

Consolidated Financial Statements of

**UNIQUE BROADBAND
SYSTEMS, INC**

First Quarter, 2006

Three months ended November 30, 2005 and 2004

Unique Broadband Systems, Inc.

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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 unaudited interim financial statements of the company for the interim period ending November 30, 2005 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) – GT McGoey

(Signed) – M Buxton-Forman

Gerald T. McGoey
Chairman and Chief Executive Officer

Malcolm Buxton-Forman
Chief Financial Officer

Date: January 19, 2006

UNIQUE BROADBAND SYSTEMS, INC.

Unaudited Consolidated Balance Sheets

In thousands of dollars

	November 30, 2005	August 31, 2005 Restated (note 2)
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,111	7,520
Restricted cash (note 4)	1,296	1,170
Accounts receivable	1,983	975
Inventory	182	182
Prepaid expenses and deposits	516	525
	10,088	10,372
Capital assets	21,063	22,268
Deferred charges	205	229
	\$ 31,356	\$ 32,869
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 10,479	\$ 9,967
Accrued liabilities	2,467	3,102
Income taxes payable	-	5
Unearned revenue	1,024	1,353
Current portion of obligation under capital leases	64	67
Mortgage payable	1,200	-
Current portion of liability component of convertible debentures (note 2)	117	30
	15,351	14,524
Long term debt	38	1,253
Liability component of convertible debentures (note 2)	996	1,061
Non-controlling interest	9,863	10,478
Shareholders' equity:		
Share capital	58,139	58,139
Contributed surplus	710	642
Deficit	(53,741)	(53,228)
	5,108	5,553
Basis of presentation (note 1)		
	\$ 31,356	\$ 32,869

See accompanying notes to financial statements.

UNIQUE BROADBAND SYSTEMS, INC.

Unaudited Consolidated Statements of Operations and Deficit

Three months ended November 30, 2005 and November 30, 2004

In thousands of dollars, except shares and per share amounts

	2005	2004 Restated (note 2)
Service and sales revenue (note 9)	\$ 8,359	\$ 10,066
Carrier charges and cost of sales (note 9)	4,034	5,330
Gross margin	4,325	4,736
Expenses:		
Marketing and sales	183	1,240
Customer care	869	1,143
Engineering and operations	1,267	1,492
General and administration	1,787	1,967
Amortization of capital assets	1,314	1,334
Amortization of deferred charges	24	22
	5,444	7,198
	(1,119)	(2,462)
Interest expense	(51)	(48)
Accretion charges on liability component of convertible debenture (note 2)	(48)	(133)
Interest income	41	32
Loss before income taxes and non-controlling interest	(1,177)	(2,611)
Income taxes recovery/(provision)	2	(15)
Non-controlling interest	662	1,397
Loss for the period	(513)	(1,229)
Deficit, beginning of period as previously reported	(53,176)	(48,818)
Change in accounting policy (note 2)	(52)	(16)
Deficit, end of period	\$ (53,741)	\$ (50,063)
Loss per share:		
Basic and diluted	\$ (0.01)	\$ (0.01)
Weighted average number of outstanding shares in thousands:		
Basic and diluted (note 6)	102,748	102,748

See accompanying notes to consolidated financial statements.

UNIQUE BROADBAND SYSTEMS, INC.

Unaudited Consolidated Statements of Cash Flows

Three months ended November 30, 2005 and November 30, 2004

In thousands of dollars

	2005	2004
<u>Cash flows from/(used in) operating activities:</u>		
Loss for the period	\$ (513)	\$ (1,229)
Non-controlling interest	(662)	(1,397)
Amortization of capital assets	1,314	1,334
Amortization of deferred charges	24	22
Amortization of stock based compensation	90	55
Accretion on liability component of convertible debenture	44	127
Change in non-cash operating working capital (note 8)	(1,384)	2,086
Cash flows from/(used in) continued operations	(1,087)	998
Cash flows used in discontinued operations	(68)	(506)
Cash flows from/(used in) operating activities	(1,155)	492
<u>Cash flows used in financing activities:</u>		
Interest on convertible debentures	(4)	(5)
Repayment of obligations under capital leases	(15)	(7)
Cash flows used in financing activities	(19)	(12)
<u>Cash flows used in investing activities:</u>		
Restricted cash	(126)	(18)
Purchase of short-term investments	-	(490)
Purchase of capital assets	(109)	(231)
Cash flows used in investing activities	(235)	(739)
Decrease in cash and cash equivalents	(1,409)	(259)
Cash and cash equivalents, beginning of period	7,520	4,920
Cash and cash equivalents, end of period	\$ 6,111	\$ 4,661

Supplemental cash flow information (note 8)

See accompanying notes to consolidated financial statements

UNIQUE BROADBAND SYSTEMS, INC.

