

# Management's Discussion and Analysis

## **UNIQUE BROADBAND SYSTEMS, INC.**

**Third Quarter, 2006**

Three and nine months ended May 31, 2006 and 2005

# **UNIQUE BROADBAND SYSTEMS, INC**

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

### **of Financial Condition and Results of Operations**

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

For the three and nine months ended May 31, 2006 and 2005

#### **1. INTRODUCTION**

The following Management's Discussion and Analysis (MD&A) relates to the consolidated financial position of Unique Broadband Systems, Inc. (the Company) at May 31, 2006, and the consolidated results of operations for the three and nine months ended May 31, 2006 and May 31, 2005. 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 period ended May 31, 2006 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".

### **3. BUSINESS OVERVIEW**

#### **Our Company**

The Company (TSX Venture: UBS) is a publicly listed Canadian company that has a 51.5% fully diluted equity interest in Look (TSX Venture: LOK and LOK.A), intellectual property and other assets. 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. (Refer to section 5 on “Divestiture of Engineering and Manufacturing Business” for further comments).

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 92 MHz of spectrum in the 2.5 GHz frequency 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 (BDU) 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, Trois-Rivières 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 May 31, 2006, 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 (M<sup>3</sup>) 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 expected that the M<sup>3</sup> network will provide at least 80 channels of live video, data carousel broadcasting channels and over 100 channels of digital audio broadcasting. During April, the Company launched its Mobile TV demonstration sites in Milton, Ontario and handheld devices, the size of a normal personal digital assistant (PDA), are being developed. The launch of the M<sup>3</sup> offering across Ontario and Quebec is, however, dependent on the Company obtaining adequate and suitable financing

arrangements with financial partners and other suppliers for the development and build out of the M<sup>3</sup> network.

Mobile video is fast becoming a reality in a number of countries, most notably in Korea, Japan, Europe and the U.S. 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.

The Company believes that it has the expertise and technological know-how to offer customers the freedom of mobility with the access of broadband. UBS developed, designed and built a mobile video network in over 2,000 public transportation vehicles in Singapore. UBS was also the Canadian contractor that developed, designed and built the terrestrial network for deployment by XM Satellite Radio Inc. throughout the U.S.

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

1. Continue to service existing subscribers,
2. Continue to re-negotiate supplier contracts and focus on efficiency improvements, and
3. Obtain financing for the design, build out and implementation of the M<sup>3</sup> Network.

#### **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 51.5%-owned subsidiary of UBS, on a fully diluted basis, 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 E&M 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 September 1, 2003 as "Discontinued Operations" in the Consolidated Statement of Operations and Deficit and Cash Flow Statement.

As described below, and in Note 7 to the Consolidated Financial Statements for the nine months ended May 31, 2006, the Company recorded a gain of \$2,423 in the second quarter of 2006 as a result of repayment of a loan receivable that was fully reserved.

## **Consolidated Financial Statements**

The consolidated financial statements of the Company for the period ended May 31, 2006 include Look's balance sheet as at May 31, 2006 and its statements of operations and cash flows for the three months and nine months ended May 31, 2006.

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 have the ability to control at least 51% of Look by the conversion of its debentures and, as such, the Company continues 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. Accordingly, for the fiscal 2005 year, certain reported financial data has been "restated" in accordance with this revised standard.

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. For details on the impact of adopting the new standard, refer to note 2 of the Company's financial statements for the three- and nine-month periods ended May 31, 2006.

## **5. DIVESTITURE OF ENGINEERING & MANUFACTURING 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. 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.

On February 24, 2006, the loan, plus interest up to the date of repayment in the amount of \$2,423, was repaid and the full amount has been included as income from discontinued operations in the quarter ended February 28, 2006.

## **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 services, Internet services and other services. Internet services include Dial-Up, High-Speed Wireline and Wireless Internet access subscribers. Other services include Web hosting services, and co-location services.

### **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 subscribers 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 subscribers 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 programming for broadcast services, distribution costs for programming to transmitter sites, data distribution on common carriers (telephone companies) for Internet services, the costs for Web-related services and customer premise equipment and installation costs. Programming costs include the service fees paid to networks and other distributors to obtain the video and audio signals for distribution to subscribers. While most of 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 receiving those channels.

### **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 operating expenses for the period by the total number of gross subscriber activations. Subscriber activations include broadcast, Internet access and Web hosting activations.

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

EBITDA is defined as earnings before net 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 income/loss, as an indicator of operating performance or (2) cash flows from operating, investing and financing activities, as a measure of liquidity. Management believes, however, that it is an important measure as it allows the Company to assess its ongoing business without the impact of depreciation or amortization expenses as well as non-operating factors. EBITDA is intended to indicate the Company's ability to incur or service debt, invest in capital assets and manage the business through transition to M<sup>3</sup>. This measure is not a defined term under Canadian GAAP and is unlikely to be comparable to similar measures presented by other issuers.

