

Interim Unaudited Consolidated Financial Statements of

**UNIQUE BROADBAND  
SYSTEMS, INC.**

Three and six months ended February 28, 2010 and 2009

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

**8250 Lawson Road**

**Milton, Ontario**

**L9T 5C6**

**Tel: (905) 660-8100 (Fax): (905) 669-0785**

### **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 February 28, 2010 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

	February 28, 2010	August 31, 2009
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 6)	\$ 4,563	\$ 17,389
Short-term investments (note 6)	33,075	-
Accounts receivable and other receivables (note 7)	1,128	297
Short-term receivable due from Inukshuk (note 3)	-	50,000
Inventory	-	40
Prepaid expenses and deposits	51	365
	<u>38,817</u>	<u>68,091</u>
Restricted cash (note 6)	366	430
Property and equipment	1,831	1,995
	<u>\$ 41,014</u>	<u>\$ 70,516</u>

## Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable	\$ 860	\$ 1,112
Accrued restructuring liabilities (note 4)	60	2,314
Accrued restructuring liabilities due to related parties (notes 4 and 12)	5,774	22,934
Accrued liabilities and provisions	1,718	4,631
Long-term debt, due within one year	-	1,800
Current portion of liability component of convertible debentures (note 8)	14	14
	<u>8,426</u>	<u>32,805</u>
Liability component of convertible debentures (note 8)	935	917
Non-controlling interest (note 9)	19,612	21,940
Shareholders' equity:		
Share capital (note 10)	58,139	58,139
Contributed surplus	3,519	3,459
Deficit	(49,617)	(46,744)
	<u>12,041</u>	<u>14,854</u>
Basis of presentation (note 1)		
Commitments and contingencies (note 15)		
Subsequent events (note 20)		
	<u>\$ 41,014</u>	<u>\$ 70,516</u>

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 and six months ended February 28, 2010 and 2009

	Three months ended February 28,		Six months ended February 28,	
	2010	2009	2010	2009
Service and sales revenue (note 11)	\$ -	\$ 3,327	\$ 434	\$ 6,915
Carrier charges and cost of sales (note 11)	-	1,814	425	3,754
Gross margin from continuing operations	-	1,513	9	3,161
Expenses:				
Customer care	-	327	231	672
Engineering and operations	-	699	615	1,398
General and administration	1,709	3,244	3,415	5,631
Amortization of property and equipment	42	884	157	2,031
Amortization of deferred charges	-	9	-	18
Restructuring charges (note 4)	308	-	741	-
	2,059	5,163	5,159	9,750
Loss from continuing operations before the under noted	(2,059)	(3,650)	(5,150)	(6,589)
Accretion on liability component of convertible debentures (note 8)	(111)	(28)	(142)	(58)
Interest and finance charges	(51)	(49)	(101)	(100)
Interest income	47	27	86	63
Adjustment to gain on sale of spectrum and broadcast licence	-	-	(61)	-
Gain on sale of other property and equipment	5	-	5	2
Loss for the period from continuing operations before income taxes	(2,169)	(3,700)	(5,363)	(6,682)
Income taxes (note 13)	-	-	-	-
Loss for the period from continuing operations before non-controlling interest	(2,169)	(3,700)	(5,363)	(6,682)
Non-controlling interest (note 9)	931	65	2,450	65
Loss for the period from continuing operations	(1,238)	(3,635)	(2,913)	(6,617)
Income for the period from discontinued operations (note 14)	-	-	40	4,531
Loss and comprehensive loss for the period	(1,238)	(3,635)	(2,873)	(2,086)
Deficit, beginning of period	(48,379)	(65,931)	(46,744)	(67,480)
Deficit, end of period	\$ (49,617)	\$ (69,566)	\$ (49,617)	\$ (69,566)
Continuing operations:				
Basic and diluted loss per share	\$ (0.01)	\$ (0.04)	\$ (0.03)	\$ (0.06)
Discontinued operations:				
Basic and diluted income per share	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.04
Income (loss) per share:				
Basic and diluted loss per share	\$ (0.01)	\$ (0.04)	\$ (0.03)	\$ (0.02)
Weighted average of number of shares outstanding (note 10):				
Basic	102,748	102,748	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 and six months ended February 28, 2010 and 2009

