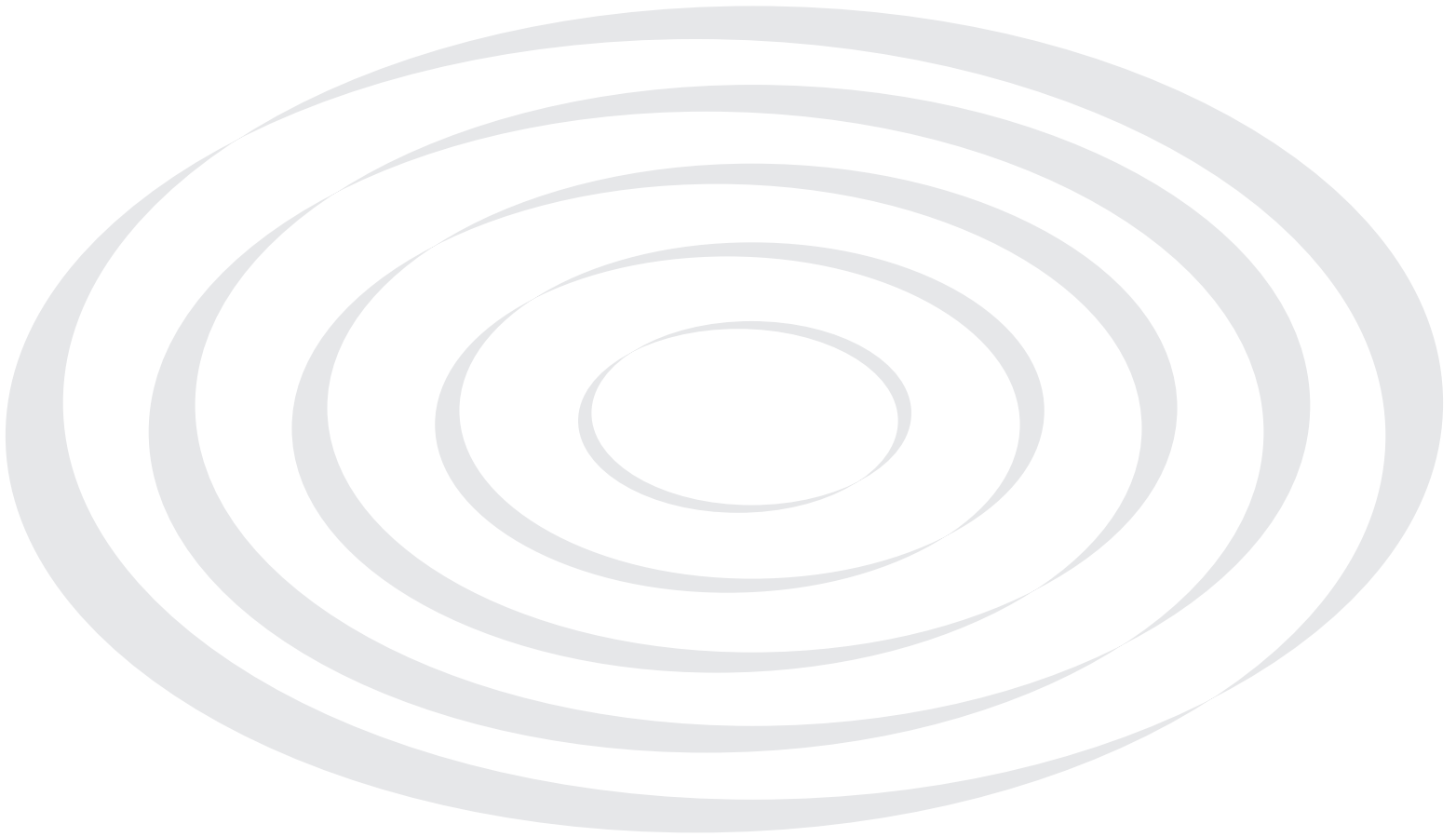


UBS

Unique Broadband Systems, Inc.



**ANNUAL
REPORT
2001**

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THE PRESIDENT'S REPORT

Following an eventful year, your company is positioning itself for the future. We recently announced a major restructuring and have made significant changes in the management. We are confident the changes will lead to better financial performance in the future.

In early 2000, the Company signed a significant contract with Hughes Network Systems, which should be completed by the end of the third quarter of 2002. The Company also expanded its infrastructure, its premises and management. It increased its R&D activity, built a sales and marketing team and acquired a company in Denmark. However, as a result of the rapid deterioration in market conditions, the anticipated growth did not materialize. As a result, we have reduced overhead costs, written off certain assets, refocused the Company and developed an alternative long-term strategy.

As a result of initiatives taken to improve corporate governance, three independent directors were elected to the board at last year's annual meeting. In May 2001, a Special Committee of the board composed of independent directors only was created to review future options for the Company and to take steps to improve shareholder value.

The Special Committee retained Yorkton Securities to assist in exploring all options to maximize shareholder value. This process has begun to explore various opportunities that will significantly improve the performance of the Company in the post Hughes environment. We are hopeful to place these options before shareholders at the Company's annual meeting on November 27.

The Special Committee also retained PricewaterhouseCoopers to conduct a special audit. This led to the resignation of the former CEO and CFO. The former CEO, Alex Dolgonos, remains a director of the Company, but is not being recommended for re-election. The former CFO is no longer associated with the Company.

Certain activities, which came to light as a result of the special audit, some of which were documented in the notes to the year-end financial statements, and others, which are contained in the management information circular for the upcoming annual meeting compelled the Board to conclude that certain management changes were necessary in the interests of the shareholders. The reorganization will lead to the implementation of a corporate governance regime in line with present day requirements of regulators for the protection of shareholders and the conservation of corporate resources.

