

Interim Unaudited Consolidated Financial Statements of

**UNIQUE BROADBAND  
SYSTEMS, INC.**

Three months ended November 30, 2009 and 2008

## **Unique Broadband Systems, Inc.**

**8250 Lawson Road**

**Milton, Ontario**

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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 the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying interim unaudited consolidated financial statements of the Company for the interim period ending November 30, 2009 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.

# UNIQUE BROADBAND SYSTEMS, INC.

Interim Unaudited Consolidated Balance Sheets  
(In thousands of dollars)

As at

	November 30, 2009	August 31, 2009
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 6)	\$ 6,109	\$ 17,389
Short-term investments (note 6)	36,038	-
Accounts receivable and other receivables	1,144	297
Short-term receivable due from Inukshuk (note 3)	-	50,000
Inventory	-	40
Prepaid expenses and deposits	212	365
	43,503	68,091
Restricted cash (note 6)	400	430
Property and equipment	1,901	1,995
	\$ 45,804	\$ 70,516
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 1,030	\$ 1,112
Accrued restructuring liabilities (note 4)	177	2,314
Accrued restructuring liabilities due to related parties (notes 4 and 11)	5,742	22,934
Accrued liabilities and provisions	2,382	4,631
Long-term debt, due within one year	1,796	1,800
Current portion of liability component of convertible debentures (note 7)	33	14
	11,160	32,805
Liability component of convertible debentures (note 7)	926	917
Non-controlling interest (note 8)	20,461	21,940
Shareholders' equity:		
Share capital (note 9)	58,139	58,139
Contributed surplus (note 9)	3,497	3,459
Deficit	(48,379)	(46,744)
	13,257	14,854
Basis of presentation (note 1)		
Contingencies (note 14)		
	\$ 45,804	\$ 70,516

See accompanying notes to interim unaudited consolidated financial statements.

# UNIQUE BROADBAND SYSTEMS, INC.

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

Three months ended November 30, 2009 and 2008

	2009	2008
Service and sales revenue (note 10)	\$ 434	\$ 3,588
Carrier charges and cost of sales (note 10)	425	1,940
Gross margin from continuing operations	9	1,648
Expenses:		
Customer care	231	345
Engineering and operations	615	699
General and administration	1,706	2,387
Amortization of property and equipment	115	1,147
Amortization of deferred charges	-	9
Restructuring charges (note 4)	433	-
	3,100	4,587
Loss from continuing operations before the under noted	(3,091)	(2,939)
Accretion on liability component of convertible debentures (note 7)	(31)	(30)
Interest and finance charges	(50)	(51)
Interest income	39	36
Adjustment to gain on sale of spectrum and broadcast licence	(61)	-
Gain on sale of other property and equipment	-	2
Loss for the period from continuing operations before income taxes	(3,194)	(2,982)
Income taxes (note 12)	-	-
Loss for the period from continuing operations before non-controlling interests	(3,194)	(2,982)
Non-controlling interests (note 8)	1,519	-
Loss for the period from continuing operations	(1,675)	(2,982)
Income for the period from discontinued operations (note 13)	40	4,531
Income (loss) and comprehensive income (loss) for the period	(1,635)	1,549
Deficit, beginning of period	(46,744)	(67,480)
Deficit, end of period	\$ (48,379)	\$ (65,931)
Continuing operations:		
Basic income (loss) per share	\$ (0.02)	\$ (0.03)
Diluted income (loss) per share	(0.02)	(0.03)
Discontinued operations:		
Basic income per share	\$ 0.00	\$ 0.04
Diluted income per share	0.00	0.04
Income (loss) per share:		
Basic	\$ (0.02)	\$ 0.01
Diluted	(0.02)	0.01
Weighted average of number of shares outstanding (note 9):		
Basic	102,748	102,748
Diluted	102,748	102,748

See accompanying notes to interim unaudited consolidated financial statements.

