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Management's Discussion and Analysis

**UNIQUE BROADBAND  
SYSTEMS, INC**

**First Quarter, 2006**

Three months ended November 30, 2005 and 2004

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# **UNIQUE BROADBAND SYSTEMS, INC**

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

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

Three months ended November 30, 2005 and 2004

January 19, 2006

### **1. INTRODUCTION**

The following Management's Discussion and Analysis ("MD&A") relates to the consolidated financial condition of Unique Broadband Systems, Inc. (the "Company") at November 30, 2005 and the consolidated results of operations for the three months ended November 30, 2005 and November 30, 2004. This MD&A should be read in conjunction with the Company's consolidated financial statements and the notes to the consolidated financial statements contained in the August 31, 2005 annual report to shareholders. In addition, the MD&A should be read in conjunction with the MD&A and the financial statements and the notes to the financial statements for the three months ended November 30, 2005 for Look Communications Inc ("Look"). The Company's consolidated financial statements and the notes thereto have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") on a going concern basis and do not include any adjustments to the amounts and classifications of the assets and liabilities that would be necessary should the Company be unable to continue in business. The Company's ability to continue as a going concern is dependent upon achieving and maintaining profitable operations and successful implementation of the Company's business strategy. The outcome of these matters cannot be predicted at this time.

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

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

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

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### **3. BUSINESS OVERVIEW**

#### **Our Company**

The Company (TSX Venture: UBS) is a publicly listed Canadian company that has investments in broadband assets and a 51% equity interest in Look (TSX Venture: LOK.MV and LOK.SV). With licensed spectrum and broadcast licenses held through its subsidiary Look, the Company is a Canadian digital television broadcaster and broadband wireless service provider.

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

Look is a multimedia service provider delivering a range of communications services to residential and business customers including wireless digital television distribution, dial-up and high-speed wireline and wireless Internet access, co-location facilities and Web-related services, including Web hosting and domain name registration.

Look provides its digital video and wireless Internet services using a Multipoint Distribution System (MDS) technology, operating with 96 MHz of capacity in the 2.5 GHz band. Look has exclusive use of these frequencies since it received licenses from the Canadian Radio-television and Telecommunications Commission (CRTC) as a "broadcast distribution undertaking" in August 1997 for Southern Ontario and in 1998 for Quebec and Eastern Ontario. Look's licenses were subsequently converted to a single license and were further extended in August 2004 for another 7 years to 2011. Its coverage areas in Ontario and Quebec include the major metropolitan markets of Toronto, Montreal, Hamilton and Ottawa and many other cities from London to Quebec City

The UBS head office is located in Milton, Ontario and UBS currently has seven employees. Look's registered office is located in Toronto, and its main operations are in Montreal, Quebec and Milton, Ontario. As at November 30, 2005, Look had 150 full-time and part-time employees.

#### **Our Strategy**

On December 8, 2004 Look and UBS announced that they had signed a Memorandum of Understanding whereby they plan to jointly launch hand-held mobile video services in Ontario and Quebec. The Mobile Multi Media (MMM) network is expected to be launched in Toronto and Montreal and then eventually in the population-dense corridor from Windsor to Quebec City.

It is anticipated that the MMM network will provide over 80 channels of live video, data carousel broadcasting channels and over 100 channels of digital audio broadcasting. Beta test sites are expected to be completed in the Milton area in early 2006 and new handheld devices, the size of a normal personal digital assistant ("PDA"), are expected to be developed for the launch of Mobile Multi

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Media later in the year, provided adequate financing arrangements are made for the development and build out of the network.

Customers should be able to use these new Mobile Multi Media devices to organize their schedule, watch live news, sports, entertainment and traffic reports and receive data casting channels in the palm of their hand. In addition to receiving live video, audio and datacasting, these handhelds will be capable of storing substantial numbers of movies, songs and photos.

Mobile video is fast becoming a reality in North America with a number of providers developing offerings in the United States. The technologies that the Company is developing for today's growing market of wireless subscribers and video and audio users are expected to enable Look to offer customers in Ontario and Quebec the mobile services they have come to expect in their daily activities.

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

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

- Revenue
  - Move subscribers to memberships, starting with video, then Internet and other memberships
  - Develop customer retention programs to retain existing customers and reduce churn;
  - Up-sell and cross-sell existing subscribers by targeting customers likely to purchase additional services such as wireless internet, hosting packages;
  - Focus on digital television distribution and data services that are attractive to residential and small and medium-sized businesses to optimize our customer mix;
  - Deliver on member expectations by improving reliability and quality of the network and customer service;
  - Enhance sales distribution channels to increase focus on residential and business customers.
- Costs
  - Continue to re-negotiate supplier contracts
  - Focus on continual improvements in operations

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

##### **Continuing Operations**

Effective November 30, 2003, UBS received final approval from the CRTC to acquire control of Look, which it did by exercising its option at the end of December 2003. Look is now a 51%-owned subsidiary of UBS and is fully consolidated for financial reporting purposes, effective November 30, 2003.