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

### **Mobile TV Will Change the Wireless Market**

While much has been said about the development of mobile multimedia in recent years, 2005 saw significant progress towards the development of mobile television offerings in a number of countries, most notably in Korea, Japan, Europe and the USA. Mobile TV combines the popularity of broadcast programming with the increasingly mobile lifestyle of users. Numerous companies are reaching the final stages of trial activity and are expected to launch Mobile TV during 2006, with subscriber growth expected to gain momentum in late 2006 and 2007.

Much progress has also been made by the handheld device manufacturers such as Nokia, Motorola, Sony and Ericsson in the development of DVB-H, the standard that is believed likely to have the widest acceptance. Consumer surveys and focus groups consistently report considerable interest for the concept of Mobile TV, which in turn has lead a number of brokerage and industry analysts to forecast significant market potential.

In a report issued by a large U.S. banking firm, it is expected that spectrum could be a hurdle to the roll out of Mobile TV in certain countries where the allocation of spectrum is complicated. Although this may be an issue in certain jurisdictions, this is not the case in Canada, where allocations of spectrum have already been made to service providers such as Look. Spectrum is very relevant as it is expected that companies will deploy new networks for Mobile TV to avoid the limitations experienced by Mobile TV services on the unicast cellular phone networks and other third generation (3G) infrastructures.

Broadcasting on unicasting cellular phone networks limits the quality of the video service and does not permit wide market usage, which allows for lower cost to the customer.

### **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.

## **Development of Additional Technologies**

The development of additional technologies and their use by consumers may accelerate the widespread adoption of a new generation of 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, coupled with 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.

However, the Company believes the WiFi networks have significant limitations, the least of which is the use of unlicensed spectrum, which will eventually prove itself unacceptable to customers. Unlicensed spectrum is available to anyone who wants to use it. The potential exists for many competing networks to be built in the same area, expecting to use the same spectrum. This can lead to problems related to signal interference and lack of capacity to meet customer demand.

## **Focus on Customer Retention**

According to a major U.S. 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 industry is forecast to grow by 3% to 4% annually, but this is lower than historical levels. This slowing growth has and will continue to drive the increased focus on customer retention and the sale to customers of new data and value added service features. Due to more aggressive competition, customer satisfaction and retention will become even more critical in the future and companies are expected to continue to introduce additional bundling opportunities with new services.

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

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

Canadian broadcast undertakings, including the Company, 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 seven years to 2011. Its coverage areas in Ontario and Quebec include the major metropolitan markets of Toronto, Montreal, Hamilton, Trois-Rivières and Ottawa and many other cities from London to Quebec City.

## **Industry Canada**

The awarding of spectrum and licenses 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 Radiocommunication 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 discussion 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 Look and others who are 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 (FCC) 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.

On March 30, 2006 Industry Canada published gazette Notice DGTP-002-06 – Policy Provisions for the Band 2500 – 2690 Mhz to Facilitate Mobile Services. In the Notice, Industry Canada reconfirmed its allocation of mobile services to the band and stated that it would harmonize the spectrum with the US band plan at some future date. In the period up to August 2011, Look may continue to operate its video and Internet services. In addition, Look, if it wishes to do so, may, at any time, apply to Industry Canada to use part or all of its 2596 - 2686 Mhz spectrum as MCS, while still having MDS as well. Look may also apply to Industry Canada for permission to use two-way mobile services in the band. This will require the Department to implement the new band plan and Look would have to return 31 Mhz of spectrum (2657 - 2686 and 2688 - 2690 Mhz) to the Department. The new policy clearly confirms Look's position as an MDS Broadcaster and provides additional options for the future development of the Company, if it so chooses.

In addition, on April 12, 2006 the CRTC confirmed in its Notice 2006-47 entitled "Regulatory framework for mobile television broadcasting services" that Mobile TV services can be offered by Look under its existing license.

## **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 the Company's interim and annual financial statements to the Company's Board of Directors for their approval. For a full description of all significant accounting policies see Note 2 to the 2005 annual report.

## 10. OPERATING RESULTS FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2006

Net loss for the three months ended May 31, 2006 was \$818 or \$0.01 per common share and net income for the nine months ended May 31, 2006 was \$615 or \$0.01 per common share, compared with the net loss of \$994 or \$0.01 and \$3,776 or \$0.04 for the comparable periods in 2005. The improved position over the comparative periods was a result of the full and final repayment of the loan and interest from the divestiture of the E&M Business that was recorded as income from discontinued operations in the second quarter, as well as the improving operations of Look.

### Continuing Operations

The net loss for the three and nine months ended May 31, 2006 was \$818 or \$0.01 per common share and \$1,808 or \$0.02 per common share respectively, compared with the net loss of \$994 or \$0.01 and \$3,776 or \$0.04 for the comparable periods in 2005.

