

Consolidated Financial Statements of

**UNIQUE BROADBAND  
SYSTEMS, INC.**

Years ended August 31, 2011 and 2010

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Unique Broadband Systems, Inc. (the "Company") and its subsidiaries and all the information in Management's Discussion and Analysis are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include certain amounts that are based on the best estimates and judgments of management and in their opinion present fairly, in all material respects, the Company's financial position, results of operations and cash flows. Management has prepared the financial information presented elsewhere in Management's Discussion and Analysis and has ensured that it is consistent with the consolidated financial statements.

Management of the Company is responsible for the internal controls that provide reasonable assurance that transactions are properly authorized and recorded, financial records are reliable and form a proper basis for the preparation of consolidated financial statements and that the Company's assets are properly accounted for and safeguarded.

The Board of Directors is responsible for overseeing management's responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility through its Audit and Corporate Governance Committee (the "Audit Committee").

The Audit Committee meets periodically with management, as well as with external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues; to satisfy itself that each party is properly discharging its responsibilities; and to review Management's Discussion and Analysis, the consolidated financial statements and the external auditors' report. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the shareholders. The Audit Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or re-appointment of the external auditors.

The consolidated financial statements have been audited by Grant Thornton LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. Grant Thornton LLP has full and free access to the Audit Committee.

(Signed) - Grant McCutcheon

**Grant McCutcheon**  
Chief Executive Officer

December 9, 2011

(Signed) - C. Fraser Elliott

**C. Fraser Elliott**  
Chief Financial Officer

## INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of Unique Broadband Systems, Inc.**

We have audited the accompanying consolidated financial statements of Unique Broadband Systems, Inc., which comprise the consolidated balance sheets as at August 31, 2011 and 2010, and the consolidated statements of operations, comprehensive income and deficit, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibility**

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 UBS comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Unique Broadband Systems, Inc. as at August 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Grant Thornton LLP*

Chartered Accountants, Licensed Public Accountants  
Mississauga, Canada  
December 9, 2011

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# UNIQUE BROADBAND SYSTEMS, INC.

Consolidated Balance Sheets  
(In thousands of dollars)

As at August 31, 2011 and 2010

	2011	2010
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 5)	\$ 945	\$ 4,332
Accounts receivable and other receivables (note 6)	237	3
Prepaid expenses and deposits (note 7)	948	608
	2,130	4,943
Restricted cash (note 5)	50	50
Investment in Look (note 4)	11,405	12,564
	\$ 13,585	\$ 17,557

## Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable	\$ 399	\$ 30
Accrued restructuring liabilities (note 3)	-	696
Accrued restructuring liabilities due to related parties (notes 3 and 12)	4,003	5,369
Accrued liabilities and provisions	1,035	434
Deferred revenue	1,244	2,400
	6,681	8,929
Shareholders' equity:		
Share capital (note 10)	58,139	58,139
Contributed surplus (note 10)	3,235	3,235
Deficit	(54,470)	(52,746)
	6,904	8,628
Basis of presentation and going concern (note 1)		
Contingencies (note 15)		
	\$ 13,585	\$ 17,557

See accompanying notes to consolidated financial statements.

On behalf of the Board of Directors:

(Signed) - Grant McCutcheon  
Director

(Signed) - Robert Ulicki  
Director

# UNIQUE BROADBAND SYSTEMS, INC.

Consolidated Statements of Operations, Comprehensive Income and Deficit  
(In thousands, except per share amounts)

Years ended August 31, 2011 and 2010

	2011	2010
Service revenue (notes 11 and 14)	\$ 1,956	\$ 1,073
Carrier charges and cost of sales (notes 11 and 14)	-	425
Gross margin from continuing operations	1,956	648
Expenses:		
Customer care	-	231
Engineering and operations	-	615
General and administration	3,036	4,859
Amortization of property and equipment	-	198
Restructuring charges (recovery) (note 3)	(1,006)	2,555
	2,030	8,458
Loss from continuing operations before the under noted	(74)	(7,810)
Accretion on liability component of convertible debentures (note 8)	-	(232)
Interest and finance charges	-	(101)
Interest income	24	136
Gain on sale of other property and equipment	-	10
Loss on sale of spectrum and broadcast licence (note 4)	-	(61)
Equity interest in Look's losses (note 4)	(1,159)	(582)
Dilution loss due to change in shareholding in Look (note 4)	-	(677)
Loss for the year from continuing operations before income taxes	(1,209)	(9,317)
Income taxes (note 13)	-	-
Loss for the year from continuing operations before non-controlling interest	(1,209)	(9,317)
Non-controlling interest (note 9)	-	3,425
Loss for the year from continuing operations	(1,209)	(5,892)
Loss for the year from discontinued operations (note 14)	(515)	(110)
Comprehensive loss for the year	(1,724)	(6,002)
Deficit, beginning of year	(52,746)	(46,744)
Deficit, end of year	\$ (54,470)	\$ (52,746)
Continuing operations - basic and diluted loss per share	\$ (0.01)	\$ (0.06)
Discontinued operations - basic and diluted loss per share	\$ (0.01)	\$ 0.00
Loss per share – basic and diluted	\$ (0.02)	\$ (0.06)
Weighted average of number of shares outstanding (note 10):		
Basic and diluted	102,748	102,748

See accompanying notes to consolidated financial statements.

2010 comparatives include Look on a consolidated basis up to May 25, 2010.

# UNIQUE BROADBAND SYSTEMS, INC.

Consolidated Statements of Cash Flows  
(In thousands of dollars)

Years ended August 31, 2011 and 2010

	2011	2010
Cash provided by (used in):		
Operating activities:		
Loss for the year	\$ (1,724)	\$ (6,002)
Less: Loss for the year from discontinued operations	515	110
Non-controlling interest	-	(3,425)
Equity interest in Look's losses (note 4)	1,159	582
Amortization of property and equipment	-	198
Interest earned on short-term investments	-	(122)
Interest and finance charges	-	11
Amortization of stock-based compensation	-	89
Accretion on liability component of convertible debentures	-	232
Adjustment to gain on sale of spectrum and broadcast licence	-	61
Dilution loss due to change in shareholding in Look (note 4)	-	677
Gain on sale of other property and equipment	-	(10)
Change in non-cash operating assets and liabilities (note 16)	(2,972)	(23,579)
Cash used in continuing operations	(3,022)	(31,178)
Cash used in discontinued operations (note 14)	(365)	(72)
	(3,387)	(31,250)
Financing activities:		
Interest on convertible debentures	-	(73)
Settlement and discharge of mortgage	-	(1,800)
Redemption of Look's debentures	-	(242)
	-	(2,115)
Investing activities:		
Purchase of property and equipment	-	(24)
Proceeds on sale of property and equipment	-	50
Proceeds on sale of spectrum and broadcast licence (note 4)	-	50,000
Purchase of short-term investments	-	(27,500)
Elimination of Look's cash due to change to equity accounting of Look	-	(2,179)
Transaction costs on sale of spectrum and broadcast licence (note 4)	-	(61)
Interest earned on short-term investments	-	22
Cash provided by continuing operations	-	20,308
Cash provided by discontinued operations	-	-
	-	20,308
Net cash used in continuing operations	(3,022)	(12,985)
Net cash used in discontinued operations	(365)	(72)
Decrease in cash and cash equivalents	(3,387)	(13,057)
Cash and cash equivalents, beginning of year	4,332	17,389
Cash and cash equivalents, end of year	\$ 945	\$ 4,332

See accompanying notes to consolidated financial statements.

2010 comparatives include Look on a consolidated basis up to May 25, 2010.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements  
(In thousands, except per share amounts)

Years ended August 31, 2011 and 2010

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## **Nature of operations:**

Unique Broadband Systems, Inc. is a publicly listed Canadian company that, effective May 25, 2010, has a 39.2% fully diluted equity interest in Look Communications Inc. ("Look") and other financial assets. References to "UBS" include the legal entity Unique Broadband Systems, Inc. and its wholly owned subsidiary, UBS Wireless Services Inc. ("UBS Wireless"). References to the "Company" mean UBS and Look.