We have commenced the process of recruiting a new CEO. The CEO, in conjunction with the Board of Directors, will develop a long-term strategy designed to reduce the downward trend in both profits and market capitalization, which has occurred over the past several quarters. At the present time, the Company intends to conserve cash and reduce unproductive overhead. To this end, the restructuring process that was started a couple of months ago will continue.

Your directors are very aware of the uncertain economic conditions in which the Company and other high tech companies are operating in at the present time. Restoring value to previous levels and meeting market expectations will not be easy. But, the Company is in a privileged position, because of its strong balance sheet. While every effort is being made to conserve cash, we are very mindful that shareholders are expecting a return for their support of the Company. This will not be achieved by maintaining the status quo indefinitely. The Company must grow, increase revenue and increase the value of its stock to previous levels. However, it is important that we identify the most accretive opportunity and not rush to judgment just for the sake of doing so. This is why we are examining a wide variety of options as outlined above and in previous communications with shareholders.

We are hoping to have your support at the annual meeting in November. We look forward to seeing you there. Please take the time to read the management information circular, which accompanies this report.

"Patrick J. Lavelle"

Patrick J. Lavelle

Interim President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

1. GENERAL

OVERVIEW

UBS' net earnings for fiscal 2001 were considerably higher than for fiscal 2000. For the year ended May 31, 2001, the Company had net earnings of \$15.2 million or \$0.15 per common share, as compared to \$249,951 or \$0.003 per common share in fiscal 2000.

Fiscal 2001 was a year of digestion, expansion and execution for UBS. With respect to digestion, UBS had to accommodate the increased workload generated by two significant contracts announced in early 2000. As a result of contracts with Hughes Network Systems ("HNS") and Hong Kong Cable T.V. ("HKC"), the Company strengthened its management team and expanded its workforce, both in the engineering and production areas. In addition, and in order to enhance its corporate governance, the Company added three, independent members to its board of directors at its annual shareholders' meeting in November 2000.

With respect to expansion, the Company moved into larger premises in Concord, Ontario and completed the acquisition of its Danish subsidiary (formerly Pro Television Technologies A/S and now known as UBS Denmark), a company based in Brondby, Denmark. Soon after the acquisition, the Company sold the studio division of UBS Denmark in order to more clearly focus its European resources and sales and marketing efforts on the COFDM transmission business that comprised the balance of the business of UBS Denmark.

With respect to execution, UBS focused much of its R&D and manufacturing efforts during fiscal 2001 on delivering its commitments pursuant to its major contracts with HNS and HKC. Given the amount of work that was required under these contracts, a large portion of the Company's resources was allocated to ensuring the Company's successful completion of these commitments. During fiscal 2001, the Company also began development of new projects and technologies (such as the broadband wireless access system, which includes a modem and base station), which management believes will represent the future for UBS in the area of wireless transmission solutions.

The following discussion and analysis explains trends in the Company's financial condition and results of operations for the year ended May 31, 2001 and is intended to help shareholders and other readers understand the dynamics of the Company's business and the key factors underlying its financial results. Certain statements in this management's discussion and analysis constitute forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company to be materially different from any future performance or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and assumptions include, among others, the following: general economic business conditions, import protection and regulation, rapid technology development and changes, timing of product introductions, the mix of products/services, industry competition, industry trends and the Company's ability to attract and retain key employees.

The consolidated financial statements, notes thereto and supplementary information constitute an integral part of, and should be read in conjunction with, this management's discussion and analysis.

REVENUE

Revenue in fiscal 2001 increased significantly over fiscal 2000. The year over year increase in revenue in the amount of \$50 million (or 543%) can be attributed primarily to the shipments made under the contract with HNS.

As recently announced, the Company anticipates lower revenue in fiscal 2002 based on the fact that shipments under the HNS contract should be completed by the end of the second quarter of fiscal 2002. Given that the Company has not secured any new major contracts at this time to replace the HNS contract, the Company's revenue in fiscal 2002 is expected to be significantly lower than in fiscal 2001. As a result, the Company recently announced a restructuring plan to better focus the Company on its core competencies and drastically reduce operating costs on a go forward basis. In addition, and also as previously announced, the Company has engaged Yorkton Securities as its financial advisor to assist the Special Committee of the Board of Directors of UBS in conducting a review of strategic alternatives with a view to maximizing shareholder value. The main objective of these two initiatives is to preserve cash, narrow the Company's focus to the area of OFDM technology and leverage the Company's engineering expertise and strong balance sheet to maximize value for the benefit of all shareholders.

COST OF SALES AND OVERHEAD

Due to the length of the Company's research and development cycles and the matching of R&D expenses against the specific contracts to which they relate, the cost of sales may, from year to year, differ significantly. As the bulk of the sales under the contract with HNS were recognized in fiscal 2001, much of the R&D expenses associated with that contract (some of which were incurred in fiscal 2000, but were deferred to fiscal 2001) were expensed in fiscal 2001. This resulted in a year over year increase of approximately \$5.3 million (or 408%) in R&D expenses. This matching of R&D expenses against the revenue to which they relate has resulted in a decrease of \$1.3 million (or 66%) in deferred contract costs on the balance sheet for fiscal 2001, as compared to fiscal 2000.

EXPENSES

Given the expanded infrastructure and workforce required to enable the Company to execute on the HNS contract, in particular, and to accommodate anticipated growth, selling and administrative expenses were higher by \$10.8 million (or 338%) in fiscal 2001 as compared to fiscal 2000. As well, consolidated expenses were significantly increased by the addition of the expenses incurred by the Company's Danish operations. As discussed above, such expenses should be reduced considerably in fiscal 2002.

INVESTMENT TAX CREDITS ("ITC's")

The Company earns ITC's in its operations. ITC's are credits related to specific qualifying expenditures that are prescribed by Canadian Income Tax legislation. In the case of UBS, these ITC's relate primarily to research and development expenses. The ITC's are recorded only when the Company has made qualifying expenditures, provided that there are reasonable assurances that the benefits relating to such expenditures will be realized. ITC's recorded in the current and prior fiscal periods have been utilized to reduce the income tax liability for fiscal 2001.

