Consolidated Financial Statements of

UNIQUE BROADBAND SYSTEMS, INC.

Years ended August 31, 2006 and 2005

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements have been prepared by management and approved by the Board of Directors of the Company. Management is responsible for the information and representations contained in these financial statements and in other sections of this Annual Report.

The Company maintains appropriate processes to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles. The significant accounting principles which management believes are appropriate for the Company are described in note 3 to the financial statements.

The Board of Directors is responsible for reviewing and approving the financial statements and overseeing management's performance of its financial reporting responsibilities. An Audit Committee of three Directors is appointed by the Board.

The Audit Committee reviews the financial statements, adequacy of internal controls, audit process and financial reporting with management and with the external auditors. The Audit Committee reports to the Directors prior to the approval of the audited financial statements for publication. KPMG LLP, the Company's external auditors, who are appointed by the shareholders, audited the financial statements in accordance with Canadian Generally Accepted Auditing Standards to enable them to express to the shareholders their opinion on the financial statements. Their report is set out below.

Gerald McGoey

Gerald T. McGoey	**Malcolm Buxton-Forman**
Chairman and Chief Executive Officer	Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Unique Broadband Systems, Inc. as at August 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada
November 3, 2006

UNIQUE BROADBAND SYSTEMS, INC.

Consolidated Balance Sheets
(In thousands of dollars)

August 31	2006	2005 (Restated, note 2)
Assets		
Current assets:		
Cash and cash equivalents	$ 8,481	$ 7,520
Restricted cash (note 5)	511	1,170
Accounts receivable	1,389	975
Inventory	174	182
Prepaid expenses and deposits	637	525
	11,192	10,372
Capital assets (note 6)	18,091	22,268
Deferred charges (note 7)	196	229
	$ 29,479	$ 32,869
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 10,522	$ 9,969
Accrued liabilities	4,098	3,102
Income taxes payable	-	5
Unearned revenue	956	1,353
Current portion of long-term debt (note 8)	39	67
Current portion of liability component of convertible debentures (note 2)	28	69
	15,643	14,565
Long-term debt (note 8)	1,814	1,253
Liability component of convertible debentures (note 2)	793	1,060
Non-controlling interest (note 9)	7,752	10,501
Shareholders' equity:		
Share capital (note 10)	58,139	58,139
Contributed surplus	1,041	642
Deficit	(55,703)	(53,291)
	3,477	5,490
Basis of presentation (note 1)		
Litigation (note 16)		
Commitments (note 19)		
	$ 29,479	$ 32,869

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Gerald McGoey

Director

Douglas Reeson

Director

UNIQUE BROADBAND SYSTEMS, INC.

Consolidated Statements of Operations and Deficit
(In thousands of dollars, except shares and per share amounts)

Years ended August 31, 2006 and 2005

	2006	2005 (Restated, note 2)
Service and sales revenue (note 14)	$ 29,877	$ 37,956
Carrier charges and cost of sales (note 14)	13,116	19,609
Gross margin	16,761	18,347
Expenses:		
Marketing and sales	662	1,983
Customer care	3,193	4,232
Engineering and operations	5,002	5,562
General and administration	9,701	8,925
Amortization of capital assets	4,948	5,547
Amortization of deferred charges	75	95
	23,581	26,344
	(6,820)	(7,997)
Accretion on liability component of convertible debentures (note 2)	(146)	(234)
Interest expense	(187)	(250)
Interest income	269	156
Loss from continuing operations before income taxes and non-controlling interest	(6,884)	(8,325)
Income taxes recovery (note 12)	2	36
Non-controlling interest	3,249	3,735
Loss from continuing operations	(3,633)	(4,554)
Income from discontinued operations (note 11)	1,221	224
Loss for the year	(2,412)	(4,330)
Deficit, beginning of year, as previously reported	(53,176)	(48,818)
Change in accounting policy (note 2)	(115)	(36)
Deficit, beginning of year, as restated	(53,291)	(48,854)
Capital reorganization costs	-	(107)
Deficit, end of year	$ (55,703)	$ (53,291)
Loss per share from continuing operations:		
Basic and diluted	$ (0.04)	$ (0.04)
Loss per share:		
Basic and diluted	$ (0.02)	$ (0.04)
Weighted average number of outstanding shares in thousands:		
Basic and diluted (note 10)	102,748	102,748

See accompanying notes to consolidated financial statements.