	Three months ended February 28,		Six months ended February 28,	
	2010	2009	2010	2009
Cash provided by (used in):				
Operating activities:				
Loss for the period	\$ (1,238)	\$ (3,635)	\$ (2,873)	\$ (2,086)
Less: Income for the period from discontinued operations	-	-	(40)	(4,531)
Non-controlling interest	(931)	(65)	(2,450)	(65)
Amortization of property and equipment	42	884	157	2,031
Interest earned on short-term investments	(38)	-	(76)	-
Amortization of deferred charges	-	9	-	18
Interest and finance charges	7	3	11	7
Amortization of stock-based compensation	22	148	59	270
Accretion on liability component of convertible debentures	111	28	142	58
Adjustment to gain on sale of spectrum and broadcast licence	-	-	61	-
Gain on sale of other property and equipment	(5)	-	(5)	(2)
Change in non-cash operating assets and liabilities (note 16)	(708)	524	(23,000)	128
Cash used in continuing operations	(2,738)	(2,104)	(28,014)	(4,172)
Cash provided by (used in) discontinued operations (note 14)	-	(12)	78	495
	(2,738)	(2,116)	(27,936)	(3,677)
Financing Activities				
Interest on convertible debentures	(41)	-	(41)	-
Settlement and discharge of mortgage	(1,800)	-	(1,800)	-
Exercise of stock options	-	1	-	1
	(1,841)	1	(1,841)	1
Investing activities:				
Purchase of property and equipment	(2)	(5)	(23)	(14)
Proceeds on sale of property and equipment	35	-	35	2
Proceeds on sale of spectrum and broadcast licence (note 3)	-	-	50,000	-
(Purchase) redemption of short-term investments	3,000	-	(33,000)	-
Transaction costs on sale of spectrum and broadcast licence	-	-	(61)	-
Cash provided by (used in) continuing operations	3,033	(5)	16,951	(12)
Cash provided by discontinued operations	-	1,436	-	3,393
	3,033	1,431	16,951	3,381
Net cash used in continuing operations	(1,546)	(2,108)	(12,904)	(4,183)
Net cash provided by discontinued operations	-	1,424	78	3,888
Decrease in cash and cash equivalents	(1,546)	(684)	(12,826)	(295)
Cash and cash equivalents, beginning of period	6,109	5,557	17,389	5,168
Cash and cash equivalents, end of period	\$ 4,563	\$ 4,873	\$ 4,563	\$ 4,873

Supplemental cash flow information (note 16).

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 and six months ended February 28, 2010 and 2009

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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.

As a result of the sale of Look's spectrum and broadcast licence to Inukshuk Wireless Partnership ("Inukshuk") (note 3) and the resulting restructuring of its business, Look, as of November 15, 2009, is no longer providing any service to subscribers and as of December 31, 2009, has decommissioned its wireless network.

Look announced on April 22, 2010, that it was applying to the Ontario Superior Court of Justice for an Initial Order authorizing it to hold a special meeting of shareholders. The meeting is being sought under the Canada Business Corporations Act (Section 192), to consider a proposed Court process with a view to:

- (a) an orderly sale of Look's remaining property (not including its cash and tax attributes); and
- (b) providing shareholders with the option of receiving their initial distribution of available cash, net of reserves, by way of either a return of capital or dividend as elected by each shareholder (note 20).

## 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.

# UNIQUE BROADBAND SYSTEMS, INC.

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

Three and six months ended February 28, 2010 and 2009

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## 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 9).

### (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.

# UNIQUE BROADBAND SYSTEMS, INC.

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

Three and six months ended February 28, 2010 and 2009

### 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 (through joint partners Rogers Communications and Bell Canada) for the sale of its spectrum and broadcast licence ("Agreement"), 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*.

### 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 first and second quarters 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
Expensed in second quarter 2010	278	(2)	276
Paid/reversed in second quarter 2010	(393)	-	(393)
Balance at February 28, 2010	\$ 60	\$ -	\$ 60

#### Accrued restructuring liabilities due to related parties<sup>(1)</sup>

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
Expensed in second quarter 2010	-	32	32
Paid in second quarter 2010	-	-	-
Balance at February 28, 2010	\$ -	\$ 5,774	\$ 5,774

<sup>(1)</sup> see note 12.