2. LIQUIDITY AND CAPITAL RESOURCES

The Company had a cash balance in the amount of \$55.7 million as at May 31, 2001 compared to \$36.5 million as at May 31, 2000. This increase is due primarily to shipments made pursuant to the HNS contract and the Company's unusual non-recurring gain of \$25 million on account of the settlement of its litigation with PixStream Incorporated.

Accounts receivable increased from \$1.7 million at the end of fiscal 2000 to \$13.4 million at the end of fiscal 2001. This higher balance is due primarily to the large sales related to the HNS and HKC contracts. This balance will decrease by a considerable amount during the first half of fiscal 2002 as payments are received from HNS and HKC.

The amount of inventory at the end of fiscal 2001 increased by approximately \$3.2 million over the amount at the end of fiscal 2000 as a result of shipments to be made under the HNS and HKC contracts during fiscal 2002. Given the new strategic focus recently announced by the Company and due to the anticipated decrease in sales following the second quarter of fiscal 2002, management will be closely monitoring inventory levels going forward to ensure that the Company maintains an inventory level that does not exceed that required to support anticipated sales volumes from existing and future contracts.

Notwithstanding that fiscal 2001 was a year of growth for UBS, it is anticipated that fiscal 2002 will represent a period of retrenchment. The Company is restructuring itself to take better advantage of its assets and strengths, to weather the current market downturn in the wireless industry and to deal with the fact that the Company currently has no large contracts to replace the HNS and HKC contracts. The Company's infrastructure that was built up during fiscal 2001 to accommodate growth has now been restructured to better align it for the revenue anticipated in fiscal 2002, as well as the ongoing development of future products. With the reductions in personnel and operations and the more clearly defined focus, management's view is that the Company will now be better positioned to preserve cash and take advantage of changes in the marketplace going forward. While revenue in fiscal 2002 is expected to be considerably lower than in fiscal 2001, the Company will focus on the development of its Broadband Wireless Access System, as well as promoting the sale of its DVB-T modulator out of UBS Denmark and niche market applications involving OFDM technology on a global basis.

Given the Company's strong cash position, management believes that the Company has the resources necessary to support its ongoing operations and current plans for the development of new products, as well as for future growth strategies. Based on the Company's current strategy, there is sufficient cash and cash equivalents available to meet its needs for at least the next 24 months.

3. RESULTS OF OPERATIONS

The business of UBS is global and consists of the design, development and manufacture of high-speed fixed and mobile wireless solutions based on OFDM technology.

The Company sells its products and services through both direct and indirect channels of distribution. Factors affecting the choice of distribution, among others, include: end-customer type, the level of product complexity and integration requirements, geographic presence and location of markets, the stage of product introduction and volume levels.

4. RISKS AND UNCERTAINTIES

The wireless industry is currently in a slowdown. The elimination of certain telecom companies over the past year, as well as drastically reduced capital expenditure budgets by the surviving telecom companies have reduced the market for UBS' existing products and services, including those products developed by UBS' Danish subsidiary. As a result, UBS has decided to reduce its focus on commodity type products, for which demand has been eroded, and instead concentrate on the development of new products based on OFDM technology. By focusing the Company on OFDM related products and services, management believes that UBS can play a leading role in bringing new, exciting products to market. However, as with any development, there are risks in completing the development of new products, including risks that the product will not have the functionality that is envisaged at the commencement of development or that there will be no market for the product or that the timing of the market will be such that there is no demand for the product upon completion of development. This is the case with the main product developed by UBS Denmark. At this time, the market for such product, and therefore demand for such product, is very weak. As well, there is competition from others developing similar or competing products that may have an edge and may arrive to market faster. There can be no guarantee that a product will be developed, or developed on time, or that there will be a market for the product at any time. Based on the state of the existing market, management believes that its products under development have a good chance of success when fully developed. Management is hopeful that development of its major product in Canada will be completed in calendar 2002. Based on an improvement in current market conditions, management also believes in the success of the Company's products currently available. However, as with the product out of UBS Denmark, the market has slowed considerably throughout the world. Management lacks visibility in connection with forecasting when the global market will return. As well, given the geographic distance between UBS Canada and UBS Denmark, management faces certain risks in operating the consolidated businesses over the geographic divide. Although management has restructured both its Canadian and Danish operations by reducing overhead and personnel, further reductions may be required if revenue does not materialize and to the extent losses negatively impact the bottom line for the consolidated enterprise. Given the limited product focus of the Company and the general market conditions that presently exist, the Company retained Yorkton Securities to assist in a process to maximize shareholder value. Management is optimistic that the process can yield some favourable opportunities for the Company, which may help to reduce the various risks facing the Company.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management of UBS is responsible for the integrity of the accompanying consolidated financial statements and all other information in this Annual Report. The consolidated financial statements have been prepared by management in accordance with appropriately selected accounting principles generally accepted in Canada. Their preparation necessarily involves the use of management's best estimates and judgment. All information in this Annual Report is consistent with the consolidated financial statements.

To discharge its responsibilities for financial reporting and safeguarding of assets, management has established and continues to improve upon systems of internal accounting controls, which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and reliable preparation of financial statements. Management further assures the quality of the financial statements through a program of careful selection and training of personnel and the adoption and communication of financial and other relevant policies.

The consolidated financial statements were reviewed by the Audit Committee and approved by the Board of Directors.

The consolidated financial statements have been audited by BDO Dunwoody LLP. Their report, which is presented in this Annual Report, outlines the scope of their examination and their opinion on the financial statements.

“Patrick Lavelle”

Patrick Lavelle

Interim President & Chief Executive Officer

“Jeffery P. Friedman”

Jeffery P. Friedman

Chief Administrative Officer

Unique Broadband Systems, Inc.