##### **Discontinued Operations**

During the second quarter of fiscal 2004, UBS' divestiture of its engineering and manufacturing business resulted in the reclassification of that business as "Discontinued Operations". Accordingly, all revenues and costs associated with that business and the divestiture have been reclassified from

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September 1, 2003 as “Discontinued Operations” in the Consolidated Statement of Operations and Deficit and Cash Flow Statement.

### **Consolidated Financial Statements**

The consolidated financial statements of the Company for the 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. The consolidated financial statements of the Company for the three-month period ended November 30, 2004 include Look's balance sheet as at November 30, 2004 and its statements of operations and cash flows for the three-month period ending on November, 30, 2004.

UBS' share of ownership in Look will fluctuate as convertible debentures issued by Look are converted into multiple and subordinate voting shares. If all debentures are converted, UBS will still have the ability to control at least 51% of Look by the conversion of its debentures, and as such, the Company will continue to consolidate its interest at 51% irrespective of its actual share holding in Look at the end of each reporting period.

### **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.

## **5. DIVESTITURE OF ENGINEERING & MANUFACTURING BUSINESS (“E&M BUSINESS”)**

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

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## **6. KEY PERFORMANCE INDICATORS**

The Company measures the success of its strategies using a number of key performance indicators, which are outlined below.

### **Subscriber Counts**

The Company determines the number of subscribers of its services based on active subscribers. When subscribers are deactivated either voluntarily or involuntarily for non-payment, they are considered to be deactivations in the period the services are discontinued. The Company reports subscribers and revenues in three categories: broadcast distribution, Internet services and other services. Broadcast distribution includes customers subscribing to the provision of digital television services. Internet services include dial-up, high-speed wireline and wireless Internet access subscribers. Other services include hosting services, co-location services and domain names.

### **Subscriber Churn**

Subscriber churn is calculated on a monthly basis. For any particular month, subscriber churn represents the number of subscribers deactivating in the month divided by the aggregate number of subscribers at the beginning of the month. When used or reported for a period greater than one month, subscriber churn represents the monthly average of the subscriber churn for the period.

### **Service Revenue**

Service revenue is total revenue less revenue received from the sale and installation of equipment. The sale of such equipment does not materially affect the Company's operating income as the Company generally sells equipment to its customers at a price approximating cost to facilitate competitive pricing at the retail level.

### **Average Revenue per User ("ARPU")**

ARPU is calculated on a monthly basis. For any particular month, ARPU represents monthly service revenue divided by the average number of subscribers during the month. ARPU, when used in connection with a particular type of subscriber, represents monthly service revenue generated from these customers divided by the average number of these subscribers during the month. When used or reported for a period greater than one month, ARPU represents the monthly average of the ARPU calculations for each of the months in the period. The Company believes ARPU helps indicate whether the Company has been successful in attracting and retaining higher usage subscribers.

### **Carrier Charges and Cost of Sales**

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

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distribution to subscribers. While the cost of data distribution and web related services vary with the number of subscribers, programming costs vary directly with the number of channels carried and the number of subscribers.

### **Gross Margin Percentage**

The Company calculates gross margin percentage by dividing gross margin, excluding equipment and installations, by service revenue. Service revenue is used in the calculation, instead of total revenue, because service revenue excludes the impact of the sale and installation of equipment, which is generally sold at a price that approximates cost.

### **Cost of Acquisition per Subscriber ("COA")**

COA, which is also often referred to in the wireless communications industry as "subscriber acquisition cost" or "cost per gross addition", is calculated by dividing total sales and marketing for the period by the total number of gross subscriber activations. Subscriber activations include data and broadcast activations and hosting activations.

### **Earnings before Interest and Financing Charges, Taxes, Depreciation and Amortization ("EBITDA")**

We define EBITDA as earnings before interest expenses, income taxes, depreciation and amortization. EBITDA is a standard measure used in the communication industry to assist in understanding and comparing operating results and is often referred to by our peers and competitors as operating profit or OIBDA (operating income before depreciation and amortization). Management views EBITDA as an important measure of operating performance of the Company; however since EBITDA does not have any standardized meaning prescribed by Canadian GAAP, it may not be considered in isolation of GAAP measures such as (1) net loss, as an indicator of operating performance or (2) cash flows from operating, investing and financing activities, as a measure of liquidity. We believe, however, that it is an important measure as it allows us to assess our ongoing business without the impact of depreciation or amortization expenses as well as non operating factors. It is intended to indicate our ability to incur or service debt and invest in capital assets. This measure is not a defined term under Canadian GAAP and is unlikely to be comparable to similar measures presented by other issuers.

