major public companies, each with large investments in infrastructure across the country. There are also many regional operators, like SableTel, that provide services to residents regionally. Regional operators pay a fee to one of the "big three" operators for the right to access their infrastructure. One of SableTel's competitive advantages in this industry is proprietary software it utilizes in both its wireless and long-distance divisions. This proprietary software made SableTel one of StarNova's most profitable divisions from 2008-2011.

**Industry Ratios – Telecommunications Industry (Regional Operators Only)**

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| **Profitability ratios** | | | |
| Return on equity | 9.6% | 10.5% | 10.2% |
| **Margin analysis** | | | |
| Gross profit | 52.2% | 53.0% | 52.8% |
| Selling, marketing and administration | 40.5% | 40.3% | 40.4% |
| Operating profit | 11.7% | 12.7% | 12.9% |
| **Turnover** | | | |
| Accounts receivable turnover | 6.7× | 6.9× | 6.9x |
| **Short-term liquidity** | | | |
| Current ratio | 0.8× | 0.8× | 0.8x |
| **Long-term solvency** | | | |
| Operating profit/interest expense | 8.1× | 8.3× | 8.0x |
| **Growth over prior year** | | | |
| Revenue growth * | (2.6%) | (3.2%) | 0.5% |

* Industry analysts expect revenue to grow by 1.5% in 2015.

**Industry Trends**

Industry experts expect the greatest segment of future growth to be in Internet use followed very closely by mobile segment. Competition in the mobile segment will continue to be fierce resulting in lower prices and margins but the number of mobile users is expected to grow at 2.9% for 2015.

The long distance segment continues to decline and the major players that own the wire line systems are spending less on capital improvements to the wire infrastructure.

**APPENDIX VI (continued)**
**ADDITIONAL INFORMATION FOR FINANCE**

*FURTHER INFORMATION ABOUT THE TELECOMMUNICATIONS INDUSTRY AND RELEVANT FINANCIAL INFO FOR SABLETEL*

Built up demand could see dramatic consumption on the first evidence of successful application of new HD3D technology. SableTel's internal marketing research has estimated system sales equivalent to 75% of current mobile and internet volumes and hardware support with 25% year over year growth until the market barriers are removed in 2017 with IC opening up the competitive environment

**Financial information – cost of capital**

StarNova uses the weighted average cost of capital (WACC) as a benchmark rate of return required for all of its investments.

To determine the cost of equity financing, it uses the capital asset pricing model (CAPM). According to the financial analysts that follow StarNova, SableTel's beta coefficient is 1.75. However, the Wireless Technology Project is riskier than Sabletel's regular operations. If the Wireless Technology Project was a business on its own, its weighted average cost of capital would be two percentage points higher than SableTel's.

At the present time, the rate of return on short-term government bonds is 1%, and the analysts estimate the risk premium of the market portfolio at around 8%.

## APPENDIX VII
## ADDITIONAL INFORMATION FOR FINANCE

*HIGH LEVEL CUSTOMER MIX AS AT SEPTEMBER 1, 2014*

| Average revenue for customer group | Cust. in group | Avg. total revenues | Long Distance | Local | Mobile | Internet | Hardware |
|---|---|---|---|---|---|---|---|
| $ 275,000 | 7 | $ 1,925,000 | $866,420 | $758,843 | $130,932 | $117,036 | $51,760 |
| $ 175,000 | 30 | $ 5,250,000 | $2,362,964 | $2,069,573 | $357,087 | $319,188 | $141,165 |
| $ 75,000 | 46 | $ 3,450,000 | $1,552,805 | $1,360,005 | $234,657 | $209,752 | $92,765 |
| $ 32,500 | 54 | $ 1,755,000 | $789,905 | $691,829 | $119,369 | $106,700 | $47,189 |
| $ 15,000 | 937 | $ 14,055,000 | $6,325,991 | $5,540,542 | $955,974 | $854,513 | $377,918 |
| $ 1,500 | 23925 | $ 35,887,500 | $16,152,544 | $14,147,008 | $2,440,947 | $2,181,881 | $964,961 |
| | 24999 | $ 62,322,500 | | | | | |
| | | | $28,050,628 | 24,567,800 | 4,238,967 | 3,789,070 | 1,675,759 |

The last thing that Oldmun did before retiring was compile a high-level customer demographic to help focus efforts in the future.