Consolidated Financial Statements For the years ended May 31, 2001 and 2000

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Auditors' Report

**To the Shareholders of
Unique Broadband Systems, Inc.**

We have audited the consolidated balance sheets of Unique Broadband Systems, Inc. as at May 31, 2001 and 2000 and the consolidated statements of operations and retained earnings (deficit) and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at May 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) BDO Dunwoody LLP

Chartered Accountants

Toronto, Ontario
July 20, 2001

Unique Broadband Systems, Inc.
Consolidated Balance Sheets

May 31	2001	2000
Assets		
Current		
Cash and short term investments	\$ 55,732,995	\$ 15,994,960
Cash held in escrow (Note 14)	-	20,512,000
Accounts receivable	13,445,930	1,748,254
Inventory (Note 2)	4,884,894	1,701,432
Contract deposits (Note 3)	2,592,854	2,076,787
Deferred contract costs (Note 4)	677,118	1,986,209
Prepaid expenses	232,922	122,680
Shareholder loan (Note 5)	-	756,560
	77,566,713	44,898,882
Capital assets (Note 6)	2,775,451	3,006,562
Investment tax credits (Note 7)	-	2,427,763
Due from related parties (Note 8)	10,660	376,058
	\$ 80,352,824	\$ 50,709,265

Liabilities and Shareholders' Equity

Current		
Bank indebtedness (Note 10)	\$ 3,129,409	\$ -
Accounts payable	7,256,873	1,428,359
Income taxes payable	725,000	-
Obligations under capital leases – current portion (Note 11)	111,957	205,945
Long term debt - current portion (Note 12)	166,668	166,668
	11,389,907	1,800,972
Obligations under capital leases (Note 11)	-	95,693
Long term debt (Note 12)	111,108	277,776
	11,501,015	2,174,441
Shareholders' equity		
Share capital (Note 13)	56,894,222	13,636,277
Special Warrants (Note 14)	-	38,097,112
Contributed surplus	150,000	150,000
Retained earnings (deficit)	11,807,587	(3,348,565)
	68,851,809	48,534,824
	\$ 80,352,824	\$ 50,709,265

On behalf of the Board:

"Patrick Lavelle"
Director

"John Turner"
Director

Unique Broadband Systems, Inc.
Consolidated Statements of Operations and
Retained Earnings (Deficit)

For the years ended May 31	2001	2000
Sales	\$ 59,300,080	\$ 9,207,855
Cost of sales	37,394,489	3,740,819
Gross profit	21,905,591	5,467,036
Research and development expenses	6,643,585	1,308,981
Selling and administrative expenses	14,010,674	3,194,457
Interest on long term debt	27,083	151,537
Amortization	1,352,378	562,110
	22,033,720	5,217,085
Earnings (loss) before undernoted items	(128,129)	249,951
Investment income	2,181,999	-
Proceeds on legal settlement (Note 15)	25,000,000	-
Earnings before income taxes and write-down of goodwill	27,053,870	249,951
Income taxes (Note 7)	4,581,632	-
Earnings before write-down of goodwill	22,472,238	249,951
Write-down and amortization of goodwill (Note 9)	(7,316,086)	-
Net earnings for the year	15,156,152	249,951
Deficit, beginning of year	(3,348,565)	(3,598,516)
Retained earnings (deficit), end of year	\$ 11,807,587	\$ (3,348,565)
Basic earnings per share before write-down and amortization of goodwill (Note 20)	\$ 0.225	\$ 0.003
Basic earnings per share (Note 20)	\$ 0.151	\$ 0.003
Fully Diluted Earnings per share before write-down and amortization of goodwill (Note 20)	\$ 0.213	\$ 0.003
Fully Diluted Earnings per share (Note 20)	\$ 0.144	\$ 0.003

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Unique Broadband Systems, Inc.
Consolidated Statements of Cash Flows

For the years ended May 31 **2001** **2000**

Cash flows provided by (used in)

Operating activities

Net earnings for the year	\$ 15,156,152	\$ 249,951
Adjustments to reconcile net cash provided by operating activities		
Amortization	1,352,378	562,110
Loss (gain) on sale of capital assets	(52,099)	9,705
Shares issued for bonus and severance	240,200	-
Interest on conversion of debt		7,159
Write-down and amortization of goodwill (Note 9)	7,316,086	-
Interest earned on related party loans	(77,639)	(78,730)
Changes in operating assets and liabilities (Note 16)	(3,299,956)	(4,945,305)
	20,635,122	(4,195,110)

Investing activities

Purchase of capital assets	(433,860)	(2,016,300)
Cash paid for acquisition of UBS Denmark, net	(5,067,007)	-
Due from related parties	373,383	9,253
Shareholder loan	(47,481)	(10,699)
Proceeds on sale of assets	805,616	-
	(4,369,349)	(2,017,746)

Financing activities

Bank indebtedness	3,041,421	-
Reduction in obligation under capital leases	(189,681)	(317,804)
Reduction in long term debt, net	(166,668)	(421,702)
Proceeds from options and warrants exercised	275,190	3,718,699
Proceeds on issuance of Special Warrants	-	41,024,000
Share and Special Warrants issuance costs	-	(2,926,888)
	2,960,262	41,076,305

Increase in cash during the year **19,226,035** **34,863,449**

Cash, beginning of year **36,506,960** **1,643,511**

Cash, end of year **\$ 55,732,995** **\$ 36,506,960**

Supplemental Cash Flow Information (Note 17)

Cash represented by:

Cash and short term investments	\$ 55,732,995	\$ 15,994,960
Cash held in escrow	-	20,512,000
	\$ 55,732,995	\$ 36,506,960

