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## **UNIQUE BROADBAND SYSTEMS, INC.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

(in thousands of dollars, except shares and per share amounts)

Three months ended November 30, 2004

#### **1. INTRODUCTION**

The following Management's Discussion and Analysis (MD&A) relates to the consolidated financial condition of Unique Broadband Systems, Inc. (the Company) at November 30, 2004 and the consolidated results of operations for the three months ended November 30, 2004 and the three months ended November 30, 2003. This MD&A should be read in conjunction with the consolidated financial statements and the notes to the consolidated financial statements contained in the August 31, 2004 Annual Report to shareholders. The Company's consolidated financial statements and the notes thereto have been prepared in accordance with Canadian Generally Accepted Accounting Principles (Canadian GAAP) on a going concern basis and do not include any adjustments to the amounts and classifications of the assets and liabilities that would be necessary should the Company be unable to continue in business. The Company's ability to continue as a going concern is dependent upon achieving and maintaining profitable operations and successful implementation of the Company's business strategy. The outcome of these matters cannot be predicted at this time.

Unless specifically stated, the references to "UBS" include Unique Broadband Systems, Inc. and its wholly owned subsidiaries and references to the "Company" include UBS and Look Communications Inc, (Look) a company controlled by UBS.

#### **2. CAUTION REGARDING FORWARD LOOKING STATEMENTS**

This MD&A includes forward-looking statements concerning the future operations, financial performance and conditions of UBS and Look. When used in this MD&A, the words "intend", "project", "may", "will", "expect", "anticipate", "estimate", "plan", "continue", "believe", and similar or comparable terminology are intended to identify forward looking statements, although not all forward looking statements contain such words. The Company cautions that all forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ materially from those anticipated. These risks and uncertainties include but are not limited to the timing of acquisitions and expansion opportunities, technological change that may impact the Company's capital expenditures and results of operations, and competitive factors that may alter the timing and amount of the Company's capital expenditures. The Company is under no obligation (and expressly disclaims any such obligation) to update or alter the forward-looking statements whether as a result of new information, future events or otherwise. For a more detailed discussion of factors that may affect actual results, see "Risks and Uncertainties" below.

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### **3. BUSINESS OVERVIEW**

The Company (TSX Venture: UBS) is a publicly listed Canadian company that has investments in broadband assets and a 51.06% equity interest in Look (TSX Venture: LOK). With licensed spectrum held through its subsidiary Look, UBS is a Canadian digital television broadcaster and broadband wireless service provider. The UBS head office is located in Concord, just north of Toronto, Canada. UBS currently has six employees.

#### **Engineering and Manufacturing business**

In October 2003, UBS sold its engineering and manufacturing business (E&M Business) to a new private company owned by a group of former UBS engineers. As a result of this divestiture, the Company reclassified its current and prior period results for the E&M Business as "Discontinued Operations" in its financial statements. This sale completed UBS' restructuring plan, designed to reduce costs, conserve cash and focus the resources of UBS on its investment in Look, the largest wireless broadband service provider in Canada.

#### **Look Communications Inc.**

Look currently delivers a full range of communications services to residential and business customers including wireless digital television distribution, dial-up and high-speed wireline and wireless Internet access and Web-related services, including Web hosting and domain name registration. Look markets its services through a regional network of over 100 dealer and retail locations across Ontario and Quebec and also offers products and services and customer service on its e-business Web site, [www.look.ca](http://www.look.ca).

Look provides its digital video and wireless Internet services using a Multipoint Distribution System (MDS) technology, operating with 90 MHz of capacity in the 2.5 – 2.7 GHz band. Look has exclusive use of these frequencies since it received licenses from the Canadian Radio-television and Telecommunications Commission (CRTC) as a "broadcast distribution undertaking" in August 1997 for Southern Ontario and in 1998 for Quebec and Eastern Ontario. Its coverage areas in Ontario and Quebec include the major metropolitan markets of Toronto, Montreal, Hamilton, Quebec City and Ottawa and many other cities from London to Trois-Rivières. Look's licenses were extended and merged into one renewed license in August 2004 for another seven years to 2011.

Look is also a major reseller of dial-up and high-speed wire line Internet Access through various contractual agreements with major telecommunications companies.

In June 2003, Look deployed the next generation of its digital wireless high speed network in Vaughan, Ontario and in November 2003 in Barrie and Aurora, Ontario using a DOCSIS system in the 2596-2686 and 2150-2160 MHz frequency bands. This new system expanded the network capacity and enhanced the quality of the high-speed Internet access. In September 2004, Look completed the deployment and enhancement of the next generation of its digital wireless high speed network on the CN tower in Toronto, the Mont-Royal tower in Montreal and the site in Ville St-Laurent, using the same DOCSIS system.