In 2003, UBS transitioned from a technology company that designed, developed and manufactured broadband wireless equipment to a holding company when it acquired a controlling interest in Look, through share transactions and 7% secured convertible debentures issued by Look ("Debentures"), and sold its manufacturing business. This holding in Look's securities gave UBS a controlling 51.8% share of Look.

Following the announcement by Look in April 2010 that it intended to redeem all outstanding Debentures on May 25, 2010, the Debenture previously held by UBS Wireless was among the Debentures redeemed by Look and, as a result, effective May 25, 2010, UBS has a non-controlling 37.6% voting interest and a 39.2% economic interest in Look (notes 4 and 8).

## **1. Basis of presentation and going concern:**

### Going concern:

These consolidated financial statements have been prepared, on a going concern basis, in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") with respect to the preparation of financial statements. The going concern basis of presentation assumes that UBS 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 significant doubt about UBS' use of the going concern assumption because as at August 31, 2011, UBS has a working capital deficiency of \$4,551 (August 31, 2010 - \$3,986). Furthermore, there is uncertainty regarding the timing and the quantum of cash distributions by Look to its shareholders, including UBS, and the outcomes of certain litigation (note 15). UBS will need to raise cash and/or monetize assets, and/or receive cash distributions from Look and/or reduce its outstanding commitments in order to meet the needs of its existing operations and commitments giving rise to doubt about UBS' use of the going concern assumption.

Notwithstanding the above, the consolidated financial statements have been prepared on a going concern basis and do not include any adjustments to the carrying value and balance sheet classifications of assets and liabilities and reported revenue and expenses that would be necessary if the going concern basis was not appropriate. Such adjustments could be material.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Years ended August 31, 2011 and 2010

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## 1. Basis of presentation and going concern (continued):

### Investment in Look:

UBS' actual share ownership in Look has fluctuated as Debentures previously issued by Look were converted into multiple and subordinate voting shares and interest obligations in connection with these Debentures were settled in subordinate voting shares. If all Debentures were converted, UBS would have had the ability to control at least 51% of Look by the conversion of its Debentures. As UBS had the ability to maintain control by converting these Debentures at any time, UBS consolidated its interest in Look.

However, following the redemption of Debentures by Look, UBS no longer had the ability to convert its Debentures and as from the effective date of the redemption of Look's Debentures, May 25, 2010, UBS accounts for its 39.2% interest in Look using the equity method that reports UBS' equity participation in Look through the "equity interest in Look's income or loss" in the statement of operations.

### CCAA proceedings:

On July 5, 2011, UBS announced that it and its wholly owned subsidiary UBS Wireless Systems Inc. has commenced proceedings under the *Companies' Creditors Arrangement Act* (the "CCAA") and that the court has made an order staying all proceedings against UBS and its directors until August 5, 2011 which was subsequently extended to October 31, 2011. On October 28, 2011, UBS obtained a further extension of stay of proceedings until January 16, 2012. RSM Richter Inc. (the "Monitor") has been appointed as the Monitor of UBS. Further information with respect to the CCAA proceedings can be found on the Monitor's website at [www.rsmrichter.com](http://www.rsmrichter.com).

UBS has been successful over the past twelve months in significantly reducing operating expenses, settling certain claims and obtaining the reversal of approximately \$1.8 million of awards granted by UBS' prior board in 2009. Notwithstanding these achievements, the approximately \$16.7 million in termination and other payments being pursued in claims against UBS involving, among others, Jolian, Mr. McGoey, DOL and Mr. Dolgonos (the "Plaintiff Group"), have precipitated the commencement of proceedings under the CCAA, which UBS views as the best course of action to preserve its assets.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Years ended August 31, 2011 and 2010

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## 1. Basis of presentation and going concern (continued):

The CCAA proceeding has been commenced to, among other things:

- (i) facilitate the determination and compromise or arrangement of creditor claims against UBS;
- (ii) permit UBS to propose a plan to realize value from UBS' accumulated tax losses, public listing and other assets;
- (iii) avert an imminent liquidity crisis being caused by litigation-related expenses that will prevent UBS from continuing to carry on business for the benefit of its stakeholders and defending the proceedings brought by the Plaintiff Group;
- (iv) stay all payables owing by UBS; and
- (v) provide a process to determine the claims being asserted against UBS by the Plaintiff Group in a more cost effective and expeditious manner.

While under protection from its creditors, UBS' board of directors will continue to manage UBS. In addition, UBS will continue to provide certain services to LOOK Communications Inc. pursuant to the management services agreement between the parties.

Should the stay period in the CCAA proceedings and any subsequent extensions thereof not be sufficient in duration or scope to allow UBS to complete its tasks as outlined above under the CCAA and should UBS lose the protection of the stay of proceedings, creditors may immediately enforce their rights and remedies against UBS and its assets which would in all likelihood lead to liquidation proceedings.

## 2. Significant accounting policies:

### (a) Principles of consolidation:

These consolidated financial statements include the accounts of UBS' wholly owned subsidiary, UBS Wireless for years ended August 31, 2011 and 2010, and UBS' investment in Look that, effective May 25, 2010, accounted for its 39.2% interest using the equity method for the years ended August 31, 2011 and 2010. All significant intercompany balances and transactions have been eliminated upon consolidation.

At August 31, 2011 and 2010, UBS Wireless held 24,864 Multiple Voting Shares and 29,921 Subordinate Voting Shares in Look. In addition, up until May 25, 2010, UBS Wireless was the holder of a Debenture in the principal amount of \$3,000 which could have been converted into 20,000 Multiple Voting Shares and 20,000 Subordinate Voting Shares. On a fully diluted basis, UBS Wireless held approximately 51% of Look and accordingly consolidated the results of Look up to May 25, 2010. Following the redemption of the Debentures, UBS has a 39.2% economic interest and a 37.6% voting interest in Look and as of May 25, 2010, accounts for its interest in Look using the equity method.

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# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Years ended August 31, 2011 and 2010

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## 2. Significant accounting policies (continued):

### (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 year. Actual results could differ from those estimates. Significant estimates are used in determining, among other things, prepaid expenses, tax attributes, income tax valuation allowances, accrued liabilities and provisions and stock-based compensation expense.

### (c) Cash and cash equivalents:

Cash and cash equivalents consist of all bank balances and highly liquid short-term investments with original maturities of periods less than 90 days. Cash equivalents held during the year have been classified as held-for-trading instruments. As at August 31, 2011 and 2010, UBS held no cash equivalents.

### (d) Revenue recognition:

As a result of the sale of Look's spectrum and broadcast licence to Inukshuk, Look terminated service to its remaining subscribers as of November 15, 2009.

Service revenue is comprised of:

- (i) fees received from subscribers in connection with Broadcast services provided by Look, and
- (ii) base fees and performance incentives received by UBS from Look pursuant to the management services agreement ("Look MSA") entered into between UBS and Look on May 19, 2004.

Broadcast Service revenue was earned from the provision of digital television services to residential and business subscribers and was presented net of discounts granted to new subscribers as incentives.

Deferred revenue includes payments received by UBS from Look in advance of future services pursuant to the Look MSA.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Years ended August 31, 2011 and 2010

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## 2. Significant accounting policies (continued):

Service revenues in connection with the Look MSA include base fees payable on a monthly basis from Look to UBS and any performance incentives recognised by Look in the form of cash bonus payments, the direct grant of treasury shares or options for the purchase of Look shares from treasury.

(e) Foreign currency translation:

Monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate in effect at the balance sheet date. Revenue and expense items are translated at the exchange rate in effect at the date of the transaction. Resulting exchange gains or losses are included in the income or loss for the year.

(f) Income taxes:

UBS uses the asset and liability method of accounting for income taxes. Under the asset and liability method of tax allocation, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that are expected to be in effect in the years in which the future income tax assets or liabilities are expected to be settled or realized. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

(g) Stock-based compensation:

(i) Stock option incentive plan:

UBS has a stock option incentive plan, which is described in note 10. UBS accounts for all stock options 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 remeasured until counterparty performance is complete, and any change therein is recognized over the vesting period of the option grant.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Years ended August 31, 2011 and 2010

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## 2. Significant accounting policies (continued):

### (ii) Share appreciation rights plan:

UBS had a share appreciation rights ("SAR") plan ("SAR Plan"), which is described in note 10. UBS accounted for SAR units as a liability and compensation cost would have been recorded based on the intrinsic value of the award when it was considered likely that the terms and conditions of the SAR Plan that govern the awards would have been met. On November 24, 2010, UBS' Board of Directors cancelled the SAR Plan.