UNIQUE BROADBAND SYSTEMS, INC.

Consolidated Statements of Cash Flows
(In thousands of dollars)

Years ended August 31, 2006 and 2005

	2006	2005 (Restated, note 2)
Cash flows from/(used in) operating activities:		
Loss from continuing operations	$ (3,633)	$ (4,554)
Non-controlling interest	(3,249)	(3,735)
Amortization of capital assets	4,948	5,547
Non cash gain on settlement of liabilities	-	(323)
Amortization of deferred charges	75	95
Amortization of stock based compensation	451	385
Accretion on liability component of convertible debentures	146	234
Change in non-cash operating working capital (note 13)	(172)	4,574
Cash flows from/(used in) continuing operations	(1,434)	2,223
Cash flows used in discontinued operations	(398)	(463)
Cash flows from/(used in) operating activities	(1,832)	1,760
Cash flows from/(used in) financing activities:		
Interest on convertible debentures	(9)	(13)
Increase in mortgage payable (note 8)	600	-
Share issuance costs	-	(10)
Repayment of obligations under capital leases	(67)	(44)
Cash flows from/(used in) financing activities	524	(67)
Cash flows from investing activities:		
Proceeds from the repayment of loan receivable (note 11)	2,423	-
Restricted cash	659	(678)
Redemption of short-term investments	-	2,510
Purchase of capital assets	(771)	(896)
Deferred charges	(42)	(29)
Cash flows from investing activities	2,269	907
Increase in cash and cash equivalents	961	2,600
Cash and cash equivalents, beginning of year	7,520	4,920
Cash and cash equivalents, end of year	$ 8,481	$ 7,520

Supplemental cash flow information (note 13)

See accompanying notes to consolidated financial statements

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.

The Company's origin in the wireless industry was that of a technology company that designed, developed and manufactured broadband wireless access, wireless transport and digital audio and video broadcasting solutions (the "Engineering and Manufacturing Business" or "E&M Business"). On October 8, 2003, this E&M Business was sold (see note 11). During 2003, UBS completed certain transactions to acquire a 51% controlling interest in Look.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

1. Basis of presentation – going concern:

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 commitments in the normal course of business.

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 has a working capital deficiency of $4,451 as at August 31, 2006 (2005 - $4,193).

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 and reported revenues and expenses that would be necessary if the going concern basis was not appropriate. Such adjustments could be material.

2. Change in accounting policy:

In November, 2003 the AcSB approved amendments to CICA Handbook 3860, *Financial Instruments – Presentation and Disclosure*, which was replaced in April, 2005 with HB 3861, *Financial Instruments – Presentation and Disclosure*. HB 3861 requires obligations that may be settled, at the issuer's option, by a variable number of the issuer's own equity instruments to be presented as liabilities. Thus securities issued by an enterprise that give the issuer unrestricted rights to settle the principal amount in cash or in the equivalent value of its own equity instruments are no longer presented as equity.

In February 2004, Look's rights offering was fully subscribed for an amount of $10,665 of which UBS subscribed for $5,447 to retain its 51% ownership in Look at that time. The convertible secured debentures bear interest at a rate of 7% per annum and will mature on December 30, 2013. Look pays interest on the debentures semi-annually in arrears, on June 30 and December 30 of each year, commencing June 30, 2004. The debentures are convertible at the option of the holder into shares of Look at a conversion price of $0.075 per each Subordinate Voting Share and Multiple Voting Share, representing 6,667 Subordinate Voting Shares and 6,667 Multiple Voting Shares per $1 debenture. The convertible debentures are not redeemable by Look prior to December 31, 2006. Thereafter, Look may redeem the convertible debentures provided certain conditions are met.

Effective September 1, 2005, Look adopted these amendments as they pertain to Look's convertible debentures. As a result, 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 this 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 (previously in non-controlling interest) to liability component of convertible debentures as at August 31, 2005. During the year ended August 31, 2006, debenture holders converted $415 of debentures into shares of Look, of which $267 was attributed to the liability component of convertible debentures, resulting in a value of $793 as at August 31, 2006.

