

Consolidated Financial Statements of

**UNIQUE BROADBAND  
SYSTEMS, INC.**

**Quarter 1, 2005**

Three months ended November 30, 2004

# Unique Broadband Systems, Inc.

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Concord ON L4K 3Y3  
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## NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of Unique Broadband Systems, Inc. (the "**Company**") the company for the interim period ending November 30<sup>th</sup>, 2004 have been prepared by and are the responsibility of the company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Signed— "Gerald T McGoey"

Gerald T. McGoey  
Chairman and Chief Executive Officer

Signed – "Malcolm Buxton-Forman"

Malcolm Buxton-Forman  
Chief Financial Officer

Date: January 24, 2005

# UNIQUE BROADBAND SYSTEMS, INC.

Consolidated Balance Sheets  
(Unaudited) (In thousands of dollars)

	November 30, 2004	August 31, 2004
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 4,661	\$ 4,920
Short-term investments	3,000	2,510
Restricted cash	510	492
Accounts receivable	2,984	2,809
Inventory	53	53
Prepaid expenses and deposits	750	3,019
	<u>11,958</u>	<u>13,803</u>
Capital assets	26,029	26,101
Deferred charges	316	342
	<u>\$ 38,303</u>	<u>\$ 40,246</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 13,154	\$ 12,557
Income taxes payable	-	40
Unearned revenue	1,625	1,571
Current portion of long-term debt	32	31
	<u>14,811</u>	<u>14,199</u>
Long-term debt	1,234	1,242
Non-controlling interest	13,719	15,109
Shareholders' equity:		
Share capital (note 2)	58,139	58,139
Contributed surplus	422	375
Deficit	<u>(50,022)</u>	<u>(48,818)</u>
	8,539	9,696
	<u>\$ 38,303</u>	<u>\$ 40,246</u>

See accompanying notes to financial statements.

# UNIQUE BROADBAND SYSTEMS, INC.

Consolidated Statements of Operations and Deficit  
(Unaudited) (In thousands of dollars, except shares and per share amounts)

	Three months ended November 30	
	2004	2003
Service and sales revenue	\$ 10,066	\$ -
Carrier charges and cost of sales	5,330	-
Gross margin	4,736	-
Expenses:		
Marketing and sales	1,240	-
Customer care	1,143	-
Engineering and operations	1,492	-
General and administration	1,967	558
Amortization of capital assets	1,334	-
Amortization of deferred charges	27	-
	7,203	558
	(2,467)	(558)
Equity interest in losses of Look	-	171
Interest	16	-
Loss from continuing operations before income taxes and non-controlling interest	(2,483)	(387)
Income taxes	15	(12)
Loss from continuing operations before non-controlling interest	(2,498)	(375)
Non-controlling interest	1,294	-
Loss from continuing operations	(1,204)	(375)
Loss from discontinued operations	-	(7,001)
Loss for the period	(1,204)	(7,376)
Deficit, beginning of period	(48,818)	(38,129)
Deficit, end of period	\$ (50,022)	\$ (45,505)
Loss per share from continuing operations:		
Basic and diluted	\$ (0.01)	\$ (0.00)
Loss per share:		
Basic and diluted	\$ (0.01)	\$ (0.07)
Weighted average number of outstanding shares in thousands:		
Basic and diluted	102,748	102,748

See accompanying notes to consolidated financial statements.

# UNIQUE BROADBAND SYSTEMS, INC.

Consolidated Statements of Cash Flows  
(Unaudited) (In thousands of dollars)