### (h) Financial instruments:

UBS' financial assets are classified as held-for-trading, held-to-maturity investments, loans and receivables or available-for-sale. All financial liabilities must be classified as held-for-trading or other financial liabilities. These financial instruments are measured at their fair values, except for held-to-maturity investments, loans and receivables and other financial liabilities, which are measured at amortized cost using the effective interest method. The change in the fair value of a financial asset or financial liability classified as held-for-trading is included in operations in the period in which it arises, and the change in the fair value of available-for-sale financial assets is recognized in other comprehensive income until the financial asset is derecognized and any cumulative gain or loss is then recognized in operations.

UBS has classified cash and cash equivalents, accounts receivable and restricted cash as held-for-trading. Accounts payable, accrued restructuring liabilities, accrued restructuring liabilities due to related parties and accrued liabilities have been classified as other financial liabilities. UBS has not classified any financial asset as available-for-sale or held-to-maturity.

UBS has determined that it has no other comprehensive income or loss transactions during the year and no opening or closing balances in accumulated other comprehensive income or loss.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Years ended August 31, 2011 and 2010

## 2. Significant accounting policies (continued):

### (i) Basic and diluted income (loss) per share:

Basic income (loss) per share is calculated using the weighted average number of shares outstanding during the year. Diluted income (loss) per share reflects the dilution that would occur if outstanding stock options were exercised into UBS' common shares using the treasury stock method.

### (j) Recent accounting pronouncements:

#### (i) International Financial Reporting Standards ("IFRS"):

The Accounting Standards Board requires Canadian publically accountable enterprises to adopt IFRS for fiscal years beginning on or after January 1, 2011. UBS' first IFRS compliant financial statements will be for the first quarter of fiscal 2012.

UBS is in the process of finalizing its changeover plan and will execute the plan in the first quarter of fiscal 2012. UBS believes the most significant impact of the change over to IFRS on its financial statements will be to the note disclosures to the financial statements.

## 3. Restructuring:

As a result of Look's sale of its spectrum and broadcast licence to Inukshuk and the resulting restructuring of its business, the Company has recorded and paid restructuring amounts during fiscal 2011 and 2010 as set out in the following tables:

<b>Accrued restructuring liabilities</b>	Site restoration, contract termination, special meeting and legal charges <sup>(1)</sup>	Human resource restructuring charges	Total restructuring amounts
Balance at August 31, 2009	\$ 204	\$ 2,110	\$ 2,314
Expensed in fiscal 2010	2,722	30	2,752
Paid/reversed in fiscal 2010	(2,087)	(2,108)	(4,195)
Elimination of Look's accrual due to change to equity accounting for the investment in Look	(175)	-	(175)
Balance at August 31, 2010	\$ 664	\$ 32	\$ 696
Expensed in fiscal 2011	154	-	154
Paid in fiscal 2011	(818)	(32)	(850)
Balance at August 31, 2011	\$ -	\$ -	\$ -

<sup>(1)</sup> Effective December 1, 2010, UBS will accrue and expense all professional fees and employee severance in general and administrative costs unless otherwise noted.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Years ended August 31, 2011 and 2010

### 3. Restructuring (continued):

<b>Accrued restructuring liabilities due to related parties<sup>(2)</sup></b>	Site restoration, contract termination, special meeting and legal charges <sup>(1)</sup>	Human resource restructuring charges	Total restructuring amounts
Balance at August 31, 2009	\$ -	\$ 22,934	\$ 22,934
Expensed in fiscal 2010	144	132	276
Paid in fiscal 2010	(144)	(17,224)	(17,368)
Reversal of accrual	-	(473)	(473)
Balance at August 31, 2010	\$ -	\$ 5,369	\$ 5,369
Expensed in fiscal 2011	7	130	137
Paid in fiscal 2011	(7)	(199)	(206)
Reversal of accrual	-	(1,297)	(1,297)
Balance at August 31, 2011	\$ -	\$ 4,003	\$ 4,003

<sup>(1)</sup> Effective December 1, 2010, UBS will accrue and expense all professional fees and employee severance in general and administrative costs unless otherwise noted.

<sup>(2)</sup> see note 12.

During the year ended August 31, 2011, UBS expensed \$291, paid \$1,056 and recovered \$1,297 of restructuring charges. Of the \$291 expensed in fiscal 2011, \$161 related primarily to professional fees and consulting expenses and the balance related mainly to accrued interest.

On January 6, 2011, UBS settled the accrued restructuring award granted to the former Chief Financial Officer ("CFO") by the former Board of Directors and any other amount due under his employment agreement, for \$330, which resulted in a reversal of \$833 to restructuring charges.

On February 16, 2011, UBS settled the accrued restructuring award granted to a former director of UBS, which resulted in, among other things, a full reversal of the restructuring award originally granted in June 2009 and accrued interest, totalling \$464, to restructuring charges.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Years ended August 31, 2011 and 2010

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## 4. Investment in Look:

### (a) Investment in Look:

At August 31, 2011, UBS Wireless held 24,864 Multiple Voting Shares and 29,921 Subordinate Voting Shares in Look representing a 39.2% economic interest and a 37.6% voting interest in Look.

UBS acquired its shareholding in Look through a series of transactions and the receipt of shares in lieu of interest on its Debentures as set out in the table below. UBS' 39.2% interest in Look's equity of \$29,096 at August 31, 2011 amounted to \$11,405.

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	2011
Investment in Look shares at cost	\$ 11,929
Cumulative equity interest in Look's income (loss)	(524)
<b>Investment in Look at August 31, 2011</b>	<b>\$ 11,405</b>

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An analysis of UBS' interest in the post acquisition income and losses of Look is as follows:

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Accumulated share of Look's income at August 31, 2009	\$ 5,420
UBS' share of Look's losses in fiscal 2010 up to May 25, 2010	(3,526)
<b>UBS' share of Look's income at May 25, 2010</b>	<b>1,894</b>
Dilution loss on change in shareholding from 51% to 39.2%	(677)
<b>Accumulated share of Look's income</b>	<b>1,217</b>
Equity interest in Look's losses for May 26 to August 31, 2010	(582)
Equity interest in Look's losses for fiscal 2011	(1,159)
<b>Cumulative equity interest in Look's losses as at August 31, 2011</b>	<b>\$ (524)</b>

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# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Years ended August 31, 2011 and 2010

## 4. Look (continued):

Look's losses for the years ended August 31, 2011 and 2010 were \$2,957 and \$8,397 respectively and its summarised consolidated balance sheets as at August 31, 2011 and 2010 are set out below:

	2011	2010
<b>ASSETS</b>		
Total current assets	\$ 30,406	\$ 31,505
Property and equipment	-	1,738
	<u>\$ 30,406</u>	<u>\$ 33,243</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Total current liabilities	\$ 1,310	\$ 1,190
<b>Shareholders' equity</b>		
Share capital	34,484	34,484
Contributed surplus	11,934	11,934
Deficit	(17,322)	(14,365)
Total shareholders' equity	<u>29,096</u>	<u>32,053</u>
	<u>\$ 30,406</u>	<u>\$ 33,243</u>

Look's market capitalization, based on the closing share prices of its multiple and subordinate voting shares at August 31, 2011 of \$0.13 and \$0.13 respectively, was \$18,161 (2010 - \$0.16 and \$0.17 respectively - \$23,100).

As of November 15, 2009, Look no longer offered service to any subscribers and as of December 31, 2009, Look decommissioned its wireless network. Look is continuing to pursue opportunities to realize the value of its tax attributes of approximately \$165,340.