A summary of service and sales revenues, cost of sales and gross margin percentage by major operating segment is set out in the following tables:

|                               | Three months ended<br>May 31, 2006 |                  |                 | Three months ended<br>May 31, 2005 |                  |                 |
|-------------------------------|------------------------------------|------------------|-----------------|------------------------------------|------------------|-----------------|
|                               | Revenue                            | Cost of<br>Sales | Gross<br>Margin | Revenue                            | Cost of<br>Sales | Gross<br>Margin |
| <b>Service revenues</b>       |                                    |                  |                 |                                    |                  |                 |
| Broadcast                     | \$ 3,075                           | \$ 1,466         | 52.3%           | \$ 3,966                           | \$ 2,286         | 42.4%           |
| Internet                      | 2,807                              | 1,293            | 53.9%           | 3,681                              | 1,698            | 53.9%           |
| Other                         | 1,053                              | 393              | 62.7%           | 1,328                              | 418              | 68.5%           |
| <b>Total service revenues</b> | <b>6,935</b>                       | <b>3,152</b>     | <b>54.5%</b>    | <b>8,975</b>                       | <b>4,402</b>     | <b>51.0%</b>    |
| Sales and Installations       | 128                                | 192              |                 | 204                                | 177              |                 |
| <b>Total</b>                  | <b>\$ 7,063</b>                    | <b>\$ 3,344</b>  |                 | <b>\$ 9,179</b>                    | <b>\$ 4,579</b>  |                 |

|                               | Nine months ended<br>May 31, 2006 |                  |                 | Nine months ended<br>May 31, 2005 |                  |                 |
|-------------------------------|-----------------------------------|------------------|-----------------|-----------------------------------|------------------|-----------------|
|                               | Revenue                           | Cost of<br>Sales | Gross<br>Margin | Revenue                           | Cost of<br>Sales | Gross<br>Margin |
| <b>Service revenues</b>       |                                   |                  |                 |                                   |                  |                 |
| Broadcast                     | \$ 9,860                          | \$ 4,788         | 51.4%           | \$12,811                          | \$ 7,277         | 43.2%           |
| Internet                      | 9,300                             | 3,902            | 58.0%           | 11,356                            | 5,386            | 52.6%           |
| Other                         | 3,609                             | 1,238            | 65.7%           | 3,883                             | 1,353            | 65.2%           |
| <b>Total service revenues</b> | <b>22,769</b>                     | <b>9,928</b>     | <b>56.4%</b>    | <b>28,050</b>                     | <b>14,016</b>    | <b>50.0%</b>    |
| Sales and Installations       | 503                               | 588              |                 | 865                               | 687              |                 |
| <b>Total</b>                  | <b>\$ 23,272</b>                  | <b>\$10,516</b>  |                 | <b>\$28,915</b>                   | <b>\$14,703</b>  |                 |

## **Total Revenue and Gross Margin**

Total revenue for the three months ended May 31, 2006 of \$7,063 was \$2,116 or 23.1% lower than the comparable quarter in fiscal 2005. Total revenue for the nine months ended May 31, 2006 of \$23,272 was \$5,643 or 19.5% lower than the comparable in fiscal 2005. This was primarily due to the net loss of broadcast and Dial-Up subscribers. ARPU, analysed below, increased in both the three- and nine-month periods over 2005 largely because of the move of Look's subscriber base to a video membership base.

Gross margin percentage for the three months ended May 31, 2006, improved to 54.6% over the comparable quarter in fiscal 2005 at 51.0%. This was primarily due to a reduction in telecommunication costs and the general lowering of programming fees and costs related to Web hosting services and domain name registrations resulting from the renegotiation of supplier contracts. Gross margin percentage for the nine months ended May 31, 2006 was 56.4% compared to 50.0% for the same period in 2005.

## **Broadcast Services Revenue and Gross Margin**

The decrease in broadcast service revenue in the three- and nine-month periods ended May 31, 2006 of \$891, or 22.5% and \$2,951 or 23.0% over the comparable periods in 2005 was a result of lower subscribers. This was due largely to the very aggressive competition in this sector, reduced marketing activity for new subscribers by the Company as we focused on the implementation of the new video membership offerings, and the cancellation of specialty channels in the new membership line-up. Gross margin percentage for the three and nine month periods ended May 31, 2006 was well up on comparative periods a year ago due to the video membership offerings and lower telecommunication costs.