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

Three months ended November 30, 2005 and 2004

Unique Broadband Systems, Inc. (the "Company") is a publicly listed Canadian company that has investments in broadband assets and a 51% 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.

These unaudited interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and notes thereto as at and for the year ended August 31, 2005 of the Company and Look, and the interim financial statements for the quarter ended November 30, 2005 for Look. Accounting policies and methods of their application followed in the preparation of these unaudited interim consolidated financial statements are consistent with those used in the most recent annual audited consolidated financial statements of the Company, except as disclosed in note 2.

1. **Basis of presentation:**

These consolidated financial statements have been prepared on a going concern basis, in accordance with Canadian generally accepted accounting principles. 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 in the normal course of operations.

There is doubt about the Company's ability to continue as a going concern as it has incurred significant operating losses in recent years and the Company had a working capital deficiency as at November 30, 2005 of \$5,263 compared to \$4,152 at August 31, 2005.

The Company's ability to continue as a going concern is dependent upon achieving and maintaining profitable operations and successful implementation of the Company's business strategy. The outcome of these matters cannot be predicted at this time. 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.

The consolidated financial statements of the Company for the period ended November 30, 2005 include Look's balance sheet as at November 30, 2005 and its statements of operations and cash flows for the three months ended November 30, 2005. All significant inter-company transactions and balances have been eliminated.

UNIQUE BROADBAND SYSTEMS, INC.

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

Three months ended November 30, 2005 and 2004

2. Change in accounting policy:

Effective September 1, 2005, Look adopted the recommendations of CICA Handbook Section 3861, "Financial Instruments – Presentation and Disclosure", as they pertain to Look's convertible debentures. As a result of adopting the revised standard, Look has bifurcated the principal component and interest component of the convertible debentures into their debt and equity components and recorded the debt component as a liability and the equity component as equity. In determining the valuation of the liability and equity components, Look calculated the value of the liability component first, using a discount rate appropriate for what a similar debt instrument, absent any conversion features, would have commanded at the time. The residual of the proceeds over the inherent value of the liability component was attributed to the equity portion of the debentures. Accretion charges on the liability component of the convertible debentures, which are calculated using the discount rate are recorded in the statement of operations. The standard is effective on a retroactive basis with restatement of prior periods. Under adoption of this standard, the Company:

- a) Reclassified \$1,061 from the convertible debentures in non controlling interest to Liability Component of Convertible Debentures at August 31, 2005. Due to conversions during the quarter, the value of the Liability Component of Convertible Debentures at November 30, 2005 was \$996.
- b) Reclassified \$24 from accrued liabilities and provisions to current portion of Liability Component of Convertible Debentures representing unpaid interest on the liability component. The Company also recognized additional accretion charges of \$6 with the current portion of Liability Component of Convertible Debentures.
- c) Increased the opening deficit by \$52 (August 31, 2005 - \$16) comprising additional accretion costs related to the Liability Component of Convertible Debentures of \$66 (August 31, 2005 - \$21) and the reversal of accumulated amortization of \$14 (August 31, 2005 - \$5) related to the deferred charges.
- d) Reclassified \$105 from non controlling interest to accretion charges on liability portion of convertible debentures and charged a further \$28 to accretion charges on the liability portion of convertible debentures in the quarter ended November 30, 2004.
- e) Reversed amortization of deferred charges of \$5 in the quarter ended November 30, 2004.
- f) For the three month period ended November 30, 2005, the Company, recorded \$48 (2004 - \$133) in accretion charges on the Liability Component of Convertible Debentures.

UNIQUE BROADBAND SYSTEMS, INC.

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

Three months ended November 30, 2005 and 2004

The net impact on net loss for the three month period ended November 30, 2005 as a result of these changes was to increase the net loss by \$4 (2004 - \$25). There was no impact on basic and diluted loss per share for the periods presented.

3. Shareholding in Look:

At November 30, 2005 UBS held 24,864,478 multiple voting shares and 26,141,452 subordinate voting shares of Look (44.1% of issued and outstanding shares), and can convert its convertible debenture of \$3,000 into 20,000,000 of multiple voting shares and 20,000,000 of subordinate voting shares to retain a 51% share of Look on a fully diluted basis.

4. Restricted cash:

Look pledged \$1,296 (Aug 2005 - \$1,170) of cash to its bank as collateral for the processing of credit card transactions. This amount is held on deposit in interest bearing certificates, with interest rates between 2% and 2.5%.