On June 3, 2011, Look sold its land and building in Milton, Ontario for aggregate consideration of \$3,050.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Years ended August 31, 2011 and 2010

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## 4. Look (continued):

### (b) Look's Statement of Claim in connection with the payment of restructuring awards:

On July 6, 2011, Look issued a Statement of Claim (the "Claim") in the Ontario Superior Court of Justice (the "Court") against certain former directors and certain former officers of Look in connection with the payment of approximately \$20 million of "restructuring awards" accrued in fiscal 2009 and paid during the first quarter of 2010 (the "Sale Awards"), of which approximately \$15.7 million was paid to the directors and senior officers named in the Claim (or their personal holding companies, as applicable) from the net proceeds of approximately \$64 million realized by Look on the sale of its spectrum licence in 2009. The former officers and directors named in the Claim collectively resigned effective July 21, 2010. None of the allegations in the Claim have been proven before the Court and none of the defendants have filed a statement of defence. Look intends to vigorously pursue its claims against the former directors and former officers named in the Claim (as well as their personal holding companies, as applicable) for payments and decisions which Look believes were not in Look's or its shareholders' best interests.

### (c) Change of Look to NEX listed company:

On February 3, 2011, Look received notice from the TSX Venture Exchange (the "Exchange") that, in accordance with its Continued Listing Requirements outlined in Exchange Policy 2.5, Look no longer meets the tests related to having a significant interest in a business or primary asset used to carry on business. Effective May 9, 2011, the Exchange issued a bulletin reclassifying Look to Tier 2 and placed Look on notice to transfer to NEX, subject to Look making a submission that it meets all Tier 2 Continued Listing Requirements.

In accordance with TSX Venture Policy 2.5, Look has not maintained the requirements for a TSX Venture Tier 2 company. Therefore, effective Friday, November 25, 2011, Look's listing was transferred to NEX, Look's Tier classification changed from Tier 2 to NEX, and the Filing and Service Office changed from Montreal to NEX.

As of November 25, 2011, Look is subject to restrictions on share issuances and certain types of payments as set out in the NEX policies.

The trading symbol for Look's multiple voting shares changed from LOK to LOK.H. The trading symbol for Look's subordinate voting shares changed from LOK.A to LOK.K. There is no change in Look's name, no change in its CUSIP number and no consolidation of capital. The symbol extensions differentiate NEX symbols from Tier 1 or Tier 2 symbols within the TSX Venture market.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Years ended August 31, 2011 and 2010

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## 4. Look (continued):

(d) Look's sale of spectrum and broadcast licence:

On September 11, 2009, following the receipt of regulatory approval of the transaction by Industry Canada and the satisfaction of all remaining conditions precedent to the consummation of the transactions contemplated in the Agreement of Purchase and Sale between Look and Inukshuk Wireless Partnership ("Inukshuk") (through joint partners Rogers Communications and Bell Canada) for the sale of its spectrum and broadcast licence ("Agreement"), Look received the final \$50,000 of the full consideration of \$80,000 due from Inukshuk. In accordance with the Agreement, Inukshuk requested that Look support an application by Inukshuk to the CRTC for the grant of a licence under the *Broadcasting Act*. On June 17, 2010 following advice from Inukshuk, Look directed the Court-appointed monitor to surrender Look's CRTC decisions and related licences to the CRTC and, as such, Look has no further obligations with respect to the Agreement.

## 5. Cash:

(a) Cash and cash equivalents:

At August 31, 2011, UBS held cash and cash equivalents of \$945, of which \$800 was held in bankers' acceptances, compared with cash and cash equivalents of \$4,332 at August 31, 2010.

(b) Restricted cash:

At August 31, 2011 and 2010, UBS had restricted cash of \$50 which was held in an interest-bearing certificate at 0.05%.

## 6. Accounts receivable and other receivables:

The balance of accounts receivable and other receivables as at August 31, 2011 and 2010 are set out in the following table:

	2011	2010
GST/HST receivable	\$ 180	\$ -
Legal retainers receivable	37	-
Other receivables	20	3
Total	\$ 237	\$ 3

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Years ended August 31, 2011 and 2010

## 7. Prepaid expenses and deposits:

A summary of prepaid expenses and deposits is tabled below:

	2011	2010
Indemnification advances <sup>(1)</sup>	\$ 446	\$ 564
Legal retainer <sup>(2)</sup>	286	-
CCAA retainers <sup>(3)</sup>	100	-
Other	116	44
Prepaid expenses and deposits	\$ 948	\$ 608

<sup>(1)</sup> On or about June 16, 2010, the former Board of Directors of UBS received a letter signed by each of UBS' directors, officers and consultants (the "Indemnitees") advising UBS that they seek, and are entitled to, indemnification under their Indemnity Agreements and article 7 of the By-Laws of UBS for, among other things, ongoing legal expenses for lawyers that have been retained to advise them on indemnity matters. Subsequently \$570 was placed in trust by UBS with various legal firms. As at August 31, 2011, UBS estimates that the amounts in trust had been drawn down by a total of approximately \$68. \$19 was returned to UBS as a result of a settlement agreement executed between UBS and the former CFO. \$37 is due to be returned to UBS as a result of a settlement agreement executed between UBS and a former director and is reflected in accounts receivable and other receivables (note 6). As a result, approximately \$446 remained in trust at August 31, 2011.

<sup>(2)</sup> Funds totalling \$330 were placed in Trust with a legal firm on February 24, 2011 for, among other things, legal advice with regard to ongoing litigation. At August 31, 2011, approximately \$44 was expensed and \$286 remained in Trust.

<sup>(3)</sup> Funds totalling \$100 were placed in Trust with legal firms on June 27, 2011 for, among other things, legal advice with regard to UBS' commencement of proceedings under CCAA.

## 8. Convertible debentures:

Look's Debentures bore interest at a rate of 7% per annum. Look paid interest on the Debentures, which were scheduled to mature on December 30, 2013, semi-annually in arrears, on June 30 and December 30 of each year, which commenced on June 30, 2004. The Debentures were convertible at the option of the holder into Multiple Voting and Subordinate Voting Shares of Look at a conversion price of \$0.075 per each Multiple Voting and Subordinate Voting Share, representing 6,667 Multiple Voting Shares and 6,667 Subordinate Voting Shares per \$1 debenture. Look had the option to settle its obligation to pay interest and repay the principal by issuing shares of Look. The Debentures were direct obligations of Look and ranked *pari passu* with all other subordinated, secured obligations of Look.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Years ended August 31, 2011 and 2010

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## 8. Convertible debentures (continued):

Since January 1, 2007, Look had the right to redeem the Debentures. On April 22, 2010 Look announced that it would redeem all of its principal amount of \$4,158 of outstanding Debentures for cash on May 25, 2010. By the May 11, 2010 conversion deadline, Debenture-holders holding an aggregate of \$916 of Debentures had elected to convert their Debentures into shares on May 25, 2010. The remaining \$3,242 of Debentures, including \$3,000 of Debentures held by UBS Wireless were redeemed by Look at a price equal to the principal amount of the Debentures plus accrued and unpaid interest to May 24, 2010.

## 9. Non-controlling interest:

Non-controlling interest in the consolidated balance sheets of the Company represented the non-controlling interest in both the equity in Look and equity component of Debentures in Look. Reported operating losses of Look were allocated to the non-controlling interest at 49% but were limited to the extent of any remaining non-controlling interest in the equity of Look.

As a result of the redemption of the Debentures held by UBS, effective May 25, 2010, UBS has a 39.2% economic interest in Look and, as of that date, no longer consolidates Look. Future income or losses of Look will be accounted for by UBS using the equity method that reports UBS' equity participation in Look through the "equity interest in Look's income or loss" in the statement of operations (note 1).

## 10. Share capital:

### (a) Authorized:

Unlimited common shares  
Unlimited Class A non-voting shares

### (b) Issued and outstanding:

As at August 31, 2011 and 2010, UBS had 102,748 common shares and no Class A non-voting shares issued and outstanding.

### (c) Income/loss per share:

In determining diluted loss per share for the years ended August 31, 2011 and 2010, the weighted average number of shares outstanding was not increased for in-the-money stock options outstanding as the impact would have been anti-dilutive.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Years ended August 31, 2011 and 2010

## 10. Share capital (continued):

### (d) Contributed surplus:

Details of UBS' contributed surplus are as follows:

	2011	2010
Balance, beginning of year	\$ 3,235	\$ 3,459
Stock-based compensation	-	89
Gain due to change in shareholding in Look	-	(313)
Balance, end of year	\$ 3,235	\$ 3,235

### (e) Stock option incentive plan:

UBS' stock option plan (the "Option Plan") provides for the granting of stock options to employees, directors and consultants of UBS. Under the Option Plan, up to 19,765 common shares may be issued from treasury. The exercise price of the options is determined by the Board of Directors at the time of the grant of an option, but cannot be lower than the closing market price of UBS' shares on the TSX Venture Exchange on the business day immediately preceding the day on which an option is granted. In the absence of terms specifying otherwise, options vest annually over a three-year period and are exercisable during a period not to exceed 10 years from such grant.