2. Change in accounting policy (continued):

(b) reclassified $55 from accrued liabilities to current portion of liability component of convertible debentures as at August 31, 2005, representing unpaid interest on the liability component. The Company also recognized additional accretion charges of $14 within the current portion of liability component of convertible debentures during the year ended August 31, 2005.

(c) increased the deficit by $36 as at September 1, 2004, comprising additional accretion costs related to the liability component of convertible debentures of $41 and the reversal of accumulated amortization of $5 related to the deferred charges.

(d) reclassified $146 from non-controlling interest to accretion charges on liability portion of convertible debentures in the year ended August 31, 2005.

(e) charged a further $88 to accretion charges on the liability component of convertible debentures and reversed amortization of deferred charges of $9 resulting in an increase in the deficit of $115 as at August 31, 2005.

(f) the net impact on net loss for the year ended August 31, 2005 as a result of these changes was to increase the net loss by $79. There was no impact on basic and diluted loss per share for the periods presented.

3. Significant accounting policies:

(a) Basis of consolidation:

These consolidated financial statements include the accounts of the Company's controlled subsidiary, Look, and its wholly owned subsidiary UBS Wireless Services Inc. All significant inter-company transactions and balances have been eliminated upon consolidation.

(b) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods. Actual results could differ from those estimates. Significant estimates are used in determining allowances for doubtful accounts, useful lives of capital assets, capital asset impairment assessments, income tax valuation allowances, accruals for cost of carrier services and contingent liabilities.

3. Significant accounting policies (continued):

(c) Cash and cash equivalents:

Cash and cash equivalents consist of all bank balances and highly liquid short-term investments with original maturities of less than 90 days.

(d) Inventory:

Inventory, which consists primarily of modems, antennae and remote controls, is recorded at the lower of cost and net realizable value.

(e) Capital assets:

Capital assets are stated at cost less accumulated amortization. Amortization is provided at rates and on bases designed to amortize the cost of the assets over the estimated useful lives as follows:

Asset	Basis	Rate
Building	Declining balance	4%
Headend and network equipment	Straight line	10 years
Customer connections	Straight line	5 - 10 years
Computer hardware	Declining balance	30%
Computer software	Straight line	1 year
Office equipment and other	Declining balance	20%
Vehicles under capital leases	Declining balance	30%

Capital assets associated with the Company's network and customer connections are subject to technological risks and market changes due to new products and services and changing customer demands. These changes may result in changes to the estimated useful lives of these assets.

(f) Impairment of long-lived assets:

The carrying amount of long-lived assets to be held and used is reviewed for impairment on an ongoing basis whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment is recognized when the carrying amount of an asset to be held and used exceeds the projected undiscounted future net cash flows expected from its use and disposal, and is measured as the amount by which the carrying amount of the asset exceeds its fair value.

3. Significant accounting policies (continued):

(g) Deferred charges:

Deferred charges include license renewal application costs incurred by Look. License application costs represent expenditures incurred in the course of obtaining the license renewals from the Canadian Radio-television and Telecommunications Commission (the "CRTC") and are being amortized on a straight-line basis over the term of the license of approximately seven years.

Deferred financing charges represent costs incurred to complete the rights offering made by Look and are amortized on a straight-line basis over the term of the debt.

(h) Revenue recognition:

Service and sales revenue includes earned subscriber service revenue for television and Internet access. Service charges billed or paid for in advance are recorded as revenue when services are provided. Revenue from the sale of receiving equipment and modems is recognized in the period in which the services are activated. Unearned revenue consists of prepayments under certain customer contracts and is amortized to revenue over the term of the contract.

(i) Government assistance:

Government assistance is recorded as an expense reduction in the period that the expenditure is incurred and when reasonable assurance exists that the Company has complied with the terms and conditions of the approved grant program and there is reasonable assurance that the amounts will be received.