# UNIQUE BROADBAND SYSTEMS, INC.

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

Three months ended November 30, 2009 and 2008

	2009	2008
Cash provided by (used in):		
Operating activities:		
Income (loss) for the period	\$ (1,635)	\$ 1,549
Less: Income for the period from discontinued operations	(40)	(4,531)
Non-controlling interests	(1,519)	-
Amortization of property and equipment	115	1,147
Amortization of deferred charges	-	9
Interest and finance charges	4	4
Amortization of stock-based compensation	37	122
Accretion on liability component of convertible debentures	31	30
Adjustment to gain on sale of spectrum and broadcast licence	61	-
Gain on sale of other property and equipment	-	(2)
Change in non-cash operating assets and liabilities (note 15)	(22,292)	(396)
Cash used in continuing operations	(25,238)	(2,068)
Cash provided by discontinued operations (note 13)	78	507
	(25,160)	(1,561)
Investing activities:		
Purchase of property and equipment	(21)	(9)
Proceeds on sale of property and equipment	-	2
Proceeds from sale of spectrum and broadcast licence (note 3)	50,000	-
Purchase of short-term investments	(36,000)	-
Transaction costs on sale of spectrum and broadcast licence	(61)	-
Interest earned on short-term investments	(38)	-
Cash provided by (used in) continuing operations	13,880	(7)
Cash provided by discontinued operations	-	1,957
	13,880	1,950
Net cash used in continuing operations	(11,358)	(2,075)
Net cash provided by discontinued operations	78	2,464
Increase (decrease) in cash and cash equivalents	(11,280)	389
Cash and cash equivalents, beginning of period	17,389	5,168
Cash and cash equivalents, end of period	\$ 6,109	\$ 5,557

Supplemental cash flow information (note 15).

See accompanying notes to interim unaudited consolidated financial statements.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Interim Unaudited Consolidated Financial Statements  
(In thousands, except per share amounts)

Three months ended November 30, 2009 and 2008

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Unique Broadband Systems, Inc. (the "Company") is a publicly listed Canadian company that has a 51.8% fully diluted equity interest in Look Communications Inc. ("Look") and other financial assets. References to "UBS" include Unique Broadband Systems, Inc. and its wholly owned subsidiary, UBS Wireless Services Inc. ("UBS Wireless"). References to the Company include UBS and Look.

In 2003, UBS transitioned from a technology company that designed, developed and manufactured broadband wireless equipment to a holding company when it acquired a controlling interest in Look and sold its manufacturing business.

During fiscal 2009, Look entered into various transactions involving the sale of certain businesses and assets and, as a result, as of November 15, 2009 Look is no longer providing any service to subscribers and as of December 31, 2009, Look has decommissioned its wireless network. Look is currently finalizing its plans in respect of its future business operations and the Company has concluded that the going concern basis of accounting as described in note 1 is appropriate.

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

These consolidated financial statements have been prepared, on a going concern basis, in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") with respect to the preparation of financial statements. 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 commitments in the normal course of business.

## 2. **Significant accounting policies:**

### (a) Principles of consolidation:

These consolidated financial statements include the accounts of the Company's controlled subsidiary, Look, and its wholly owned subsidiary, UBS Wireless. All significant intercompany balances and transactions have been eliminated upon consolidation.

In accordance with the Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 1600, Consolidated Financial Statements ("Section 1600"), when the losses applicable to the non-controlling interest in Look exceed the non-controlling interest's carrying value in Look, which occurred during the third quarter of fiscal 2008, the excess and any further losses will be fully absorbed by the Company. Subsequent earnings recorded by Look will be allocated entirely to the Company's interest until such previously absorbed losses are recovered, which occurred during the third quarter of fiscal 2009 (note 8).

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Interim Unaudited Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Three months ended November 30, 2009 and 2008

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## 2. Significant accounting policies (continued):

(b) Accounting policies and methods of their application followed in the preparation of these interim unaudited consolidated financial statements are consistent with those used in the most recent annual audited consolidated financial statements except short-term investments as noted below.

(i) Short-term investments:

Short term investments include variable rate guaranteed investment certificates with original maturities of less than 365 days. Short-term investments held during the period have been classified as held-for-trading instruments.

(c) Recent Accounting Pronouncement

(i) International Financial Reporting Standards ("IFRS"):

The CICA plans to converge Canadian GAAP with IFRS. The Company will be required to adopt IFRS effective September 1, 2011. The impact of the transition to IFRS on the Company's consolidated financial statements is in the process of being evaluated and is not yet determinable as the Company is currently evaluating its plans for future operations. The Company's first reporting period under IFRS will be for the first interim period of the year ending August 31, 2012.