Unique Broadband Systems, Inc. Summary of Significant Accounting Policies

May 31, 2001 and 2000

Nature of Business	The Corporation's principal business activity involves the design, manufacture and marketing of digital wireless communication systems. The Corporation has four main product lines: Multi-Channel Multi-Point Distribution System "MMDS", Digital Audio Broadcast Systems "DAB", Satellite Digital Audio Radio Services "SDARS" and Wireless Cable/Cable Products. The Corporation invests in research in order that it will maintain its position in the worldwide market place in the current areas of expertise.															
Principles of Consolidation	These consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, Digital Audio Networks Inc., Unique LLC and UBS Technologies A/S (previously ProTelevision Technologies A/S). All significant intercompany transactions and accounts have been eliminated.															
Cash and Cash Equivalents	Cash and cash equivalents are defined as cash and short-term investments with initial maturities of less than three months.															
Inventory	Raw materials are valued at the lower of cost, determined using the first-in, first-out method, and replacement cost. Work in process and inventory of finished goods are valued at the lower of cost determined on a specific item basis and net realizable value.															
Capital Assets	Capital assets are recorded at cost less accumulated amortization. Amortization is provided as follows: <table><tr><td>Computer equipment</td><td>-</td><td>30% declining balance basis</td></tr><tr><td>Furniture and fixtures</td><td>-</td><td>20% declining balance basis</td></tr><tr><td>Leasehold improvements</td><td>-</td><td>straight line over term of lease</td></tr><tr><td>Manufacturing equipment</td><td>-</td><td>20% declining balance basis</td></tr><tr><td>Other equipment</td><td>-</td><td>20% declining balance basis</td></tr></table>	Computer equipment	-	30% declining balance basis	Furniture and fixtures	-	20% declining balance basis	Leasehold improvements	-	straight line over term of lease	Manufacturing equipment	-	20% declining balance basis	Other equipment	-	20% declining balance basis
Computer equipment	-	30% declining balance basis														
Furniture and fixtures	-	20% declining balance basis														
Leasehold improvements	-	straight line over term of lease														
Manufacturing equipment	-	20% declining balance basis														
Other equipment	-	20% declining balance basis														
Other Assets	Goodwill is stated at cost less accumulated amortization. Amortization is provided on a straight line basis over 3 years. The value of goodwill is regularly evaluated by reviewing the returns of the related business, taking into account the risk associated with the investment. Any impairment in the value of the goodwill is written off against earnings. (Note 9)															

Unique Broadband Systems, Inc. Summary of Significant Accounting Policies

May 31, 2001 and 2000

Foreign Currency Translation All of the Corporation's foreign operating subsidiaries are financially dependent of the parent and are considered integrated.

Monetary assets and monetary liabilities in foreign currencies have been translated at exchange rates in effect at the year-end. Transactions are translated at the average rate of exchange for the year. Exchange gains or losses are reflected in the statement of operations.

Research and Development All research costs are charged against income in the year of expenditure. Development costs are capitalized if they meet the criteria for capitalization and amortized over the period of the expected benefits. Development costs are written off when there is no longer an expectation of future benefits.

Assets Under Capital Leases Leases that transfer substantially all the benefits and risks of ownership of the property to the Corporation are accounted for as capital leases. At the time a capital lease is entered into, an asset is recorded together with its related long-term obligation. Assets recorded under capital leases are amortized using rates that are consistent with similar Corporation-owned assets.

Investment Tax Credits Investment tax credits arise as a result of the Corporation incurring eligible research and development expenses and are recorded when there is reasonable assurance that they will be realized as a reduction of the expense.

Future Income taxes Commencing June 1, 2000 the Corporation adopted, on a retroactive basis without restatement, the liability method of accounting for income taxes as outlined in the provisions of section 3465 of the Handbook of the Canadian Institute of Chartered Accountants. Adoption of the standard did not have a material effect on the financial statements.

Under this method, future income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the non-consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in operations in the year in which the change occurs.

Unique Broadband Systems, Inc. Summary of Significant Accounting Policies

May 31, 2001 and 2000

Revenue Recognition

For short term contracts, revenue is recognized on a completed contract basis.

Revenue is recognized on a percentage of completion basis for contracts extending over one fiscal year.

Accounting Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.

Stock Option Plan

The Corporation has a stock-based compensation plan, which is described in Note 13(c). No compensation expense is recognized for these plans when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital. If stock or stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock or stock option canceled is charged to retained earnings.

Unique Broadband Systems, Inc. Notes to Consolidated Financial Statements

May 31, 2001 and 2000

1. Business Combination

Effective September 14, 2000, Unique Broadband Systems, Inc. ("UBS" or "the Corporation") completed the acquisition of all of the issued shares of ProTelevision Technologies A/S of Brøndby, Denmark for 1,362,750 common shares of UBS and US\$3,664,854. ProTelevision Technologies became a legal subsidiary of UBS and is being operated under the name UBS Technologies A/S ("UBS Denmark").

The acquisition has been accounted for using the purchase method, and the operating results are included in the Consolidated Statements of Operations from the effective date of acquisition, September 14, 2000. The purchase price allocation to the net assets based on their fair value is as follows:

Assets			
Cash	\$	940,853	
Other current assets		4,777,444	
Capital assets		683,323	
Goodwill (1)		<u>7,316,086</u>	
			\$ 13,717,706
Less: Current liabilities assumed			<u>2,190,708</u>
Total consideration			<u>\$ 11,526,998</u>
Representing:			
1,362,750 shares of UBS @ \$4.05/share			\$ 5,519,138
Cash			<u>5,434,245</u>
			10,953,383
Costs of transaction			<u>573,615</u>
			<u>\$ 11,526,998</u>

(1) The value of goodwill represents the difference between the purchase price and the net fair value of all identifiable assets and liabilities.

No value has been attributed to the tax losses carried forward. See Note 7 for amounts carried forward.