## **Internet Services Revenue and Gross Margin**

Internet services revenue in the three and nine month periods ended May 31, 2006 declined by \$874, or 23.7%, and \$2,056 or 18.1% over the comparable periods in 2005 due to lower Dial-Up subscribers. Of the revenue from Internet services, revenue from Dial-Up accounted for \$1,202 and \$4,281 for the three and nine month periods ended May 31, 2006 (2005 - \$1,943 and \$6,481). Revenue from High Speed was \$1,605 and \$5,019 for the three and nine month periods ended May 31, 2006 (2005 - \$1,738 and \$4,875). The decrease in Internet revenue resulted from the continuous migration of Dial-Up customers to High Speed products and the loss of some High Speed bundled customers who discontinued service as a result of the video channel reorganization. Gross margin percentage, while at the same level as a year ago for the three-month period, was 58% for the nine months in 2006 compared to 52.6% in the comparative period in 2005 due to lower telecommunication costs.

## **Other Services Revenue and Gross Margin**

Revenue from other services was lower than the comparative periods for a year ago because of the loss of subscribers. Gross margin percentage declined from 68.5% for the three-month period ended May 31, 2005 to 62.7% for the three months ended May 31, 2006 due to the mix of product sold. The gross margin percentage for the nine-month period ended May 31, 2006 improved to 65.7% over the same period in 2005 at 65.2%.

## Subscriber Statistics

The following table sets out subscriber statistics for the reporting periods.

|                            | 3 months ended |                            | 9 months ended |                            |
|----------------------------|----------------|----------------------------|----------------|----------------------------|
|                            | May 31, 2006   | May 31, 2005<br>(Restated) | May 31, 2006   | May 31, 2005<br>(Restated) |
| <b>BROADCAST</b>           |                |                            |                |                            |
| Gross additions            | 726            | 1,012                      | 2,240          | 4,432                      |
| Net reductions             | (1,181)        | (2,098)                    | (5,267)        | (5,609)                    |
| Total subscribers          | 21,507         | 30,056                     | 21,507         | 30,056                     |
| ARPU                       | \$47.10        | \$43.28                    | \$46.25        | \$43.30                    |
| Churn                      | 2.9%           | 3.4%                       | 3.4%           | 3.7%                       |
| <b>INTERNET</b>            |                |                            |                |                            |
| <b>High Speed</b>          |                |                            |                |                            |
| Gross additions            | 1,080          | 1,268                      | 3,353          | 5,920                      |
| Net (reductions)/additions | (264)          | (157)                      | (1,043)        | 2,037                      |
| Total subscribers          | 11,978         | 12,852                     | 11,978         | 12,852                     |
| ARPU                       | \$44.15        | \$44.71                    | \$45.42        | \$43.30                    |
| Churn                      | 3.7%           | 3.7%                       | 3.9%           | 3.4%                       |
| <b>Dial-Up</b>             |                |                            |                |                            |
| Gross additions            | 945            | 910                        | 2,856          | 4,411                      |
| Net reductions             | (2,895)        | (3,823)                    | (10,100)       | (11,738)                   |
| Total subscribers          | 24,218         | 37,739                     | 24,218         | 37,739                     |
| ARPU                       | \$15.77        | \$16.73                    | \$16.13        | \$16.84                    |
| Churn                      | 4.9%           | 4.2%                       | 4.9%           | 4.8%                       |
| <b>TOTAL INTERNET</b>      |                |                            |                |                            |
| Gross additions            | 2,025          | 2,178                      | 6,209          | 10,331                     |
| Net reductions             | (3,159)        | (3,980)                    | (11,143)       | (9,701)                    |
| Total subscribers          | 36,196         | 50,591                     | 36,196         | 50,591                     |
| ARPU                       | \$24.93        | \$23.84                    | \$24.93        | \$23.33                    |
| Churn                      | 4.5%           | 4.1%                       | 4.6%           | 4.4%                       |
| <b>OTHER</b>               |                |                            |                |                            |
| Gross additions            | 1,117          | 1,896                      | 2,704          | 4,049                      |
| Net (reductions)/additions | (270)          | 851                        | (548)          | 940                        |
| Total subscribers          | 11,925         | 13,102                     | 11,925         | 13,102                     |
| ARPU                       | \$21.95        | \$27.55                    | \$25.19        | \$27.84                    |
| Churn                      | 3.8%           | 2.7%                       | 2.9%           | 2.6%                       |
| <b>TOTAL SUBSCRIBERS</b>   |                |                            |                |                            |
| Gross additions            | 3,868          | 5,086                      | 11,153         | 18,812                     |
| Net reductions             | (4,610)        | (5,227)                    | (16,958)       | (14,370)                   |
| Total subscribers          | 69,628         | 93,749                     | 69,628         | 93,749                     |
| ARPU                       | \$32.29        | \$30.00                    | \$32.62        | \$30.97                    |
| Churn                      | 3.9%           | 3.7%                       | 4.0%           | 3.9%                       |

### **Total Subscribers and ARPU**

The decrease in subscribers for the three months ended May 31, 2006 of 4,610 or 6.2% was due largely to the continuing decline in our residential and business Dial-Up subscribers and loss of video subscribers.