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Look's registered office is located in Toronto, and its main operations are in Montreal, Quebec and Milton, Ontario. As at November 30, 2004, Look had 239 full-time and part-time employees.

## **Overview of Government regulation and regulatory developments**

### **1. Canadian Radio-television and Telecommunications Commission (CRTC)**

Canadian broadcast undertakings, including the Company are regulated by the CRTC pursuant to and in accordance with requirements of the Broadcast Act (Canada) (the "Act"). Under the Act, the CRTC regulates all broadcasters in Canada, including over-the-air broadcasters, MDS providers such as Look, cable TV operators, and satellite TV operators.

### **2. Industry Canada**

The awarding of spectrum and licenses for data services in Canada are under the jurisdiction of Industry Canada, a department of the Government of Canada. Industry Canada is responsible for telecommunications policy in Canada and has specific jurisdiction under the Radio Communication Act (Canada) to establish radio licensing policy and award radio licenses for radio frequencies, which are required to operate wireless communications systems.

### **3. Spectrum licence Issues**

In May 2004 Industry Canada issued a discussion paper on the re-farming of the MCS/MDS spectrum in the 2590-2690 MHz band. The purpose of the paper was to solicit inputs from interested parties in the future uses of this band for both digital broadcasting and broadband wireless access. At approximately the same time the FCC in the US issued a Report and Order that substantially restructured this band in that country. Look responded to the Industry Canada discussion paper and recommended that Canada adopt a policy which would provide alignment with the spectrum allocations in the USA. Look feels strongly that realigning the spectrum will provide benefits to both its digital broadcast and wireless broadband access businesses.

## **Business Strategy**

The sale of the E&M Business in October 2003 completed UBS' restructuring plan, designed to reduce costs, conserve cash and focus the resources of UBS on its investment in Look. The strategy of UBS is to work with Look to optimize the use of all the assets within the Company and, as announced on December 8, 2004, to jointly develop a new Mobile Broadband Video Network (MBVN) and launch hand-held mobile video services in Ontario and Quebec. The MBVN will first be launched in Toronto and Montreal and will eventually cover the population-dense corridor from Windsor to Quebec City.

The MBVN will provide over 80 channels of live video, data carousel broadcasting channels and over 100 channels of digital audio broadcasting. New handheld devices, the size of a normal Personal Digital Assistant (PDA), have been developed and will be in beta tests in mid-2005, with the service launch planned for early 2006.

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UBS developed, designed and built a mobile video network that operates in over 2,000 public transportation vehicles in Singapore. UBS was also contracted to develop, design and build the terrestrial network for deployment by XM Satellite Radio Inc. throughout the USA.

While the new mobile strategy is being developed, the Company will seek to achieve profitable growth within Ontario and Quebec using its existing network and product offerings. This strategy is designed to maximize cash flow and return on existing investments.

The key elements of the Company's transitional strategy are as follows:

1. Leveraging its relationships with its existing subscribers to provide bundled product and service offerings at competitive prices;
2. Developing customer retention programs to retain existing customers and reduce churn;
3. Focusing on data services that are attractive to families and small and medium size businesses to optimize customer mix;
4. Delivering on customer expectations by improving reliability, network quality and customer service; and
5. Enhancing sales distribution channels that focus on families and business customers.

#### **4. BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

##### **Continuing Operations**

Effective November 30, 2003 UBS received final approval from the CRTC to acquire control of Look, which it did by exercising its option at the end of December 2003. Look is now a 51.06%-owned subsidiary of UBS and is fully consolidated for financial reporting purposes, effective November 30, 2003. Up until this date, UBS accounted for Look on an equity basis.

##### **Discontinued Operations**

During the second quarter of fiscal 2004, UBS' divestiture of its engineering and manufacturing business resulted in the reclassification of that business as "Discontinued Operations". Accordingly, all revenues and costs associated with that business and the divestiture have been reclassified from September 1, 2003 and for the comparative quarters as "Discontinued Operations" in the Consolidated Statement of Operations and Deficit and Cash Flow Statement.

##### **Consolidated Financial Statements**

The Consolidated Financial Statements of the Company for the three months ended November 30, 2004 reflect Look's Balance Sheet as at November 30, 2004 and its Statement of Operations and Deficit for the three months commencing September 1, 2004 and ending on November 30, 2004. The Company accounted for Look using the equity method until November 30, 2003. Under this method, the investment in Look was carried at cost and adjusted to reflect UBS' proportionate share of Look's net loss.