2. Inventory

	2001	2000
Raw materials	\$ 2,220,000	\$ 1,030,105
Work in process	2,469,725	54,329
Finished goods	<u>195,169</u>	<u>616,998</u>
	<u>\$ 4,884,894</u>	<u>\$ 1,701,432</u>

Unique Broadband Systems, Inc. Notes to Consolidated Financial Statements

May 31, 2001 and 2000

3. Contract Deposits

The deposits pertain to prepayment for inventory materials which have not yet been delivered.

4. Deferred Contract Costs

Product development costs incurred for the purpose of a specific contract are included in deferred contract costs. Included in these deferred costs are expenditures related to material, direct labour and overhead, net of investment tax credits for product research and development costs incurred for orders produced to customer specifications. These deferred costs are charged to operations as they are recovered from these customers over the term of the contract.

5. Shareholder Loan

	2001	2000
Share purchase loan to exercise options, interest at 7.75% per annum, payable on demand	\$ -	\$ 756,560

The above loan was made to the former Chief Executive Officer ("CEO") of the Corporation.

At year end, the loan in the amount of \$873,695 was renegotiated with interest at prime, secured by shares of the Corporation. This loan has been recorded as a reduction of share capital. (See Note 13(b).) Included in the balance is accrued interest in the amount of \$121,528 (2000 - \$51,874).

During the 2001 fiscal year advances of \$1,262,368 were paid and repayments of \$1,214,888 were received on the shareholder loan.

6. Capital Assets

	2001		2000	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computer equipment	\$ 1,199,359	\$ 805,910	\$ 1,026,485	\$ 487,911
Computer equipment under capital lease	105,716	101,170	105,716	69,456
Furniture and fixtures	1,065,476	353,844	812,962	172,871
Leasehold improvements	1,062,596	253,052	1,118,649	268,513
Manufacturing equipment	2,875,203	2,425,758	969,907	637,976
Manufacturing equipment under capital lease	1,178,099	876,126	1,178,099	640,506
Other equipment	232,857	127,995	121,901	49,924
	7,719,306	4,943,855	5,333,719	2,327,157
Net book value		\$ 2,775,451		\$ 3,006,562

Unique Broadband Systems, Inc. Notes to Consolidated Financial Statements

May 31, 2001 and 2000

7. Income Taxes and Investment Tax Credits

	2001	2000
Income tax computed at statutory combined basic income tax rate of 43% (2000 – 45%)	\$ 11,633,200	\$ 112,500
Increase (decrease) in income tax Resulting from:		
Previously unrecorded tax benefits	(707,200)	(77,100)
Temporary benefits for which benefits not recorded	176,100	-
Research and development costs	588,000	586,300
Unrealized losses from foreign subsidiary	1,285,000	88,700
Utilization of losses carried forward	(3,929,000)	(736,700)
Adjustment for PixStream settlement – capital transaction	(5,375,000)	-
Large corporation and corporate minimum tax	809,000	-
Other	101,532	26,300
	\$ 4,581,632	\$ -

The Corporation had non-capital losses of approximately \$9,100,000 that were applied in the current year to reduce taxable income to nil. In addition, the Corporation has financing fees of approximately \$2,400,000 deductible against future taxes payable at a maximum of \$600,000 annually. This benefit has not been reflected in these financial statements.

During the year ended May 31, 2001 the Corporation recognized approximately \$1,367,000 (2000 - \$1,100,000) of income tax credits which have been applied to reduce deferred contract costs and research and development expenses by approximately \$168,000 (2000 – \$690,000) and \$1,199,000 (2000 - \$410,000) respectively. Investment Tax Credits have been applied in the current year to reduce taxes payable to approximately \$720,000.

As at May 31, 2001, the Corporation had investment tax credits available for carry forward totaling approximately \$1,300,000 expiring in 2011. The benefit of this amount has not been reflected in these financial statements.

These amounts represent management's best estimate based on its interpretation of current legislation. However, Canada Customs and Revenue Agency has not yet assessed these claims and therefore the amount ultimately received could be materially different from the amount recorded.

The Corporation has tax benefits related to research and development expenses not claimed for income tax purposes of approximately \$6,300,000 with no expiry date. This estimated benefit has not been recognized in these financial statements. In addition, the Corporation has tax benefits related to unclaimed Provincial non-capital loss carry forwards of the amount of \$155,000. The right to claim these benefits expires \$58,000 in 2004 and \$97,000 in 2005.

As at May 31, 2001, UBS Denmark has tax losses available for carry forward which can only be applied against taxable income in Denmark. This benefit has not been reflected in these financial statements expiring as follows:

	Tax Losses	Tax Benefits
2004	\$ 10,900,000	\$ 3,270,000
2005	2,400,000	720,000
2006	6,700,000	2,010,000

Unique Broadband Systems, Inc.
Notes to Consolidated Financial Statements

May 31, 2001 and 2000

8. Related Party Information

	2001	2000
Advance in 1995 to assist a shareholder to purchase a principal residence. Interest is being charged at 7.75% per annum over a term of five years and amortized over 20 years.	\$ -	\$ 373,383
Loan to the former Chief Financial Officer bearing interest at 7.5% per annum.	10,660	2,675
	\$ 10,660	\$ 376,058

Included in the above loans is accrued interest in amount of \$7,985 (2000 - \$26,856).

During the 2001 fiscal year, advances of \$350,000 were paid and repayments of \$350,000 were received on a loan to the former Chief Financial Officer ("CFO") of the Corporation.

During the 2001 fiscal year, 500,000 warrants were exercised at \$0.35 per share by the former CFO of the Corporation.

During the year ended May 31, 2000, the 2,000,000 warrants were exercised by the former CFO of the Corporation (part of the private placement for 4,000,000 units at \$0.20 per unit).