## 3. Sale of spectrum and broadcast licence:

On September 11, 2009, following the receipt of regulatory approval of the transaction by Industry Canada and the satisfaction of all remaining conditions precedent to the consummation of the transactions contemplated in the Agreement of Purchase and Sale between Look and Inukshuk Wireless Partnership ("Inukshuk") for the sale of its spectrum and broadcast licence, Look received the full consideration of \$80,000 due from Inukshuk. In accordance with the Agreement, Inukshuk has requested that Look support an application by Inukshuk to the Canadian Radio-Television and Telecommunications Commission for the grant of a licence under the *Broadcasting Act*.

The Company recorded transaction charges of \$61 during the quarter related to the sale of the spectrum and broadcast licence to Inukshuk.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Interim Unaudited Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Three months ended November 30, 2009 and 2008

## 4. Restructuring:

As a result of the sale of its spectrum and broadcast licence to Inukshuk and the resulting restructuring of its business, the Company has recorded and paid restructuring amounts during the quarter as set out in the following tables:

	Site restoration and contract termination charges	Human resource restructuring charges	Total restructuring amounts
<b>Accrued restructuring liabilities</b>			
Balance at August 31, 2009	\$ 204	\$ 2,110	\$ 2,314
Expensed in first quarter 2010	401	-	401
Paid in first quarter 2010	(430)	(2,108)	(2,538)
Balance at November 30, 2009	\$ 175	\$ 2	\$ 177
<b>Accrued restructuring liabilities due to related parties<sup>(1)</sup></b>			
Balance at August 31, 2009	-	22,934	22,934
Expensed in first quarter 2010	-	32	32
Paid in first quarter 2010	-	(17,224)	(17,224)
Balance at November 30, 2009	\$ -	\$ 5,742	\$ 5,742

<sup>(1)</sup> see note 11.

During the quarter ended November 30, 2009, the Company expensed \$433 to restructuring charges as noted above. As of November 15, 2009, Look is no longer offering service to any subscribers and as of December 31, 2009, Look has decommissioned its wireless network. Look is continuing to pursue opportunities to sell its remaining two material non-cash assets which include:

- (i) Tax Assets – Approximately \$360,000 in tax assets; and
- (ii) Milton Property – The Company's current head office, Look's network operating centre and infrastructure in Milton, Ontario.

Look expects that substantially all of the charges and activities related to the ongoing restructuring process, such as site shut down, will be completed by the end of the second quarter of fiscal 2010.



# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Interim Unaudited Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Three months ended November 30, 2009 and 2008

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## 5. Investment in Look:

At November 30, 2009, UBS Wireless held 24,864 Multiple Voting Shares and 29,921 Subordinate Voting Shares in Look (August 31, 2009 - 24,864 Multiple Voting Shares and 29,921 Subordinate Voting Shares). In addition, UBS Wireless is the holder of a convertible debenture in the principal amount of \$3,000 which may be converted into 20,000 Multiple Voting Shares and 20,000 Subordinate Voting Shares. On a fully diluted basis, UBS Wireless holds 51.8% of Look.

## 6. Cash and short-term investments:

### (a) Cash and cash equivalents:

At November 30, 2009, the Company held cash and cash equivalents of \$6,109 (August 31, 2009 - \$17,389), of which \$2,701 (August 31, 2009 - \$2,701) was held in guaranteed investment certificates and bankers' acceptances.

### (b) Restricted cash:

At November 30, 2009, the Company had restricted cash of \$400 (August 31, 2009 - \$430), of which \$350 was held in interest-bearing certificates at 0.2% (August 31, 2009 - \$350 at 0.2%).