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## **7. RECENT WIRELESS INDUSTRY TRENDS**

### **Focus on Customer Retention**

According to a major US brokerage firm, the wireless communications industry's current market penetration in Canada is approximately 51% of the population, compared to approximately 67% in the U.S. and approximately 108% in the United Kingdom. The Canadian Wireless industry is forecast to grow by 3 to 4% per annum over the next few years, a figure lower than historical levels. This slowing growth has and will continue to drive the increased focus on customer satisfaction, customer retention and the sale to customers of new data and value added services. Due to more aggressive competition, customer satisfaction and retention are expected to become even more critical in the future.

### **Demand for Sophisticated Data Applications and Migration to Next Generation Wireless Technology**

The ongoing development of wireless data transmission technologies has led manufacturers to create wireless devices with increasingly advanced capabilities, including access to e-mail and other information technology platforms, news, sports, financial information and services, shopping services, and other functions. Increased demand for sophisticated wireless services, especially data communications services, has led wireless providers to migrate towards the next generation of digital voice and data networks. These networks are intended to provide wireless communications with wire line quality sound, far higher data transmission speeds and streaming video capability. These networks are expected to support a variety of data applications, including high-speed Internet access, multimedia services and seamless access to corporate information systems, such as e-mail and purchasing systems. As discussed above the Company has begun testing new technology enabling Mobile Multi Media. It is expected that a demonstration site will be in service in early 2006 at the Milton transmitter site in the Greater Toronto Area.

### **Development of Additional Technologies**

The development of additional technologies and their use by consumers may accelerate the widespread adoption of third generation ("3G") digital voice and data networks. One such example is WiFi, which allows suitably equipped devices, such as laptop computers and personal digital assistants, to connect to a wireless access point. The wireless connection is only effective within a range of approximately 100 meters and at theoretical speeds of up to 54 megabits per second. To address these limitations, WiFi access points must be placed selectively in high-traffic locations where potential customers frequent and have sufficient time to use the service. Technology companies are currently developing additional technologies designed to improve WiFi and otherwise utilize the higher data transmission speeds found in a 3G network. Future enhancements to the range of WiFi service, and the networking of WiFi access points may provide additional opportunities for mobile wireless operators to deploy hybrid high-mobility 3G and limited-mobility WiFi networks, each providing capacity and coverage under the appropriate circumstances.

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## **8. OVERVIEW OF GOVERNMENT REGULATION AND REGULATORY DEVELOPMENTS**

### **Canadian Radio-television and Telecommunications Commission (the "CRTC")**

Canadian broadcast undertakings are regulated by the CRTC pursuant to and in accordance with requirements of the Broadcast Act (Canada) (the "Act"). Under the Act, the CRTC regulates all broadcasters in Canada, including over-the-air broadcasters, MDS providers such as Look, cable TV operators, and satellite TV operators. Look's license was extended in August 2004 for another 7 years to 2011. Its coverage areas in Ontario and Quebec include the major metropolitan markets of Toronto, Montreal, Hamilton and Ottawa and many other cities from London to Quebec City.

### **Industry Canada**

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

In May 2004, Industry Canada issued a consultation paper on the re-farming of the MCS/MDS spectrum in the 2500-2690 MHz band. The purpose of the paper was to solicit input from those parties interested in the future uses of this band for both digital broadcasting and broadband wireless access. At approximately the same time, the Federal Communications Commission in the USA issued a Report and Order that substantially restructured this band in the USA. Look responded to the Industry Canada discussion paper and recommended that Canada adopt a policy which would provide alignment with the spectrum allocations and uses as those adopted in the USA. Look believes that realigning the spectrum will provide benefits to both its digital broadcast and wireless broadband access businesses.

Consultations with Industry Canada over the re-farming of spectrum in the 2.5 Ghz band were concluded in late 2005 and the Company is awaiting the Industry Canada final report.

## **9. CRITICAL ACCOUNTING POLICIES**

Management's Discussion and Analysis of Operating Results and Financial Position are made with reference to the Company's consolidated financial statements and Notes thereto, which have been prepared in accordance with Canadian GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Company's financial statements and the reported amount of revenues and expenses during the period. These estimates are based on management's historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the reported amounts of revenues, expenses, assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

The Audit and Corporate Governance Committee reviews the Company's accounting policies. The Audit and Corporate Governance Committee also reviews all quarterly and annual filings and recommends adoption of the Company's interim and annual financial statements to the Company's Board of Directors. For a full description of all significant accounting policies see Note 2 to the 2005 annual report.