During the 2001 fiscal year, the Corporation paid legal fees to a legal firm, that has a partner that was also a former director of the Corporation, totaling approximately \$44,000 (2000 - \$96,000).

During the 2001 fiscal year, medical benefits were paid on behalf of the spouse of the former CEO in the amount of \$387,000 (2000 - NIL). In addition, the former CEO received a bonus in the amount of 326,923 shares of the Corporation at \$.26 per share, representing 5% of the value of a loan he personally guaranteed.

9. Other Assets

The carrying value of goodwill arising from acquisition of UBS Denmark (see Note 1) was reduced through a \$6,150,086 write-down in recognition of a permanent impairment in value.

Cost	\$ 7,316,086
Accumulated amortization	1,166,000
Write-down	6,150,086
	7,316,086
	\$ -

Since the acquisition of UBS Denmark, the Studio division of the subsidiary has been sold, and the remaining operations continue to develop a new technology. However, the subsidiary continues to experience significant operating losses which has resulted in revaluation of goodwill to nil.

Unique Broadband Systems, Inc.
Notes to Consolidated Financial Statements

May 31, 2001 and 2000

10. Bank Indebtedness

One of the Corporation's subsidiaries, UBS Denmark, has an operating line available in the amount of DKK40 million or approximately CDA\$7 million of credit. At year end, the loan outstanding was \$3,129,409 bearing interest at 6.5% and is guaranteed by the parent company.

11. Commitments

(a) Capital and Operating Leases on Equipment	2001	2000
Total capital lease payments	\$ 111,957	\$ 301,638
Less: Current portion due within one year	111,957	205,945
Long term portion of obligations under capital leases	\$ -	\$ 95,693

Interest rates implicit in the above capital leases range from 7% - 10% and the lease expiry dates range between July 18, 2000 and January 27, 2002.

The Corporation is committed to minimum future lease payments as follows:

	Capital Leases	Operating Leases
2002	\$ 111,957	\$ 616,050
2003	-	419,295
2004	-	26,205
	\$ 111,957	\$ 1,061,550

(b) Lease on Rented Premises

The Corporation is committed to minimum lease payments in respect of its land and buildings as follows:

2002	\$ 952,098
2003	971,730
2004	991,362
2005	690,345

12. Long Term Debt

	2001	2000
Term loan, repayable monthly at \$13,889 plus interest at prime plus 1%, secured by a personal property security agreement of the Corporation on specific assets	\$ 277,776	\$ 444,444
Less: Current portion	166,668	166,668
	\$ 111,108	\$ 277,776

Unique Broadband Systems, Inc.
Notes to Consolidated Financial Statements

May 31, 2001 and 2000

13. Share Capital

(a) Authorized

Unlimited number of common shares

(b) Issued

	2001		2000	
	Number of Shares	Stated Capital	Number of Shares	Stated Capital
Opening balance	94,682,914	\$ 13,636,277	79,426,667	\$ 8,683,591
Shares issued:				
Options and warrants exercised	5,168,125	38,372,302	13,570,533	4,412,686
Conversion of debt	-	-	1,685,714	540,000
On acquisition of Pro TV, Denmark	1,362,750	5,519,138	-	-
Bonus and severance	406,923	240,200	-	-
	101,620,712	57,767,917	94,682,914	13,636,277
Less: Shareholder loan secured by shares (Note 5)	(1,150,000)	(873,695)	-	-
Ending balance	100,470,712	\$ 56,894,222	94,682,914	\$ 13,636,277

(c) Stock Option Plan

The Corporation has established a stock option plan for its shareholders, employees, officers and directors. The options are exercisable into an equivalent of 9,051,900 common shares (May 31, 2000 – 6,265,709) at exercise prices ranging between \$0.34 and \$10.00. The options expire between the dates of December 9, 2001 and April 09, 2006. The options vest over three years on the anniversary of the grant date.

	2001		2000	
	Shares (000)	Weighted-Average Exercise Price	Shares (000)	Weighted-Average Exercise Price
Outstanding, beginning of year	6,266	\$ 6.076	9,253	\$.346
Granted	6,427	4.561	4,159	8.983
Exercised	(457)	6.076	(6,794)	.346
Cancelled / Forfeited	(3,184)	6.340	(352)	.390
Options outstanding at year end	9,052	4.907	6,266	6.076
Options exercisable at year end	2,187			

Unique Broadband Systems, Inc.
Notes to Consolidated Financial Statements

May 31, 2001 and 2000

14. Special Warrants

During the year ended May 31, 2000, the Corporation issued 1,025,600 special warrants exercisable into 4,102,400 common shares and 2,051,200 purchase warrants at no additional cost. Each purchase warrant entitled the holder to purchase 1 common share at \$10.00/share.

The proceeds received were as follows:

Gross proceeds	\$ 41,024,000
Less: Issuance costs	<u>(2,926,888)</u>
Net proceeds	<u>\$ 38,097,112</u>

Pursuant to an escrow agreement dated March 16, 2000 the lead agent deposited \$20,512,000 of the gross proceeds in escrow pending exercise of the special warrants.

During the 2001 fiscal year all special warrants were converted into common shares and the cash was transferred to the Corporation's general account. The 2,051,200 purchase warrants expired during the year on March 16, 2001.

15. Proceeds on Legal Settlement

During the year ended May 31, 2001, the Corporation received \$25,000,000 in settlement of its claim against PixStream Incorporated.