# UNIQUE BROADBAND SYSTEMS, INC.

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

Three and six months ended February 28, 2010 and 2009

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## 4. Restructuring (continued):

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:

- (a) Tax Attributes – Approximately \$360,000 in tax attributes; and
- (b) Milton Property – The Company's current head office, Look's network operating centre and infrastructure in Milton, Ontario (note 20).

Look believes that substantially all of the charges and activities related to the restructuring process have been recognized and performed.

## 5. Investment in Look:

At February 28, 2010, 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 (note 20).

## 6. Cash and short-term investments:

- (a) Cash and cash equivalents:

At February 28, 2010, the Company held cash and cash equivalents of \$4,563 (August 31, 2009 - \$17,389), of which \$2,301 (August 31, 2009 - \$2,701) was held in guaranteed investment certificates and bankers' acceptances.

- (b) Restricted cash:

At February 28, 2010, the Company had restricted cash of \$366 (August 31, 2009 - \$430), of which \$350 was held in interest-bearing certificates at 0.2% (August 31, 2009 - \$350 at 0.2%). Subsequent to February 28, 2010, \$300 previously held in interest-bearing certificates was released from restricted cash.

# UNIQUE BROADBAND SYSTEMS, INC.

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

Three and six months ended February 28, 2010 and 2009

## 6. Cash and short-term investments (continued):

(c) Short-term investments:

At February 28, 2010, Look held \$33,075 of short-term investments (August 31, 2009 – nil) 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.

## 7. Accounts receivable and other receivables:

Accounts receivable and other receivables balances at February 28, 2010 and August 31, 2009 are set out in the following table:

	February 28, 2010	August 31, 2009
Accounts receivable, net	\$ –	\$ 122
GST receivable	1,060	93
Other receivables	68	82
Total	\$ 1,128	\$ 297

## 8. 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 have been 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 February 28, 2010, the outstanding face value, representing the non-controlling interest in Look's debentures totalling \$4,154 (August 31, 2009 - \$4,160), was \$1,154 (August 31, 2009 - \$1,160). The debentures are direct obligations of Look and rank *pari passu* with all other subordinated, secured obligations of Look.

On April 22, 2010, Look announced that it will redeem all of its outstanding 7% convertible debentures for cash on May 25, 2010 (note 20).

# UNIQUE BROADBAND SYSTEMS, INC.

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

Three and six months ended February 28, 2010 and 2009

## 9. 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 further losses for the six months ended February 28 2009, the Company absorbed an additional \$739 in excess losses in that period.

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

	February 28, 2010	August 31, 2009
Shares and equity	\$ 19,201	\$ 21,527
Equity component of convertible debentures	411	413
<b>Non-controlling interest in Look</b>	<b>\$ 19,612</b>	<b>\$ 21,940</b>

## 10. Share capital:

### (a) Issued and outstanding:

As at August 31, 2009 and February 28, 2010, 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 three and six months ended February 28, 2010, the weighted average number of shares outstanding was not increased for stock options outstanding as the impact would have been anti-dilutive.

# UNIQUE BROADBAND SYSTEMS, INC.

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

Three and six months ended February 28, 2010 and 2009

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## 10. Share capital (continued):

### (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 six months ended February 28, 2010, there were no stock options granted and 688 options expired. UBS recorded stock-based compensation expense related to options issued to employees of \$4 and \$13 respectively (February 28, 2009 - \$22 and \$80 respectively) and options issued to non-employees totalled \$18 and \$47 respectively (February 28, 2009 - \$42 and \$49 respectively), which has been recorded in contributed surplus. As at February 28, 2010, there were 15,203 options outstanding (August 31, 2009 - 15,891).

### (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 at the date of the award of the unit.

As a result of the restructuring process, there were no SAR units outstanding at February 28, 2010 or at August 31, 2009. The SAR Plan remains in effect.