### (c) Short-term investments:

At November 30, 2009, Look held \$36,038 (August 31, 2009 - nil) of short-term investments which include variable rate guaranteed investment certificates with original maturities of less than 365 days. The certificates bear interest at the rate of prime minus 1.75% and are fully redeemable at any time by Look at its discretion. Short-term investments held during the period have been classified as held-for-trading instruments.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Interim Unaudited Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Three months ended November 30, 2009 and 2008

## 7. Convertible debentures:

Look's convertible secured debentures bear interest at a rate of 7% per annum and will mature on December 30, 2013. Look pays interest on the debentures semi-annually in arrears, on June 30 and December 30 of each year, which commenced on June 30, 2004. Look carries the debentures at amortized cost using an effective interest rate of 13.6%. The debentures are convertible at the option of the holder into Multiple Voting and Subordinate Voting Shares of Look at a conversion price of \$0.075 per each Multiple Voting and Subordinate Voting Share, representing 7 Multiple Voting Shares and 7 Subordinate Voting Shares per \$1 debenture. The convertible debentures are bifurcated into their debt and equity components. Look has the option to settle its obligation to pay interest and repay principal by issuing shares of Look. As at November 30, 2009, the outstanding face value, representing the non-controlling interest in Look's debentures totalling \$4,158 (August 31, 2009 - \$4,160), was \$1,158 (August 31, 2009 - \$1,160). The debentures are direct obligations of Look and rank *pari passu* with all other subordinated, secured obligations of Look.

During the quarter, the debentureholders, including UBS, agreed to release their security interest in Look's spectrum and broadcast licence upon receipt by Look of the full consideration of \$80,000 due by Inukshuk related to the sale of the spectrum and broadcast licence (note 3).

## 8. Non-controlling interest:

Non-controlling interest in the consolidated balance sheets of the Company represents the non-controlling interest in both the equity in Look and equity component of convertible debentures in Look. Reported operating losses of Look are allocated to the non-controlling interest at 49% but are limited to the extent of any remaining non-controlling interest in the equity of Look. During the third quarter of fiscal 2008, the non-controlling interest in Look's equity was eliminated and, in accordance with the accounting treatment described in note 2(a), the Company absorbed losses incurred by Look in excess of its 51% interest in Look amounting to \$1,717 as at August 31, 2008. Since Look generated income during quarter one of fiscal 2009, the Company recovered \$881 of the excess losses previously absorbed during the quarter ended November 30, 2008.

The non-controlling interest in Look is set out below:

	November 30, 2009	August 31, 2009
Shares and equity	\$ 20,049	\$ 21,527
Equity component of convertible debentures	412	413
<b>Non-controlling interest in Look</b>	<b>\$ 20,461</b>	<b>\$ 21,940</b>

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Interim Unaudited Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Three months ended November 30, 2009 and 2008

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## 9. Share capital:

### (a) Issued and outstanding:

As at August 31, 2009 and November 30, 2009, the Company had 102,748 common shares and no Class A non-voting shares issued and outstanding.

### (b) Income/loss per share:

In determining diluted loss per share for the quarter ended November 30, 2009, the weighted average number of shares outstanding was not increased for stock options outstanding as the impact would have been anti-dilutive.

### (c) Stock option incentive plan:

UBS' stock option plan (the "Option Plan") provides for the granting of stock options to employees, directors and consultants of UBS. Under the Option Plan, up to 19,765 common shares may be issued from treasury. The exercise price of the options is determined by the Board of Directors at the time of the grant of an option, but cannot be lower than the closing market price of the Company's shares on the TSX Venture Exchange on the business day immediately preceding the day on which an option is granted. In the absence of terms specifying otherwise, options vest annually over a three-year period and are exercisable during a period not to exceed 10 years from such grant.

During the quarter ended November 30, 2009, there were no stock options granted and UBS recorded stock-based compensation expense of \$9 (November 30, 2008 - \$58) related to options issued to employees and \$28 (November 30, 2008 - \$7) related to options issued to non-employees, which has been recorded in contributed surplus.

As at August 31, 2009 and November 30, 2009 there were 15,891 options outstanding.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Interim Unaudited Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Three months ended November 30, 2009 and 2008

## 9. Share capital (continued):

(d) Share appreciation rights plan:

On October 12, 2006, the Board of Directors approved a Share Appreciation Rights Plan ("SAR Plan") for UBS. Pursuant to the SAR Plan, directors, employees and consultants may be awarded units from time to time that will be subject to conditions set by the Board of Directors. The value of a SAR unit will be equivalent to the market value at the date when all the conditions attached to the SAR unit are met, less the market value on the date of the award of the unit.