## 10. OPERATING RESULTS FOR THE THREE MONTHS ENDED NOVEMBER 30, 2005

The net loss for the three-month period ended November 30, 2005 was \$ 513 or \$0.01 per common share compared with the net loss of \$1,229 or \$0.01 for the three-month period ended November 30, 2004. The improved position over the comparative period is a result of reduced marketing costs and other improvements in Look's operations.

### Service and Sales Revenue

The service and sales revenue, cost of sales and gross margin percentage by segment for the reporting periods are tabled below:

	THREE MONTHS ENDED NOVEMBER 30, 2005			THREE MONTHS ENDED NOVEMBER 30, 2004		
	Revenue	Cost of Sales	Gross Margin	Revenue	Cost of Sales	Gross Margin
<b>Service revenue</b>						
Broadcast	\$3,456	\$1,906	44.9%	\$4,595	\$2,501	45.6%
Internet	3,406	1,517	55.5%	3,990	1,911	52.1%
Other	1,265	403	68.1%	1,273	497	61.0%
Total service revenue	8,127	3,826	52.9%	9,858	4,909	50.2%
Sales and Installations	232	208		208	421	
Total	\$8,359	\$4,034		\$10,066	\$5,330	

Total revenue for the quarter ended November 30, 2005 of \$8,359, was \$1,707 or 17% lower than the comparable quarter in fiscal 2005. This was primarily due to the net loss of video and Dial Up subscribers.

The decrease in broadcast revenue in the quarter of \$1,139, or 24.8% stems from the very aggressive competition in this sector and the lack of marketing activity for new subscribers as we focused on the new video offerings. To address the loss of subscribers, the Company implemented in December 2005, the first phase of its strategy to move video subscribers to Bronze, Silver or Gold memberships. The results were very encouraging with 85% of subscribers choosing Silver or Gold memberships and the remaining 15% choosing Bronze. This move to memberships is expected to increase video ARPU by approximately 15%, improve gross margins and reduce video churn in the future.

Internet services revenue in the quarter declined by \$584, or 14.6%, over 2004. Of the revenue from data services, revenue from Dial Up was \$1,606 (2004 - \$2,349) and revenue from High Speed was \$1,800 (2004 - \$1,641). The decrease in Internet revenue represents the continuous migration of Dial Up customers to High Speed products and the fact that the Company does not have a High Speed

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product to offer Dial Up customers in Western Canada. The decline is, however, partially offset by the steady increase in revenue from our High Speed business.

Revenue from other services and sales of equipment and installations for the quarter are in line with 2004.

**Gross Margin**

Gross margin percentage improved in the quarter over the comparative quarter in fiscal 2005 by almost 3% to 52.9%. This improvement is primarily due to lower programming and telecommunication costs and costs related to hosting services and domain name registrations.

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## Subscriber Statistics

	THREE MONTHS ENDED NOVEMBER 30, 2005	THREE MONTHS ENDED NOVEMBER 30, 2004	PERCENTAGE VARIANCE
<b><u>BROADCAST</u></b>			
Gross additions	921	2,597	
Net reductions	(2,926)	(1,822)	
Total subscribers	23,848	34,374	(30.6)%
ARPU	\$45.83	\$43.89	4.4%
Churn	4.9%	3.5%	(1.4)%
<b><u>INTERNET</u></b>			
<b>Dial UP services</b>			
Gross additions	690	1,779	
Net reductions	(3,843)	(4,109)	
Total subscribers	30,475	45,376	(32.8)%
ARPU	\$16.74	\$16.79	(0.3)%
Churn	4.8%	4.2%	(0.6)%
<b>High Speed Services</b>			
Gross additions	1,074	2,732	
Net (reductions)/additions	(529)	1,613	
Total subscribers	12,492	12,420	0.5%
ARPU	\$47.24	\$42.85	10.3%
Churn	4.2%	3.2%	(1.0)%
<b><u>TOTAL INTERNET SERVICES</u></b>			
Gross additions	1,764	4,511	
Net reductions	(4,372)	(2,496)	
Total subscribers	42,967	57,796	(25.6)%
ARPU	\$25.41	\$22.81	11.4%
Churn	4.6%	4.0%	(0.6)%
<b><u>OTHER SERVICES</u></b>			
Gross additions	1,062	980	
Net (reductions)/additions	86	(62)	
Total subscribers	12,559	12,100	3.6%
ARPU	\$27.52	\$28.13	(2.2)%
Churn	2.5%	2.9%	0.4%
<b><u>TOTAL SUBSCRIBERS</u></b>			
Gross additions	3,747	8,088	
Net reductions	(7,212)	(4,380)	
Total subscribers	79,374	104,270	(23.9)%
ARPU	\$32.93	\$31.18	5.6%
Churn	4.3%	3.6%	(0.7)%

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## **Subscriber Counts**

The decrease in subscribers for the three months ended November 30, 2005, of 8.2% or 7,212, is due largely to the continuing decline in our residential and business Dial Up customers and the loss of video subscribers. Look was disadvantaged by aggressive bundling marketing campaigns of competitors which impacted the numbers of our Broadcast Distribution customers.

