

Consolidated Financial Statements of

**UNIQUE BROADBAND SYSTEMS, INC.**

**Second Quarter, 2006**

Three and six months ended February 28, 2006 and 2005

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

**8250 Lawson Road**

**Milton, Ontario**

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### **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

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

The accompanying unaudited interim financial statements of the company for the interim period ending February 28, 2006 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.

Unaudited Consolidated Balance Sheets

*In thousands of dollars*

	February 28, 2006	August 31, 2005 Restated (note 2)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 8,986	7,520
Restricted cash (note 4)	1,111	1,170
Accounts receivable	1,797	975
Inventory	183	182
Prepaid expenses and deposits	457	525
	<u>12,534</u>	<u>10,372</u>
Capital assets	19,897	22,268
Deferred charges	181	229
	<u>\$ 32,612</u>	<u>\$ 32,869</u>

## Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable	\$ 10,095	\$ 9,969
Accrued liabilities	2,619	3,107
Unearned revenue	1,129	1,353
Current portion of obligation under capital leases	58	67
Mortgage payable	1,200	-
Current portion of liability component of convertible debentures (note 2)	28	69
	<u>15,129</u>	<u>14,565</u>
Obligation under capital leases	30	1,253
Liability component of convertible debentures (note 2)	922	1,060
Non-controlling interest (note 5)	9,423	10,501
Shareholders' equity:		
Share capital	58,139	58,139
Contributed surplus	827	642
Deficit	(51,858)	(53,291)
	<u>7,108</u>	<u>5,490</u>

Basis of presentation (note 1)

	<u>\$ 32,612</u>	<u>\$ 32,869</u>
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See accompanying notes to financial statements.

# UNIQUE BROADBAND SYSTEMS, INC.

Unaudited Consolidated Statements of Operations and Deficit

Three months and six months ended February 28, 2006 and 2005

*In thousands of dollars, except shares and per share amounts*

	Three months ended February 28		Six months ended February 28	
	2006	2005 Restated (note 2)	2006	2005 Restated (note 2)
Service and sales revenue (note 9)	\$ 7,850	\$ 9,671	\$ 16,210	\$ 19,737
Carrier charges and cost of sales (note 9)	3,138	4,794	7,172	10,124
Gross margin	4,712	4,877	9,038	9,613
Expenses:				
Marketing and sales	218	606	401	1,846
Customer care	830	899	1,699	2,042
Engineering and operations	1,223	1,308	2,490	2,800
General and administration	2,318	2,778	4,107	4,745
Amortization of capital assets	1,258	1,966	2,572	3,300
Amortization of deferred charges	23	22	47	44
	5,870	7,579	11,316	14,777
Interest expense	(1,158)	(2,702)	(2,278)	(5,164)
Accretion charges on liability component of convertible debenture (note 2)	(53)	(43)	(104)	(91)
Interest income	(8)	(1)	(56)	(134)
	50	42	91	74
Loss before income taxes and non-controlling interest	(1,169)	(2,704)	(2,347)	(5,315)
Income taxes recovery/(provision)	(1)	(13)	2	(28)
Non-controlling interest (note 5)	693	1,164	1,355	2,561
Loss from continuing operations	(477)	(1,553)	(990)	(2,782)
Income from discontinued operations (note 7)	2,423	-	2,423	-
Income/(Loss) for the period	1,946	(1,553)	1,433	(2,782)
Deficit, beginning of period as previously reported	(53,741)	(50,063)	(53,176)	(48,818)
Change in accounting policy (note 2)	(63)	(20)	(115)	(36)
Deficit, end of period	\$ (51,858)	\$ (51,636)	\$ (51,858)	\$ (51,636)
Basic and diluted loss per share – continuing operations:	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.03)
Basic and diluted income/(loss) per share	\$ 0.02	\$ (0.01)	\$ 0.01	\$ (0.03)
Weighted average number of outstanding shares in thousands:				
Basic and diluted (note 6)	102,748	102,748	102,748	102,748

See accompanying notes to consolidated financial statements.