As a result of Look's restructuring process, there were no SAR units outstanding at November 30, 2009 or at August 31, 2009. The SAR Plan remains in effect.

No unit payouts have been made under the SAR Plan since inception.

## 10. Segment disclosure:

Look sold its web hosting and domain name business, spectrum and broadcast licence, and its Internet business during the first, third, and fourth quarters of fiscal 2009 respectively. In accordance with Section 3475 of the CICA Handbook, the operations and cash flows of the web hosting and domain name business are presented as discontinued operations while the broadcast, Internet, and certain other operations which do not meet the definition of discontinued operations are shown as continuing operations.

The service and sales revenue, carrier charges and cost of sales and gross margin for the three months ended November 30, 2009 and 2008 from continuing operations are as follows:

Services	Three months ended November 30, 2009			Three months ended November 30, 2008		
	Revenue	Carrier charges and cost of sales	Gross Margin	Revenue	Carrier charges and cost of sales	Gross Margin
Broadcast	\$ 434	\$ 425	\$ 9	\$ 1,796	\$ 1,058	\$ 738
Internet	-	-	-	1,702	823	879
Other	-	-	-	39	10	29
	434	425	9	3,537	1,891	1,646
Sales and installations	-	-	-	51	49	2
Total	\$ 434	\$ 425	\$ 9	\$ 3,588	\$ 1,940	\$ 1,648

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Interim Unaudited Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Three months ended November 30, 2009 and 2008

## 10. Segment disclosure (continued):

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 gross revenue or accounts receivable.

The service and sales revenue, carrier charges and cost of sales and gross margin from discontinued operations are as follows:

	Three months ended November 30, 2009			Three months ended November 30, 2008		
	Revenue	Carrier charges and cost of sales	Gross margin	Revenue	Carrier charges and cost of sales	Gross margin
Services						
Web hosting and domain names	\$ -	\$ -	\$ -	\$ 520	\$ 189	\$ 331

## 11. Related party transactions:

Related party transactions in the normal course of operations are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Related party transactions not in the normal course of operations, such as the Company's accrued human resource restructuring contingent payments, have been measured at the carrying amount which is the amount of an item transferred or the cost of services provided.

The Company recorded the following related party transactions in the quarter:

	Accrued Restructuring Liabilities			
	Balance at August 31, 2009	Interest accrued <sup>(3)</sup>	Paid by Look <sup>(4)</sup>	Balance at November 30, 2009 <sup>(5)</sup>
Jolian Investments Ltd. <sup>(1)</sup>	\$ 7,366	\$ 10	\$ 5,566	\$ 1,810
DOL Technologies Inc. <sup>(2)</sup>	5,481	9	3,951	1,539
UBS directors and management	2,675	13	295	2,393
<b>Total</b>	<b>\$ 15,522</b>	<b>\$ 32</b>	<b>\$ 9,812</b>	<b>\$ 5,742</b>

<sup>(1)</sup> Jolian Investments Ltd. is a company controlled by the Chairman and Chief Executive Officer of the Company. Fees charged to general and administration expenses in the first quarter of 2010 amounted to \$143 (2009 - \$151).

<sup>(2)</sup> DOL Technologies Inc. is a company controlled by the Chief Technology Consultant of the Company. Fees charged to general and administration expenses in the first quarter of 2010 amounted to \$119 (2009 - \$125).

<sup>(3)</sup> The interest on accrued restructuring liabilities payable by UBS is charged to restructuring charges.

<sup>(4)</sup> In addition to the amounts paid by Look noted above, at August 31, 2009, Look had accrued \$7,412 in respect of accrued contingent payments due to other Look related parties that it paid during the first quarter of 2010.

<sup>(5)</sup> The accrued restructuring liabilities payable by UBS at November 30, 2009 are contingent upon adequate cash resources being received by UBS.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Interim Unaudited Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Three months ended November 30, 2009 and 2008

## 12. Income taxes:

As a result of the sale of the spectrum and broadcast licence and the restructuring of Look's business, the cumulative eligible capital expenditure pool has been converted to a non-capital loss and is included in the table below with an expiry date of December 31, 2029.