## APPENDIX VIII
## ADDITIONAL INFORMATION FOR FINANCE

*INFORMATION REGARDING UNSOLICITED OFFER TO PURCHASE SABLETEL*

StarNova has received an unsolicited offer of $46 million for SableTel's assets. The purchaser would be willing to purchase SableTel's shares instead of its assets, and would be willing to adjust its offering price accordingly, so that StarNova would have the same after-tax net proceeds from the sale.

The offer includes SableTel's capital assets, intangible assets and related inventory. The offer did not include any other assets owned by SableTel and did not include the assumption of any related liabilities. SableTel will sell all capital assets with the exception of the office furniture, computers and related application software at its leased office space at its head office. SableTel will keep these assets as it winds up its business after the asset sale.

The total amount offered for the assets was $46,000,000. The purchaser proposed the following purchase price allocation:

| | |
|---|---|
| Inventory (modems, supplies, spares) | $ 600,000 |
| Buildings | $ 1,000,000 |
| Towers and other support structures | $ 3,500,000 |
| Copper and silver wire and cable | $ 6,000,000 |
| Fibre optic cable | $ 8,000,000 |
| Trucks, trailers and other automotive | $ 3,000,000 |
| Electrical generating equipment for network | $12,000,000 |
| Telecommunication switches and related hardware | $ 9,000,000 |
| Desks, chairs, shelving and other furniture and equipment | $ 900,000 |
| Software for switches, billing etc. | $ 2,000,000 |

The offer included a $500,000 cash break fee payable at the time the letter of intent is signed, with the balance of $45,500,000 due on closing.

A contingent proceeds clause was included in the offer. If the Wireless Technology Project is completed and becomes commercially viable, an additional $5,000,000 will be paid by the purchaser at the time the project is implemented.

## ADDITIONAL INFORMATION PACKAGE FOR TAXATION

## APPENDIX V
## ADDITIONAL INFORMATION FOR TAXATION

*SUMMARY PROPOSAL FOR MANAGEMENT COMPENSATION PLAN*

### Compensation Information

SableTel currently compensates its executives with a salary and cash bonus system. At Dan's request, SableTel's Vice-President of Human Resources commissioned a study of possible compensation systems for members of management (to be implemented January 2015). Relevant excerpts from the study and its recommendations follow.

### Management Compensation at SableTel

Management compensation is designed to assist an organization achieve its goals. The compensation package for management should contain features that motivate an alignment of actions with those goals. This includes both short term and long-term performance.

The recommended compensation package for SableTel management is to add a stock option plan and deferred stock unit (DSU) plan while reducing the current bonus program.

The current bonus program is solely based on reported results of SableTel on an annual basis. If SableTel makes a profit, as computed under IFRS, then each member of the EC and some managers receive a bonus. The bonus percentages range from 15% of annual salary compensation to 50% of annual salary compensation, depending on the seniority level. The total bonus for the President and CEO can be as much as $200,000 annually. Under the proposed new management compensation structure, the annual bonuses would be decreased to between 5% and 25% of annual salary compensation and would be tied not only to IFRS computed profits but also to key performance indicators and the individual's personal performance rating as determined by the Compensation Committee of the SableTel Board of Directors.

Under the stock option plan, options would be granted to current management in proportion with their current salaries. The options would be to purchase StarNova stock, not shares in SableTel. The option price at the time of the grant would be equal to 75% of the average trading price of the StarNova stock on the date of the grant (average = daily maximum + daily minimum / 2). The options would vest over a 3-year period, with 1/3 of the options vesting each year on the anniversary of the date of the grant. The options would then be exercisable for a period of 6 months following the vesting date. The value of the options granted to each person would be set between 10% and 20% of their salary.