The following table reflects activity under the Option Plan during 2011 and 2010:

	2011		2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	12,616	\$ 0.27	15,891	\$ 0.27
Expired	(2,174)	0.19	(3,275)	0.21
Outstanding, end of year	10,442	\$ 0.31	12,616	\$ 0.28

On February 11, 2011, 1,500 options were granted to Robert Ulicki, the chairman of the board of directors of UBS. Due to notification from the TSX Venture Exchange ("the Exchange") that options cannot be granted when a strike price falls below \$0.10, those options were cancelled on March 10, 2011.

There were no options granted in the year ended August 31, 2010.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Years ended August 31, 2011 and 2010

## 10. Share capital (continued):

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.

A summary of the status of the Option Plan as at August 31, 2011 is as follows:

Exercise price	Options outstanding, end of year	Weighted average remaining contractual life (years)	Weighted average exercise price	Options exercisable, end of year
\$0.15 - \$0.17	3,800	7.2	0.15	3,800
\$0.28 - \$0.34	3,020	2.7	0.33	3,020
\$0.40 - \$0.48	3,622	0.9	0.46	3,622
	10,442	3.7	\$ 0.31	10,442

During the year ended August 31, 2011, there were no stock options granted and 2,174 options expired. UBS recorded stock-based compensation expense related to options issued to employees in the year ended August 31, 2011 of \$5 (2010 - \$21) and credited \$5 to non-employees (2010 – expensed \$68), which has been recorded in contributed surplus. As at August 31, 2011, there were 10,442 options outstanding (August 31, 2010 – 12,616).

(f) Share appreciation rights plan:

As a result of the restructuring process, there were no SAR units outstanding at August 31, 2010 and on November 24, 2010 UBS' Board of Directors cancelled the SAR Plan.

(g) UBS' change to Tier 2 TSX listed company:

On July 6, 2011, UBS received notice from the Exchange that, in accordance with its Continued Listing Requirements outlined in Exchange Policy 2.5, UBS no longer meets the tests related to having a significant interest in a business or primary asset used to carry on business. Effective July 7, 2011, the Exchange issued a bulletin reclassifying UBS to Tier 2 and advised UBS may be put on notice to be transferred to NEX, subject to UBS making a submission that it meets all Tier 2 Continued Listing Requirements.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Years ended August 31, 2011 and 2010

## 11. Segment disclosure:

Look sold its web hosting and domain name business, spectrum and broadcast licence, and its Internet business during the first, third, and fourth quarters of fiscal 2009 respectively. In accordance with Section 3475 of the CICA Handbook, the operations and cash flows of the web hosting and domain name business are presented as discontinued operations while the broadcast, Internet, and certain other operations which do not meet the definition of discontinued operations are shown as continuing operations.

The revenue, carrier charges and cost of sales and gross margin for the years ended August 31, 2011 and 2010 from continuing operations and the management service fees from the Look MSA are as follows:

Services	2011			2010 <sup>(1)</sup>		
	Revenue	Carrier charges and cost of sales	Gross margin	Revenue	Carrier charges and cost of sales	Gross margin
Broadcast services	\$ -	\$ -	\$ -	\$ 434	\$ 425	\$ 9
Look MSA fees	1,956	-	1,956	639	-	639
Total	\$ 1,956	\$ -	\$ 1,956	\$ 1,073	\$ 425	\$ 648

<sup>(1)</sup> August 31, 2010 comparatives to May 25, 2010 include Look on a consolidated basis.

All of the Company's revenue was generated in Canada and all of its assets are located in Canada.

## 12. Related party transactions:

Related party transactions in the normal course of operations are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Related party transactions not in the normal course of operations have been measured at the carrying amount which is the amount of an item transferred or the cost of services provided.

(a) Management Services Agreement with Look ("Look MSA"):

Under the terms of the Management Service Agreement entered into between UBS and Look on May 19, 2004, Look had been required to pay an annual fee of \$2,400 to UBS. In September 2007, Look advanced \$2,400 to UBS and, on a 12-month rolling basis, thereafter maintained this advance as a prepaid annual fee.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Years ended August 31, 2011 and 2010

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## 12. Related party transactions (continued):

On April 22, 2010, Look's Board of Directors notified UBS that it would not be recommending the MSA on May 19, 2010 such that the Look MSA expires at the end of its current term being May 19, 2012 or such earlier date that is mutually agreed to by Look and UBS.

As a result of the sale of its spectrum and broadcast licence to Inukshuk and the resulting restructuring of its business, Look no longer requires the same level of Chief Executive Officer ("CEO") Services and Other Services from UBS, particularly as that relates to annual business planning and budgeting, human resources, engineering, updating of broadcast and information technology, the management of regulatory requirements, and managing Look's fixed and variable costs to maximize Look's profits. Accordingly, on December 3, 2010, Look and UBS agreed that, with effect from January 1, 2011, Look will no longer maintain the prepaid annual fee of \$2,400 on a monthly basis and that this amount will be drawn down at approximately \$145 per month over the remaining term of the Look MSA, being January 1, 2011 through May 19, 2012.

UBS will continue to provide services to Look, where still applicable pursuant to the Look MSA, and all other terms and conditions of the Look MSA will remain in effect until May 19, 2012. The cash flow impact of this amendment is a reduction of approximately \$900 in fees from Look to UBS over the remaining term of the Look MSA.

The base fee pursuant to the Look MSA received by UBS during the year ended August 31, 2011 amounted to \$1,956 (2010 - \$639) and is included in Service revenue (note 11).

### (b) Interest on Debentures:

Following the redemption of the Debentures in May 2010, no interest was earned by UBS during the year ended August 31, 2011 (2010 - \$154).

### (c) Rent of Milton premises:

During the year ended August 31, 2011, UBS subleased a portion of Look's premises in Milton for \$61 (2010 - \$78). On June 3, 2011, the Milton facility was sold for aggregate consideration of \$3,050. The Company continues to operate from the premises as a tenant on a month-to-month basis.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Years ended August 31, 2011 and 2010

## 12. Related party transactions (continued):

(d) Accrued restructuring liabilities:

UBS recorded related party transactions in the year ended August 31, 2011, as follows:

	Accrued Restructuring Liabilities				Balance at August 31, 2011 <sup>(5)</sup>
	Balance at August 31, 2010	Interest accrued 2011 <sup>(3)</sup>	Awards and interest reversed <sup>(4)</sup>	Awards paid <sup>(4)</sup>	
Jolian Investments Ltd. <sup>(1)</sup> /McGoey	\$ 1,843	\$ 56	\$ -	\$ -	\$ 1,899 <sup>(6)</sup>
DOL Technologies Inc. <sup>(2)</sup> /Dolgonos	1,566	48	-	-	1,614 <sup>(6)</sup>
Former UBS director – accrued	476	14	-	-	490
Former UBS director and CFO - settled	1,484	12	(1,297)	(199)	-
<b>Total</b>	<b>\$ 5,369</b>	<b>\$ 130</b>	<b>\$ (1,297)</b>	<b>\$ (199)</b>	<b>\$ 4,003</b>

<sup>(1)</sup> Jolian Investments Ltd. (“Jolian”) is a company controlled by Mr. McGoey, the former Chairman of the Board of Directors and former CEO of UBS.

On July 5, 2010, the former Board of Directors, including Mr. McGoey, was not re-elected by shareholders at a special meeting, which resulted in Jolian alleging a Company Default pursuant to the Jolian Management Services Agreement with UBS (“Jolian MSA”) and a subsequent claim for, among other things, payment for termination of services and the outstanding accrued restructuring liability to Jolian (note 15).