	Three months ended November 30	
	2004	2003
<b>Cash flows from operating activities:</b>		
Loss from continuing operations	\$ (1,204)	\$ (375)
Non-controlling interest	(1,294)	-
Equity interest in losses of Look	-	(171)
Amortization of capital assets	1,334	-
Amortization of deferred charges	27	-
Amortization of stock based compensation	55	-
Change in non-cash operating working capital (note 4)	2,228	(12)
Cash flows from/(used in) continued operations	1,146	(558)
Cash flows used in discontinued operations	(506)	(2,172)
Cash flows from/(used in) operating activities	640	(2,730)
<b>Cash flows from financing activities:</b>		
Interest on convertible debentures	(105)	-
Repayment of obligations under capital leases	(7)	-
Cash flows used in financing activities	(112)	-
<b>Cash flows from investing activities:</b>		
Restricted cash	(18)	-
Purchase of short-term investments	(490)	-
Cash acquired on consolidation of Look	-	1,896
Purchase of capital assets	(279)	-
Cash flows (used in)/from investing activities	(787)	1,896
Decrease in cash and cash equivalents	(259)	(834)
Cash and cash equivalents, beginning of period	4,920	10,353
Cash and cash equivalents, end of period	\$ 4,661	\$ 9,519

See accompanying notes to consolidated financial statements.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements

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

Unaudited

Quarter 1 ended November 30, 2004

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Unique Broadband Systems, Inc. (the "Company") is a publicly listed Canadian company that has investments in broadband assets and a 51.06% fully diluted equity interest in Look Communications Inc. ("Look"). With its licensed spectrum through Look, the Company is a Canadian digital television broadcaster and broadband wireless service provider. References to "UBS" include Unique Broadband Systems, Inc. and its wholly owned subsidiary UBS Wireless Services Inc. References to the Company include UBS and Look.

The Company's origin in the wireless industry was that of a technology company that designed, developed and manufactured broadband wireless access, wireless transport and digital audio and video broadcasting solutions (the "Engineering and Manufacturing Business" or "E&M Business"). On October 8, 2003, this Engineering and Manufacturing Business was sold. Effective November 30, 2003, UBS received the necessary regulatory approvals to permit the exercise of its fully funded option to purchase a further 21.16% of Look, and, accordingly on December 30, 2003 UBS exercised this option and acquired control (51.06%) of Look.

UBS and Look have changed their year-ends to August 31 in order to standardize their financial reporting periods. This change resulted in the Annual Report for 2004 of the Company covering a period representing 15 months to August 31, 2004. The financial statements for Quarter 1 ended November 30, 2004 should be read in conjunction with the 2004 Annual Reports of UBS and Look and the Quarter 1 financial statements of Look ended November 30, 2004.

## 1. **Basis of presentation:**

The accompanying unaudited financial statements are prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. Certain information and note disclosures normally included in the annual financial statements prepared in accordance with generally accepted accounting principles have been condensed to include only the notes related to elements which have significantly changed in the interim period. As a result, these interim consolidated financial statements do not contain all disclosures required to be included in the annual financial statements. These consolidated condensed financial statements are prepared following accounting policies consistent with the Company's audited annual consolidated financial statements and notes thereto for the year ended August 31, 2004.

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.

There is doubt about the Company's ability to continue as a going concern as it has incurred significant operating losses over the past two years and has a working capital deficiency of \$2,853 as at November 30, 2004.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except shares and per share amounts)

Quarter 1 ended November 30, 2004

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The Company and Look'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. The consolidated financial statements have been prepared 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 if the going concern basis was not appropriate. Such adjustments could be material.

These consolidated financial statements include the accounts of UBS and Look, a company in which UBS has a 51.06% interest. All significant inter-company transactions and balances have been eliminated. UBS and Look have changed their year-ends to August 31 in order to standardize their financial reporting periods. For the period from June 1, 2003 to November 30, 2003, the operations of Look were accounted for by UBS using the equity method. From December 1, 2003 the financial statements of the Company consolidate the financial position and results of operations of Look.

## 2. Share capital:

- (a) Authorized:
  - Unlimited common shares
  - Unlimited Class A non-voting shares

- (b) Issued:

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).

- (c) Stock option plan:

UBS's stock option plan (the "Plan") provides for the granting of stock options to employees, directors and consultants of UBS. Under the Plan, up to 19,765,396 common shares may be issued from treasury. Options are granted at prices equal to or greater than the market value on the date of grant, and in the absence of terms specifying otherwise, vest annually over a three-year period and are exercisable during a period not to exceed 10 years from such grant. No options were granted during the quarter and there are 11,588,000 options outstanding at November 30, 2004 (August 31, 2004 – 11,588,000).