5. Non-controlling interest:

The non-controlling interest in the consolidated balance sheet is based on the outside shareholders 49% interest in the equity of Look.

6. Share capital:

(a) Issued:

At November 30, 2005, the Company had issued 91,442,522 common shares (August 31, 2005 - 91,442,522) and 11,305,332 Class A non-voting shares (August 31, 2005 - 11,305,332).

(b) 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.

During the three months ended November 30, 2005, UBS recorded stock based compensation expense of \$63 (2004 - \$41) related to options issued to employees and \$5 (2004 - \$6) related to options issued to non-employees, which has been recorded in

UNIQUE BROADBAND SYSTEMS, INC.

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

Three months ended November 30, 2005 and 2004

contributed surplus. There were no options granted during the quarter and as at November 30, 2005 there were 13,976,000 options outstanding to purchase common shares of UBS at a weighted average exercise price of \$0.31.

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 period ended August 31, 2004 and basic and diluted loss per share would have been increased to the pro forma amounts as follows:

	November 30, 2005	November 30, 2004
Loss for the period, as reported	\$ 513	\$ 1,229
Stock compensation expense	29	29
Pro forma loss for the period	\$ 542	\$ 1,258
Basic and diluted loss per share, as reported	\$ (0.01)	\$ (0.01)
Pro forma basic and diluted loss per share	\$ (0.01)	\$ (0.01)

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 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.

UNIQUE BROADBAND SYSTEMS, INC.

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

Three months ended November 30, 2005 and 2004

7. Discontinued operations:

On October 8, 2003, UBS closed a transaction to sell its Equipment and Manufacturing Business. As consideration, UBS holds a three-year secured loan of \$2,000 bearing interest at 8%, compounded annually, which will only be recognized upon receipt of the cash.

The consolidated balance sheet includes the following amounts related to the discontinued operations:

	November 30, 2005	August 31, 2005
Inventory	\$ 53	\$ 53
Accrued liabilities	(402)	(470)
Net liabilities of discontinued operations	\$ (349)	\$ (417)

8. Consolidated statement of cash flows:

(a) The change in non-cash operating working capital, which represents an increase (decrease) in cash provided by (used in) operating activities, consists of the following:

	November 30, 2005	November 30, 2004
Accounts receivable	\$ (1,010)	\$ (166)
Inventory	-	(47)
Prepaid expenses and other assets	9	1,285
Accounts payable and accrued liabilities	(54)	960
Unearned revenue	(329)	54
	\$ (1,384)	\$ 2,086

(b) Supplemental cash flow information:

	November 30, 2005	November 30, 2004
Interest paid	\$ 51	\$ 48
Interest received	41	32
Income taxes paid	5	40

UNIQUE BROADBAND SYSTEMS, INC.

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

Three months ended November 30, 2005 and 2004

9. Segment disclosure:

The Company currently operates as a broadband service provider, delivering a range of communications services including digital television distribution, high speed and dial-up Internet access and other services including web-hosting and domain name registrations.

The service and sales revenue, cost of sales and gross margin percentages for the major segments are as follows:

	Three months ended November 30, 2005			Three Months ended November 30, 2004		
	Revenues	Cost of Sales	Gross Margin	Revenues	Cost of Sales	Gross Margin
Service revenues						
Broadcast distribution	\$3,456	\$1,906	44.9%	\$4,595	\$2,501	45.6%
Internet services	3,406	1,517	55.5%	3,990	1,911	52.1%
Other services	1,265	403	68.1%	1,273	497	61.0%
Total service revenues	8,127	3,826	52.9%	9,858	4,909	50.2%
Sales and Installations	232	208		208	421	
Total service & sales revenue	\$8,359	\$4,034		\$10,066	\$5,330	

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 revenue or accounts receivable.

10. Related party transactions:

Alex Dolgonos, Former President and CEO:

During fiscal 2003, UBS entered into a consulting agreement with Mr. Dolgonos for an initial term of five years, under which he will receive consulting fees, subject to annual review by the Board of Directors. Pursuant to this agreement, consulting fees of \$89 (2004 - \$94) were paid to Mr. Dolgonos during the three month period ended November 30, 2005. In addition, for the three months ended November 30, 2005, the Company recorded \$5 (2004 - \$6) in stock-based compensation related to options issued to Mr. Dolgonos pursuant to the consulting agreement.

UNIQUE BROADBAND SYSTEMS, INC.

Shareholder Information

For the three months ended November 30, 2005

Board of Directors

Gerald T. McGoey

Peter Minaki

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
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Shareholder Inquiries

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Common Shares

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