During the year ended August 31, 2011, 1,500 options granted to Mr. McGoey or Jolian expired. Fees charged to general and administration expenses in the year ended August 31, 2010 amounted to \$523. No options or SAR units were granted to Mr. McGoey or Jolian during the year ended August 31, 2010 and 1,477 options expired.

<sup>(2)</sup> DOL Technologies Inc. (“DOL”) is a company controlled by Mr. Dolgonos, the former Chief Technology Consultant of UBS.

On July 5, 2010, the former Board of Directors was not re-elected by shareholders at a special meeting, which resulted in DOL alleging that its agreement with UBS (“Technology Agreement”) had been terminated for “Good Reason following Change-in-Control” and a subsequent claim for, among other things, payment for termination of services and the outstanding accrued restructuring liability to DOL (note 15).

Fees charged to general and administration expenses in the year ended August 31, 2010 amounted to \$396. No options or SAR units were granted to Mr. Dolgonos or DOL during the year ended August 31, 2010.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Years ended August 31, 2011 and 2010

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## 12. Related party transactions (continued):

<sup>(3)</sup> The interest on accrued restructuring liabilities payable by UBS is charged to restructuring charges.

<sup>(4)</sup> On January 6, 2011, UBS settled the accrued restructuring award granted to the former CFO by the former Board of Directors and any other amount due under his employment agreement, for \$330, which resulted in a reversal of \$833 to restructuring charges in the second quarter of fiscal 2011. On February 16, 2011, UBS settled with a former director of UBS, which resulted in, among other things, a full reversal of his restructuring award, originally granted in June 2009 and accrued interest, totalling \$464, to restructuring charges.

<sup>(5)</sup> The accrued restructuring liabilities payable by UBS at August 31, 2011 are payable upon, among other things, adequate cash resources being received by UBS.

<sup>(6)</sup> These amounts, among others, are included in the claims filed against UBS by Jolian and DOL on July 12, 2010. Counterclaims filed by UBS against Jolian, Mr. McGoey and certain former directors and against DOL, Mr. Dolgonos, and certain former directors are detailed in the 2010 annual financial statements.

### (e) Indemnity agreements:

The former Board of Directors resolved that the Indemnitees were entitled to retain legal counsel pursuant to their Indemnity Agreements and as a result \$60 was expensed during the year ended August 31, 2011, \$37 has been reallocated to Accounts receivable and other receivables (note 6) and \$19 was recovered pursuant to a settlement agreement. \$446 remains advanced by UBS to various legal firms for future services (note 7).

### (f) Special shareholders meeting:

It was stated in the information circular prepared in connection with the July 5, 2010 special meeting of shareholders that the costs incurred in the preparation and mailing of the circular and the solicitation will be borne by certain concerned shareholders who would seek reimbursement from UBS of its out-of-pocket expenses, including proxy solicitation expenses and legal fees, incurred in connection with the meeting. In this regard, UBS has reimbursed \$533 to the concerned shareholders, some of whom are directors of UBS.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)  
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## 13. Income taxes:

Total income tax recovery varies from the amounts that would be computed by applying the statutory income tax rate of 30.67% (2010 - 32%) to loss before income taxes for the following reasons:

	2011	2010
Effective income tax recovery on income (loss) from continuing operations before income taxes	\$ (528)	\$ (1,838)
Decrease (increase) results from:		
Permanent differences	(506)	2,783
Change in valuation allowance	1,008	(2,912)
Change in enacted tax rates	26	1,967
	\$ -	\$ -

The income tax effects of temporary differences that give rise to significant portions of future income tax assets and liabilities at August 31, 2011 and 2010 are presented below:

	2011	2010
Future income tax assets:		
Non-capital and capital income tax losses carried forward and eligible capital expenditures	\$ 7,572	\$ 6,534
Future deductions relating to scientific research and development	1,873	1,873
Future deductions related to financing charges and other provisions	1,362	1,392
	10,807	9,799
Less valuation allowance	(10,807)	(9,799)
	\$ -	\$ -

In assessing the realizability of 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)  
(In thousands, except per share amounts)

Years ended August 31, 2011 and 2010

## 13. Income taxes (continued):

UBS has the following federal non-capital income tax losses, which may be carried forward to reduce future year's taxable income. These losses will expire in the calendar years ending May 31 as follows:

2014	\$ 9,078
2015	1,001
2027	2,215
2028	423
2029	1,626
2030	1,656
2031	3,014
	<u>\$ 19,013</u>

At August 31, 2011, following certain amendments to prior tax returns to maximize UBS' tax attributes, UBS had \$19,013 in non-capital income tax losses with expiry dates between 2014 and 2031, allowable gross capital losses of \$22,555 with an unlimited expiration period and investment tax credits available for carry forward totalling approximately \$3,092.

## 14. Discontinued operations:

(a) A summary of the net loss from discontinued operations is as follows:

	2011	2010
Gain from sale of web hosting and domain name business <sup>(1)</sup>	\$ -	\$ 78
Non-controlling interest <sup>(1)</sup>	-	(38)
Settlement of third party claim <sup>(2)</sup>	-	(150)
Settlement of leased premises claim <sup>(3)</sup>	(515)	-
<u>Loss from discontinued operations</u>	<u>\$ (515)</u>	<u>\$ (110)</u>

<sup>(1)</sup> During fiscal 2009, Look sold its web hosting and domain name business (note 11), resulting in a profit on the sale and the reclassification of gross margin from this business to discontinued operations. During the year ended August 31, 2010, the Company recorded an adjustment of \$40, net of non-controlling interest, related to the sale of the web hosting and domain name business.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Years ended August 31, 2011 and 2010

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## 14. Discontinued operations (continued):

<sup>(2)</sup> 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, arose out of a private placement of special warrants on behalf of UBS in 2002. The two shareholders alleged that representations had been made to them by the dealer that it would conduct a secondary sale of certain of their UBS shares in conjunction with the private placement. The third party claim against UBS alleged that UBS indemnified the investment dealer against, among other things, the alleged representations made by the investment dealer with respect to this secondary sale of UBS shares and related costs to defending any such claims.

On October 1, 2010, at a pre-trial conference with a Superior Court Judge, the parties to the main action and the third party claim settled all the claims with a contribution from UBS of \$150 to a settlement pool of \$850 in return for a full and final release from the dealer.

<sup>(3)</sup> On May 24, 2011, UBS settled the action that was brought against UBS in respect of certain repairs to premises under a lease entered into by UBS in 1999. After attending a pre-trial hearing in February 2011, and with the benefit of advice from counsel and input from prior management, the board concluded that the settlement was in the best interests of UBS, taking into account, among other things, prior settlement offers, pre-judgment interest and costs as well as the time and expense to UBS of an anticipated lengthy trial of the matters raised.

Under the terms of the settlement, in exchange for a full and final release, UBS will pay the plaintiff damages totaling \$600 in two installments. \$450 was paid on May 24, 2011 and \$150 is payable on January 15, 2012. A third party, against whom UBS had filed a third party claim for indemnification of certain damages, was also a party to the settlement arrangements and paid \$85 to UBS on May 24, 2011. The net cash flow impact in fiscal 2011 totaled \$365. Both the original action and the third party claim were dismissed without costs.

(b) The consolidated balance sheets include the following amounts related to discontinued operations:

	2011	2010
Accrued liabilities and provisions	\$ 150	\$ 297

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Years ended August 31, 2011 and 2010

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## 14. Discontinued operations (continued):

### (c) GPV Elbau Electronics A/S vs UBS:

Certain claims were filed against UBS in connection with UBS Technologies A/S (formerly ProTeleVision Technologies A/S), its Danish subsidiary that was petitioned into bankruptcy in early 2003. The remaining claim for approximately \$450, which was based on an alleged guarantee by UBS related to a subcontracting agreement for the manufacture of electronic products, was dismissed by the Danish courts in October 2008 with costs awarded to UBS. The decision was appealed by the plaintiff and the case was heard in the Supreme Court of Denmark. On June 17, 2011, judgment was given in favour of UBS and GPV Elbau Electronics A/S has been ordered to pay legal costs to UBS in the amount of DKK 100 (approximately \$19).