(j) Foreign currency translation:

The monetary assets and liabilities of the Company which are denominated in foreign currencies are translated at the rates of exchange at the balance sheet dates. Revenue and expenses are translated at rates of exchange prevailing on the transaction dates. Exchange gains or losses on translation are included in the determination of loss for the period.

(k) Income taxes:

The Company provides for income taxes under the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying value of

3. Significant accounting policies (continued):

existing assets and liabilities and their respective tax basis and operating loss and tax credit carry forwards. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment or substantive enacted date.

(l) Stock-based compensation:

(i) Stock option incentive plan:

The Company has a stock option incentive plan, which is described in note 10(c). The Company accounts for all stock-based payments to employees and non-employees using the fair value based method. Under the fair value based method, compensation cost attributable to awards to employees and directors is measured at fair value at the grant date and recognized over the vesting period. Forfeitures are accounted for as they occur. Consideration paid by employees and non employees on the exercise of stock options is recorded as share capital. For non employee awards, the fair value of stock-based compensation is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the period of the related service agreement.

(ii) Share Appreciation Rights Plan:

The Company has Share Appreciation Rights Plans (SAR). The Company accounts for SAR units as a liability and compensation cost is recorded based on the intrinsic value of the award when it is considered likely that the terms and conditions of the SAR plans will be met.

(m) Basic and diluted loss per common share:

Basic loss per share is calculated by dividing the loss for the period by the weighted average number of shares outstanding during the period. Diluted loss per share is calculated by dividing the loss for the period by the sum of the weighted average number of shares outstanding and the dilutive equivalent shares outstanding during the period. Equivalent shares consist of the shares issuable upon exercise of stock options and warrants calculated using the treasury stock method. Equivalent shares are not included in the calculation of the weighted average number of shares outstanding for diluted loss per share when the effect would be anti-dilutive.

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

4. Shareholding in Look:

As at August 31, 2006, UBS held 24,864,478 Multiple Voting Shares and 28,089,519 Subordinate Voting Shares in Look. In addition, UBS is the holder of a convertible debenture in the principal amount of $3,000, which may be converted into 20,000,000 Multiple Voting Shares and 20,000,000 Subordinate Voting Shares. On a fully diluted basis, UBS holds 51.5% of Look.

5. Restricted cash:

Look pledged $511 (2005 - $1,170) of cash to its bank as collateral for the processing of credit card transactions. Of this amount, $300 is held in interest bearing certificates at 3.25%.

6. Capital assets:

2006	Cost	Accumulated amortization	Net book value
Land	$ 195	$ -	$ 195
Building	1,402	394	1,008
Headend and network equipment	33,031	21,853	11,178
Customer connections	13,536	8,951	4,585
Computer equipment	19,438	18,627	811
Office equipment and other	2,539	2,326	213
Vehicles under capital leases	284	183	101
	$ 70,425	$ 52,334	$ 18,091

2005	Cost	Accumulated amortization	Net book value
Land	$ 195	$ -	$ 195
Building	1,381	353	1,028
Headend and network equipment	32,484	18,849	13,635
Customer connections	13,521	8,531	4,990
Computer equipment	19,269	18,076	1,193
Office equipment and other	2,512	1,436	1,076
Vehicles under capital leases	292	141	151
	$ 69,654	$ 47,386	$ 22,268

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

7. Deferred charges:

	Cost	Accumulated amortization	2006 Net book value	2005 Net book value (Restated, note 2)
License renewal application costs	$ 252	$ 118	$ 134	$ 153
Deferred financing	169	114	55	66
Customer lists	12	5	7	10
	$ 433	$ 237	$ 196	$ 229

8. Long-term debt:

	2006	2005
Mortgage payable (a)	$ 1,800	$ 1,200
Obligations under capital leases (b)	53	120
	1,853	1,320
Less current portion	39	67
	$ 1,814	$ 1,253

(a) The mortgage payable bears interest at 10.5% per annum and matures on August 21, 2009. The mortgage is collateralized by a first legal charge over the land and building of the Company.

(b) Obligations under capital leases at August 31, 2006 represent the Company's vehicle purchases under capital leases. These capital leases bear interest at 9-10% per annum.

