

CRTV

Board Statement

July 2, 2008

The Board of Directors of Campbell River TV Association unanimously supports the recommendation to sell CRTV to Shaw Cablesystems Limited.

This has been a very difficult decision for the Board to make in view of the fact that CRTV celebrated its 50th anniversary last year. The Board is very aware that CRTV has been an integral part of Campbell River for the past 51 years.

Over the last four years the Board has followed a process of due diligence with the objective of finding solutions to the problems that face CRTV as a small cable system in a world that has seen increasing concentration in the media, including the cable industry.

In April 2004, the Board of Directors contracted with Sigma Social Research to perform an in-depth survey of CRTV members in Campbell River. The overall results of this survey confirmed that members see CRTV as a utility and that as long as Quality Of Service, Price, and Product remained competitive, and that CRTV aggressively moved forward in bringing in new or advanced technologies, members would continue their support. A factor of serious concern for the Board was that members did not view themselves as members, owners, or shareholders of an association and were even less interested in CRTV's work in supporting community organizations. Members saw themselves first as customers and CRTV was seen as simply a cable TV company similar to any other utility.

In November 2005, the Board of Directors went through a Strategic Planning session with an outside consultant. Board members, management, union members, a Canadian Cable Television Association representative and a senior executive from Cable Labs attended. The purpose of the session was to review in detail CRTV's strengths, weaknesses, opportunities, and threats with the objective of developing a forecast for the next five years. A disturbing realization resulting from this meeting was that CRTV might not survive for an extended period of time.

Board training and self-education has been a priority over the last five years. It has included participation in annual CCSA (Canadian Cable Systems Alliance) meetings, Cable Labs conferences and Strategic Planning sessions in an attempt to keep up with developing technologies.

In September 2006, the Board of Directors contracted with an outside consultant to develop an in-depth Strategic Business Analysis. This report was completed and presented to the Board in January 2007. An edited version of this report was placed on CRTV's web Site and made available to members across the counter at CRTV. The conclusion of this report stated that "Should the Board believe that making the investments recommended are too risky given the uncertain regulatory and competitive environment; the sale of the company should be very seriously considered before the value of the system deteriorates." This report was a reality check for the Board.

In September 2007, the Board also became aware of a number of overwire applications in the Cable TV industry and that a system of similar size to CRTV in southern Ontario, could be overwired. In January 2008, it was confirmed that Rogers Communications had received approval to overwire Aurora Cable Internet. Shortly thereafter, ACI was sold to Rogers and CRTV became the 9th largest independent Cable TV system in Canada. In British Columbia alone over the past year, a number of Cable TV systems have been sold to larger competitors. These include Delta Cable in the Lower Mainland which was purchased by Persona and two months later sold again to Eastlink. Whistler Cable, Northern Television in Whitehorse, Valley Cablevision and Rush Communications were all sold to larger operators in 2007.

In the early fall of 2007, leading up to our November Annual General Meeting, the membership and the Board were impacted by an 'expression of interest' by Shaw Cablesystems to purchase CRTV for 37.5 million dollars. The Board received a "Letter of Intent" from Shaw just prior to the meeting but no negotiations were entered into at that time. The members attending the meeting directed the Board to move forward on Option B, to "aggressively implement a course of action to maintain, improve, enhance and expand services provided by CRTV including community programming to the full extent financially practicable." A Budget was then prepared in January and approved by the Board in early February, 2008.

In late April of this year, the Board was notified that Shaw's application to overwire CRTV had received administrative approval by the Commission (CRTC). The Commission's decision to approve Shaw's overwire application was consistent with decisions that the Commission has made over the last fifteen years. The Board believes that, based on previous decisions, the Commission has the view that consumers in Campbell River should have increased choice among the "distributors of broadcasting and other services" such as Star Choice, Bell ExpressVu, Shaw Cable and Telus TV. The Commission also appears to believe that overall service to the public in Campbell River should have a higher priority than the economic viability of Campbell River TV. In turn, the Commission cannot discriminate against Shaw by not approving Shaw's overwire application for Campbell River.