The decrease in subscribers for the nine months ended May 31, 2006 of 16,958 or 19.6% was due largely to the Dial-Up subscribers who continue to migrate to High Speed Internet access, and video subscribers.

For the three months ended May 31, 2006, total ARPU was \$32.29 (2005 - \$30.00) while for the nine months ended May 31, 2006 ARPU was \$32.62 (2005 - \$30.97). The increase was largely attributable to the up-selling of subscribers to the Silver and Gold video membership levels and to High Speed Internet access.

### **Broadcast Subscribers and ARPU**

As at May 31, 2006, broadcast customers totaled 21,507, representing a decrease of 1,181 or 5.2% from February 28, 2006, and a decrease of 5,267 or 19.7% from the fiscal year ended August 31, 2005. Of the 21,507 subscribers, 6,066 represented subscribers in multiple unit dwellings (MUDs) and 15,441 were single family homes. The number of subscribers continued to decline in the three months ended May 31, 2006 as a result of reduced sales and marketing activities by the Company and aggressive bundling marketing campaigns by our competitors.

For the three months ended May 31, 2006, subscriber churn on broadcasting was an average of 2.9%, compared with 3.4% for the same period a year ago, while for the nine months ending May 31, 2006 subscriber churn was an average of 3.4% compared with 3.7% for the same period a year ago.

For the three months ended May 31, 2006, ARPU on broadcasting services was \$47.10 (2005 -\$43.28) while for the nine months ending May 31, 2006 ARPU was \$46.25 (2005 - \$43.30). The increase was largely attributable to the up-selling of subscribers to the Silver and Gold membership levels.

### **Internet Subscribers and ARPU**

As at May 31, 2006, Internet subscribers totaled 36,196, representing a decrease of 3,159 or 8.0% from February 28, 2006, and a decrease of 11,143 or 23.5% from the fiscal year ended August 31, 2005. The decrease was essentially in the residential Dial-Up subscriber base, reflecting a continuous customer migration to High Speed products.

Total subscriber churn on Internet Services averaged 4.5% per month for the three-month period ended May 31, 2006, and 4.6% for the nine-month period ended May 31, 2006, compared with 4.1% for three months and 4.4% for the nine months ended May 31, 2005. This was largely due to Dial-Up subscribers (4.9% for the three- and nine-month periods ended May 31, 2006 respectively).

ARPU on Internet services was \$24.93 per month for the three-month period ended May 31, 2006 (2005 - \$23.84). For the nine-month period ended May 31, 2006, ARPU was \$24.93 (2005 - \$23.33). While ARPU on residential and business Dial-Up subscribers was \$15.77 and \$16.13 respectively for the three- and nine-month periods ended May 31, 2006 (2005 - \$16.73 and \$16.84 respectively), ARPU on High Speed Internet access was \$44.15 and \$45.42 (2005 - \$44.71 and \$43.30) for the same three- and nine-month periods. Look has increased its year over year High Speed Internet access ARPU through subscribers choosing higher value services.

### Other Subscribers and ARPU

As at May 31, 2006, other subscribers totalled 11,925, representing a decrease of 270 or 2.2% from February 28, 2006, and 548 or 4.4% from the fiscal year ended August 31, 2005. The Company also recorded sales of 9,080 domain names for the three-month period ended May 31, 2006 compared with 10,912 for the three-month period ended May 31, 2005.

Subscriber churn on other services was an average of 3.8% (2005 - 2.7%) per month for the three-month period ended May 31, 2006, while the average was 2.9% (2005 - 2.6%) per month for the nine-month period ended May 31, 2006.

ARPU on other services for the three and nine months ending May 31, 2006 averaged \$21.95 and \$25.19 (2005 - \$27.55 and \$27.84). The decrease in ARPU was attributable to product mix, with subscribers moving to lower priced Web hosting products.

### Total Operating Expenses

The operating expenses for the three and nine month periods ended May 31, 2006 are as follows:

|  | Three months ended<br>May 31, 2006 | Percentage of<br>service<br>revenues | Three months ended<br>May 31, 2005<br>(Restated) | Percentage of<br>service<br>revenues |
|--|------------------------------------|--------------------------------------|--|--------------------------------------|
| Marketing and Sales  | \$ 152                             | 2.2%                                 | \$ 506   | 5.6%                                 |
| Customer Care  | 770                                | 11.1%                                | 891  | 9.9%                                 |
| Engineering and Operations                                       | 1,211                              | 17.5%                                | 1,340  | 14.9%                                |
| General and Administration                                       | 2,081                              | 30.0%                                | 2,125  | 23.7%                                |
| Total before amortization of capital assets and deferred charges | 4,214                              | 60.8%                                | 4,862  | 54.2%                                |
| Amortization of capital assets and deferred charges              | 1,213                              | 17.5%                                | 1,673  | 18.6%                                |
| Total operating expenses   | \$ 5,427                           | 78.3%                                | \$6,535  | 72.8%                                |