Look has the following federal non-capital income tax losses, which may be carried forward to reduce future years' taxable income. These losses will expire in the taxation years ending December 31 as follows:

2010	\$ 184,303
2014	12,588
2015	55
2026	403
2028	13,539
2029	149,598
	<u>\$ 360,486</u>

## 13. Discontinued operations:

During the quarter ended November 30, 2008, Look sold its web hosting and domain name business. As a result, Look segregated the results of operations in respect of this business to record the contribution from this segment of its business in discontinued operations. This gross margin amounted to \$331 for the three months ended November 30, 2008. In addition, the gain on sale of the web hosting and domain name business amounted to \$4,200 and was included in discontinued operations.

During the quarter ended November 30, 2009, the Company recorded an adjustment of \$40, net of non-controlling interest, related to the sale of the web hosting and domain name business.

The consolidated balance sheets include the following amounts related to discontinued operations:

	November 30, 2009	August 31, 2009
Accrued liabilities and provisions	\$ 447	\$ 525

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Interim Unaudited Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Three months ended November 30, 2009 and 2008

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## 14. Contingencies:

(a) Craig Wireless International Inc. ("Craig Wireless"):

On February 19, 2004, Craig Wireless filed a statement of claim against the Company before the Ontario Superior Court of Justice. In its action, Craig Wireless claims that Look conducted its affairs in a manner that was oppressive and unfairly prejudicial to Craig Wireless and requests damages in the aggregate amount of \$12,000 and numerous sanctions against the Company and other parties. During December 2009, Look and UBS exchanged Affidavits of Documents with Craig Wireless.

The Company believes that the entire claim is without merit and intends to vigorously defend itself. Accordingly, no accrual has been recorded in the accounts for this claim.

(b) Border Broadcasters:

Look and Border Broadcasters executed a final settlement agreement to their ongoing litigation on August 17, 2009. During the quarter ended November 30, 2009 Look paid \$1,000 to Border Broadcasters for complete settlement of all claims.

(c) In the normal course of its operations, the Company may be subject to other litigations and claims. Although it is not possible to estimate the extent of potential costs, if any, management believes that the ultimate resolution of such contingencies would not have a material adverse effect on the results of operations, financial position or liquidity of the Company.

(d) The Company indemnifies its directors, officers and employees against claims reasonably incurred and resulting from the performance of their services to the Company, and maintains liability insurance for its directors and officers.

(e) Refer to the 2009 annual financial statements for the contingencies related to other litigation involving the Company.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Interim Unaudited Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Three months ended November 30, 2009 and 2008

## 15. Supplemental cash flow information:

- (a) The change in non-cash operating working capital in respect of continuing operations consists of the following:

	Three months ended November 30, 2009	Three months ended November 30, 2008
Accounts receivable	\$ (847)	\$ (32)
Inventory	40	(11)
Prepaid expenses and deposits	153	117
Accounts payable, accrued liabilities and provisions	(2,331)	(471)
Accrued restructuring liabilities	(2,145)	-
Accrued restructuring liabilities due to related parties	(17,192)	-
Restricted cash	30	8
Unearned revenue	-	(7)
	<u>\$ (22,292)</u>	<u>\$ (396)</u>

- (b) Interest paid and received:

	Three months ended November 30, 2009	Three months ended November 30, 2008
Interest paid	\$ 50	\$ 51
Interest received	39	36

## 16. Capital risk management:

The Company manages its capital to maximize value to shareholders and other stakeholders. The Company's capital structure includes cash and cash equivalents, accounts receivable and other receivables, short-term investments, short-term receivable due from Inukshuk, long-term debt due within one year, convertible debentures, and equity consisting of share capital, contributed surplus and deficit.

The Company is not subject to externally-imposed capital requirements. The Company's overall strategy with respect to capital risk management is to hold low-risk highly-liquid cash accounts and short-term investments.



# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Interim Unaudited Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Three months ended November 30, 2009 and 2008

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## 17. Financial risk management:

### (a) Overview:

The Company may have exposure to credit risk, liquidity risk and market risk. The Company's board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Audit and Corporate Governance Committee of the board reviews the Company's risk management policies from time to time on an as needed basis.

### (b) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash and cash equivalents, restricted cash, short-term investments, and accounts receivable and other receivables. The carrying amount of financial assets represents the Company's estimate of its maximum credit exposure.

