

2002

UBS

Unique Broadband Systems, Inc.

**ANNUAL
REPORT**

BROADBAND WIRELESS SOLUTIONS



To Our Shareholders:

Enclosed are the financial statements and supplementary financial information for your Company for the 2002 fiscal year. As you are aware, the past two years have been a period of severe difficulty for the technology industry, particularly for emerging, small capitalization companies. For UBS, the negative effects of this environment were exacerbated during the year by internal issues, resulting in an extended period of stagnation at the Company.

The contraction in technology markets was reflected in the decline in business suffered by virtually all market participants and in the collapse of equity valuations in the sector. During the past fiscal year UBS successfully completed its \$75 million contract with Hughes Network Systems which resulted in declining fiscal 2002 sales.

With the distraction of the litigation, the reduction in capital spending in the sector and the turmoil in the capital markets, it was unrealistic to expect UBS to flourish. It is clear that due to a lack of focus, the Company missed any opportunity to leverage its strengths and position itself for long-term success. It was for these reasons, among others, that a group of concerned shareholders focused on the need to elect a new Board of Directors.

The new Board of Directors sees UBS as an outstanding platform for opportunity. First, the Company has a strong balance sheet, which represents a tremendous competitive advantage in a market strewn with valuable, but undercapitalized, assets and technologies. Second, it has proven technology, as witnessed by its numerous patents and the broad product line that we are now offering to the marketplace, as well as the technical success of the launch of XM Radio in the USA. Third, UBS has an impressive engineering capability, as illustrated by the Company's ability to produce highly customized solutions for sophisticated and demanding customers including Hughes and the United States military.

On March 18th the new Board assumed leadership of the Company, with a mandate to put in place a new management team that could successfully leverage these strengths. By July of 2002, the new team was essentially in place. I am now serving as CEO, Mr. John Kennedy is the new CFO and Dr. Pasteur Ntake is Vice President of Engineering. We report to a strong hands-on Board of Directors with extensive international experience in technology markets.

Company founder Alex Dolgonos remains committed to UBS, serving currently as Chief Technology Consultant to the Company. His vision of the future of the wireless broadband industry continues to influence our strategy and technology development while at the same time his technical expertise is indispensable to our engineering team.

These markets continue to be in a state of disarray with no short-term relief in sight, a difficult environment that nevertheless represents an exciting opportunity for many companies. The Company is now well equipped to capitalize on the environment by leveraging its recognized platform of assets to position itself for success. Success will be determined in the medium-to-long-term and will be defined by our ability to generate a growing stream of recurring revenues.

We have already begun to take action. First, we took advantage of our financial strength to acquire Point-to-Point Radio assets from SierraCom, a Massachusetts company that was involved in microwave-based telecommunications systems. The assets include intellectual property, test equipment and various other inventories. This newly acquired product line is an excellent addition to UBS' wireless product portfolio as it is used by OEMs for their cellular network rollouts. UBS plans to continue with the manufacturing, development and evolution of the Point-to-Point Radio product line into a 3G compliant backhaul Internet protocol radio product.

Point-to-Point Radios are used to connect cellular towers to main switch locations. These products are used on various licensed frequency bands and for each cellular tower there are typically two or three radio connections. Point-to-Point products are also used in connecting various local area networks from building to building where fibre is not available or a "last mile" connection is required. One of the acquired products is a 60 GHz radio capable of OC-12 capacity. This radio is used for fibre replacement in short haul, high capacity environments.

This acquisition is expected to increase shareholder value by filling out our product line, while maximizing the potential of our other core strengths in technology and engineering. As a result of the difficult technology markets, the cost of the acquisition was very small and we expect it to be accretive by the end of the 2003 fiscal year.

Secondly, the Company has signed an agreement with Look Communications Inc. The two companies share a vision of servicing the large and underserved small and medium sized enterprises (SME) market. UBS intends to purchase a combination of common shares and a convertible debenture that, together, will represent a 23% fully diluted interest in Look.

Together with Look, UBS has the ability to provide highly reliable high-speed Internet access to SME customers in the suburban, secondary and rural markets of Ontario and Quebec, a segment of the market that is underserved by large, existing service providers whose focus is on major urban areas.

Look has the licensed radio spectrum to deliver both digital television and high-speed Internet services to this large underserved market. UBS has the technology to extend and enhance Look's network to provide "last mile" solutions, allowing SME customers to access high-speed Internet services at attractive prices.

This relationship is consistent with the Company's long-term objectives. It provides UBS with a significant equity position in a company with a large customer base and a stream of recurring revenues; and it does so in an area where UBS' core expertise contributes significant added value.

Like the Point-to-Point radio business, this acquisition positions UBS as a major player in "last mile" solutions, while providing the Company an excellent market opportunity.

As part of the Look agreement, UBS also received a \$2.4 million products and services contract, under which UBS will supply high-speed technology to expand Look's existing network for high-speed Internet access. This will allow Look to expand and target its network coverage to underserved markets and deliver a quality of service offering that cannot be matched by current providers.

We are still in the early stages of UBS' corporate re-positioning and we ask our shareholders to be patient and supportive during these unprecedented times in the business cycle. Shareholders can expect a focused and dedicated management group who is determined to restore value to the shares of the Company. On behalf of the Board of Directors and management, I would like to thank you for your continuing support.



Gerald T. McGoey
Chairman and Chief Executive Officer

October 18, 2002

MANAGEMENT DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis of the financial condition of Unique Broadband Systems, Inc. ("UBS" or the "Company") and our financial performance for the years ended May 31, 2002 ("2002") and 2001 ("2001"). This discussion should be read in conjunction with the Company's 2002 Audited Consolidated Financial Statements and accompanying notes. All amounts are in Canadian dollars unless otherwise stated.

This annual report contains forward-looking statements that involve risk and uncertainties. These statements can be identified by the use of forward-looking terminology such as "may", "will", "expect", "anticipate", "estimate", "plans", "continue", "believe", or the negative thereof or other variations thereon or comparable terminology referring to future events or results. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of numerous factors. These factors include without limitation 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. Any of these factors could cause actual results to vary materially from current results or the Company's currently anticipated future results. The Company wishes to caution readers not to place undue reliance on such forward-looking statements that speak only as of the date made

1. DESCRIPTION OF BUSINESS

Unique Broadband Systems, Inc. ("UBS") is a Canadian-based designer, developer and manufacturer of systems and components for broadband wireless, including high-speed mobile wireless systems (DAB, SDARS and Mobile Multimedia) and broadband fixed wireless multimedia (MMDS). Wireless transmission involves the transportation of video, voice, data and other information over distances using radio waves rather than wires or other forms of cable. Wireless technology is experiencing growth worldwide.

There are numerous applications for wireless transmission. Countries without an existing wired cable or telephony infrastructure are considering wireless system alternatives, which are more cost effective and quicker to deploy than traditional wired technologies. Wireless technology is also the only method to achieve mobile transmission. A wireless system allows the customer to access video, voice, data or other information anywhere within the range of the wireless network.