During the quarter, the Company recorded stock based compensation expense of \$41 (November 30, 2003 - nil) related to options issued to employees and \$6 (November 30, 2003 - \$22) related to options issued to non-employees, which has been recorded in contributed surplus. The Company's fair value for the options granted during the period was determined using the Black-Scholes option pricing model with the following assumptions:

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except shares and per share amounts)

Quarter 1 ended November 30, 2004

an average risk free interest rate of 4.3%, a dividend yield of 0%, a volatility factor of the expected market price of the Company's shares of 95%, and a weighted-average expected option life of five years.

CICA Handbook Section 3870 requires the disclosure of pro forma loss and basic and diluted loss per share information for those options issued prior to June 1, 2003. Had compensation cost for options granted prior to June 1, 2003 been determined based on the fair value method of accounting for stock-based compensation, the Company's loss for the quarter ended November 30, 2004 and basic and diluted loss per share would have been increased to the pro forma amounts as follows:

	Three months ended November 30	
	2004	2003
Loss for the period, as reported	\$ 1,204	\$ 7,376
Stock compensation expense	29	98
<b>Pro forma loss for the period</b>	<b>\$ 1,233</b>	<b>\$ 7,474</b>
Basic and diluted loss per share, as reported	\$ (0.01)	\$ (0.07)
Pro forma basic and diluted loss per share	\$ (0.01)	\$ (0.07)

The fair value of these options was determined using the Black-Scholes option pricing model with the assumptions consistent with those noted above.

Under generally accepted accounting principles, the fair value of stock-based awards to employees is calculated through the use of option pricing models, such as the Black-Scholes model, even though such models were developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions. These models also require subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values. Because the Company's stock-based awards have characteristics significantly different from those of freely traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock-based awards.

### 3. Segment Disclosure:

The Corporation currently operates in a single segment as a wireless broadband carrier, delivering a full range of communications services including wireless digital television

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except shares and per share amounts)

Quarter 1 ended November 30, 2004

distribution, dial-up and high speed Internet access and web-related services including web-hosting and domain name registration.

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.

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:

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

There are no comparative figures for 2003 because the operations of Look were only consolidated from December 1, 2003 and the divestiture of the Engineering and Manufacturing Business has resulted in the re-classification of this business as discontinued operations.

All of the Company's revenue is generated in Canada and all of its assets are located in Canada. No one customer accounts for more than 10% of revenues or accounts receivable.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except shares and per share amounts)

Quarter 1 ended November 30, 2004

## 4. Non-cash operating working capital items:

The change in non-cash operating working capital for continuing operations is set out in the table below:

	Three months ended November 30	
	2004	2003
Accounts receivable	\$ (166)	\$ -
Prepaid expenses and deposits	1,285	-
Accounts payable and accrued liabilities	1,055	(12)
Unearned revenue	54	-
Total change in non-cash operating working capital	\$ 2,228	\$ (12)

During the quarter ended November 30, 2004, \$984 was transferred from prepaid expenses and deposits to capital assets and is not shown in the change noted above.

The movement in the quarter on non-cash working capital related to discontinued operations was \$506.

## 5. Comparative consolidated financial statements:

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current period.

# UNIQUE BROADBAND SYSTEMS, INC.

Shareholder Information

Three months ended November 30, 2004

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## Board of Directors

Gerald T. McGoey

Peter Minaki

Louis Mitrovich

Douglas Reeson

## Officer

Gerald T. McGoey  
Chairman and Chief Executive Officer

Malcolm Buxton-Forman  
Chief Financial Officer

## Chief Technology Consultant

Alex Dolgonos

## Auditors

KPMG LLP  
Yonge Corporate Centre  
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## Shareholder Inquiries

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## Transfer Agent

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## Common Shares

The common shares of the Company are listed on the TSX Venture Exchange under the symbol UBS.