Long-term debt is repayable as follows:

Year ended August 31	
2007	$ 39
2008	14
2009	1,800
	$ 1,853

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

9. Non-controlling interest:

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

	2006	2005 (Restated, note 2)
Common shares and equity	$ 7,315	$ 9,916
Equity component of convertible debentures (note 2)	437	585
	$ 7,752	$ 10,501

10. Share capital:

(a) Authorized:

Unlimited common shares
Unlimited Class A non-voting shares

(b) Issued:

At August 31, 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).

(c) 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.

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

10. Share capital (continued):

The following table summarizes the continuity of options issued under the Plan:

	2006		2005	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period	13,976,000	$ 0.31	11,588,000	$ 0.34
Granted	2,008,000	0.13	2,438,000	0.18
Cancelled	(30,000)	1.89	(50,000)	1.89
Outstanding, end of period	15,954,000	$ 0.28	13,976,000	$ 0.31
Options exercisable	7,777,333	$ 0.21	4,167,667	$ 0.25

A summary of the status of the Plan is as follows:

	2006			2005		
Exercise price	Options outstanding, end of period	Weighted average remaining contractual life (years)	Options exercisable, end of period	Options outstanding, end of period	Weighted average remaining contractual life (years)	Options exercisable, end of period
$ 0.12 - $0.14	2,008,000	4.6	947,667	-	-	-
$ 0.15 - $0.17	4,900,000	3.1	3,108,333	4,900,000	4.1	1,525,000
$ 0.19 - $0.20	1,188,000	3.5	863,333	1,188,000	4.4	421,333
$ 0.23 - $0.27	2,258,000	1.7	2,258,000	2,258,000	2.7	1,591,334
$ 0.48	5,600,000	0.9	600,000	5,600,000	1.9	600,000
$ 1.89	-	-	-	30,000	0.4	30,000
	15,954,000	2.4	7,777,333	13,976,000	3.0	4,167,667

During the year, UBS recorded stock based compensation expense of $298 (2005 - $239) related to options issued to employees and $101 (2005 - $28) related to options issued to non-employees, which has been recorded in contributed surplus. The fair value for the options granted during the period was determined using the Black-Scholes option pricing model with the following assumptions: an average risk free interest rate of 4.03% (2005 – 3.16%), a dividend yield of 0% (2005 – 0%), a volatility factor of the expected market price of UBS shares of 70% (2005 – 70%), and a weighted-average expected option life of three and a half years (2005 - 3½ years). The weighted average fair value of options granted in the period was $0.07 (2005 - $0.09). The options have varying vesting periods and expire five years from the date of issue.

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

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

10. Share capital (continued):

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 periods ended August 31, 2006 and 2005 and basic and diluted loss per share would have been increased to the pro forma amounts as follows:

	2006	2005 (Restated, note 2)
Loss for the period, as reported	$ 2,412	$ 4,330
Stock compensation expense	116	116
Pro forma loss for the period	$ 2,528	$ 4,446
Basic and diluted loss per share, as reported	$ (0.02)	$ (0.04)
Pro forma basic and diluted loss per share	$ (0.02)	$ (0.04)

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.

(d) Share Appreciation Rights Plan:

On October 12, 2006, the Board of Directors approved a Share Appreciation Rights (SAR) Plan for the Company. Pursuant to the Plan, directors, employees and consultants may be awarded units from time to time that will be subject to conditions set by the Board of Directors. The value of a SAR unit will be equivalent to the market value at the date when all the conditions attached to the SAR unit are met, less the market value at the date of the award of the unit.

On October 12, 2006, the Board of Directors awarded 6,000,000 SAR units at a grant price of $0.10, the market value of the Company’s common shares on that date. The awards are subject to specific terms and conditions being fulfilled.

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

11. Discontinued operations:

On October 8, 2003, UBS closed a transaction to sell its E&M Business. As consideration, UBS held a three-year secured loan of $2,000 bearing interest at 8%, compounded annually, which was fully reserved.

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 ended February 28, 2006.