UBS believes that the growth potential of the information and communication technology industry in emerging economies is significant. Numerous countries in South America, Asia, Africa and Eastern Europe do not have existing underground communication cable networks and therefore present an excellent opportunity to provide technologically advanced wireless systems from the outset.

The demand and the number of applications for high-speed mobile systems are also experiencing increased interest and growth. The opportunities for UBS' COFDM high-speed mobile systems are worldwide, with the most immediate opportunities in North America, Europe, Asia and many eastern block countries.

The UBS head office, the main manufacturing plant and the principal research and development centre are located at our Concord facility, just north of Toronto, Canada. The company has a subsidiary in Denmark that specializes in the development and enhancement of the technology behind COFDM-based Terrestrial Digital Video Broadcasting ('DVB-T'). The Company has extensive experience in the design and manufacture of transmission equipment.

2. DISCUSSION OF OPERATIONS AND FINANCIAL CONDITIONS

Fiscal 2002 was a disappointing year for the Company's shareholders on many fronts. Issues that resulted in management terminations and protracted litigation negatively impacted the Company's employee morale, its financial position and created a stagnancy within the organization. Combined with overall weak market conditions for its product lines, the Company's operating results for the year ended May 31, 2002 reflect dramatic year over year differences. The Company was successful in ending the year with a newly elected Board of Directors and all litigation being settled.

Revenue during the year ended May 31, 2002 decreased \$34.1 million to \$25.2 million from \$59.3 million in 2001. Of this decrease, \$28 million can be attributed to the completion of the contract with Hughes Network Systems in December 2001. Revenues from this contract were \$19.7 million for fiscal 2002 compared to \$47.4 million in 2001.

Sales of digital video broadcasting equipment have not materialized to the levels expected, reflecting a slowdown in capital expenditures by broadcasters worldwide. The Company has begun to refocus its efforts on sales and marketing, however has not secured any new major contracts at this time.

Cost of goods sold for the year has increased significantly as a percentage of revenue. This is the result of low margins on the final deliverables under the Hughes contract.

Research and development expenses for the year ended May 31, 2002 total \$7.9 million, a \$1.3 million increase from \$6.6 million in 2001. Certain costs incurred in 2001 were capitalized to deferred contract costs and investment tax credits. Upon completion of the contracts, these costs were charged to cost of sales. The increase in research and development costs in 2002 is primarily due to the full allocation of research and development expenses during the year. This increase in expenses was partially offset by staff reductions and elimination of associated consulting costs.

Selling and administrative expenses in 2002 have decreased \$2.1 million to \$11.8 million compared to \$14 million in 2001. This decrease is primarily attributable to the restructuring at UBS and the resulting decline in personnel costs as well as a decrease in discretionary expenditures such as marketing and travel related costs. These reductions are partly offset by the incremental impact of Denmark's operating expenses being included for a full 12 months in 2002.

Other charges are related to legal disputes and resulted in \$10.3 million of various charges including agreements for termination of previous management, amounting to \$5.4 million of severance payments during 2002. Legal fees associated with this dispute amounted to \$3.5 million. Further professional fees totalling \$1.4 million for specific related accounting and consulting services were also incurred. These other charges are disclosed further in note 10 to the consolidated financial statements.

Reorganization costs during 2002 totalled \$3.6 million, representing closure and downsizing costs, termination costs, and inventory provisions incurred to reorganize the Company. These reorganization costs are disclosed further in note 11 to the consolidated financial statements. The Company continues to look at our organizational structure and will make changes depending upon the current market environment.

Net loss for the year was \$31 million or \$0.30 per common share on a basic and diluted basis, compared to net income generated in the prior year of \$15.2 million or \$0.22 per basic common share and \$0.15 per diluted common share. In addition to the factors above, the year over year decline is also a result of the prior year's receipt of \$25 million from the PixStream settlement offset by the \$7.3 million write-down and amortization of goodwill and income tax expense of \$4.6 million.

3. SUBSEQUENT EVENTS

a) In July 2002, the Company completed the acquisition of Point-to-Point Radio assets from SierraCom, a Massachusetts company that was involved in microwave based telecommunications systems. The assets include intellectual property, test equipment and various other inventories for an aggregate purchase price of \$1.9 million. UBS has also retained key personnel formerly with SierraCom that were key to the development of this product line.

b) On August 9, 2002, the Company entered into an agreement to acquire 2,320,713 common shares representing approximately 9% of the common shares of Look Communications Inc. ("Look") for \$1.4 million.

In addition, the Company entered into an agreement to acquire a five year, 10% convertible debenture of Look for an aggregate purchase price of \$3.6 million. The convertible debenture is convertible after one year into 4,746,805 common shares of Look. Upon conversion, the Company would own approximately 23% of the common shares of Look.

The Company has also entered into a Product and Services Agreement, whereby Look has agreed to purchase products from the Company with a minimum order value of approximately \$2.4 million.

The closing of the Look transaction is contingent upon the completion of due diligence and finalization of the Product and Services Agreement.

4. LIQUIDITY AND CAPITAL RESOURCES

The Company had a cash balance of \$38.3 million as at May 31, 2002 compared to \$55.7 million as at May 31, 2001.

The changes in cash and cash equivalents for the years ended May 31, can be summarized as follows:

Cash Flows provided by (used in):	2002	2001
Operating activities	\$(12,905,948)	\$20,635,122
Investing activities	(2,281,807)	(4,321,868)
Financing activities	(2,274,635)	2,912,781
Increase (decrease) in cash and cash equivalents	\$(17,462,390)	\$19,226,035

Cash flow used in operating activities during 2002 was \$12.9 million. This was primarily the result of the net loss in 2002, offset by non-cash amortization and recovery of \$16.9 million from a decrease in non-cash working capital items (2001 - \$3.3 million increase). The change in non-cash working capital items of \$16.9 million is primarily the result of the completion of the Hughes contract, which resulted in the decrease in accounts receivable, inventory and other assets. Inventory was also negatively impacted by a \$2 million provision made for excess and obsolete inventories during the year.

Cash flow utilized in investment activities during 2002 was \$2.3 million. This primarily relates to the purchase of capital assets of \$0.3 million (2001 - \$0.4 million) and \$2 million in restricted cash. The \$2 million in restricted cash was set-aside by the "Special Committee" of the former Board of Directors in a trust account outside the control of the Company. The purpose of this trust account was to provide funding to the members of the "Special Committee" for possible litigation involving themselves and three former senior officers of the company who resigned from the Company in 2002. The Company is considering various courses of actions to recover the Company's funds. This is more fully detailed in note 5 to the consolidated financial statements.

Cash flows utilized in financing activities during 2002 totalled \$2.3 million. This resulted from the repayment of the outstanding bank indebtedness of \$3.1 million and the repayment of equipment loans and capital leases of \$0.4 million, offset by the collection of a shareholder's loan of \$0.9 million and proceeds from issuing share capital through the employee stock option plan of \$0.4 million.

Management believes that the Company has the resources necessary to support its ongoing operations and current plans for the development of new products, as well as for future growth strategies. Based on the Company's current strategy, there is sufficient cash and cash equivalents available to meet its needs for the foreseeable future.