# UNIQUE BROADBAND SYSTEMS, INC.

Unaudited Consolidated Statements of Cash Flows

Three months and six months ended February 28, 2006 and 2005

*In thousands of dollars*

	Three months ended February 28		Six months ended February 28	
	2006	2005 Restated (note 2)	2006	2005 Restated (note 2)
<u>Cash flows from/(used in) operating activities:</u>				
Loss for the period	\$ (477)	\$ (1,553)	\$ (990)	\$ (2,782)
Non-controlling interest	(693)	(1,164)	(1,355)	(2,561)
Amortization of capital assets	1,258	1,966	2,572	3,300
Amortization of deferred charges	23	22	47	44
Amortization of stock based compensation	141	135	231	190
Accretion on liability component of convertible debenture	12	7	56	134
Change in non-cash operating working capital (note 8)	232	(436)	(1,151)	1,650
Cash flows from/(used in) continued operations	496	(1,023)	(590)	(25)
Cash flows (used in) discontinued operations	(129)	(97)	(198)	(603)
Cash flows from/(used in) operating activities	367	(1,120)	(788)	(628)
<u>Cash flows from/(used in) financing activities:</u>				
Repayment of loan	2,423	-	2,423	-
Interest on convertible debentures	-	(8)	(4)	(13)
Repayment of obligations under capital leases	(8)	(14)	(23)	(21)
Cash flows from/(used in) financing activities	2,415	(22)	2,396	(34)
<u>Cash flows from/(used in) investing activities:</u>				
Restricted cash	185	-	59	(18)
Purchase of short-term investments	-	-	-	(490)
Redemption of short term investments	-	1,000	-	1,000
Purchase of capital assets	(92)	(436)	(201)	(667)
Cash flows from/(used in) investing activities	93	564	(142)	(175)
Increase/(decrease) in cash and cash equivalents	2,875	(578)	1,466	(837)
Cash and cash equivalents, beginning of period	6,111	4,661	7,520	4,920
Cash and cash equivalents, end of period	\$ 8,986	\$ 4,083	\$ 8,986	\$ 4,083

Supplemental cash flow information (note 8)

See accompanying notes to consolidated financial statements

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements

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

Three and six months ended February 28, 2006 and 2005

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Unique Broadband Systems, Inc. (the Company) is a publicly listed Canadian company that has investments in broadband assets and a 51% 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 February 28, 2006 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 has a working capital deficiency as at February 28, 2006 of \$2,595 (\$1,395 if the mortgage were excluded) compared to \$4,193 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 February 28, 2006 include Look's balance sheet as at February 28, 2006 and its statements of operations and cash flows for the three months and six months ended February 28, 2006. All significant inter-company transactions and balances have been eliminated.

# UNIQUE BROADBAND SYSTEMS, INC.

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

Three months and six months ended February 28, 2006 and 2005

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## 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 \$1,060 from the convertible debentures in non controlling interest to Liability Component of Convertible Debentures as at August 31, 2005. During the six months of fiscal 2006 debenture holders converted \$215 of debentures into shares of Look, of which \$138 was attributed to the Liability Component of Convertible Debentures, resulting in a value of \$922 as at February 28, 2006.
- b) reclassified \$55 from accrued liabilities and provisions to current portion of Liability Component of Convertible Debentures representing unpaid interest on the liability component. Also recognized additional accretion charges of \$14 with the current portion of Liability Component of Convertible Debentures.
- c) increased the opening deficit by \$36 (2005 - \$115) comprising additional accretion costs related to the Liability Component of Convertible Debentures of \$41 (2005 - \$88) and the reversal of accumulated amortization of \$5 (2005 - \$19) related to the deferred charges.
- d) reclassified \$89 from non-controlling interest to accretion charges on liability portion of convertible debentures (2005 - \$146) and charged a further \$45 to accretion charges on the liability portion of convertible debentures in the six-month period ended February 28, 2005.
- e) reversed amortization of deferred charges of \$9 in the six-month period ended February 28, 2005.

# UNIQUE BROADBAND SYSTEMS, INC.

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

Three months and six months ended February 28, 2006 and 2005

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- f) the Company recorded \$8 (2005 - \$1) in accretion charges on the Liability Component of Convertible Debentures for the three-month period ended February 28, 2006, and \$56 (2005 - \$134) for the six-month period ended February 28, 2006.
- g) the net impact on net loss for the six month period ended February 28, 2005 as a result of these changes was to increase the net loss by \$40. There was no impact on basic and diluted loss per share for the periods presented.

### 3. Shareholding in Look:

At February 28, 2006 UBS held 24,864,478 multiple voting shares and 27,018,846 subordinate voting shares of Look (43.3% of the total issued and outstanding shares), and a convertible debenture of \$3,000. This convertible debenture can be converted into 20,000,000 multiple voting shares and 20,000,000 subordinate voting shares at any time to retain a 51% share of Look on a fully diluted basis.

### 4. Restricted cash:

Look pledged \$1,111 (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 February 28, 2006, 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).

# UNIQUE BROADBAND SYSTEMS, INC.

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

Three months and six months ended February 28, 2006 and 2005

(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- and six-month periods ended February 28, 2006, UBS recorded stock based compensation expense of \$71 and \$134 (2005 - \$94 and \$131) related to options issued to employees and \$46 and \$51 (2005 - \$21 and \$30) related to options issued to non-employees, which has been recorded in contributed surplus. There were no options granted during the quarter and as at February 28, 2006 there were 14,714,000 options outstanding to purchase common shares of UBS at a weighted average exercise price of \$0.29.