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UBS' common share interest in Look will fluctuate as convertible debentures issued by Look are converted into common shares. If all debentures are converted and no new common shares are issued, UBS will still have the ability to control at least 51.06% of Look by the conversion of its debentures, and as such, the Company will continue to consolidate its interest at 51.06% irrespective of its actual common share holding at the end of each reporting period.

## **5. DIVESTITURE OF ENGINEERING & MANUFACTURING BUSINESS**

On October 8, 2003, UBS closed a transaction to sell its E&M Business. This business was sold to a new private company owned by former UBS engineers. An additional 44 former UBS employees joined the new company, eventually reducing the number of employees remaining at UBS to six. As consideration, UBS holds a three-year secured loan of \$2,000 bearing interest at 8%. Under certain circumstances, including in the event of default, UBS could acquire a 66.67% ownership stake in the new company. Additionally, UBS may be entitled to further proceeds upon any re-sale of the new company. The accounting impact of the divestiture was a one-time loss of \$6,331 reported in the Company's second quarter operating results for 2004. Included in this loss was the full provision for the \$2,000 secured loan, as these proceeds will only be recognized upon receipt. In October 2004, UBS, as agreed to in the original transaction, subordinated this loan in favor of a credit facility provided to the purchaser of the E&M Business by a large financial institution.

## **6. OPERATING RESULTS**

The net loss for the quarter ended November 30, 2004 was \$1,099 or \$0.01 per common share compared with the net loss of \$7,376 or \$0.07 for the quarter ended November 30, 2003. The improved position over the previous year is primarily the result of the divestiture of the E&M Business.

### **Continuing operations:**

The net loss from continuing operations for the three months ended November 30, 2004 was \$1,204 or \$0.01 per common share compared with the net loss of \$375 or \$0.00 for the three months ended November 30, 2003.

**Service and sales revenue** consists of Internet services, broadcast distribution, storage services and equipment sales revenue. Internet services revenue is earned primarily from monthly and annual subscriptions from individuals and businesses for access to the Internet. Broadcast distribution revenue is earned from the provision of digital television services to residential and business customers. Storage revenue is earned by providing Web hosting and other value-added services such as domain name registration and Web server co-location and equipment sales revenue is earned from the sale of digital receivers and Internet equipment to customers.

**Carrier charges and cost of sales** includes the costs of data distribution on common carriers (telephone companies) for Internet services, programming for video services, Web-related services costs and customer premise equipment for re-sale to customers. Programming costs include the service fees paid to networks and other distributors to obtain the video and audio signals for distribution to subscribers. While the cost of data distribution and web related services vary with the number of

subscribers, programming costs vary directly with the number of channels carried and the number of subscribers.

The service and sales revenue and cost of sales for the three months ended November 30, 2004 consist of the following:

	Three months ended November 30, 2004		Three months ended November 30, 2003	
	Revenue	Carrier charges & Cost of sales	Revenue	Carrier charges & Cost of sales
Internet services	\$ 3,990	\$ 1,911	\$ -	\$ -
Broadcast distribution	4,595	2,501	-	-
Storage services	1,273	497	-	-
Equipment sales	208	421	-	-
<b>Total</b>	<b>\$ 10,066</b>	<b>\$ 5,330</b>	<b>\$ -</b>	<b>\$ -</b>

The above revenue is net of discounts granted to new customers as incentives. Internet services revenue is earned primarily from monthly and annual subscriptions from individuals and businesses for access to the Internet. Broadcast distribution revenue is earned from the provision of digital television services to residential and business customers. Storage revenue is earned by providing Web hosting and other value-added services such as domain name registration and Web server co-location.

Equipment sales revenue is earned from the sale of digital receivers and Internet equipment to customers. There are no comparative figures for fiscal 2003 because Look was only consolidated effective November 30, 2003 and the divestiture of the Business has resulted in the re-classification of this business as discontinued operations. For comparative quarterly revenue results of Look, the reader should review the published quarterly financial statements of Look.

Look's Internet services subscribers totaled 57,796 at the end of November 2004, comprising 45,376 residential dial-up subscribers, 10,286 high speed residential subscribers and 2,134 high speed business subscribers. In addition, at the end of November 2004, Look had 34,374 television distribution subscribers and 12,100 business service subscribers.

**Marketing and sales expenses** include Look's costs of media and other advertising fees for direct sales agencies, direct marketing costs, cost of producing and distributing product media and commissions on retail sales.