5. MANAGEMENT CHANGES

Mr. Alex Dolgonos resigned as President and CEO in July 2001. The Chairman at that time, Mr. Patrick Lavelle, was appointed interim President and CEO and acted in that capacity until March 18, 2002. On March 18, 2002, the Company's shareholders elected a new Board of Directors at the Company's annual general meeting. Mr. Gerald McGoey was elected Chairman at the Company's annual general meeting and was appointed acting CEO on March 18, 2002 and was subsequently appointed CEO in June 2002 subsequent to the Company's year end. Mr. Dolgonos currently acts as Chief Technology Consultant to the Company.

Mr. Steven Rosen resigned as CFO in July 2001. Mr. Cameron Smith acted as interim CFO to March 18, 2002, at which time he resigned. Mr. John Kennedy was appointed CFO in June 2002.

On March 18, 2002, Mr. Jeffery Friedman, Chief Administration Officer, and Mr. Mohammed Benvidi, Chief Technology Officer, resigned from the Company.

6. FUTURE ACTIVITIES

The Company currently has 116 employees located at its head office and its sales offices in the United States, UK and Denmark. The majority of these employees are involved in the design, development and marketing of UBS' line of wireless data communication products.

UBS markets its products globally, our target markets include Digital Radio, Satellite Digital Radio, the transmission of broadband fixed wireless multimedia and now offer a complete Point-to-Point and Point-to-Multipoint product line covering the needs of cellular carriers and wireless ISP's. The Company is committed to satisfying the future requirements of our customers and, as such, places a great deal of emphasis on the development of new products and technologies.

Broadcast

UBS is committed to the continuing development of products for digital broadcasting industries. This state of the art technology coupled with our extensive knowledge and in-house capabilities have enabled us to continue to lead the market in DAB and DVB-T modulation by providing us with penetration into major transmitter OEM's that do not possess such in-house skills.

In the past year UBS focused on the introduction of four new broadcast related products.

- DAB modulation system which was integrated into our digital audio transmission product line
- DVB-T system that consists of:
 - DVB-T modulator
 - DVB-T regenerator
 - DVB-T channel translator.

The DVB-T products will be aimed at Western and Eastern Europe markets while the DAB product will be aimed at German, Canadian and UK markets.

DAB (Digital Audio Broadcasting)

DAB, a new technology for the transmission of radio signals is a reliable multi-service digital broadcasting system for reception by mobile, portable and fixed receivers with a simple non-directional antenna. It can operate at frequencies ranging from 200 MHz to 2.3 GHz and may be used for terrestrial, satellite, hybrid and/or cable broadcasting.

The benefits of DAB include the capability of providing CD quality, interference free sound, as well as the transmission of a visual component. DAB systems are currently in operation worldwide, with the widest coverage and most advanced services across Europe, Canada and Asia.

UBS provides all components of a DAB infrastructure, including transmitters, COFDM modulators, multiplexers, source encoders and PAD encoder software. We are the only Canadian company, and one of only a few companies worldwide, that is able to offer broadcasters complete end-to-end DAB transmission systems, including system design, integration and maintenance services.

SDARS (Satellite Digital Audio Radio Service)

As a manufacturer of wireless transmission equipment in L-Band, S-Band (terrestrial frequencies), KA-Band (a satellite frequency) and COFDM modulation technology, the introduction of SDARS systems in the United States presented opportunities that were uniquely suited to its capabilities.

SDARS systems operate in the S-Band frequency range and, as a result of the use of satellite transmission (which permits coverage over a large area) have the ability to provide nationwide CD quality audio programming. SDARS service providers transmit a signal from their uplink facility (which is the original point of transmission of data, voice or other information through an antenna system) to a satellite where the signal is then downlinked to both the terrestrial repeater network and the individual SDARS car radios. The radio switches between the satellite signal and the repeater signal depending on the strength of the signal at any given time.

The terrestrial portion of the system is where the UBS equipment fits in. After much research and development, UBS completed the design and commenced the build-out of a multi-carrier modulation (COFDM) terrestrial transmission network. The terrestrial transmission network is an integral component of any SDARS system, as satellite transmission is limited with respect to line-of-sight restrictions and multipath interference (which is caused by reflection from terrestrial objects, including mountains and buildings and will result in interference and phase shifting of the signal). The UBS designed network will rebroadcast signals to cities and heavily populated areas with the ability to penetrate buildings, allowing unconditional, continuous reception and complete terrestrial coverage for SDARS providers.

DVB-T (Digital Video Broadcasting for Terrestrial)

Digital Video Broadcasting is revolutionizing the way we communicate. It is setting completely new standards for the volume of data we can transmit and receive.

Digital Video Broadcasting (DVB) enables us to transmit substantially more information than we can achieve via traditional, analogue transmission systems. And the quality is vastly superior. Digital technology opens up a whole new world in terms of mobility, interactivity and selectivity.

At UBS, the future has already begun. UBS is one of the world's leading suppliers of COFDM technology, which is at the heart of digital video broadcasting. We have specialized in the COFDM technology for Terrestrial Digital Video Broadcasting (DVB-T).

DVB-T brings the digital vision of tomorrow down to earth today. With a few modifications, the signals can be sent via transmitters already in place and currently used for broadcasting analogue TV and mobile telephone signal. This offers many technical, economic and user benefits – compared with satellite and cable transmission.

Wireless Access

UBS has targeted broadband fixed wireless multimedia as an area of significant growth in the future. The Company has focused a substantial portion of its R&D and marketing efforts on the broadband fixed wireless industry. With the award of the Company's first contract in Asia from Hong Kong Cable Television, UBS has established its presence in an area of the world known for leading edge technology.

The potential for growth in the fixed wireless marketplace is rapidly developing. Through strategic partnerships, satellite offices and key distributor agreements, UBS is well positioned to capitalize on upcoming opportunities.

UBS provides a complete line of indoor and outdoor, digital and analogue wireless video, voice and data systems focusing on the MMDS frequency bands. UBS offers completely customizable systems in order to meet specific customer requirements.

In addition to our core wireless access product lines, UBS now offers DOCSIS based Point-to-Multipoint solutions for frequencies up to 20.0 GHz along with a range of backhaul Point-to-Point products.

During fiscal 2002, UBS successfully completed its COFDM modem physical layer development for non-line-of-sight fixed and mobile wireless access system. This unique technology will allow UBS to further penetrate the MMDS marketplace with a product that can be easily deployed by the customer without a service call. This in turn allows for an advantage for wireless ISP's to enter into business-to-consumer markets.

During the coming year we will focus our efforts on continued development of this product, the pace of which will be determined by industry market conditions.

Point-to-Point

UBS offers state-of-the-art microwave radio solutions to both the mobility (cellular backhaul) and the access markets.

Our product line covers the range from 7 GHz to 60 GHz frequency band in both ETSI (European) and ANSI (North American) standards. The latest addition to our standard products is The Connection II™ series which employs a continuous phase modulation (CPM) scheme to offer superior performance that is equal to or better than QAM or QPSK systems, at an FSK level cost.