Broadcast distribution customers totaled 23,848 as of November 30, 2005 representing a decrease of 2,926 or 10.9% from August 31, 2005, and a decrease of 10,526 or 30% from November 30, 2004. Of the 23,848 subscribers, 6,862 represented customers in multiple unit dwellings (MUDs) and 16,986 were single family homes. The number of subscribers continued to decline in the three months ended November 30, 2005 as a result of reduced sales and marketing activities by Look, aggressive marketing campaigns by our competitors and the restructuring of Look's video channels.

Internet customers totaled 42,967 as of November 30, 2005 representing a decrease of 4,372 or 9.2% from August 31, 2005, and a decrease of 14,829 or 25.6% from November 30, 2004. The decrease is essentially in the residential Dial Up subscriber base, which lost 14,901 subscribers in the twelve months since November 30, 2004 reflecting a continuous customer migration to High Speed products.

Other customers totaled 12,559 as of November 30, 2005 representing an increase of 86 or 0.6% from August 31, 2005, and 459 or 3.6% from November 30, 2004. The Company also recorded sales of 9,880 domain names for the three month period ended November 30, 2005 compared to 9,897 for the three month period ended November 30, 2004.

## **Subscriber Churn**

For the three months ended November 30, 2005, subscriber churn on broadcasting was an average of 4.9% (2004 – 3.5%) for the reasons noted above. Internet services churn averaged 4.6% per month compared with 4.0% for the three months ended November 30, 2004, due largely to the continuous migration of Dial Up subscribers (4.8% per month) to High Speed products.

Other services churn averaged 2.5% for the quarter compared with 2.9% a year ago.

## **ARPU**

ARPU increased in the quarter ended November 30, 2005 by almost 6% to \$32.93 over the comparative quarter in fiscal 2005, reflecting the retention of higher value customers, increased penetration of enhanced services and the growth of wireless data and storage revenues.

For the three months ended November 30, 2005, ARPU on broadcast services was \$45.83 (2004 - \$43.89) and ARPU on Internet services was \$25.41 (2004 - \$22.81). Within Internet services, ARPU on residential and business Dial Up customers was \$16.74 (2004 - \$16.79) and ARPU on High Speed Internet access was \$47.24 (2004 - \$42.85). ARPU on other services was \$27.52 (2004 - \$28.13).

**Total operating expenses** have declined from 73.1% of service revenue in the quarter ended November 30, 2004 to 67% of service revenue in the current quarter mainly because the Company incurred lower marketing costs and controlled its cost base to reflect changes in subscriber numbers.

<i>(\$ in thousands)</i>	THREE MONTHS ENDED NOVEMBER 30, 2005	PERCENTAGE OF SERVICE REVENUES	THREE MONTHS ENDED NOVEMBER 30, 2004	PERCENTAGE OF SERVICE REVENUES
Marketing and Sales	\$183	2.3%	\$1,240	12.6%
Customer Care	869	10.7%	1,143	11.6%
Engineering and Operations	1,267	15.6%	1,492	15.1%
General and Administration	1,787	22.0%	1,967	20.0%
Total before amortization of capital assets and deferred charges	4,106	50.5%	5,842	59.3%
Amortization of capital assets and deferred charges	1,338	16.5%	1,356	13.8%
<b>Total operating expenses</b>	<b>\$5,444</b>	<b>67.0%</b>	<b>\$7,198</b>	<b>73.1%</b>

**Marketing and sales expenses** include the costs of media and other advertising fees for direct sales agencies, direct marketing costs, costs related to the production and distribution of product media and commissions on retail sales.

For the three months ended November 30, 2005, marketing and sales expenses were \$183 or 2.3% of service revenues, compared to \$1,240 or 12.6% of service revenues for the three months ended in November 30, 2004. After the limited success of advertising campaigns in the first quarter of fiscal 2005, during the quarter ended November 30, 2005, Look focused on retention of its high value customers and the introduction of the video membership program.

For the three months ended November 30, 2005, cost of acquisition per subscriber ("COA") was \$48.94 per subscriber compared to \$157.32 for the three months ended in November 30, 2004.

**Customer care expenses** are primarily salaries and benefits associated with the operation of call centers for both technical and service support.