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

# UNIQUE BROADBAND SYSTEMS, INC.

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

Three and six months ended February 28, 2010 and 2009

## 11. 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 revenue, carrier charges and cost of sales and gross margin for the three and six months ended February 28, 2010 and 2009 from continuing operations are as follows:

Services	Three months ended February 28, 2010			Three months ended February 28, 2009		
	Revenue	Carrier charges and cost of sales	Gross margin	Revenue	Carrier charges and cost of sales	Gross margin
Broadcast	\$ -	\$ -	\$ -	\$ 1,649	\$ 953	\$ 696
Internet	-	-	-	1,594	805	789
Other	-	-	-	41	11	30
Total service	-	-	-	3,284	1,769	1,515
Sales and installations	-	-	-	43	45	(2)
Total	\$ -	\$ -	\$ -	\$ 3,327	\$ 1,814	\$ 1,513

Services	Six months ended February 28, 2010			Six months ended February 28, 2009		
	Revenue	Carrier charges and cost of sales	Gross margin	Revenue	Carrier charges and cost of sales	Gross margin
Broadcast	\$ 434	\$ 425	\$ 9	\$ 3,445	\$ 2,011	\$ 1,434
Internet	-	-	-	3,296	1,628	1,668
Other	-	-	-	80	21	59
Total service	434	425	9	6,821	3,660	3,161
Sales and installations	-	-	-	94	94	-
Total	\$ 434	\$ 425	\$ 9	\$ 6,915	\$ 3,754	\$ 3,161

All of the Company's revenue was generated in Canada and all of its assets are located in Canada.

# UNIQUE BROADBAND SYSTEMS, INC.

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

Three and six months ended February 28, 2010 and 2009

## 11. Segment disclosure (continued):

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

	Three and six months ended February 28, 2010			Three and six months ended February 28, 2009		
Services	Revenue	Carrier charges and cost of sales	Gross margin	Revenue	Carrier charges and cost of sales	Gross margin
Web hosting and domain name registration business <sup>(1)</sup>	\$ -	\$ -	\$ -	\$ 520	\$ 189	\$ 331

<sup>(1)</sup> See note 14

## 12. 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.

### (a) Management Services Agreement ("MSA"):

On May 19, 2004, UBS and Look entered into a MSA under which UBS is providing Look with a wide range of services designed to maximize Look's full commercial potential. Under the terms of the MSA, Look is required to pay UBS an annual fee of \$2,400. UBS received, in September 2007, in advance, an annual fee of \$2,400. On a 12-month rolling basis, Look has maintained this fee. Look may, from time to time, recognize the performance of UBS in the form of cash bonus payments, direct grant of treasury shares of Look, or options for the purchase of Subordinate Voting Shares from treasury. All options shall conform to Look's stock option plan. Look shall also reimburse UBS for certain expenses and disbursements incurred in respect of the MSA and the services provided by UBS.

The initial term of the MSA is for a moving three-year period commencing on May 19, 2004 (the "execution date"). On each anniversary of the execution date, the term will automatically recommence unless, prior to an annual anniversary, Look's Board of Directors has communicated in writing to UBS its intent that the MSA not recommence, in which event, the MSA expires on the completion of the remaining term.

# UNIQUE BROADBAND SYSTEMS, INC.

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

Three and six months ended February 28, 2010 and 2009

## 12. Related party transactions (continued):

On April 20, 2010, Look's Board of Directors notified UBS that it would not be recommending the MSA on May 19, 2010. Accordingly, the MSA will expire on May 19, 2012 or such earlier date that is mutually agreed to by Look and UBS. Look's remaining liability to UBS for annual fees as of May 19, 2010 will be \$4,800 of which \$2,400 has already been prepaid.

- (b) The Company recorded the following related party transactions in the three and six months ended February 28, 2010:

	Accrued Restructuring Liabilities			
	Balance at August 31, 2009	Interest accrued <sup>(3)</sup>	Paid by Look <sup>(4)</sup>	Balance at February 28, 2010 <sup>(5)</sup>
Jolian Investments Ltd <sup>(1)</sup>	\$ 7,366	\$ 20	\$ 5,566	\$ 1,820
DOL Technologies Inc. <sup>(2)</sup>	5,481	17	3,951	1,547
UBS directors and management	2,675	27	295	2,407
<b>Total</b>	<b>\$ 15,522</b>	<b>\$ 64</b>	<b>\$ 9,812</b>	<b>\$ 5,774</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 three and six month periods ended February 28, 2010 amounted to \$143 and \$286 respectively (2009 - \$151 and \$301 respectively).