|  | <b>Nine months ended<br/>May 31, 2006</b> | <b>Percentage of<br/>service<br/>revenues</b> | <b>Nine months ended<br/>May 31, 2005<br/>(Restated)</b> | <b>Percentage of<br/>service<br/>revenues</b> |
|--|---|---|--|---|
| Marketing and Sales  | <b>\$ 553</b>                             | <b>2.4%</b>                                   | \$2,352  | 8.4%  |
| Customer Care  | <b>2,469</b>                              | <b>10.8%</b>                                  | 2,933  | 10.5%   |
| Engineering and Operations                                       | <b>3,701</b>                              | <b>16.3%</b>                                  | 4,140  | 14.8%   |
| General and Administration                                       | <b>6,187</b>                              | <b>27.2%</b>                                  | 6,870  | 24.5%   |
| Total before amortization of capital assets and deferred charges | <b>12,910</b>                             | <b>56.7%</b>                                  | 16,295   | 58.1%   |
| Amortization of capital assets and deferred charges              | <b>3,832</b>                              | <b>16.8%</b>                                  | 5,017  | 17.9%   |
| Total operating expenses   | <b>\$16,742</b>                           | <b>73.5%</b>                                  | \$21,312   | 76.0%   |

### **Marketing and Sales Expenses**

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

For the three months ended May 31, 2006, marketing and sales expenses were \$152 or 2.2% of service revenues, compared with \$506 or 5.6% of service revenues for the three months ended May 31, 2005. For the nine months ended May 31, 2006, marketing and sales expenses were \$553 or 2.4% of service revenues, compared with \$2,352 or 8.4% of service revenues for the comparative 2005 period. After the limited success of advertising campaigns in the first and second quarters of fiscal 2005, Look has focused on retention of its high value customers and the introduction in December 2005 of the video membership program.

For the three months ended May 31, 2006, COA was \$39.30 per subscriber compared to \$99.49 for the three months ended May 31, 2005. COA for the nine months ended May 31, 2006 was \$49.58 per subscriber compared with \$125.03 a year ago.

### **Customer Care Expenses**

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

For the three and nine months ended May 31, 2006, customer care expenses were \$770 and \$2,469 or 11.1% and 10.8% of service revenues, compared with \$891 and \$2,933 or 9.9% and 10.5% of service revenues for the three and nine months ended May 31, 2005. The decrease in expenses in the periods under review reflects a decline in the overall customer base.

## **Engineering and Operations Expenses**

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 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 costs associated with the planning and designing of the new infrastructure for the Mobile Multi Media (M<sup>3</sup>) network.

For the three and nine months ended May 31, 2006, engineering and operations expenses were \$1,211 and \$3,701 or 17.5% and 16.3%, respectively, of service revenues, compared to \$1,340 and \$4,140 or 14.9% and 14.8% of service revenues, for the three and nine months ended May 31, 2005, respectively. Costs in each of the respective periods under review have been reduced through successful re-negotiations of supplier contracts, lower subscriber base and Management's continuing focus on efficiency improvements.

## **General and Administration Costs**

General and administration costs include administrative salaries, human resources, general occupancy, information technology and other administrative overheads for both Look and UBS. Costs relating to information technology, which comprise the development and maintenance of Look's customer service and billing systems, are also included.

General and administration expenses decreased by \$44, or 2.2%, over the comparative three-month period and \$683, or 9.9%, over the nine-month period. These reductions in the current period are reflective of Management's continuing focus on efficiency improvements.

## **Amortization of Capital Assets and Deferred Charges**

Amortization of capital assets and deferred charges for the three months ended May 31, 2006, was \$1,213 compared to \$1,673 for the three months ended May 31, 2005. The amortization charge for the nine month period in 2006 was \$3,832 compared with \$5,017 for the nine month period in 2005.

## Interest and Financing Charges

|   | Three months ended |                            | Nine months ended |                            |
|---|--------------------|----------------------------|-------------------|----------------------------|
|   | May 31, 2006       | May 31, 2005<br>(Restated) | May 31, 2006      | May 31, 2005<br>(Restated) |
| Accretion charges on liability of convertible debenture | (48)               | (103)                      | (104)             | (237)                      |
| Interest expense  | (38)               | (87)                       | (142)             | (178)                      |
| Interest Income   | 83                 | 43                         | 174               | 117                        |

As described in note 4 of this MD&A, the Company adopted a new accounting policy whereby accretion charges on the liability component of the convertible debentures are now shown as interest expense. Comparatives have been restated to reflect this change.