**APPENDIX V (continued)**
**ADDITIONAL INFORMATION FOR TAXATION**

*SUMMARY PROPOSAL FOR MANAGEMENT COMPENSATION PLAN*

The DSU plan would grant DSUs to the members of SableTel's executive and select managers. The DSU value would be 10% to 20% of the person's salary for the year of the grant. The DSU would not be a grant of stock, but would be represent a "phantom" stock grant. The contract under the DSU would require a payout to the person on their retirement from SableTel equal to a percentage of the accretion of the value of the issued stock of StarNova over the term of the DSU. The payout would also compensate the person for the same proportionate share in any dividends paid by StarNova to its common shareholders of its publicly traded stock over that period. In order to fund the pay out, SableTel will set up a sinking fund in a separate bank account controlled by a nominee/trustee and bound by the terms of the DSU plan. SableTel will be required to fund 25% of the value of the DSUs in the bank account as determined by an actuary on a bi-annual basis. The DSU plan will guarantee a floor price of StarNova stock in order to allow for value to accrue in the event of a general downturn in the market that is not the fault of management, as determined at the sole discretion of the Compensation Committee of the SableTel Board of Directors.

The DSUs will be granted based on the individual's performance and the performance of the company as measured against Key Performance Indicators.

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## ADDITIONAL INFORMATION FOR TAXATION

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**APPENDIX VII**
**ADDITIONAL INFORMATION FOR TAXATION**

*TAX BASIS OF SABLETEL's ASSETS AS AT SEPTEMBER 1, 2013*

Undepreciated Capital Cost:

| | |
|---|---|
| Class 1 | $ 8,132,688 |
| Class 3 | $ 1,689,993 |
| Class 8 | $21,322,891 |
| Class 10 | $11,805,302 |
| Class 13 | $ 744,559 |
| Class 42 | $13,991,008 |

Eligible capital property $691,191

Adjusted cost base of shares owned by StarNova $3,000,000

## ADDITIONAL INFORMATION PACKAGE FOR PERFORMANCE MEASUREMENT

## APPENDIX V
## ADDITIONAL INFORMATION FOR PERFORMANCE MANAGEMENT

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**Industry Ratios – Telecommunications Industry (Regional Operators Only)**

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| **Profitability ratios** | | | |
| Return on equity | 9.6% | 10.5% | 10.2% |
| **Margin analysis** | | | |
| Gross profit | 52.2% | 53.0% | 52.8% |
| Selling, marketing and administration | 40.5% | 40.3% | 40.4% |
| Operating profit | 11.7% | 12.7% | 12.9% |
| **Turnover** | | | |
| Accounts receivable turnover | 6.7× | 6.9× | 6.9x |
| **Short-term liquidity** | | | |
| Current ratio | 0.8× | 0.8× | 0.8x |
| **Long-term solvency** | | | |
| Operating profit/interest expense | 8.1× | 8.3× | 8.0x |
| **Growth over prior year** | | | |
| Revenue growth * | (2.6%) | (3.2%) | 0.5% |

* Industry analysts expect revenue to grow by 1.5% in 2015.

**Industry Trends**

Industry experts expect the greatest segment of future growth to be in Internet use followed very closely by mobile segment. Competition in the mobile segment will continue to be fierce resulting in lower prices and margins but the number of mobile users is expected to grow at 2.9% for 2015.

The long distance segment continues to decline and the major players that own the wire line systems are spending less on capital improvements to the wire infrastructure.

**APPENDIX VI (continued)**
**ADDITIONAL INFORMATION FOR PERFORMANCE MANAGEMENT**

*FURTHER INFORMATION ABOUT THE TELECOMMUNICATIONS INDUSTRY AND RELEVANT FINANCIAL INFO FOR SABLETEL*

Built up demand could see dramatic consumption on the first evidence of successful application of new HD3D technology. SableTel's internal marketing research has estimated system sales equivalent to 75% of current mobile and internet volumes and hardware support with 25% year over year growth until the market barriers are removed in 2017 with IC opening up the competitive environment

**Financial information – cost of capital**

StarNova uses the weighted average cost of capital (WACC) as a benchmark rate of return required for all of its investments.