For the three months ended November 30, 2005, customer care expenses were \$869 or 10.7% of service revenues, compared to \$1,143 or 11.6% of service revenues, for the three months ended November 30, 2004. This reflects the decrease in the customer base and the Company's continuous efforts to increase its efficiencies, while still remaining customer-oriented in its call centre operations.

**Engineering and operations expenses** in the Company's digital broadcast television distribution activities include the costs associated with operating and maintaining the broadcast distribution head-end facilities, where television and audio signals are received, digitally encoded and distributed to transmission sites. These expenses also include the network and transmission towers by which digital signals are transmitted via microwave to customers and the costs of providing services to the customers.

Engineering and operations expenses in the Company's Internet services activities consist primarily of the costs of the telecommunications facilities necessary to provide service to subscribers and the

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operating and maintaining of network servers. Telecommunications facilities costs include: (i) the costs of providing local telephone lines into each Look-owned point of presence; (ii) the cost of leased lines into non-Look owned ports and related facilities charges; and (iii) the cost of connecting Look's hub to the Internet backbone. Network server costs include the costs of contracts for software and hardware support with third parties.

Engineering and operations expenses also include the investment in the engineering team that is planning and designing the new infrastructure for the Mobile Multi Media.

For the three months ended November 30, 2005, engineering and operations expenses were \$1,267 or 15.6% of service revenues, compared to \$1,492 or 15.1% of service revenues, for the three months ended November 30, 2004.

**General and administration costs** include administrative salaries, human resources, general occupancy, information technology and other administrative overheads for both Look and UBS. General and administration expenses decreased by \$180, or 9%, over the comparative quarter. This decrease in expenses reflects Look's lower subscriber base and an improvement in the quality of the subscriber base leading to lower bad debts and associated costs.

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

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

### Interest and Financing Charges

	Three months ended November 30, 2005	Three Months ended November 30, 2004
Accretion charges on liability component of convertible debenture	(48)	(133)
Interest expense	(51)	(48)
Interest Income	41	32

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

## 11. EBITDA

The following table reconciles the loss from continuing operations to EBITDA for the respective periods as determined under GAAP:

	3 MONTHS ENDED NOVEMBER 30, 2005	3 MONTHS ENDED NOVEMBER 30, 2004
Loss from continuing operations	(513)	(1,229)
Non-controlling interest	(662)	(1,397)
Amortization of capital assets	1,314	1,334
Amortization of deferred charges	24	22
Net interest and financing charges	10	16
Accretion charges on liability component of convertible debentures (Recovery)/provision for income taxes	48 (2)	133 15
<b>EBITDA*</b>	<b>\$219</b>	<b>(\$1,106)</b>

\* Management views EBITDA as an important measure of operating performance of the Company; however since EBITDA does not have any standardized meaning prescribed by Canadian GAAP, it may not be considered in isolation of GAAP measures such as (1) net loss, as an indicator of operating performance or (2) cash flows from operating, investing and financing activities, as a measure of liquidity. Because there is no standardized GAAP definition, EBITDA is unlikely to be comparable to similar measures presented by other issuers.

## 12. QUARTERLY FINANCIAL RESULTS

The key lines in the quarterly results for the last eight quarters are set out in the tables below:

QUARTER ENDED	2004				2005			
	FEB 29 <sup>1</sup>	MAY 31	AUG 31	NOV 30	FEB 28	MAY 31	AUG 31	NOV 30
Revenue	11,989	11,397	9,091	10,066	9,670	9,178	9,042	8,359
Net loss – continuing ops	(994)	(540)	(2,511)	(1,229)	(1,543)	(985)	(766)	(513)
Non controlling interest	(834)	(1,487)	(1,244)	(1,397)	(1,214)	(1,075)	(303)	(662)
Interest, taxes, depreciation and amortizations	1,449	1,461	1,434	1,520	2,012	1,669	672	1,394
EBITDA <sup>2</sup>	(379)	(561)	(2,309)	(1,106)	(714)	(262)	(273)	219
Loss per share <sup>3</sup> – continuing ops	(0.01)	(0.01)	(0.02)	(0.01)	(0.02)	(0.01)	0.00	(0.01)
Net loss – discontinued ops	-	-	715	-	-	-	224	-
Loss per share <sup>3</sup> – discontinued ops	-	-	0.01	-	-	-	0.00	-

<sup>1</sup> The operations of Look were consolidated for the first time from November 30, 2003.

<sup>2</sup> EBITDA is included above on the basis of the calculation set out in section 11 of this MD&A.

<sup>3</sup> Loss per share is basic and diluted.

<sup>4</sup> The numbers in the table above have been restated to recognize the change in accounting policy for convertible debentures noted in section 4 above.