As at November 30, 2009, the Company had a nominal amount of past due accounts receivable from subscribers (August 31, 2009 - \$174 of past due accounts receivable and an allowance for doubtful accounts of \$86).

Cash and cash equivalents, restricted cash, and short-term investments consist of cash and variable rate guaranteed investment certificates with reputable Canadian financial institutions, from which the Company believes the risk of loss to be minimal.

### (c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its current liabilities when due. At November 30, 2009, the Company has a working capital surplus of \$32,343 (August 31, 2009 - \$35,286).

Effective December 31, 2006, Look may redeem the convertible debentures in certain circumstances at a price equal to par plus accrued and unpaid interest up to, but not including, the date of redemption. Look has the option to settle its obligation and repay the principal by issuing shares of Look.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Interim Unaudited Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Three months ended November 30, 2009 and 2008

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## 17. Financial risk management (continued):

The mortgage payable bears interest at the rate of 10% per annum and matures on March 1, 2010.

### (d) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, and interest rates will affect the Company's income or the value of its financial instruments. Prior to the Company's restructuring process, the Company's products and services were available solely in Canada and substantially all of the Company's financial assets and liabilities originated in Canadian dollars. The Company was, however, exposed to currency risk for purchases that were denominated in foreign currencies. The Company believes this risk was minimal and had not entered into any currency hedging transactions.

The Company is subject to interest rate risk on its cash and cash equivalents and short-term investments (note 6). The Company estimates that for each 1% change in the interest rate earned on its cash holdings and its short-term investments at November 30, 2009, interest income will increase or decrease by approximately \$60 per annum and \$360 per annum respectively.

The Company may also be subject to interest rate risk on its mortgage payable which bears interest at the rate of 10% per annum. A 1% increase or decrease in the interest rate charged on the mortgage is expected to impact net income, either positively or negatively respectively, by \$18 per annum.

### (e) Fair value of financial instruments:

The fair values of financial assets and financial liabilities are determined as follows:

- (i) For cash and cash equivalents, restricted cash, short-term investments, accounts receivable and other receivables, short-term receivable due from Inukshuk, accounts payable, accrued restructuring liabilities, accrued restructuring liabilities due to related parties and accrued liabilities and provisions carrying amounts approximate fair value due to the short-term nature of the assets and liabilities;
- (ii) The long-term debt, due within one year is carried at amortized cost, which approximates fair value; and,
- (iii) The liability component of the convertible debentures is carried at amortized cost, which approximates fair value.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Interim Unaudited Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Three months ended November 30, 2009 and 2008

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## 17. Financial risk management (continued):

(f) Classification of financial instruments:

- (i) Short-term investments, accounts receivable and other receivables, short-term receivable due from Inukshuk, and restricted cash have been classified as financial assets held for trading and are measured at fair value;
- (ii) Accounts payable, accrued restructuring liabilities, accrued restructuring liabilities due to related parties and accrued liabilities and provisions have been classified as financial liabilities held for trading; and
- (iii) Long-term debt due within one year and the liability component of convertible debentures are measured at amortized cost.

The Company has not classified any assets as available-for-sale or held-to-maturity during the quarter ended November 30, 2009 or the year ended August 31, 2009.

## 18. Comparative figures:

Certain comparative figures have been reclassified to conform to the current period's presentation.

# UNIQUE BROADBAND SYSTEMS, INC.

Shareholder Information

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## **Board of Directors**

Gerald T. McGoey  
Louis Mitrovich  
Douglas Reeson

## **Officers**

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  
4100 Yonge Street, Suite 200  
Toronto, Ontario  
M2H 2H3

## **Shareholder inquiries**

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8250 Lawson Road  
Milton, Ontario  
L9T 5C6

email: [irinfo@uniquebroadband.com](mailto:irinfo@uniquebroadband.com)

## **Transfer agent**

Equity Transfer & Trust Company  
200 University Avenue, Suite 400  
Toronto, Ontario  
M5H 4H1  
Tel: (416) 361-0152  
Fax: (416) 361-0470

email: [irinfo@equitytransfer.com](mailto:irinfo@equitytransfer.com)

## **Common shares**

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