### (d) Manalta Investment Company Ltd. (formerly known as Craig Wireless International Inc. ("Craig Wireless")):

On February 19, 2004, Craig Wireless filed a statement of claim against the Company before the Ontario Superior Court of Justice. On February 4, 2010, the Company announced that Craig Wireless has agreed to a dismissal of its claim, in its entirety, against the Company, and other named defendants.

The terms of the dismissal and minutes of settlement included the following:

- (i) Craig Wireless paid \$15 in costs to each of Look and UBS; and
- (ii) Craig Wireless has executed a full and final release that covers not only all known injuries, losses and damages, but also injuries, losses and damages not now known or anticipated but which may later develop or be discovered, including all the effects and consequences thereof.

### (e) Border Broadcasters:

Look and Border Broadcasters executed a final settlement agreement to their litigation on August 17, 2009. During the quarter ended November 30, 2009 Look paid \$1,000 to Border Broadcasters for complete settlement of all claims.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Years ended August 31, 2011 and 2010

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## 15. Contingencies:

(a) Statements of Claim and Defences and Counterclaims pursuant to termination of services agreements:

(i) Claim by Jolian Investments Ltd. (“Jolian”):

On July 5, 2010, at a special meeting of shareholders requisitioned by a group of concerned shareholders, the former directors, including Mr. McGoey, were removed and Robert Ulicki, Grant McCutcheon and Henry Eaton were elected to the Board of Directors. After the conclusion of the meeting, the new board presented Mr. McGoey with a letter confirming certain immediate requests of him as the CEO. Later that day counsel to Jolian wrote UBS enclosing notice from Mr. McGoey and Jolian that, in their view, a “company default” and “termination without cause” of the Jolian MSA had occurred demanding payment of \$8,610, being three times the aggregate of (i) Jolian’s annual base fee; (ii) the greater of five measures of performance incentives; and (iii) annualized expenses. Also included in the payment demanded was the outstanding Contingent Restructuring Liability of \$1,800.

On July 12, 2010, Jolian, following the notice of termination served on UBS on July 5, 2010, served a statement of claim on UBS. This claim was subsequently amended to include applicable taxes on the amounts claimed. Among other things, Mr. McGoey seeks \$7,410 in immediate termination payment, under the terms of the Jolian MSA and \$1,800 in respect of outstanding contingent restructuring awards. This is in addition to the \$8,300 in total compensation awarded to Mr. McGoey, and a company under his control, by UBS and Look in 2009.

Mr. McGoey is seeking a declaration from the Ontario Superior Court of Justice that there was a “company default” and “termination without cause” under the Jolian MSA. This claim is in large part due to shareholders not re-electing Mr. McGoey as a director of UBS at the special meeting of shareholders held on July 5, 2010.

In addition, Mr. McGoey makes a number of other allegations, including that a deferred bonus award of \$1,200, which was awarded to him on August 28, 2009, and a share appreciation rights cancellation payment of \$600 (together with accrued interest) will be additionally due and owing to him.

UBS has filed a Defence and Counterclaim against Jolian, Mr. McGoey and certain other former directors as set out below.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)  
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## 15. Contingencies (continued):

### (ii) Claim by DOL Technologies Inc. ("DOL"):

After the conclusion of the special meeting of shareholders held on July 5, 2010, DOL gave written notice to UBS that it was terminating the Technology Agreement for good reason as a result of a change in control of UBS. The letter demanded payment of \$7,600, being three times the aggregate of (i) DOL's annual base fee; (ii) the greater of four measures of performance incentives; and (iii) reimbursable expenses due and owing at the time of termination. Also included in the payment demanded was the outstanding Contingent Restructuring Liability of \$1,530.

On July 12, 2010, DOL, following the notice of termination served on UBS on July 5, 2010, served a statement of claim on UBS. This claim was subsequently amended to include applicable taxes on the amounts claimed. Among other things, Mr. Dolgonos seeks \$6,015 in immediate termination payment, under the terms of the Technology Agreement and \$1,530 in respect of outstanding contingent restructuring awards. This is in addition to the \$6,100 in total compensation awarded to Mr. Dolgonos, and a company under his control, by UBS and Look in 2009.

Mr. Dolgonos is seeking a declaration from the Ontario Superior Court of Justice that he was terminated for "good reason following a change-in-control" under the Technology Agreement.

In addition, Mr. Dolgonos makes a number of other allegations, including that a deferred bonus award of \$1,200, which was awarded to him on August 28, 2009, and a share appreciation rights cancellation payment of \$330, (together with accrued interest) will be additionally due and owing to him.

UBS has filed a Defence and Counterclaim against DOL, Mr. Dolgonos, Mr. McGoey and certain other former directors as set out below.

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Notes to Consolidated Financial Statements (continued)  
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## 15. Contingencies (continued):

(iii) UBS Defences and Counterclaims to Jolian and DOL claims:

UBS has defended Messrs McGoey and Dolgonos' claims and denies any amounts are owing to them. The Defences and Counterclaims filed by UBS on August 18, 2010, state, among other things, that:

- the Contingent Restructuring Awards were granted without any legal or factual justification;
- the Contingent Restructuring Awards are unjust, unfair and unreasonable and not in the best interests of UBS;
- the Contingent Restructuring Awards were granted by the former directors in breach of their statutory and fiduciary duties;
- the exercise of shareholders' fundamental right to remove a director does not give rise to a Termination Payment to Mr. McGoey;
- there was no "good reason following a change-in-control" that purports to give rise to a Termination Payment to Mr. Dolgonos;
- the Termination Payments are excessive, unjust, unfair and unconscionable and not in the best interests of UBS;
- the Termination Payments are not supportable nor justifiable in law; and
- the terms of the Services Agreements that purport to give rise to the Termination Payments were agreed to by the former directors in breach of their statutory and fiduciary duties.

In addition, the Defences and Counterclaims include counterclaims against Messrs. McGoey and Dolgonos and certain former directors of UBS. Among other things, UBS is now seeking:

- a declaration that Mr. McGoey and certain former directors exercised their powers in a manner that was oppressive and/or unfairly prejudicial to and/or unfairly disregarded the interests of UBS;
- a declaration that Messrs. McGoey, Dolgonos and certain former directors failed to act honestly and in good faith with a view to the best interests of UBS;
- a declaration that the Termination Payments of \$7,410 and \$6,015 claimed by Messrs. McGoey and Dolgonos under their respective service agreements are null, void and unenforceable, or alternatively, damages in those amounts;
- a declaration that the \$1,800 and \$1,530 in Contingent Restructuring Awards awarded, but not paid, by UBS to Messrs. McGoey and Dolgonos, respectively, are null, void and unenforceable, or alternatively, damages in those amounts;

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)  
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## 15. Contingencies (continued):

- a declaration that the Contingent Restructuring Awards awarded, but not paid, by UBS to certain former directors are null, void and unenforceable, or alternatively, damages in the amount of the Contingent Restructuring Awards awarded to them;
- a declaration that, if any or all of the Contingent Restructuring Award awarded by Look Communications Inc. was validly payable, the \$5,650 Look Contingent Restructuring Award paid to Mr. McGoey and the \$3,950 Look Contingent Restructuring Award paid to Mr. Dolgonos, are payable to UBS;
- a declaration that “indemnity payments” paid to the law firms representing certain directors and officers were taken unlawfully, without authority and contrary to their respective indemnity agreements, UBS’ by-laws and the *Business Corporations Act* (Ontario), and an order that the “indemnity payments” be immediately returned to UBS;
- damages in the amount of \$3,000 in respect of the former UBS Board decision to redeem for cash the Debentures issued by Look; and
- punitive damages in the amount of \$5,000.