The revenue and net loss from continuing operations shown in the above table includes Look's service and sales revenue and operating expenses from the time it was consolidated by the Company in the quarter ended February 29, 2004. Over the eight quarters, revenue has declined because of lower subscriber numbers. This decline in subscribers is mainly because of the migration of dial-up customers to high-speed Internet access (this follows an industry trend), Look's focus on building a higher quality subscriber base and lower numbers of new subscribers. In addition, Look's major competitors have an advantage in that they are able to offer bundled products (cell phones, video and Internet) at very competitive discounted prices.

The efforts by the Company to move costs from fixed to variable in nature and the Company's ability to respond quickly to the changing subscriber base are reflected in the improvement in the loss from continuing operations and, more importantly, the improvement in EBITDA.

In order to align operating costs with declining subscriber numbers, all departments have undergone internal restructurings that have occurred from time to time over the past two years. Headcounts have reduced from 299 at August 31, 2003 to 150 at November 30, 2005 and, together with renegotiated supply contracts, are the key components of the reduction in operating expenses at Look.

### 13. LIQUIDITY AND CAPITAL RESOURCES

The Company had cash of \$6,111 at November 30, 2005 compared with cash and short term investments of \$7,520 at August 31, 2005.

The changes in cash and cash equivalents are summarized as follows:

CASH FLOWS FROM(USED IN):	3 MONTHS TO NOVEMBER 30, 2005	3 MONTHS TO NOVEMBER 30, 2004
Operating activities – continuing operations	(1,087)	998
Operating activities – discontinued operations	(68)	(506)
Cash flows from/(used in) operating activities	(1,155)	492
Cash flows from/(used in ) financing activities	(19)	(12)
Cash flows from/(used in) investing activities	(235)	(739)
Increase/(Decrease) in cash and cash equivalents	(\$1,409)	(\$259)

Cash used in operating activities for the 3 months ended November 30, 2005 was \$1,155 compared with cash from operating activities of \$492 for the period ended November 30, 2004. The favourable position in the comparative quarter was due largely to the change in non-cash operating working capital.

Cash used in financing activities was \$19 for the three months ended November 30, 2005 and related mainly to repayments of obligations under capital leases, compared to cash used of \$12 for the three months ended November 30, 2004.

For the three months ended November 30, 2005, cash used in investing activities amounted to \$235 and consisted mainly of cash used to purchase capital assets and the increase in restricted cash. This compared with cash used of \$739 for the three months ended November 30, 2004 to purchase short-term investments and capital assets.

As at November 30, 2005, the Company had contractual obligations that require future payments as follows:

	TOTAL	2006	2007	2008	2009 AND THEREAFTER
Obligations under capital leases	\$102	\$64	\$24	\$14	Nil
Convertible debentures	\$1,113	\$117	Nil	Nil	\$996
Mortgage	\$1,200	\$1,200	Nil	Nil	Nil
Operating leases	\$2,849	\$605	\$697	\$667	\$880

Cash required for the Company's contractual obligations identified above and capital assets related to the existing network and customer premise equipment are expected to be funded by cash on hand and cash provided by operating activities.

The mortgage on Look's Milton building will expire on November 4, 2006. As such, it was reclassified to current liabilities at November 30, 2005. It is expected that the mortgage will be renewed for a further 3 year term on maturity. Terms and conditions will be negotiated in the coming months.

Management believes that the Company has sufficient cash and cash equivalents available to meet the needs of its existing strategy for the near future. The Company will continue to focus on the cost structure and, based on the restructuring completed in fiscal 2005, expects Look to generate cash from operations in fiscal 2006 despite the continuing decline in subscribers. This projection would be adversely impacted by a faster rate of decline in subscribers than experienced during fiscal 2005. Cash provided by operations is expected to fund existing commitments and be sufficient to develop a MMM site in the Milton Area. Significant external funds will, however, be required to expand the MMM network to achieve the Company's goal of being a Mobile Multi Media entertainment and information service provider throughout the Quebec City to Windsor corridor. The foregoing includes forward looking information that is subject to risks and uncertainties described under "Risks and Uncertainties" below. No assurances can be given that the Company will be able to achieve these results.

The Company's working capital deficiency at November 30, 2005 was \$5,263 compared with \$4,152 at August 31, 2005. UBS had a working capital surplus of \$1,148 at November 30, 2005 (\$1,177 at August 31, 2005), while Look's working capital deficiency at November 30, 2005 was \$6411 compared with \$5,329 at August 31, 2005. Were it not for the mortgage reclassification, the working capital deficiency would have reduced by \$89 during the quarter. Recently EBITDA has turned positive at Look and it is expected that if this trend continues the working capital deficiency is likely to reduce. Look has recently launched its new membership packages for video customers which management believes will attract more customers and reduce churn in the future. This launch, together with the successful renegotiation of contracts with various suppliers is expected to increase Look's gross margin percentage. Look will continue to focus on its operating expenses with a goal to achieving improvements in its operating expense to total service revenue ratio. As mentioned above, management is also repositioning Look as

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a Mobile Multi Media service provider so that it can better utilize the Company's main assets, which include 96 MHz of spectrum in the 2.5 to 2.7 GHz band, the broadcast license and its technological intellectual property.