**Customer care expenses** include salaries, benefits and other costs associated with the operation of Look's call centers for technical and service support.

**Engineering and operations expenses** include Look's costs associated with operating and maintaining the broadcast distribution head-end facilities, the network and transmission towers by which digital signals are transmitted via broadband wireless links to customers, the costs of providing maintenance services to customers and the telecommunication facility costs for Internet services.

**General and administration costs** include administrative salaries, human resources, general occupancy, information technology and other administrative overheads. The comparative costs for 2003 include an allocation of salaries, consulting fees, bonuses, legal fees, accounting and audit fees and Board fees associated with the continuing business.

**Amortization of capital assets** relates to amortization of Look's capital assets including buildings, headends and network equipment, customer connections, computer hardware and software and office equipment.

**Amortization of deferred charges** relate to the amortization of the CRTC license renewal, which is amortized over the life of the license, and the amortization, over three years, of financing costs associated with Look's rights offering.

**Non-controlling interest** is the allocation related to the outside shareholders' interest of 49% in Look's operating results.

**Discontinued operations:**

There were no charges against discontinued operations this quarter. The net loss from discontinued operations for the quarter ended November 30, 2003 was \$7,001 or \$0.07 per common share and related to the sale of the E&M Business in October last year.

Discontinued operations includes the net loss associated with the E&M Business prior to its sale in the second quarter of fiscal 2004, the loss on the sale of this operation and the provision for the note receivable on the sale of the E&M Business.

**7. QUARTERLY FINANCIAL RESULTS**

The key lines in the quarterly results for the past ten quarters are set out in the tables below:

Quarter ended	Aug 31 2002	Nov 30 2002	Feb 28 2003	May 31 2003	2003 Fiscal
Revenue	-	-	-	-	-
Net loss – continuing ops	(156)	(230)	(591)	(1,135)	(2,112)
- discontinued ops	(2,932)	(4,010)	(3,339)	(3,550)	(13,831)
Loss per share – continuing ops	-	-	(0.01)	(0.01)	(0.02)
Loss per share – discontinued ops	(0.03)	(0.04)	(0.03)	(0.04)	(0.14)

Quarter ended	Aug 31 2003	Nov 30 2003 <sup>1</sup>	Feb 29 2004 <sup>2</sup>	May 31 2004	Aug 31 2004	2004 Fiscal
Revenue	-	-	11,989	11,397	9,091	32,477
Net loss – continuing ops	(683)	(375)	(994)	(535)	(2,499)	(5,086)
- discontinued ops	(2,283)	(7,001)	-	-	715	(8,569)
Loss per share – continuing ops	(0.01)	-	(0.01)	(0.01)	(0.02)	(0.05)
Loss per share – discontinued ops	(0.02)	(0.07)	-	-	0.01	(0.08)

Quarter ended	Nov 30 2004
Revenue	10,066
Net loss	(1,204)
Loss per share	(0.01)

<sup>1</sup> The Engineering & Manufacturing Business was sold in this quarter

<sup>2</sup> The operations of Look were consolidated with effect from November 30, 2003 after UBS obtained the necessary control approvals

## 8. LIQUIDITY AND CAPITAL RESOURCES

In addition to short-term investments of \$3,000, the Company had consolidated cash and cash equivalents of \$4,661 at November 30, 2004 compared with short-term investments of \$2,510 and consolidated cash and cash equivalents of \$4,920 at August 31, 2004.

The changes in cash and cash equivalents for the quarters ended November 30, 2004 and November 30, 2003 are summarized as follows:

Cash Flows provided by (used in):	2004	2003
Operating activities – continuing operations	1,146	(558)
Operating activities – discontinued operations	(506)	(2,172)
Cash flows provided by/(used in) operating activities	640	(2,730)
Cash flows (used in)/provided by investing activities	(787)	1,896
Cash flows used in financing activities	(112)	-
Decrease in cash and cash equivalents	(259)	(834)

Cash flow provided by operating activities for the quarter ended November 30, 2004 was \$640 compared with cash used of \$2,730 for the comparative quarter ended in 2003. The improvement in 2004 is due to the sale of the E&M Business and the refund of deposits from Industry Canada following UBS' withdrawal from the spectrum auction.

Cash flow used in investing activities for the three months ended November 30, 2004 was \$787 compared with cash provided of \$1,896 in 2003. Cash used in investing activities in 2004 was due to an increase in short term investments and purchases of capital assets, while the inflow last year resulted from the consolidation of Look for the first time.