16. Changes in Operating Assets and Liabilities

	<u>2001</u>	<u>2000</u>
Accounts receivable	\$ (9,326,739)	\$ 120,126
Inventory	(1,534,057)	(246,452)
Contract deposits	(516,067)	(2,076,787)
Investment tax credits	2,427,263	35,682
Prepaid expenses	(110,242)	(56,678)
Deferred contract costs	1,309,091	(2,677,069)
Accounts payable	3,725,795	131,429
Income taxes payable	725,000	-
Customer deposits	-	(175,556)
	<u>\$ (3,299,956)</u>	<u>\$ (4,945,305)</u>

17. Supplemental Cash Flow Information

	<u>2001</u>	<u>2000</u>
Cash paid for interest and bank charges	\$ 267,054	\$ 124,681
Debt converted into equity	-	540,000
Loan to exercise options	-	693,987
Deferred contract cost financed by investment tax credit	167,906	690,860
Shares issued for acquisition of Pro TV, Denmark	5,519,138	-
Shares issued in exchange for bonus and severance	240,200	-

Unique Broadband Systems, Inc. Notes to Consolidated Financial Statements

May 31, 2001 and 2000

18. Segmented Information (includes discontinued operations)

The Corporation operates in one operating segment with four product lines. It was impracticable to present the amount of revenue by product as the necessary information is not available and the cost to develop it would be excessive. The following is the information by geographic area:

	<u>Asia</u>	<u>Europe</u>	<u>Canada</u>	<u>United States</u>	<u>Total</u>
May 31, 2001					
Sales	<u>\$3,259,824</u>	<u>\$6,088,433</u>	<u>\$1,292,037</u>	<u>\$48,659,786</u>	<u>\$59,300,080</u>
Capital Assets		<u>\$ 297,450</u>	<u>\$2,478,001</u>	<u>\$ -</u>	<u>\$ 2,775,451</u>

The Corporation had two major customers which accounted for 80% and 5% of total sales, respectively. One of the contracts which accounted for approximately \$47,000,000 of revenues in fiscal 2001 will be completed by the second quarter of fiscal 2002.

May 31, 2000

Sales	<u>\$ 59,846</u>	<u>\$ 498,994</u>	<u>\$1,828,335</u>	<u>\$6,820,680</u>	<u>\$9,207,855</u>
Capital Assets		<u>\$ 5,093</u>	<u>\$3,001,469</u>	<u>\$ -</u>	<u>\$3,006,562</u>

The Corporation had two major customers that accounted for 55% and 14% of the total sales, respectively.

19. Financial Instruments

a) Foreign exchange

The Corporation carries out a portion of transactions in foreign currencies, which gives rise to a risk that its earnings and cash flows may be adversely impacted by fluctuations of foreign exchange conversion rates. As at May 31, the Corporation had the following U.S. dollar balances:

	<u>2001</u>	<u>2000</u>
Cash	\$ 1,182,192	\$ 111,181
Accounts receivable	6,964,287	1,019,002
Accounts payable	1,958,312	327,602

As at May 31, the Corporation had the following Danish Krone balances:

	<u>2001</u>	<u>2000</u>
Accounts receivable	DKK 6,808,875	DKK -
Bank indebtedness	17,595,282	-
Accounts payable	14,589,485	-

Unique Broadband Systems, Inc.
Notes to Consolidated Financial Statements

May 31, 2001 and 2000

19. Financial Instruments (continued)

b) Credit risk

The Corporation is exposed, in the normal course of business, to credit risk from its customers. A significant portion of the outstanding accounts receivable at May 31, 2001 is due from two key customers.

c) Interest risk

The Corporation's bank accounts and short term investments are held at two financial institutions, earning interest up to 4.5%. It is management's opinion that the Corporation is not exposed to significant interest risks arising from its financial instruments..

d) Fair value

The fair value of instruments with short term maturities being accounts receivable, accounts payable and accrued liabilities, approximate their carrying value because of the short term nature of these instruments. The fair value of obligations under capital leases and long term debt approximate their carry value as they are prime rate based loans, however the Corporation is exposed to fluctuation in interest rates.

20. Earnings Per Share

Earnings per share are calculated using the weighted average number of common shares outstanding during the year. Fully diluted earnings per share are calculated on the assumption that outstanding options, warrants and convertible debentures were exercised/converted at date of issue and the funds derived therefrom were invested at the Corporation's annual after-tax cost of financing. For the periods presented, effect of certain options and warrants granted would be anti-dilutive and have been excluded in the calculation of fully diluted weighted average number of shares.

21. Subsequent Event

On July 19, 2001 the Corporation's Chief Executive Officer and Chief Financial Officer resigned from the Corporation and were paid \$1,650,000 and \$1,425,000 respectively under terms of their employment contract.

The amount has not been reflected in the 2001 fiscal year.

22. Comparative Figures

The comparative figures presented in the financial statements have been reclassified to conform to the presentation adopted in the current year.

CORPORATE INFORMATION

BOARD OF DIRECTORS

PATRICK LAVELLE
Chairman of the Board and Interim President and Chief Executive Officer

THE HON. WILLIAM D. ROGERS
Partner, Arnold & Porter

THE RIGHT HONOURABLE JOHN TURNER
Partner, Miller Thomson

EDWARD NEUFELD
Consultant

ALEX DOLGONOS
Founder and Consultant

OFFICERS

PATRICK LAVELLE
Chairman of the Board and Interim President and Chief Executive Officer

JEFFERY P. FRIEDMAN
Chief Administrative Officer, General Counsel & Corporate Secretary

MOHAMMED BENVIDI
Chief Operating Officer

CAMERON SMITH
Interim Chief Financial Officer

JOHN LEON
Vice-President, Sales and Marketing

INVESTOR INFORMATION

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AUDITORS

KPMG LLP
Chartered Accountants
Commerce Court West
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Toronto, Ontario
M5L 1B2

ANNUAL AND SPECIAL MEETING

Tuesday (10 AM)
November 27th, 2001
Design Exchange
234 Bay Street
Toronto-Dominion Centre
Toronto, Ontario
M5K 1B2

CORPORATE HEADQUARTERS

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INFORMATION

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For investor information, contact Unique's Web site at:
www.uniquesys.com

STOCK EXCHANGE LISTING

Canadian Venture Exchange (CDNX)
Trading Symbol: UBS