#### **14. SHARE CAPITAL**

At November 30, 2005, UBS 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) for total issued shares of 102,747,854 (August 31, 2005 - 102,747,854) and there were options outstanding to acquire 13,976,000 common shares of the Company (August 31, 2005 – 11,588,000).

At January 19, 2006 there was no change to the number of common shares issued but the number of options outstanding to acquire common shares of UBS increased to 14,694,000.

#### **15. CLAIMS FOR DAMAGES**

On January 16, 2003, UBS entered into a signed Right of Use Agreement ("Agreement") with Inukshuk Internet Inc. ("Inukshuk"), a subsidiary of Microcell Telecommunications Inc. ("Microcell") which would allow UBS to use spectrum licenses held by Inukshuk within certain license service areas. In addition, the Agreement gave UBS the right to match any binding, written irrevocable offer that Inukshuk was prepared to accept for the remaining MCS spectrum licensed to Inukshuk.

After attempting unsuccessfully to resolve issues related to the Agreement, UBS commenced legal action on April 21, 2004 against Allstream Inc. (now MTS Allstream Inc.), Microcell Telecommunications Inc., Microcell Solutions Inc. and Inukshuk (wholly-owned subsidiaries of Microcell and now of Rogers Communications Inc. ("Rogers")) for, amongst other things, specific performance, breach of contract, breach of confidence and breach of fiduciary duty. Damages totaling \$160,000 and disgorgement of profits are claimed against each of the defendants as a result of their actions involving the Inukshuk spectrum. Statements of Defence have now been filed by the defendants.

On September 16, 2005, Rogers and Bell Canada announced an agreement to jointly build and manage a Canada-wide wireless broadband network. Pursuant to this agreement, Rogers will contribute its entire broadband wireless spectrum in the 2.3GHz, 2.5GHz and 3.5GHz frequency ranges, which includes the Inukshuk spectrum under the Agreement.

The assets and rights that need to be protected are significant to UBS shareholders and as such UBS intends to vigorously pursue its rights. No amount has been accrued in the consolidated financial statements for these claims.

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## **16. TRANSACTIONS WITH RELATED PARTIES**

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. Pursuant to this agreement, consulting fees of \$88 (2005 - \$93) were paid to Mr. Dolgonos during the quarter ended November 30, 2005.

For the period ended November 30, 2005, the Company recorded \$5 (2004 - \$6) in stock-based compensation related to options granted to Mr. Dolgonos.

## **17. RISKS AND UNCERTAINTIES**

### **Going Concern**

There is doubt about the Company's ability to continue as a going concern as it has incurred significant operating losses over the past years and the Company had a working capital deficiency of \$5,315 as at November 30, 2005.

The Company and Look's ability to continue as a going concern is dependent upon achieving and maintaining profitable operations and successful implementation of the Company's business strategy. The outcome of these matters cannot be predicted at this time. The consolidated financial statements have been prepared on a going concern basis and do not include any adjustments to the amounts and classifications of the assets and liabilities that would be necessary if the going concern basis was not appropriate. Such adjustments could be material.

### **Financing Risk**

The Company's Mobile Multi Media strategy is dependent on raising sufficient capital or partnering with other service providers who would provide the necessary infrastructure to develop, design and build the network in Toronto and Montreal in the first instance and then the corridor from Windsor to Quebec City. There is no guarantee that the Company will be able to obtain financing arrangements or partners that are acceptable to the Company and therefore there is no assurance that the network as envisaged by management will be built.

### **Customer Retention**

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

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## **Customer Acquisition**

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

## **Regulatory Risks**

As discussed in the "Overview of Government Regulation and Regulatory Developments" section above, the Company's operations are subject to government regulation that could impact the business. The Company continually monitors these developments and comments directly on those policies that affect it.

## **Technology Risks**

Look is pursuing a new strategy that will transition its network to Mobile Multi Media technology. The development and implementation of any new technology brings with it inherent uncertainties and risks related to the features included, the timing of implementation and the cost and availability of equipment.

Mobile Multi Media technology will enhance the customer experience by allowing the introduction of many new features and services; such as the mobile viewing of broadcast signals and the use of datacasting for information downloads.

This implementation will rely, in part, on new and unproven technology, although UBS has experience in related areas. Look cannot be certain that the new MMM network can be implemented in the time frame and with the costs expected.