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:

	Three months ended February 28		Six months ended February 28	
	2006	2005	2006	2005
Income/(Loss) for the period, as reported	\$ 1,946	\$ (1,553)	\$ 1,433	\$ (2,782)
Stock compensation expense	(29)	(29)	(58)	(58)
<b>Pro forma income/(loss) for the period</b>	<b>\$ 1,917</b>	<b>\$ (1,582)</b>	<b>\$ 1,375</b>	<b>\$ (2,840)</b>
Basic and diluted income/(loss) per share, as reported	\$ 0.02	\$ (0.01)	\$ 0.01	\$ (0.03)
Pro forma basic and diluted income/(loss) per share	\$ 0.02	\$ (0.01)	\$ 0.01	\$ (0.03)

# UNIQUE BROADBAND SYSTEMS, INC.

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

Three months and six months ended February 28, 2006 and 2005

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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.

## 7. Discontinued operations:

On October 8, 2003, UBS closed a transaction to sell its Equipment and Manufacturing Business (E&M Business). As consideration, UBS held a three-year secured loan of \$2,000 bearing interest at 8%, compounded annually.

On February 24, 2006, the principal amount of \$2,000 plus interest calculated to the date of repayment at 8% in the sum of \$423 was repaid by the acquirer of the E&M Business. This full and final payment was recorded as income from discontinued operations in the quarter.

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

	February 28, 2006	August 31, 2005
Inventory	\$ 53	\$ 53
Accrued liabilities	(272)	(470)
Net liabilities of discontinued operations	\$ (219)	\$ (417)

# UNIQUE BROADBAND SYSTEMS, INC.

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

Three months and six months ended February 28, 2006 and 2005

## 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:

	Three months ended February 28,		Six months ended February 28,	
	2006	2005	2006	2005
Accounts receivable	\$ 188	\$ (372)	\$ (822)	\$ (538)
Inventory	(1)	155	(1)	108
Prepaid expenses and other assets	59	21	68	1,306
Accounts payable and accrued liabilities	(114)	(460)	(167)	500
Income taxes payable	(5)	-	(5)	-
Unearned revenue	105	220	(224)	274
	<u>\$ 232</u>	<u>\$ (436)</u>	<u>\$ (1,151)</u>	<u>\$ 1,650</u>

(b) Supplemental cash flow information:

	Three months ended February 28,		Six months ended February 28,	
	2006	2005	2006	2005
Interest paid	\$ (53)	\$ (43)	\$ (104)	\$ (91)
Interest received	50	42	91	74
Income taxes received (paid)	(1)	(13)	2	(28)

## 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.

# UNIQUE BROADBAND SYSTEMS, INC.

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

Three months and six months ended February 28, 2006 and 2005

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

	Three months ended February 28, 2006			Three months ended February 28, 2005		
	Revenues	Cost of Sales	Gross Margin %	Revenues	Cost of Sales	Gross Margin %
<b>Service revenues</b>						
Broadcast	\$3,330	\$1,418	57.4%	\$4,266	\$2,490	41.6%
Internet	3,087	1,092	64.6%	3,984	1,776	55.4%
Other	1,290	441	65.8%	1,253	439	65.0%
Total service revenues	7,707	2,951	61.7%	9,503	4,705	50.5%
Sales and Installations	143	187		168	89	
Total	\$7,850	\$3,138		\$9,671	\$4,794	

	Six months ended February 28, 2006			Six months ended February 28, 2005		
	Revenues	Cost of Sales	Gross Margin %	Revenues	Cost of Sales	Gross Margin %
<b>Service revenues</b>						
Broadcast	\$6,786	\$3,322	51.0%	\$8,800	\$4,991	43.3%
Internet	6,493	2,610	59.8%	7,975	3,688	53.8%
Other	2,556	845	66.9%	2,524	935	63.0%
Total service revenues	15,835	6,777	57.2%	19,299	9,614	50.2%
Sales and Installations	375	395		438	510	
Total	\$16,210	\$7,172		\$19,737	\$10,124	

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 \$87 (2005 - \$92) were paid to Mr. Dolgonos during the three-month period ended February 28, 2006, and \$176 (2005 - \$186) for the six-month period ended February 28, 2006. In addition, for the three months ended February 28, 2006, the Company recorded \$46 (2005 - \$21) and for the six months ended February 28, 2006 \$51 (2005 - \$30) 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 and six months ended February 28, 2006

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## 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  
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## Shareholder Inquiries

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## Transfer Agent

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## Common Shares

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