The following is a summary of the Company's discontinued operations:

	2006	2005
Gain on repayment of loan receivable	$ 2,423	$ -
Inventory write off	(53)	-
General and administration	(1,149)	-
Income taxes recovery	-	224
Income from discontinued operations	$ 1,221	$ 224

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

	2006	2005
Inventory	$ -	$ 53
Accrued liabilities	(1,220)	(470)
Net liabilities of discontinued operations	$ (1,220)	$ (417)

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

12. Income taxes:

(a) Income tax expense:

Total income tax expense varies from the amounts that would be computed by applying the statutory income tax rate of 36.1% (2005 – 36.1%) to loss before income taxes for the following reasons:

	2006	2005 (Restated, note 2)
Effective income tax (recovery) on loss before income taxes	$ (1,939)	$ (2,758)
Decrease (increase) results from:		
Expiration of Ontario income tax loss carry forwards	1,740	1,220
Change in valuation allowance for future income tax assets allocated to income tax expense	(3,339)	2,451
Adjustments to future income tax assets and liabilities for enacted changes in tax laws and rates	4,368	-
Large Corporations Tax	-	(36)
Other	(832)	(913)
	$ (2)	$ (36)

(b) Future income tax assets:

In assessing the ability to realize future income tax assets, management considers whether it is more likely than not that some portion or all of the future income tax assets will be realized. The ultimate realization of future income tax assets is dependent upon the generation of future taxable income during the year in which the temporary differences are deductible. Management considers the scheduled reversals of future income tax liabilities, the character of the income tax asset and the tax planning strategies in making this assessment. To the extent that management believes that the realization of future income tax assets does not meet the more likely than not realization criterion, a valuation allowance is recorded against the future tax assets.

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

12. Income taxes (continued):

The income tax effects of temporary differences that give rise to significant portions of future income tax assets and liabilities are as follows:

	2006	2005
Future income tax assets:		
Non-capital and capital income tax losses carried forward	$ 120,544	$ 125,478
Capital assets - differences in net book value and undepreciated capital cost	2,007	(148)
Future deductions relating to scientific research and development	2,619	3,057
Future deductions related to financing charges and other provisions	501	483
	125,671	128,870
Future income tax liability:		
Future income inclusion relating to labour tax credits	(321)	(181)
Less valuation allowance	(125,350)	(128,689)
	(125,671)	(128,870)
	$ -	$ -

(c) Income tax losses:

As at August 31, 2006, the Company had the following Federal non-capital income tax losses, which may be carried forward to reduce future year's taxable income. The losses expire as follows:

	2006
2007	$ 111,026
2009	31,860
2010	199,090
2014	21,723
2015	1,375
2026	2,016
	$ 367,090

In addition, as at August 31, 2006, the Company had allowable provincial capital losses of $10,116 which will not expire.

As at August 31, 2006, the Company had investment tax credits available for carry forward totaling approximately $2,511 (2005 - $2,900). The benefit of this amount has also not been reflected in these consolidated financial statements.

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

13. Consolidated statement of cash flows:

(a) Change in operating working capital items, which represents an increase (decrease) in cash provided by (used in) operating activities, consists of the following:

	2006	2005
Accounts receivable	$ (416)	$ 1,834
Inventory	(45)	92
Prepaid expenses and deposits	(112)	1,482
Accounts payable and accrued liabilities	798	1,384
Unearned revenue	(397)	(218)
	$ (172)	$ 4,574

(b) Non cash investing and financing activities

	2006	2005
Capital assets acquired under capital leases	$ -	$ 55
Reorganization costs included in payables	-	209
Share issuance costs included in payables	-	15

(c) Supplemental cash flow information:

	2006	2005
Interest paid	$ 187	$ 250
Accretion charges	146	234
Interest received	269	156
Income taxes paid	2	40

14. Segment disclosure:

The Company currently operates in a single segment as a wireless broadband carrier, delivering a full range of communications services including dial-up and high speed Internet access, wireless digital television distribution and web-related services including web-hosting and domain name registration.

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

14. Segment disclosure (continued):

Service and sales revenue consists of Broadcast Services, Internet Services, Other Services and equipment sales and installation revenue. Broadcast distribution revenue is earned from the provision of services to residential and commercial customers. Internet Services revenue is earned from monthly and annual subscriptions from individuals and businesses for access to the internet. Other revenues are earned from web-hosting, domain name registration and web-server co-location. Equipment sales are earned from the sale of equipment to customers.