MMDS (Multichannel Multipoint Distribution System)

The MMDS frequency band was initially used for the purpose of transmitting business data, but once established, the spectrum began being used almost exclusively for the delivery of analogue television services to rural or remote locations that could not be served economically by wired cable. In its original form, the main disadvantage of MMDS was the limited channel capacity. With the addition of more channels and the advent of digital compression equipment, MMDS has now become an efficient and cost effective alternative to wired cable services, particularly in developing countries, which have little or no wired infrastructure. While MMDS systems are becoming the primary method of television transmission in developing countries, countries with an established infrastructure are also realizing the benefits and cost savings of MMDS. MMDS allows the delivery of digital services to urban households for a fraction of the price of direct broadcast satellite or wired networks.

MMDS has the ability to deliver multi-channel television programming, Internet access, data transfer service and other interactive services over a terrestrial microwave platform. On microwave frequencies, signals within the line-of-sight are transmitted from a central location (transmitter) to subscribers' receiver antennae. A downconverter conveys the signal to the individual TV or computer. The equipment required for wireless systems (transmitters, receivers and transceivers) is similar to that used for conventional television broadcasting systems, except that it operates at microwave frequencies and is built to provide fully bi-directional (two-way) services. Channel transmitters, a broadcast antenna and a tower (with a transmission line connecting an antenna to the transmitter) are utilized at the transmit end. At the receiving end, the appropriate reception equipment (transceiver and a receiver) for the subscriber is installed.

UBS provides complete end-to-end wireless video, voice and data solutions. The MMDS product line features a complete range of indoor and outdoor receivers, transmitters and repeaters, as well as all of the necessary accessories, including redundant switching, system monitoring and Low Noise Amplifiers ("LNAs") (which amplify only the signal and reduce the noise accompanying the received signal). The Digital MMDS Series allows wireless providers to expand their coverage area and offer subscribers new services.

Waveguide

UBS offers a complete line of waveguide passive components such as filters, couplers and other various waveguide assemblies for the cellular, satellite and broadcast industry sectors. UBS fully owns all necessary software and Intellectual Property that it has specifically developed to serve the needs of all OEM's. UBS also stocks rectangular waveguide raw materials in sizes ranging from WR-28 to WR-650 and is also able to manufacture products from other industry standard waveguide sizes upon request.

Military

Since its inception, UBS has been involved in providing a number of custom products for military oriented programs. To ensure the utmost reliability from our military line of products, all products are subjected to extensive in-house environmental stress screening and are tested on a 100% basis to guarantee that performance and procedures are in accordance with military specifications and standards. This dedication to reliability has earned UBS a strong reputation as the vendor of choice in meeting stringent military requirements.

The UBS Quality Assurance System, derived from the requirements of QSO 9001, MIL-Q-9858 and Boeing D1-9000, has been devised to ensure that the final product is of the highest quality and reliability.

Our line has been recently expanded with the acquisition of SierraCom. This line now includes satellite transceivers for air to satellite communications. The technology has been extensively used in Apache helicopters and is sold directly to the US army and other various OEM's for integration into other aircraft systems. Additional products consist of various test equipment for calibrating tactical air navigation systems.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheet of Unique Broadband Systems, Inc. as at May 31, 2002 and the consolidated statements of operations and retained earnings (deficit) and cash flows for the year 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 audit.

We conducted our audit 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 May 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures for May 31, 2001 were reported on by another firm of chartered accountants.

The image shows the handwritten signature of KPMG LLP in black ink. The letters are bold and slanted, with a horizontal line underneath the signature.

Chartered Accountants

Toronto, Canada

September 27, 2002

UNIQUE BROADBAND SYSTEMS, INC.

Consolidated Balance Sheets

May 31, 2002, with comparative figures for 2001

	Note	2002	2001
Assets			
Current assets:			
Cash and cash equivalents		\$ 38,270,605	\$ 55,732,995
Accounts receivable		387,744	13,445,930
Inventory	2	913,097	4,884,894
Other current assets	3	317,697	3,513,554
		39,889,143	77,577,373
Capital assets	4	1,807,467	2,775,451
Restricted cash	5	2,000,000	—
		\$ 43,696,610	\$ 80,352,824

Liabilities and Shareholders' Equity

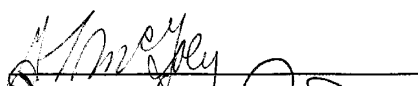
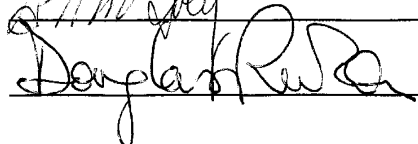
Current liabilities:			
Bank indebtedness	6	\$ —	\$ 3,129,409
Accounts payable and accrued liabilities		4,387,675	7,256,873
Income taxes payable	7	240,000	725,000
Current portion of long-term debt	8	—	278,625
		4,627,675	11,389,907
Long-term debt	8	—	111,108
Shareholders' equity:			
Share capital	9	58,138,729	56,894,222
Contributed surplus		150,000	150,000
Retained earnings (deficit)		(19,219,794)	11,807,587
		39,068,935	68,851,809
		\$ 43,696,610	\$ 80,352,824

Commitments (note 19)

Subsequent events (note 20)

See accompanying notes to consolidated financial statements.

On behalf of the Board:

 Director
 Director

UNIQUE BROADBAND SYSTEMS, INC.

Consolidated Statements of Operations and Retained Earnings (Deficit)

Year ended May 31, 2002, with comparative figures for 2001

	Note	2002	2001
Sales		\$ 25,235,292	\$ 59,300,080
Cost of sales		22,214,209	37,394,489
Gross profit		3,021,083	21,905,591
Expenses:			
Selling and administrative		11,844,045	14,010,674
Research and development		7,901,153	6,643,585
Other charges	10	10,319,601	—
Reorganization costs	11	3,568,159	—
Interest		163,422	27,083
Amortization		1,260,451	1,352,378
		35,056,831	22,033,720
Loss before the undernoted items		(32,035,748)	(128,129)
Foreign exchange loss		(224,830)	—
Interest income		1,323,197	2,181,999
Proceeds on legal settlement	12	—	25,000,000
Income (loss) before income taxes and write-down and amortization of goodwill		(30,937,381)	27,053,870
Income taxes	7	90,000	4,581,632
Income (loss) before write-down and amortization of goodwill		(31,027,381)	22,472,238
Write-down and amortization of goodwill	13	—	(7,316,086)
Net income (loss)		(31,027,381)	15,156,152
Retained earnings (deficit), beginning of year		11,807,587	(3,348,565)
Retained earnings (deficit), end of year		\$ (19,219,794)	\$ 11,807,587
Income (loss) before write-down and amortization of goodwill per common share:	14		
Basic		\$ (0.30)	\$ 0.22
Diluted		(0.30)	0.22
Net income (loss) per common share:	14		
Basic		\$ (0.30)	\$ 0.15
Diluted		(0.30)	0.15

See accompanying notes to consolidated financial statements.