## Non-controlling Interest

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

## 11. EBITDA

EBITDA for the three months ended May 31, 2006 was (\$495) compared to (\$263) for the three months ended May 31, 2005. For the nine months ended May 31, 2006, EBITDA was (\$154) or an improvement of \$1,929 over the comparable period in 2005 at (\$2,083). The following table reconciles the loss from continuing operations to EBITDA for the respective periods as determined under GAAP:

|  | Three months ended |                            | Nine months ended |                            |
|--|--------------------|----------------------------|-------------------|----------------------------|
|  | May 31, 2006       | May 31, 2005<br>(Restated) | May 31, 2006      | May 31, 2005<br>(Restated) |
| Loss from continuing operations                                    | \$ (818)           | \$ (994)                   | \$(1,808)         | (3,776)                    |
| Non-controlling interest   | (893)              | (1,025)                    | (2,248)           | (3,586)                    |
| Amortization of capital assets                                     | 1,184              | 1,646                      | 3,756             | 4,946                      |
| Amortization of deferred charges                                   | 29                 | 27                         | 76                | 71                         |
| Net interest and financing charges                                 | (45)               | 44                         | (32)              | 61                         |
| Accretion charges on liability component of convertible debentures | 48                 | 103                        | 104               | 237                        |
| Recovery of income taxes   | -                  | (64)                       | (2)               | (36)                       |
| <b>EBITDA*</b>   | <b>\$ (495)</b>    | <b>\$ (263)</b>            | <b>\$ (154)</b>   | <b>\$(2,083)</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

Selected quarterly data for the last eight quarters are set out in the table below:

| QUARTER ENDED  | 2004 <sup>1</sup> |         | 2005 <sup>1</sup> |         |        |        | 2006   |        |
|--|-------------------|---------|-------------------|---------|--------|--------|--------|--------|
|  | AUG 31            | NOV 30  | FEB 28            | MAY 31  | AUG 31 | NOV 30 | FEB 28 | MAY 31 |
| Revenue  | 9,091             | 10,066  | 9,671             | 9,178   | 9,041  | 8,359  | 7,850  | 7,063  |
| <b>CONTINUING OPERATIONS</b>                         |                   |         |                   |         |        |        |        |        |
| Loss   | (2,521)           | (1,229) | (1,553)           | (994)   | (778)  | (513)  | (477)  | (818)  |
| Non controlling interest                             | (1,320)           | (1,397) | (1,164)           | (1,025) | (149)  | (662)  | (693)  | (893)  |
| Interest, taxes,<br>depreciation and<br>amortization | 1,444             | 1,520   | 2,003             | 1,756   | 655    | 1,394  | 1,293  | 1,216  |
| EBITDA   | (2,397)           | (1,106) | (714)             | (263)   | (272)  | 219    | 123    | (495)  |
| <b>DISCONTINUED OPS</b>                              |                   |         |                   |         |        |        |        |        |
| Net Income   | 715               | -       | -                 | -       | 224    | -      | 2,423  | -      |
| Loss per share <sup>2</sup>                          |                   |         |                   |         |        |        |        |        |
| – continuing ops                                     | (0.02)            | (0.01)  | (0.02)            | (0.01)  | (0.01) | 0.00   | 0.00   | (0.01) |
| Income per share <sup>2</sup> –<br>discontinued ops  | 0.01              | 0.00    | 0.00              | 0.00    | 0.00   | 0.00   | 0.02   | 0.00   |

<sup>1</sup> The results in the table have been restated to reflect the change in accounting policy for convertible debentures noted in section 4 above.

<sup>2</sup> Loss per share is basic and diluted.

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 Quarter 3 of fiscal 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 decreased from 299 at August 31, 2003 to 150 at May 31, 2006 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 \$9,235 at May 31, 2006 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):                              | Three months ended |                | Nine months ended |                 |
|---|--------------------|----------------|-------------------|-----------------|
|   | May 31, 2006       | May 31, 2005   | May 31, 2006      | May 31, 2005    |
| Operating activities – continuing operations            | \$ (72)            | \$ (140)       | \$ (662)          | \$ (165)        |
| Operating activities – discontinued operations          | (4)                | (50)           | (202)             | (653)           |
| Cash flows used in operating activities                 | (76)               | (190)          | (864)             | (818)           |
| Cash flows from/(used in ) financing activities         | (13)               | (18)           | 2,383             | (52)            |
| Cash flows from investing activities                    | 338                | 191            | 196               | 16              |
| <b>Increase/(Decrease) in cash and cash equivalents</b> | <b>\$ 249</b>      | <b>\$ (17)</b> | <b>\$ 1,715</b>   | <b>\$ (854)</b> |

Cash used in operating activities for the three and nine months ended May 31, 2006 was \$76 and \$864 compared with cash used in operating activities of \$190 and \$818 for the three- and nine-month periods ended May 31, 2005.