The service and sales revenue, cost of sales and gross margin percentages are as follows:

	Year ended August 31, 2006			Year ended August 31, 2005		
Service	**Revenues**	**Cost of Sales**	**Gross Margin**	**Revenues**	**Cost of Sales**	**Gross Margin**
Broadcast distribution	**$12,698**	**$ 5,739**	**54.8%**	$16,556	$ 9,675	41.6%
Internet	**11,923**	**5,012**	**58.0%**	15,162	7,161	52.8%
Other	**4,629**	**1,592**	**65.6%**	5,192	1,790	65.5%
Total	**29,250**	**12,343**	**57.8%**	36,910	18,626	49.5%
Sales and Installations	**627**	**773**		1,046	983	
Total service and sales	**$29,877**	**$13,116**		$37,956	$19,609	

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 revenues or accounts receivable.

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 November 19, 2003, Allstream Inc., Inukshuk and a USA company, NR Communications, LLC announced a joint venture for the use and development of 60 MHz of MCS spectrum. This MCS spectrum is part of the 98 MHz of spectrum licensed to Inukshuk, which is the subject matter of the Agreement.

15. Claims for damages (continued):

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) following its acquisition of Microcell in September 2004). The damages claimed are 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 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 using the Inukshuk spectrum. Pursuant to this agreement, Rogers and Bell Canada were to transfer, amongst other things, the Inukshuk spectrum in the 2.5GHz frequency range to the Inukshuk Wireless Partnership.

On March 30, 2006, Industry Canada confirmed in a letter to Rogers and Bell Canada that barring unforeseen circumstances approval would be given to transfer the Inukshuk MCS licences from Inukshuk to the Inukshuk Wireless Partnership.

The assets and rights pursuant to the Agreement are significant to UBS shareholders and as such UBS intends to vigorously pursue its rights.

16. Litigation:

(a) On February 19, 2004, Craig Wireless International Inc. (Craig Wireless) filed a statement of claim against the Company before the Ontario Superior Court of Justice. In its action, Craig Wireless seeks numerous sanctions against the Company and other parties.

On May 4, 2004, UBS and Look obtained an order from the Ontario Superior Court of Justice dismissing with prejudice the motion brought by Craig Wireless for, amongst other things, an injunction that would prevent UBS from voting its shares of Look and converting into common shares its convertible debentures pursuant to Look's February 2004 rights offering. At the same time, Craig Wireless also withdrew its challenge to the CRTC approval of UBS acquiring a controlling interest in Look. Craig Wireless is still pursuing its claim that Look conducted its affairs in a manner that was oppressive and unfairly prejudicial to Craig Wireless and requests damages in the aggregate amount of $12,000.

The Company has been advised that Craig Wireless has taken steps to amend its claim. As at August 31, 2006, an amended claim had not been filed. The Company believes that the claim is unfounded and intends to vigorously defend itself.

16. Litigation (continued):

(b) Certain claims have been filed against UBS in connection with UBS Technologies A/S (formerly ProTeleVision Technologies A/S), its Danish subsidiary that filed for bankruptcy in early 2003. The claims, which rely on alleged guarantees by UBS, amount to 14.3 million Danish Kroner (approximately $2,700) and relate to rent on leased premises used by UBS Technologies in Denmark and a subcontracting agreement for the manufacture of electronic products.

Management believes it has good defenses against the above claims and continues to vigorously defend its position.

(c) On May 17, 2005 a proceeding was brought against UBS alleging damages of approximately $700 for repairs to premises under a lease. UBS has filed a third party claim against a sub-tenant for indemnification of any damages to the subleased premises. Management believes it has a good defense and intends to vigorously defend its position.

(d) On June 8, 2005 an investment dealer filed a third party claim against UBS resulting from litigation against that investment dealer by two shareholders of UBS. The claim against the investment dealer, for $42,000, is for negligence and breach of contract pertaining to a secondary sale of UBS shares in 2000, on behalf of the two shareholders. The third party claim against UBS alleges that UBS indemnified the investment dealer against claims on the performance of the investment dealer with respect to this secondary sale of UBS shares. Management sees no merit in the third party claim and intends to vigorously defend its position.