UNIQUE BROADBAND SYSTEMS, INC.

Consolidated Statements of Cash Flows

Year ended May 31, 2002, with comparative figures for 2001

	Note	2002	2001
Cash flows from operating activities:			
Net income (loss)		\$ (31,027,381)	\$ 15,156,152
Items not involving cash:			
Amortization		1,260,451	1,352,378
Gain on sale of capital assets		–	(52,099)
Shares issued for bonus and severance		–	240,200
Write-down and amortization of goodwill		–	7,316,086
Interest earned on related party loans		–	(77,639)
Change in non-cash operating working capital	15	16,860,982	(3,299,956)
Net cash flows from (used in) operating activities		(12,905,948)	20,635,122
Cash flows from investing activities:			
Restricted cash		(2,000,000)	–
Purchase of capital assets		(292,467)	(433,860)
Cash paid for acquisition of UBS Denmark, net		–	(5,067,007)
Due from related parties		10,660	373,383
Proceeds on sale of capital assets		–	805,616
Net cash flows used in investing activities		(2,281,807)	(4,321,868)
Cash flows from financing activities:			
Increase (decrease) in bank indebtedness		(3,129,409)	3,041,421
Reduction in long-term debt		(389,733)	(356,349)
Proceeds from options and warrants exercised		370,812	275,190
Repayment (advance) of shareholder loan	9	873,695	(47,481)
Net cash flows from (used in) financing activities		(2,274,635)	2,912,781
Increase (decrease) in cash and cash equivalents		(17,462,390)	19,226,035
Cash and cash equivalents, beginning of year		55,732,995	36,506,960
Cash and cash equivalents, end of year		\$ 38,270,605	\$ 55,732,995

Supplemental cash flow information (note 15b)

See accompanying notes to consolidated financial statements.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)

Years ended May 31, 2002 and 2001

Unique Broadband Systems, Inc. (the "Company") designs, develops and manufactures high-speed mobile and fixed wireless solutions. The Company's solutions target the markets for wireless Internet, wireless digital television, digital radio and other applications for wireless video, voice and data services. The Company also manufactures passive components including custom filters, waveguide assemblies, couplers and filter combiner assemblies.

1. Significant accounting policies:

(a) Basis of consolidation:

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

(b) Revenue recognition:

Revenue is recognized when title to the goods transfers to customers and collectibility is reasonably assured.

(c) Cash and cash equivalents:

Cash and cash equivalents are deposits with major financial institutions or liquid marketable securities purchased with an original maturity of three months or less.

As at May 31, 2002, cash and cash equivalents consisted primarily of bankers acceptances and units in a treasury bill mutual fund issued by major financial institutions. As at May 31, 2001, cash and cash equivalents consisted primarily of guaranteed investment certificates.

(d) Inventory:

Raw materials are valued at the lower of cost, determined using the first-in, first-out method, and replacement cost. Work in process and finished goods are valued at the lower of cost, determined on a specific item basis, and net realizable value.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)

Years ended May 31, 2002 and 2001

1. Significant accounting policies (continued):

(e) Capital assets:

Capital assets are stated at cost, net of accumulated amortization and related investment tax credits. Amortization is provided for over the estimated useful lives of the related asset.

Amortization is computed by capital asset class as follows:

Asset	Basis	Rate
Computer equipment	Declining balance	30%
Furniture and fixtures	Declining balance	20%
Manufacturing equipment	Declining balance	20%
Other equipment	Declining balance	20%
Leasehold improvements	Straight line	Over term of leases

(f) Goodwill:

Goodwill is recorded at cost and during 2001 was being amortized on a straight-line basis over three years. Management reviews, on a regular basis, the carrying amount of goodwill for possible permanent impairment. Goodwill is written down when a permanent decline in value is identified (note 13).

(g) Basic and diluted income (loss) per common share:

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

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)

Years ended May 31, 2002 and 2001

1. Significant accounting policies (continued):

(h) Foreign currency translation:

The Company's foreign subsidiaries are considered to be integrated operations and their accounts are translated into Canadian dollars using the temporal method. Under this method, monetary items are translated at the rates of exchange at the balance sheet dates, non-monetary items are translated at historical exchange rates and revenue and expenses are translated at the average exchange rates for the years. Amortization of assets is translated at the same exchange rate as the assets to which it relates.

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 net income (loss).

(i) Research and development costs:

Research costs are expensed as incurred. Development costs are expensed as incurred unless the project meets the criteria under Canadian generally accepted accounting principles for deferral and amortization. Research and development costs are reduced by related investment tax credits.

(j) Assets under capital leases:

Leases that transfer substantially all the benefits and risks of ownership of the property to the Company are accounted for as capital leases. At the time a capital lease is entered into, an asset is recorded, together with its related long-term obligation. Assets recorded under capital leases are amortized using rates that are consistent with similar Company-owned capital assets.

(k) Investment tax credits:

Investment tax credits arise as a result of the Company incurring eligible research and development expenses and are recorded as a reduction of the expense when there is reasonable assurance that they will be realized.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)

Years ended May 31, 2002 and 2001

1. Significant accounting policies (continued):

(l) 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 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 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 year that includes the enactment date.

(m) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles 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 year. Actual results could differ from those estimates.

(n) Stock option plan:

The Company has a stock option plan as described in note 9 (b). No compensation expense is recognized for this plan when stock options are issued to employees. Any consideration paid by employees on exercise of stock options is credited to share capital.

2. Inventory:

Inventory is comprised of the following:

	2002	2001
Raw materials	\$ 387,491	\$ 2,220,000
Work in process	186,600	2,469,725
Finished goods	339,006	195,169
	<u>\$ 913,097</u>	<u>\$ 4,884,894</u>

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)

Years ended May 31, 2002 and 2001

3. Other assets:

Other assets consists of the following:

	2002	2001
Contract deposits	\$ —	\$ 2,592,854
Deferred contract costs	—	677,118
Prepaid expenses and other assets	317,697	243,582
	\$ 317,697	\$ 3,513,554

Contract deposits consist of prepayment for undelivered inventory materials or services.

Deferred contract costs include product development costs incurred for the purpose of a specific contract. Included in these deferred costs are expenditures related to material, direct labour and overhead, net of investment tax credits, for product research and development incurred for orders produced to customer specifications. These deferred costs are charged to operations as they are recovered from these customers over the term of the contract.