To determine the cost of equity financing, it uses the capital asset pricing model (CAPM). According to the financial analysts that follow StarNova, SableTel's beta coefficient is 1.75. However, the Wireless Technology Project is riskier than Sabletel's regular operations. If the Wireless Technology Project was a business on its own, its weighted average cost of capital would be two percentage points higher than SableTel's.

At the present time, the rate of return on short-term government bonds is 1%, and the analysts estimate the risk premium of the market portfolio at around 8%.

**APPENDIX VII**
**ADDITIONAL INFORMATION FOR PERFORMANCE MANAGEMENT**

*HIGH LEVEL CUSTOMER MIX AS AT SEPTEMBER 1, 2013*

| Average revenue for customer group | Cust. in group | Avg. total revenues | Long Distance | Local | Mobile | Internet | Hardware |
|---|---|---|---|---|---|---|---|
| $ 275,000 | 7 | $ 1,925,000 | $866,420 | $758,843 | $130,932 | $117,036 | $51,760 |
| $ 175,000 | 30 | $ 5,250,000 | $2,362,964 | $2,069,573 | $357,087 | $319,188 | $141,165 |
| $ 75,000 | 46 | $ 3,450,000 | $1,552,805 | $1,360,005 | $234,657 | $209,752 | $92,765 |
| $ 32,500 | 54 | $ 1,755,000 | $789,905 | $691,829 | $119,369 | $106,700 | $47,189 |
| $ 15,000 | 937 | $ 14,055,000 | $6,325,991 | $5,540,542 | $955,974 | $854,513 | $377,918 |
| $ 1,500 | 23925 | $ 35,887,500 | $16,152,544 | $14,147,008 | $2,440,947 | $2,181,881 | $964,961 |
| | 24999 | $ 62,322,500 | | | | | |
| | | | $28,050,628 | 24,567,800 | 4,238,967 | 3,789,070 | 1,675,759 |

The last thing that Oldmun did before retiring was compile a high-level customer demographic to help focus efforts in the future.

**APPENDIX VIII**
**ADDITIONAL INFORMATION FOR PERFORMANCE MANAGEMENT**

*INFORMATION REGARDING UNSOLICITED OFFER TO PURCHASE SABLETEL*

StarNova has received an unsolicited offer of $46 million for SableTel's assets. The purchaser would be willing to purchase SableTel's shares instead of its assets, and would be willing to adjust its offering price accordingly, so that StarNova would have the same after-tax net proceeds from the sale.

The offer includes SableTel's capital assets, intangible assets and related inventory. The offer did not include any other assets owned by SableTel and did not include the assumption of any related liabilities. SableTel will sell all capital assets with the exception of the office furniture, computers and related application software at its leased office space at its head office. SableTel will keep these assets as it winds up its business after the asset sale.

The total amount offered for the assets was $46,000,000. The purchaser proposed the following purchase price allocation:

| | |
|---|---|
| Inventory (modems, supplies, spares) | $ 600,000 |
| Buildings | $ 1,000,000 |
| Towers and other support structures | $ 3,500,000 |
| Copper and silver wire and cable | $ 6,000,000 |
| Fibre optic cable | $ 8,000,000 |
| Trucks, trailers and other automotive | $ 3,000,000 |
| Electrical generating equipment for network | $12,000,000 |
| Telecommunication switches and related hardware | $ 9,000,000 |
| Desks, chairs, shelving and other furniture and equipment | $ 900,000 |
| Software for switches, billing etc. | $ 2,000,000 |

The offer included a $500,000 cash break fee payable at the time the letter of intent is signed, with the balance of $45,500,000 due on closing.

A contingent proceeds clause was included in the offer. If the Wireless Technology Project is completed and becomes commercially viable, an additional $5,000,000 will be paid by the purchaser at the time the project is implemented.