Management believes that adequate provision has been made in the accounts for the above claims.

The Company indemnifies its directors, officers, and employees against claims reasonably incurred and resulting from the performance of their services to the Company, and maintains liability insurance for its directors and officers.

17. Financial instruments:

(a) Foreign exchange risk:

The Company carries out some transactions in U.S. dollars and is exposed to fluctuations in exchange rate changes. As at August 31, 2006, approximately 1.3% (2005 - 1.0%) of the balance of accounts payable and accrued liabilities was denominated in U.S. dollars. The Company has not entered into derivative instruments to mitigate these risks.

(b) Credit risk:

The Company is exposed to credit risk from its customers. However, credit risk concentration is minimized because of the large number of customers.

(c) Fair values:

The fair values of instruments with short-term maturities, being cash and cash equivalents, accounts receivable, restricted cash and accounts payable and accrued liabilities, approximate their carrying values due to the short-term nature of these instruments. The fair value of long-term debt, which bears interest at current market rates, approximates its carrying value based on discounted cash flow using current market rates.

18. Related party transactions:

(a) Management Services Agreement with Look:

On May 19, 2004, UBS and Look entered into an agreement under which UBS is providing Look with a wide range of services designed to maximize Look's full commercial potential.

Under the terms of the agreement, Look is required to pay UBS an annual fee of $2,400. Look may, from time to time, recognize the performance of UBS in the form of cash bonus payments, direct grant of treasury shares of Look, or options for the purchase of subordinate voting shares from treasury. All options shall conform to Look's stock option plan. Look shall also reimburse UBS for certain expenses and disbursements incurred in respect of the agreement and the services provided by UBS. The initial term of the agreement is for a moving three-year period commencing on May 19, 2004 (the "execution date"). On each anniversary of the execution date, the term will automatically recommence unless, prior to an annual anniversary, Look's Board of Directors has communicated in writing to UBS its intent that the agreement not recommence, in which event, the agreement expires on the completion of the remaining term.

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

18. Related party transactions (continued):

(b) Management Service Agreement with Jolian Investments Ltd.:

The employment agreement between UBS and Gerald McGoey was cancelled effective December 31, 2005. Effective January 1, 2006, UBS entered into a Management Service Agreement ("MSA") with Jolian Investments Ltd. ("Jolian"), which is controlled by the Chairman and CEO of the Company. Pursuant to the MSA, Jolian will provide, amongst other things, Chief Executive Officer services to UBS. Management service fees, included in general and administrative expenses, related to Jolian for the period from January 1, 2006 to August 31, 2006 amounted to $732 (2005 – nil).

(c) Alex Dolgonos, Former President and CEO:

Consulting fees, pursuant to a consulting agreement entered into with Mr. Dolgonos in 2003, amounted to $692 (2005 - $553) for the year ended August 31, 2006.

For the period ended August 31, 2006, the Company recorded $42 (2005 - $28) in stock-based compensation related to options granted to Mr. Dolgonos.

(d) Rent of Milton Premises:

UBS has subleased a portion of Look's premises in Milton for a five year term at an annual rent of $73 (2005 - $42).

19. Commitments:

Future minimum annual lease payments under operating leases for premises and equipment for the fiscal years ending August 31 are as follows:

2007	$ 747
2008	696
2009	344
2010	230
2011	185
Thereafter	178
	$ 2,380

UNIQUE BROADBAND SYSTEMS, INC.

Shareholder Information
Year ended August 31, 2006 and 2005

Board of Directors

Gerald T. McGoey

Peter Minaki

Louis Mitrovich

Douglas Reeson

Officers

Gerald T. McGoey
Chairman and Chief Executive Officer

Malcolm Buxton-Forman
Chief Financial Officer

Chief Technology Consultant

Alex Dolgonos

Auditors

KPMG LLP
Yonge Corporate Centre
4100 Yonge Street, Suite 200
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Shareholder Inquiries

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Fax: (416) 361-0470

e-mail: irinfo@equitytransfer.com

Common Shares

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