4. Capital assets:

Capital assets consists of the following:

2002	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 2,130,170	\$ 1,842,854	\$ 287,316
Furniture and fixtures	1,072,453	568,091	504,362
Manufacturing equipment	3,228,327	2,884,529	343,798
Other equipment	276,125	227,531	48,594
Leasehold improvements	1,106,449	483,052	623,397
	\$ 7,813,524	\$ 6,006,057	\$ 1,807,467

2001	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 1,305,075	\$ 907,080	\$ 397,995
Furniture and fixtures	1,065,476	353,844	711,632
Manufacturing equipment	4,053,302	3,301,884	751,418
Other equipment	232,857	127,995	104,862
Leasehold improvements	1,062,596	253,052	809,544
	\$ 7,719,306	\$ 4,943,855	\$ 2,775,451

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)

Years ended May 31, 2002 and 2001

5. Restricted cash:

On March 18, 2002, the Company's shareholders elected a new Board of Directors at the Company's Annual General Meeting. Before this meeting, on March 13, 2002, four members comprising the "Special Committee" of the resigning board, Patrick Lavelle, The Right Hon. John Turner, Edward Neufeld and The Hon. William D. Rogers, authorized the transfer of \$2,000,000 of the Company's funds to a trust. The Trustee is a subsidiary of Fasken Martineau DuMoulin LLP ("FMD"), who also acted as counsel to the Special Committee of the departing board. These funds are intended to be used by the members of the Special Committee if litigation is commenced against any of those four directors in connection with any of their actions during their terms as directors. In addition, three senior officers who resigned immediately after the Annual General Meeting may make claims on this trust. See also note 18c and 18d.

Upon learning of the establishment of the trust, the new Board of Directors requested that the funds be frozen pending their review. However, FMD refused to freeze the funds in its trust. The new Board of Directors also requested the Trustee and the Special Committee to return the Company's money. However, both refused to do so.

Consequently, these funds are not controlled by the Company and are recorded as restricted cash. The new Board of Directors is considering various courses of action to recover the Company's funds.

6. Bank indebtedness:

One of the Company's subsidiaries, UBS Denmark, had an operating line available in the amount of 40 million Danish Krone or approximately \$7,000,000. During 2002, the Company repaid and terminated this operating line and no amount was outstanding at May 31, 2002 (2001 - \$3,129,409).

7. Income taxes:

a) Income taxes payable

As at May 31, the Company has a current income tax liability comprised of the following:

	2002	2001
Provincial Capital Tax	\$ 150,000	\$ -
Large Corporations Tax and Corporate Minimum Tax	90,000	725,000
Income taxes payable	\$ 240,000	\$ 725,000

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)

Years ended May 31, 2002 and 2001

7. Income taxes (continued):

b) Income tax expense

Total income tax expense varies from the amounts that would be computed by applying the statutory income tax rate of 41% (2001 - 43%) to income before income taxes for the following reasons:

	2002	2001
Effective income tax charge (recovery) on income (loss) before income taxes	\$ (12,684,326)	\$ 8,487,247
Increase (decrease) results from:		
Change in valuation allowance for future income tax assets allocated to income tax expense	9,424,505	(4,418,173)
Adjustments to future income tax assets and liabilities for enacted changes in tax laws and rates	3,023,453	1,945,587
Non-taxable portion of capital gains	—	(5,375,000)
Non-deductible write-down and amortization of goodwill	—	3,145,917
Large Corporations Tax and Corporate Minimum Tax	90,000	809,000
Other	236,368	(12,946)
Income tax expense	\$ 90,000	\$ 4,581,632

c) 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.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)

Years ended May 31, 2002 and 2001

7. 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:

	2002	2001
Future income tax assets:		
Non-capital income tax losses carried forward	\$ 9,249,890	\$ 3,543,000
Fixed assets – differences in net book value and undepreciated capital cost	360,814	124,989
Future deductions relating to scientific research and development	3,815,971	1,652,218
Future deductions related to financing charges	800,141	1,028,884
	14,226,816	6,349,091
Future income tax liability:		
Future income inclusion relating to investment tax credits	–	(1,546,780)
Less: Valuation allowance	(14,226,816)	(4,802,311)
Net future income tax asset	\$ –	\$ –

d) Income tax losses

As at May 31, 2002, the Company has tax losses available for carry forward, which can only be applied against taxable income in the respective jurisdictions indicated. The benefit of these losses has not been reflected in these consolidated financial statements and expires as follows:

	Canada	Denmark	Total
2003	\$ –	\$ 2,564,000	\$ 2,564,000
2004	–	1,992,000	1,992,000
2005	–	7,255,000	7,255,000
2006	–	–	–
2007	–	–	–
2008	–	–	–
2009	14,425,000	–	14,425,000
No expiry	–	3,834,000	3,834,000
Income tax losses	\$ 14,425,000	\$ 15,645,000	\$ 30,070,000

As at May 31, 2002, the Company had investment tax credits available for carry forward totalling approximately \$1,300,000 (2001 - nil). The benefit of this amount has not been reflected in these consolidated financial statements.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)

Years ended May 31, 2002 and 2001

8. Long-term debt:

Long-term debt included a term loan and obligations under capital leases as follows:

	2002	2001
Term loan, bearing interest at prime plus 1%, secured by a personal property security agreement of the Company on specific assets	\$ -	\$ 277,776
Obligations under capital leases	-	111,957
	-	389,733
Less: Current portion	-	278,625
Long-term portion	\$ -	\$ 111,108

9. Share capital:

(a) Authorized: Unlimited common shares

Issued:

	2002		2001	
	Number of shares	Stated capital	Number of shares	Stated capital
Balance, beginning of year	101,620,712	\$ 57,767,917	94,682,914	\$ 13,636,277
Shares issued:				
Options and warrants exercised	1,127,142	370,812	5,168,125	38,372,302
On acquisition of UBS Denmark	-	-	1,362,750	5,519,138
Bonus and severance	-	-	406,923	240,200
	102,747,854	58,138,729	101,620,712	57,767,917
Less: Shareholder loan secured by shares	-	-	1,150,000	873,695
Balance, end of year	102,747,854	\$ 58,138,729	100,470,712	\$ 56,894,222

The shareholder loan to the former Chief Executive Officer ("CEO") of the Company was secured by common shares of the Company, bore interest at 7.75% per annum and was repaid in full during 2002. Interest income received during the year was \$30,571 (2001 - \$121,528).

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)

Years ended May 31, 2002 and 2001

9. Share capital (continued):

(b) Stock option plan:

The Company's stock option plan (the "Plan") provides for the granting of stock options to employees, directors and consultants of the Company. 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 ten years from such grant.