Cash used in financing activities was \$13 for the three months ended May 31, 2006 largely related to repayments of obligations under capital leases. Cash from financing activities was \$2,383 for the nine months ended May 31, 2006 because of the repayment of the loan receivable from the sale of E & M Business. Cash used of \$18 and \$52 for the three and nine months ended May 31, 2005 related to interest payments and accretion on the convertible debentures.

For the three months ended May 31, 2006, cash from investing activities amounted to \$338, largely due to the release of restricted cash for the processing of credit card transactions. Capital expenditures on the network amounted to \$255 in the quarter compared with \$94 in the comparable quarter last year.

As at May 31, 2006, the Company had the following contractual obligations:

|                        | Total | 2006  | 2007 | 2008 | 2009 and Thereafter |
|------------------------|-------|-------|------|------|---------------------|
| Convertible debentures | 863   | 71    | -    | -    | 792                 |
| Mortgage payable       | 1,200 | 1,200 | -    | -    | -                   |
| Operating leases       | 2,507 | 197   | 731  | 681  | 898                 |

The mortgage on the Company's Milton building is due on November 4, 2006. The Company is negotiating to renew its mortgage, which is classified as a Current Liability as at May 31, 2006. Once the renegotiation is completed, the mortgage will be reclassified as a Long Term Liability.

The Company's working capital deficiency at May 31, 2006 was \$3,258. If the mortgage and unearned revenue were excluded, the working capital deficiency at May 31, 2006 would be \$1,011 compared with \$2,840 at August 31, 2005, calculated on the same basis. UBS had a working capital surplus of \$3,565 at May 31, 2006 (\$1,136 at August 31, 2005), while Look's working capital deficiency at May 31, 2006 was \$4,576 compared with \$3,976 as at August 31, 2005 calculated on the same basis.

The Company continues to focus on renegotiation of contracts with various suppliers. The Company is also managing its operating expenses to support its subscriber base. Additionally, the Company is seeking financial and supplier partners to finance for the design, build out and implementation of the M<sup>3</sup> Network

Although the M<sup>3</sup> demonstration site in Milton, Ontario was funded by existing cash on hand, significant external funds will be required to expand the M<sup>3</sup> 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 assurance can be given that the Company will be able to achieve these results.

Management continues to reposition Look as a Mobile Multi Media service provider so that it can better utilize the Company's main assets, which include 92 MHz of spectrum in the 2.5 to 2.7 GHz band, and the broadcast license.

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

As at May 31, 2006, 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).

As at July 20, 2006 there were no changes to the number of Common Shares issued. The number of options outstanding to acquire Common Shares of the Company increased to 15,216,000.

## **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.

On April 21, 2004, after attempting unsuccessfully to resolve issues related to the Agreement, UBS commenced legal action 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 totalling \$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 2.5GHz frequency range, which includes the Inukshuk spectrum under the Agreement.

On March 30, 2006, Industry Canada issued its policy on the 2.5 Ghz band (refer to section 8) and management believes strongly that 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.

## **16. LITIGATION**

The Company continues to defend itself against the litigation detailed in the Annual Report.

## **17. 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 \$85 and \$261 (2005 - \$93 and \$279) were paid to Mr. Dolgonos for the three- and nine-month periods ended May 31, 2006. For the three and nine months ended May 31, 2006, the Company recorded \$20 and \$71 respectively (2005 - \$46 and \$77) in stock-based compensation related to options granted to Mr. Dolgonos.

## **18. 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 \$3,258 as at May 31, 2006.

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 are no assurances 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.

### **Subscriber Retention**

Look's ability to retain its current subscriber base and add new subscribers is important as the Company implements its M<sup>3</sup> strategy. Look attempts to ensure retention of current subscribers by investing in its infrastructure and technical and subscriber support capabilities. Look has also implemented targeted retention strategies designed to reduce the rate of subscriber churn. However, Look's subscribers can switch to competing Internet and television service providers. Moreover, churn of Dial-Up subscribers is, as expected, increasing as subscribers move to High Speed Internet access. Consequently any significant loss of subscribers will adversely affect the Company's business, financial condition and results of operations in the future.

### **Subscriber Acquisition**

Look's revenue depends on its ability to attract new subscribers and maintain its existing subscriber base. Look has and will continue to pursue its targeted niche subscribers through its focused marketing approach. However, given the very strong competitive environment in which Look operates, there can be no assurances that it will be able to attract new subscribers and to improve the rate of net subscriber churn. This could 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 regulations that could, and frequently do, 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 M<sup>3</sup> 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.

This implementation will rely, in part, on new and unproven technology, although UBS has experience in related areas. The Company cannot be certain that this new service can be implemented in the time frame and within the investment capital required to generate an appropriate risk related return for investors.