<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 three and six month periods ended February 28, 2010 amounted to \$119 and \$238 respectively (2009 - \$125 and \$250 respectively).

<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 February 28, 2010 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 and six months ended February 28, 2010 and 2009

## 13. 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	156,306
	<u>\$ 367,194</u>

## 14. 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 six months 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:

	February 28, 2010	August 31, 2009
Accrued liabilities and provisions	\$ 147	\$ 525



# UNIQUE BROADBAND SYSTEMS, INC.

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

Three and six months ended February 28, 2010 and 2009

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## 15. Commitments and contingencies:

Commitments:

As part of the restructuring process (notes 3 and 4), Look has terminated all leases and restored all sites related to the broadcast and internet businesses and does not expect any significant ongoing commitments related to this process.

Contingencies:

- (a) Manalta Investment Company Ltd. (formerly known as 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. On February 4, 2010, the Company announced that Craig Wireless has agreed to a dismissal of its claim, in its entirety, against the Company, and other named defendants. The terms of the dismissal and minutes of settlement include the following:

- (i) Craig Wireless will pay \$15 in costs to each of Look and UBS; and
- (ii) Craig Wireless has executed a full and final release that covers not only all known injuries, losses and damages, but also injuries, losses and damages not now known or anticipated but which may later develop or be discovered, including all the effects and consequences thereof.

- (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 litigation and claims.
- (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 (note 20).
- (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)  
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## 16. Supplemental cash flow information:

- (a) The change in non-cash operating assets and liabilities in respect of continuing operations consists of the following:

	Three months ended February 28, 2010		Six months ended February 28, 2009	
Accounts receivable and other receivables	\$ 16	\$ 34	\$ (831)	\$ 2
Inventory	-	8	40	(3)
Prepaid expenses and deposits	161	48	314	165
Accounts payable, accrued liabilities and provisions	(834)	406	(3,165)	(65)
Accrued restructuring liabilities	(117)	-	(2,262)	-
Accrued restructuring liabilities due to related parties	32	-	(17,160)	-
Restricted cash	34	20	64	28
Unearned revenue	-	8	-	1
	\$ (708)	\$ 524	\$ (23,000)	\$ 128

- (b) Interest paid and received:

	Three months ended February 28, 2010		Six months ended February 28, 2009	
Interest paid	\$ 51	\$ 49	\$ 101	\$ 100
Interest received	47	27	86	63

## 17. 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, short-term investments, accounts receivable and other receivables, 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 and six months ended February 28, 2010 and 2009

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## 18. 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 of Directors 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.

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 February 28, 2010, the Company has a working capital surplus of \$30,391 (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. On April 22, 2010, Look announced that it will redeem all of its outstanding 7% convertible debentures for cash on May 25, 2010 (note 20).

The mortgage payable which bore interest at the rate of 10% per annum was settled in full and discharged effective February 28, 2010.

# UNIQUE BROADBAND SYSTEMS, INC.

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

Three and six months ended February 28, 2010 and 2009

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## 18. Financial risk management (continued):

### (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 believes this risk was minimal and has not entered into any currency hedging transactions.

The Company is subject to interest rate risk on its cash and cash equivalents, short-term investments and restricted cash (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 February 28, 2010, interest income will increase or decrease by approximately \$46 per annum and \$330 per annum respectively.

### (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, short-term investments, restricted cash, 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 and six months ended February 28, 2010 and 2009

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## 18. 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 had not classified any assets as available-for-sale or held-to-maturity during the three and six month periods ended February 28, 2010 or the year ended August 31, 2009.

## 19. Comparative figures:

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

## 20. Subsequent events:

(a) Management Services Agreement:

On April 22, 2010, Look's Board of Directors notified UBS that it will not be recommencing the MSA on May 19, 2010. Accordingly, the MSA will expire on May 19, 2012 or such earlier date that is mutually agreed to by Look and UBS. Look's remaining liability to UBS for annual fees as of May 19, 2010 will be \$4,800, of which \$2,400 has already been prepaid.