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

	2002		2001	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	9,051,900	\$ 3.75	6,265,690	\$ 5.95
Granted	1,893,000	0.77	6,427,444	3.94
Exercised	(1,127,142)	0.33	(456,734)	0.39
Cancelled	(7,410,624)	4.34	(3,184,500)	3.75
Outstanding, end of year	2,407,134	\$ 1.20	9,051,900	\$ 3.75

A summary of the status of the Company's Plan is as follows:

Exercise price	2002			2001		
	Options outstanding, end of year	Weighted average remaining contractual life (years)	Options exercisable, end of year	Options outstanding, end of year	Weighted average remaining contractual life (years)	Options exercisable, end of year
\$0.31 - \$0.40	325,300	1.4	325,300	1,802,187	1.6	1,495,576
\$0.48 - \$0.60	981,334	4.2	152,223	328,334	3.3	148,331
\$0.96 - \$1.46	97,500	4.0	10,833	102,500	4.8	—
\$1.89 - \$4.98	978,000	3.3	342,669	5,218,879	3.9	16,667
\$10.00	25,000	2.8	16,667	1,600,000	3.8	533,334
	2,407,134		847,692	9,051,900		2,193,908

Subsequent to the year ended May 31, 2002, the Company granted 3,000,000 options with an exercise price of \$0.48 to the Company's current Chairman and CEO. On the date of grant, the quoted market price of the Company's common shares was \$0.29. The options vest in one-third increments at the time the Company's common share price reaches \$0.60, \$0.72 and \$0.96, respectively. These options are exercisable in the period commencing on the initial vesting date and ending on the earlier of (a) the fifth anniversary from the initial vesting date and (b) June 17, 2012.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)

Years ended May 31, 2002 and 2001

9. Share capital (continued):

In addition, it is contemplated that the Company will grant the Chairman and CEO an additional 1,000,000 options on each of June 1, 2003 and June 1, 2004. The exercise price for these stock options will be set at the market price at the date of grant and these options will vest in one-third increments, on the first three anniversary dates following the grant dates. These additional stock options will be exercisable during the period commencing on the vesting date and ending on the fifth anniversary of the grant date.

(c) Warrants:

During 2000, the Company issued 1,025,600 special warrants at \$40 per special warrant. The special warrants were exercisable into 4,102,400 common shares and 2,051,200 purchase warrants. Each purchase warrant was exercisable into one common share with an exercise price of \$10.00 per share.

The proceeds received were as follows:

Gross proceeds	\$ 41,024,000
Less: Issuance costs	2,926,989
	<hr/> \$ 38,097,011

During 2001, all special warrants were converted into common shares. The 2,051,200 purchase warrants expired unexercised during 2001.

Also during 2001, 608,992 warrants were exercised for proceeds of \$208,788. See note 18(e). As at May 31, 2002 and 2001 there were no outstanding warrants.

10. Other charges:

Other charges include expenditures that are attributable to litigation that the Company was involved in during the year. Included in other charges are amounts paid by the Company in accordance with the terms of settlement relating to the actions between the Company, the Special Committee of the former board of directors and the Committee of Concerned UBS Shareholders. Other charges are comprised of:

Termination payments	\$ 5,388,489
Legal fees	3,557,166
Accounting and consulting services	1,373,946
	<hr/> \$ 10,319,601

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)

Years ended May 31, 2002 and 2001

11. Reorganization costs:

The following reorganization costs represent amounts expensed in regard to either the closure or downsizing of various operations of the Company:

Denmark operations	\$ 606,138
Russian operations	579,297
Canadian operations	2,382,724
	<hr/>
	\$ 3,568,159

12. Proceeds on legal settlement:

During the year ended May 31, 2001, the Company received \$25,000,000 in settlement of its patent infringement claim against PixStream Incorporated.

13. Business combination:

Fiscal 2001:

Effective September 14, 2000, the Company completed the acquisition of all of the issued shares of ProTelevision Technologies A/S of Brøndby, Denmark for 1,362,750 common shares of the Company and U.S. \$3,664,854 (\$5,434,245). ProTelevision Technologies A/S was renamed UBS Technologies A/S ("UBS Denmark").

The acquisition has been accounted for using the purchase method and the operating results are included in the consolidated statement of operations and retained earnings (deficit) from the date of acquisition. The excess of the purchase price over the fair value of the identifiable net assets acquired at the date of acquisition was allocated to goodwill. The purchase price allocation to the net assets based on their fair value is as follows:

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)

Years ended May 31, 2002 and 2001

13. Business combination (continued):

Cash	\$	940,853
Other current assets		4,777,444
Capital assets		683,323
Goodwill		7,316,086
Current liabilities assumed		(2,190,708)
Fair value of net assets acquired	\$	11,526,998
Financed by:		
1,362,750 shares of the Company at \$4.05 per share	\$	5,519,138
Cash (including acquisition costs of \$573,615)		6,007,860
	\$	11,526,998

During 2001, the carrying value of goodwill arising from the acquisition of UBS Denmark was reduced through a \$6,150,086 write-down in recognition of a permanent impairment in value based on expected future cash flows.

Goodwill	\$	7,316,086
Accumulated amortization		(1,166,000)
Write-down		(6,150,086)
	\$	—

14. Net Income (loss) per common share:

The following table sets forth the computation of basic and diluted net income (loss) per share:

	2002	2001
Numerator:		
Net income (loss)	\$ (31,027,381)	\$ 15,156,152
Denominator:		
Weighted average shares outstanding	102,424,875	100,231,854
Effect of dilutive potential common shares	—	2,666,004
Weighted average potential common shares outstanding	102,424,875	102,897,858

As a result of the net loss for the year ended May 31, 2002, the potential effect of the exercise of stock options was anti-dilutive. Therefore, 470,557 potentially dilutive common shares have not been included in the calculation of diluted loss per share.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)

Years ended May 31, 2002 and 2001

15. Consolidated statement of cash flows:

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

	2002	2001
Accounts receivable	\$ 13,058,186	\$ (9,326,739)
Inventory	3,971,797	(1,534,057)
Other assets	3,185,197	682,782
Investment tax credits	-	2,427,263
Accounts payable and accrued liabilities	(2,869,198)	3,725,795
Income taxes payable	(485,000)	725,000
	<u>\$ 16,860,982</u>	<u>\$ (3,299,956)</u>

- (b) Supplemental cash flow information:

	2002	2001
Interest paid	\$ 241,415	\$ 267,054
Interest received	993,339	1,793,565
Supplemental disclosure relating to non-cash financing and investing activities:		
Shares issued for acquisition of UBS Denmark	-	5,519,138
Shares issued in exchange for bonus and severance	-	240,200

16. Segmented information:

Management has reviewed the Company's operations and have determined that the Company operates in one operating segment, being the design, development and manufacturing of high speed mobile and fixed wireless solutions. The following is information on the Company's revenue and capital assets by geographic area.

2002	Asia	Europe	Canada	United States	Total
Sales	\$ 847,801	\$ 1,944,437	\$ 960,274	\$ 21,482,780	\$ 25,235,292
Capital assets	\$ -	\$ 341,000	\$ 1,466,467	\$ -	\$ 1,807,467

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)

Years ended May 31, 2002 and 2001

16. Segmented information (continued):

2001	Asia	Europe	Canada	United States	Total
Sales	\$ 3,259,824	\$ 6,088,433	\$ 1,292,037	\$ 48,659,786	\$ 59,300,080
Capital assets	\$ —	\$ 297,450	\$ 2,478,001	\$ —	\$ 2,775,451

During fiscal 2002 and 2001, the Company had one customer which accounted for 78% and 80%, respectively, of total sales.

17. Financial instruments:

(a) Foreign exchange:

The Company carries out transactions in U.S. dollars and Danish krone and is exposed to fluctuations in exchange rate changes.

The Company has not entered into derivative instruments to mitigate these risks.

(b) Credit risk:

The Company is exposed, in the normal course of business, to credit risk from its customers. A significant portion of the outstanding accounts receivable at May 31, 2001 was due from one customer and was subsequently collected.