Cash flow used in financing activities for the three months ended November 30, 2004 was \$112, being largely interest on Look's convertible debentures.

Management believes that the Company has sufficient cash and cash equivalents available to meet the needs of its transitional strategy for the near future. New funds will be sought to develop and launch the new mobile video offering.

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## **9. SHARE CAPITAL**

At November 30, 2004, the Company had issued 91,442,522 common shares (August 31, 2004 – 91,442,522) and 11,305,332 Class A non-voting shares (August 31, 2004 – 11,305,332) for total issued shares of 102,747,854 (August 31, 2004 - 102,747,854) and there were options outstanding to acquire 11,588,000 common shares of the Company (August 31, 2004 – 11,588,000). As of January 24, 2005 the number of shares issued remained at 102,747,854 and the options outstanding to acquire common shares had increased to 11,700,000.

On October 17, 2003, the CRTC issued an approval letter in response to Look's application for authority to a change in ownership and control of Look that would result upon the exercise of the UBS option to acquire shares of Look. In the approval letter, the CRTC approved Look's application effective upon the receipt by the CRTC of documentation demonstrating, among other things, that UBS amended its share capitalization to create Class A Non-Voting Shares, which is described in greater detail in the Company's Management Information Circular for the Annual Shareholders Meeting held on November 20, 2003. The shareholders at the Annual Meeting held on November 20, 2003 passed the special resolution necessary to approve the amendment to the Articles of the Company, to create the Class A Non-Voting Shares and to stipulate the terms and conditions of the Class A Non-Voting Shares and the common shares of the Company.

## **10. CLAIMS FOR DAMAGES**

On January 16, 2003 UBS entered into a signed Right of Use Agreement with Inukshuk Internet Inc. (Inukshuk), a subsidiary of Microcell Telecommunications Inc (Microcell), which would allow UBS to use spectrum licenses held by Inukshuk within certain license service areas. After attempting unsuccessfully to resolve the issues related to the agreement with Inukshuk, UBS commenced legal action on April 21, 2004 against Allstream Inc. (now MTS Allstream Inc.), Microcell Telecommunications Inc., Microcell Solutions Inc. and Inukshuk Internet Inc. (wholly-owned subsidiaries of Microcell and now of Rogers Communications Inc.) for, amongst other things, specific performance, breach of contract, breach of confidence and breach of fiduciary duty. Damages totaling \$160,000 and disgorgement of profits are claimed against each of the defendants as a result of their actions involving the Inukshuk spectrum. Statements of Defense were filed by Allstream Inc. on October 28, 2004 and Inukshuk Internet Inc., Microcell Telecommunications Inc. and Microcell Solutions Inc. on December 17, 2004. The assets and rights that need to be protected are significant to UBS shareholders and as such management intends to vigorously pursue its rights.

## **11. RISKS AND UNCERTAINTIES**

### **Going Concern**

These consolidated financial statements have been prepared on a going concern basis, in accordance with Canadian GAAP. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and contingencies.

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There is doubt about the Company and Look's ability to continue as a going concern as they have incurred significant operating losses over the past two years and the Company and Look have working capital deficiencies of \$2,853 and \$4,940, respectively, as at November 30, 2004.

The Company's ability to continue as a going concern is dependent upon achieving and maintaining profitable operations and successful implementation of its business strategy.

### **Customer Retention**

Look's ability to retain its existing profitable subscriber base and add new subscribers is the prime determining factor in its long-term success. Look attempts to ensure such retention of profitable customers by investing in its infrastructure and technical and subscriber support capabilities. Look has also implemented targeted retention strategies designed to further reduce the rate of customer attrition. However, it is easy for Look's subscribers to switch to competing Internet and television distribution service providers. Moreover, churn of dial-up subscribers is, as expected, increasing as customers switch to high-speed Internet access. Consequently, Look's investments may not help subscriber retention. Any significant loss of profitable subscribers will adversely affect Look's business, financial condition and results of operations in the future.

### **Customer Acquisition**

Look's revenue depends on its ability to attract and keep new subscribers. Look will aggressively pursue its targeted niche customers through its focused marketing approach. However, given the very strong competitive environment in which Look operates, there can be no assurance that it will be able to successfully continue the re-launch of its sales and marketing activities and to increase the rate of net subscriber additions. This could consequently adversely affect Look's business, financial condition and results of operations in the future.

### **Regulatory Risks**

As discussed in the "Overview of Government Regulation and Regulatory Developments" section above, the Company's operations are subject to government regulation that could impact the business.