# UNIQUE BROADBAND SYSTEMS, INC.

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

Three and six months ended February 28, 2010 and 2009

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## 20. Subsequent events (continued):

### (b) Convertible debentures:

On April 22, 2010 Look's Board of Directors announced that it will redeem all of its outstanding 7% convertible debentures for cash on May 25, 2010. The outstanding principal amount of the debentures, including those held by UBS, is currently \$4,154.

A Notice of Redemption will be mailed to all debenture holders on April 23, 2010. All debentures outstanding on May 25, 2010 will be redeemed by Look for cash, at a price equal to the principal amount of the debentures plus accrued and unpaid interest to May 24, 2010.

The debentures were issued by Look in February 2004 pursuant to a rights offering. Since January 1, 2007, Look has had the right to redeem the debentures.

Holders of the debentures have the right to convert the debentures into Look's Multiple Voting Shares and Subordinate Voting Shares, in accordance with the terms and conditions of the Trust Indenture, on the basis of one-half of a Multiple Voting Share and one-half of a Subordinate Voting Share for every \$0.075 principal amount of the debentures. In order to convert debentures into shares of Look, holders must deliver to Computershare Trust Company of Canada, the trustee for the debentures, their debenture certificates with a duly-completed conversion form by 5:00 pm (eastern time) on May 11, 2010.

### (c) Plan of Arrangement:

On April 22, 2010, Look's Board of Directors announced that it will apply to the Ontario Superior Court of Justice for an Initial Order authorizing it to hold a special meeting of shareholders. The meeting is being sought under the *Canada Business Corporations Act (Section 192)*, to consider a proposed Court process with a view to:

- (i) an orderly sale of Look's remaining property (not including its cash and tax attributes); and
- (ii) providing shareholders with the option of receiving their initial distribution of available cash, net of reserves, by way of either a return of capital or dividend as elected by each shareholder.

# UNIQUE BROADBAND SYSTEMS, INC.

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

Three and six months ended February 28, 2010 and 2009

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## 20. Subsequent events (continued):

Should the Court grant the Initial Order, a special meeting of Look's shareholders will be held. Look's shareholders would be asked to approve the Arrangement Resolution under the Plan of Arrangement, which includes the return of capital and reduction of stated capital for Look's Multiple and Subordinate Voting Shares. The Plan of Arrangement also contemplates releases, whereby parties with possible indemnity claims against Look will be barred from asserting such claims in exchange for a Court ordered release, subject to specified exemptions, in favour of those same parties by, among others, former and current shareholders.

Look's Board of Directors has decided that, in addition to requiring approval of at least two-thirds of the eligible votes cast by shareholders, the Plan of Arrangement will only proceed if the Arrangement Resolution is approved by a majority of eligible votes cast by shareholders other than UBS and other released parties.

If the shareholders approve the Arrangement Resolution, Look will return to Court to obtain an Interim Approval Order approving, among other things, the elements of the Plan of Arrangement, including the Sales, Claim Identification, and Distribution Processes therein and the appointment of Grant Thornton Limited, as the Monitor.

At various times during the process, Look will return to Court for, among other things, approval of the sale of the Milton property and the distribution of available cash, net of reserves, to shareholders. No other Look shareholder approvals will be necessary or sought after the special meeting of shareholders.

UBS has indicated its support for the Plan of Arrangement process and has entered into a Conversion Agreement with Look whereby UBS has agreed to use all reasonable efforts to convert only such portion of its debentures into shares so as to ensure that it will hold less than 50% of the votes attached to the shares of Look on a fully-diluted basis and redeem or sell its remaining debentures in order to preserve Look's tax attributes.

At the conclusion of the Plan of Arrangement and following distribution of available cash, net of reserves, to shareholders, Look will apply to have its Multiple and Subordinate Voting Shares de-listed but will remain a public company with approximately \$360,000 in tax attributes, which Look will continue to attempt to monetize.

# 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**

Grant Thornton LLP  
350 Burnhamthorpe Road West  
Suite 401  
Mississauga, Ontario  
L5B 3J1

## **Shareholder inquiries**

UBS Investor Relations  
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.