### (iv) Jolian and Mr. McGoey’s defence to UBS Counterclaims:

On October 28, 2010, Jolian and Mr. McGoey served UBS with statements of defence against UBS’ counterclaims against Jolian et al and DOL et al in respect of the litigation commenced by Jolian and DOL in July 2010. Among other things, Mr McGoey claims that:

- he brought significant value to UBS and to Look;
- he provided full and fair value to UBS in exchange for the compensation and consideration he received;
- without his contributions to UBS since 2002 and to Look since 2004, UBS and Look would not have survived;
- the concerned shareholder group’s actions in respect of the 2010 POA and the triggering of the Termination Payments have badly hurt UBS;
- the Jolian MSA is valid and enforceable;
- the contingent restructuring awards approved by the former Board of Directors were in the best interests of UBS, were properly authorized and were necessary, reasonable and fair to UBS; and
- Jolian earned and was lawfully entitled to the contingent restructuring award it received from Look.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)  
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## 15. Contingencies (continued):

(v) DOL and Mr. Dolgonos' defence to UBS Counterclaims:

On November 5, 2010, DOL and Mr. Dolgonos' served UBS with statements of defence against UBS' counterclaims against DOL et al in respect of the litigation commenced by DOL in July 2010. Among other things, Mr. Dolgonos claims that:

- he brought significant value to UBS and to Look;
- he always acted in the best interests of UBS and Look;
- he always preserved and protected the assets of UBS from unnecessary and/or wasteful dissipation;
- he always put UBS' interests before his own financial interests;
- the DOL Technology Agreement is valid and enforceable; and
- the contingent restructuring awards approved by the former Board of Directors of UBS and Look were in the best interests of UBS and Look, were properly authorized and were necessary, reasonable and fair to UBS and Look.

(vi) In connection with the claims and counterclaims involving, among others, the Plaintiff Group, the court has rendered a decision in connection with motions for summary judgment brought by UBS and the Plaintiff Group relating to the indemnification of the Plaintiff Group's legal expenses.

The court ordered UBS to pay the Plaintiff Group's past legal costs as well as the legal expenses in the litigation on an ongoing basis, including all costs relating to the claims of certain members of the Plaintiff Group for termination payments under certain management services agreements. Based on information provided by the Plaintiff Group's counsel, as of the date that the motion for summary judgment was argued in April, the legal expenses of the Plaintiff Group, up to April 30, 2011, are estimated to be approximately \$750.

UBS has appealed the decision of the court in connection with motions for summary judgment brought by UBS and the Plaintiff Group relating to the indemnification of the Plaintiff Group's legal expenses.

While UBS intends to vigorously defend the claims filed by Messrs. McGoey and Dolgonos and pursue its counterclaims against these parties and certain former directors, none of the claims, counterclaims and defenses made by the parties to the foregoing litigation have been proven before a court of law. Further, there can be no assurance that any of UBS' counterclaims and/or defences will be proven before a court. An award of damages against UBS and the ongoing costs of litigation could, independently or collectively, have a material adverse effect on the financial condition and solvency of UBS.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)  
(In thousands, except per share amounts)

Years ended August 31, 2011 and 2010

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## 15. Contingencies (continued):

- (b) Statement of Claim served on UBS and its directors by 2064818 Ontario Inc.:

On December 23, 2010, a registered shareholder of UBS, 2064818 Ontario Inc., which is a corporation controlled by UBS' former Chief Technology Consultant, Alex Dolgonos, served a statement of claim (the "Statement of Claim") on UBS and each of Grant McCutcheon, Robert Ulicki and Henry Eaton.

Among other things, 2064818 Ontario Inc. alleges that (i) the directors of UBS are exercising their powers as directors in a manner that is oppressive, unfairly prejudicial and unfairly disregards the interests of UBS shareholders; and (ii) the existing directors have failed to act honestly and in good faith with a view to the best interests of UBS. The allegations are made, among other things, in respect of the amendment of the Look MSA. It is also alleged that the new directors of UBS intentionally triggered a change-in-control in the Jolian MSA by failing to re-elect the former CEO as a director.

The Statement of Claim seeks various relief, including among other things, (i) the removal of the directors of UBS from its board of directors, (ii) the setting aside of the amendment to the Look MSA or, in lieu thereof, damages in the amount of \$900, and (iii) an order restraining UBS from obtaining any dilutive financing unless existing shareholders are entitled to participate in such financing on a pro rata basis.

- (c) In the normal course of its operations, the Company may be subject to other litigation and claims.
- (d) The Company indemnifies its directors, officers, consultants and employees against claims and costs reasonably incurred and resulting from the performance of their services to the Company, and maintains liability insurance for its directors and officers.

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Notes to Consolidated Financial Statements (continued)  
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## 16. Supplemental cash flow information:

- (a) The change in non-cash operating assets and liabilities in respect of continuing operations consists of the following:

	2011	2010 <sup>(1)</sup>
Accounts receivable	\$ (234)	\$ (553)
Inventory	-	40
Prepaid expenses and deposits	(340)	(2,736)
Accounts payable, accrued liabilities and provisions	820	(4,094)
Accrued restructuring liabilities	(696)	(1,451)
Accrued restructuring liabilities due to related parties	(1,366)	(17,565)
Restricted cash	-	380
Deferred revenue	(1,156)	2,400
	<u>\$ (2,972)</u>	<u>\$(23,579)</u>

<sup>(1)</sup> Comparatives include Look on a consolidated basis until May 25, 2010.

- (b) Interest paid and received:

	2011	2010 <sup>(1)</sup>
Interest paid	\$ -	\$ 101
Interest received	24	136

<sup>(1)</sup> Comparatives include Look on a consolidated basis until May 25, 2010.

## 17. Capital risk management:

UBS' capital structure includes cash and cash equivalents, accounts receivable and other receivables and equity consisting of share capital, contributed surplus and deficit. UBS is not subject to externally-imposed capital requirements. UBS's overall strategy with respect to capital risk management is to hold low-risk highly-liquid cash and cash equivalents.

## 18. Financial risk management:

- (a) Overview:

UBS may have exposure to credit risk, liquidity risk and market risk. UBS' Board of Directors has overall responsibility for the establishment and oversight of UBS' risk management framework. The Audit and Corporate Governance Committee of the Board of Directors reviews UBS' risk management policies from time to time on an as needed basis.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)  
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## 18. Financial risk management (continued):

### (b) Credit risk:

Credit risk is the risk of financial loss to UBS if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from UBS' cash and cash equivalents, restricted cash, and accounts receivable and other receivables. The carrying amount of financial assets represents UBS' estimate of its maximum credit exposure.

Cash and cash equivalents and restricted cash consist of cash and variable rate guaranteed investment certificates and bankers acceptances with reputable Canadian financial institutions, from which UBS believes the risk of loss to be minimal.

### (c) Liquidity risk:

Liquidity risk is the risk that UBS will not be able to meet its financial obligations as they become due. UBS' approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its current liabilities when due.

UBS has incurred operating losses and negative cash flows from operations in recent years and at August 31, 2011, UBS had a working capital deficiency of \$4,551. Furthermore, there is uncertainty regarding the timing and the quantum of cash distributions to Look's shareholders and the outcomes of certain litigation (note 15).

UBS will need to raise cash and/or monetize assets and/or receive cash distributions from Look and/or reduce its outstanding commitments in order to meet the needs of its existing operations and commitments giving rise to doubt about UBS' use of the going concern assumption (note 1).

### (d) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, and interest rates will affect UBS' income or the value of its financial instruments. The Company believed this risk was minimal and did not enter into any currency hedging transactions.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Consolidated Financial Statements (continued)  
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## 18. Financial risk management (continued):

UBS is subject to interest rate risk on its cash and cash equivalents and restricted cash (note 5). UBS estimates that for each 1% change in the interest rate earned on its cash holdings at August 31, 2011, interest income will increase or decrease by approximately \$9 per annum.

(e) Fair value of financial instruments:

The fair values of financial assets and financial liabilities are determined as follows:

(i) For cash and cash equivalents, restricted cash, accounts receivable and other receivables, accounts payable, accrued restructuring liabilities, accrued restructuring liabilities due to related parties and accrued liabilities carrying amounts approximate fair value due to the short-term nature of the assets and liabilities.

(f) Classification of financial instruments:

(i) Short-term investments, accounts receivable and other receivables and restricted cash have been classified as financial assets held for trading and are measured at fair value; and

(ii) Accounts payable, accrued restructuring liabilities, accrued restructuring liabilities due to related parties and accrued liabilities have been classified as other financial liabilities.

UBS has not classified any assets as available-for-sale or held-to-maturity during the years ended August 31, 2011 and 2010. The fair value hierarchy for financial instruments measured at fair value is Level 1 for cash and cash equivalents and restricted cash. UBS does not have Level 2 or Level 3 inputs.