There is no overwire appeal process. The Commission is very unlikely to review and vary a decision that it has

already approved following its own regulations and guidelines. There is no precedent to justify an appeal for a system the size of CRTV. An appeal would occur only if it was a regional or national issue that was industry-wide. The appeal would then be made to Government, not to the Commission.

Simply put, the Board of Directors of CRTV believes that this decision by the Commission to overwire Campbell River will stand.

CRTV finds itself in a very difficult situation as it purchases all of its television services from its direct competitors (Bell ExpressVu or Star Choice). Star Choice is owned by Shaw which supplies CRTV with the lion's share of our digital and analog TV services. Shaw has programming and bundled packaging that will attract our members (Pay Per View, Video On Demand, Special Event programming, telephone, KVOS, KSTW, and FM service). Soon Shaw will have a wireless cellular service as well. Telus supplies CRTV's backhaul internet connectivity and is the only fibre connection out of Campbell River.

At the same time CRTV's Cost of Sale for programming is higher than the competition simply because of the buying power of our competition. CRTV's operating costs are considerably higher on a per subscriber basis simply because of our small size.

CRTV does not have the negotiating power with the program and equipment suppliers even with its membership in the CCSA (Canadian Cable System Alliance). The CCSA is a conglomerate of small cable TV systems across Canada representing less than 3.5% of potential Cable subscribers in Canada. The other 96.5% is owned by the large Cable TV operators.

CRTV can compete in the short term. However, given the challenges the organization faces in the future, it is highly unlikely that it will be able to survive in the long term.

CRTV is also having a major problem attracting qualified personnel. CRTV is seen as a heavily unionized environment that is having internal problems. It is also seen as a company that is under attack by Shaw and that has a limited life expectancy. At the same time the labour market is not offering any easy solutions simply because there is an abundance of job opportunities for qualified people.

Certainly, CRTV can continue to exist with fewer subscribers, but there will be a turning point in the very near future when it will not be able to continue offering services in more remote areas of our community, simply because there will not be the numbers of subscribers to offset the cost of supplying the service. Today CRTV has a value of \$46 million to Shaw. Facing direct competition and a loss of subscribers, it is very likely that the value of the system will decrease quickly over the next few years.

CRTV has received legal opinions from three leading tax law firms which state that it is a non-profit organization which is exempt from paying income tax. The Board has also requested an advance tax ruling from the Canada Revenue Agency on this point. It will take up to six months to obtain this ruling. The tax opinions received to date from highly qualified tax lawyers state that each member will pay capital gains tax on the money that is received from the sale of the CRTV assets, other than the debenture payment. The amount of such tax will vary from member to member, depending on other taxable income received by each member during the relevant taxation year. CRTV suggests that you consult with your accountant if you wish to receive further details on your potential tax liability

The legal process that the Board has followed to amend CRTV's Bylaws to allow a decision to be made concerning the sale of CRTV has been quite extensive. The Board and Legal Counsel are confident that they have met all CRTV Bylaw requirements in the Notice of Meeting and the Special Resolutions Proxy.

The proposed bylaw change requires 75% of those members actually voting to be in favour of the proposed sale. The Board believes that this is far more democratic than the existing bylaw which discounts the will of those who vote in favour of those who do not. The proxy vote process enables every member to vote on the sale should they choose to exercise their right to do so.

The delay in the delivery of Proxy packages by Canada Post has been frustrating, and for some people the late delivery did not provide the time necessary to make their decision. The Board, recognizing this, has extended the proxy mail-in date. Proxies postmarked prior to the end of business on July 3, 2008 will be accepted. This will allow members who wish to view or take part in discussions to do so prior to voting. The vote will be tabulated by Valiant Trust and the results will be made available to members on July 9, 2008.

The Board has a moral and legal responsibility to the membership of CRTV to consider and explore all reasonable options that become available to the Association. After fully considering the offer to purchase CRTV, the Board unanimously recommends that the members of CRTV vote to sell the system to Shaw Cablesystems for the sum of \$46 million.

Respectfully,

John Kerr,
President, CRTV Board of Directors