(c) Fair values:

The fair values of instruments with short-term maturities, being cash and cash equivalents, accounts receivable, bank indebtedness and accounts payable and accrued liabilities, approximate their carrying values due to the short-term nature of these instruments. At May 31, 2001, the fair values of obligations under long-term debt approximated their carrying values due to their respective rates of interest and other terms.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)

Years ended May 31, 2002 and 2001

18. Related party transactions:

(a) Gerald McGoey, Chairman and CEO:

Prior to his appointment as CEO of the Company in June of 2002, Mr. McGoey was acting CEO of the Company and received \$126,332 in consulting fees.

(b) Alex Dolgonos, former President and CEO:

In July 2001, Mr. Dolgonos resigned from his position as President and CEO of the Company. The Company paid him a severance of \$1,650,000 relating to his resignation. Subsequent to his resignation, Mr. Dolgonos received consulting fees of \$114,443 during the year ended May 31, 2002. Medical benefit costs were incurred by the Company related to Mr. Dolgonos who was a participant in a Company medical plan, in the amount of \$174,707 (2001 - \$387,000). During fiscal 2001, Mr. Dolgonos received a bonus of 326,923 common shares of the Company at \$0.26 per share

Subsequent to year end, the Company entered into a consulting agreement with Mr. Dolgonos for an initial term of five years, under which he will receive U.S. \$300,000 per annum, subject to annual review by the Board of Directors. At the discretion of the Board of Directors, an annual bonus may also be awarded to Mr. Dolgonos. In addition, this agreement contemplates a grant of 2,000,000 stock options with an exercise price of \$0.48. On the date of grant, the quoted market price of the Company's common shares was \$0.20. The first 1,000,000 stock options vest at the time the Company's common share price reaches \$0.60 and the second 1,000,000 stock options vest at the time the Company's share price reaches \$0.72. These options are exercisable in the period commencing on the initial vesting date and ending on the earlier of (a) the fifth anniversary from the initial vesting date and (b) October 2012. In addition, this agreement contemplates that the Company will grant Mr. Dolgonos an additional 1,000,000 stock options on each of March 18, 2003 and March 18, 2004. The exercise price for these stock options will be set at the market price at the date of grant and these options will vest in one-third increments, on the first three anniversary dates following the grant dates. These additional stock options will be exercisable during the period commencing on the vesting date and ending on the fifth anniversary of the grant date.

In July 2001, an individual related to Mr. Dolgonos exercised 273,008 stock options for the Company's common shares for aggregate proceeds of \$90,228.

In September 2001, the Company's subsidiary in Russia was sold to a partnership in which Mr. Dolgonos is a partner. A loss on the sale of the subsidiary totalling \$579,297 was incurred by the Company, which has been included in reorganization costs.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)

Years ended May 31, 2002 and 2001

18. Related party transactions (continued):

During the year, the Company sold products totalling \$242,511(2001 - nil) to a company in which Mr. Dolgonos is a partner. At May 31, 2002, an amount of \$7,033 was receivable from this company, which was subsequently collected.

(c) Patrick Lavelle, former Chairman and interim President and CEO:

During 2002, the Company paid to Mr. Lavelle consulting fees of \$262,000 and directors fees of \$179,400.

In addition, Mr. Lavelle, along with former Directors The Right Hon. John Turner, Edward Neufeld and The Hon. William D. Rogers, may make claims on a trust as outlined in Note 5.

(d) Previous senior officers,

On March 13, 2002, the previous Board of Directors, over the objections of Mr. Dolgonos, placed \$2,066,370 in escrow to fund potential severance payments to three senior officers of the Company that would become effective if they tendered their resignations following a change in ownership or control of the Company. On March 18, 2002, the Company's shareholders elected a new Board of Directors at the Company's Annual General Meeting. The three senior officers resigned immediately after the Annual General Meeting, and received the following amounts:

Jeffery Friedman	\$ 947,324
Mohammed Benvidi	941,842
Cameron Smith	177,204
	<hr/>
	\$ 2,066,370

In addition, these former senior officers may also make claims on a trust as outlined in Note 5.

(e) Steven Rosen, former CFO:

In July 2001, the Company paid a severance of \$1,425,000 to Mr. Rosen.

During 2002, Mr. Rosen exercised 846,015 stock options at an average exercise price of \$0.33 per share. In 2001, 500,000 warrants were exercised by Mr. Rosen at \$0.35 per share. During 2001, a loan of \$350,000 was advanced to and repaid by Mr. Rosen. At May 31, 2001, other assets included \$10,660 due from Mr. Rosen.

(f) Other:

During fiscal 2001, the Company paid legal fees of \$44,000 to a law firm whose partner, the Right Honourable John Turner, was a director of the Company.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)

Years ended May 31, 2002 and 2001

19. Commitments:

The Company is committed to minimum future lease payments in respect of operating and premise leases as follows:

2003	\$ 1,573,431
2004	1,217,260
2005	600,585
2006	360,909
2007	360,909
2008 and thereafter	932,349
	<hr/> \$ 5,045,443

20. Subsequent events:

- (a) In July 2002, the Company completed the acquisition of a product line of Point-to-Point radios and other assets from SierraCom, a Massachusetts company, that was involved in microwave based telecommunication systems. These assets include intellectual property, test equipment and various other inventories for an aggregate purchase price of \$1,880,000.
- (b) On August 9, 2002, the Company entered into an agreement to acquire 2,320,713 common shares representing approximately 9% of the common shares of Look Communications Inc. ("Look") for \$1,392,428. In addition, the Company entered into an agreement to acquire a five year, 10% convertible debenture of Look for an aggregate purchase price of \$3,607,572. The convertible debenture is convertible after one year into 4,746,805 common shares of Look. Upon conversion, the Company would own approximately 23% of the common shares of Look.

The Company has also entered into a Product and Services Agreement, whereby Look has agreed to purchase products from the Company with a minimum order value of approximately \$2,400,000.

The closing of the above transactions is contingent upon the completion of due diligence and finalization of the Product and Services Agreement.

21. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

SHAREHOLDER INFORMATION

Board of Directors

Gerald T. McGoey

John A. MacDonald

Peter Minaki

Louis Mitrovich

Douglas Reeson

Officers

Gerald T. McGoey
Chairman and Chief Executive Officer

John D. Kennedy
Chief Financial Officer

Dr. Pasteur Ntake
Vice President Engineering

Chief Technology Consultant

Alex Dolgonos

Auditors

KPMG LLP
Yonge Corporate Centre
4120 Yonge Street, Suite 500
Toronto, Ontario
M2P 2B8

Shareholder Inquiries

UBS Investor Relations
300 Edgeley Boulevard
Concord, Ontario
L4K 3Y3

E-mail: investorrelations@uniquesys.com

Transfer Agent

Equity Transfer Services Inc.
Suite 420, 120 Adelaide Street West
Toronto, Ontario M5H 4C3
Tel: (416) 361-0152
Fax: (416) 361-0470

e-mail: info@equitytransfer.com

Common Shares

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