

Interim Unaudited Consolidated Financial Statements

**UNIQUE BROADBAND SYSTEMS, INC.**

Three and six months ended February 28, 2009 and  
February 29, 2008

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

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

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

The accompanying interim unaudited consolidated financial statements of the Company for the interim period ending February 28, 2009 have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

# UNIQUE BROADBAND SYSTEMS, INC.

Interim Unaudited Consolidated Balance Sheets  
(In thousands of dollars)

As at

	February 28 2009	August 31 2008
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 4(a))	\$ 4,873	\$ 5,168
Accounts receivable	255	326
Inventory	55	52
Prepaid expenses and deposits	346	511
	<u>5,529</u>	<u>6,057</u>
Restricted cash (note 4(b))	511	490
Property and equipment	5,486	7,503
Deferred charges	45	63
	<u>\$ 11,571</u>	<u>\$ 14,113</u>
<b>Liabilities and Shareholders' Deficiency</b>		
Current liabilities:		
Accounts payable	\$ 11,443	\$ 11,932
Accrued liabilities and provisions	5,275	5,004
Unearned revenue (note 17)	228	737
Long-term debt, due within one year	1,794	1,787
Current portion of liability component of convertible debentures (note 5)	14	26
	<u>18,754</u>	<u>19,486</u>
Liability component of convertible debentures (note 5)	913	903
Non-controlling interest (note 6)	414	422
Shareholders' deficiency:		
Share capital (note 7)	58,139	58,139
Contributed surplus	2,917	2,643
Deficit	(69,566)	(67,480)
	<u>(8,510)</u>	<u>(6,698)</u>
Basis of presentation - going concern (note 1)		
Commitments and contingencies (note 13)		
Plan of Arrangement (note 18)		
	<u>\$ 11,571</u>	<u>\$ 14,113</u>

See accompanying notes to interim unaudited consolidated financial statements.

# UNIQUE BROADBAND SYSTEMS, INC.

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

Three and six months ended February 28, 2009 and February 29, 2008

	Three months ended		Six months ended	
	February 28 2009	February 29 2008	February 28 2009	February 29 2008
Service and sales revenue (note 10)	\$ 3,327	\$ 4,357	\$ 6,915	\$ 8,884
Carrier charges and cost of sales (note 10)	1,814	2,349	3,754	4,715
Gross margin	1,513	2,008	3,161	4,169
Expenses:				
Marketing and sales	-	1	1	19
Customer care	327	369	672	771
Engineering and operations	699	741	1,398	1,474
General and administration	3,244	2,329	5,630	4,822
Amortization of property and equipment	884	1,328	2,031	2,590
Amortization of deferred charges	9	14	18	27
	5,163	4,782	9,750	9,703
	(3,650)	(2,774)	(6,589)	(5,534)
Accretion on liability component of convertible debentures	(28)	(39)	(58)	(78)
Interest and finance charges	(49)	(50)	(100)	(100)
Interest income	27	76	63	174
Gain on disposal of property and equipment	-	8	2	8
Loss from continuing operations before non-controlling interest	(3,700)	(2,779)	(6,682)	(5,530)
Non-controlling interest in continuing operations (note 6)	65	1,212	65	2,379
Loss from continuing operations	(3,635)	(1,567)	(6,617)	(3,151)
Income from discontinued operations before non-controlling interest (note 17)	-	575	4,531	1,142
Non-controlling interest in discontinued operations (note 6)	-	(282)	-	(560)
Income from discontinued operations	-	293	4,531	582
Loss and comprehensive loss for the period	(3,635)	(1,274)	(2,086)	(2,569)
Deficit, beginning of period	(65,931)	(61,179)	(67,480)	(59,884)
Deficit, end of period	\$ (69,566)	\$ (62,453)	\$ (69,566)	\$ (62,453)
Loss per share from continuing operations:				
Basic and diluted	\$ (0.04)	\$ (0.02)	\$ (0.06)	\$ (0.03)
Income per share from discontinued operations:				
Basic and diluted	\$ 0.00	\$ 0.00	\$ 0.04	\$ 0.01
Loss and comprehensive loss per share:				
Basic and diluted	\$ (0.04)	\$ (0.02)	\$ (0.02)	\$ (0.02)
Weighted average number of shares outstanding in thousands (note 7)	102,748	102,748	102,748	102,748

See accompanying notes to interim unaudited consolidated financial statements.

# UNIQUE BROADBAND SYSTEMS, INC.

Interim Unaudited Consolidated Statements of Cash Flows  
(In thousands of dollars)

Three and six months ended February 28, 2009 and February 29, 2008

	Three months ended		Six months ended	
	February 28 2009	February 29 2008	February 28 2009	February 29 2008
<b>Cash flows from operating activities:</b>				
Loss for the period from continuing operations	\$ (3,635)	\$ (1,567)	\$ (6,617)	\$ (3,151)
Items not affecting cash:				
Non-controlling interest	(65)	(1,212)	(65)	(2,379)
Amortization of property and equipment	884	1,328	2,031	2,590
Amortization of deferred charges	9	14	18	27
Interest and finance charges	3	-	7	-
Amortization of stock-based compensation	148	70	270	330
Accretion on liability component of convertible debentures	28	39	58	78
Gain on disposition of property and equipment	-	(8)	(2)	(8)
Change in non-cash operating working capital (note 9)	504	(349)	100	(189)
Cash used in continuing operations	(2,124)	(1,685)	(4,200)	(2,702)
Cash flows from (used in) discontinued operations	(12)	569	495	(588)
Cash flows used in operating activities	(2,136)	(1,116)	(3,705)	(3,290)
<b>Cash flows from financing activities:</b>				
Repayment of obligations under capital leases	-	(6)	-	(14)
Exercise of stock options	1	-	1	-
Cash flows from (used in) financing activities	1	(6)	1	(14)
<b>Cash flows from investing activities:</b>				
Purchase of property and equipment	(5)	(40)	(14)	(48)
Proceeds on disposition of property and equipment	-	8	2	8
Decrease in restricted cash	20	7	28	15
Cash flows from (used in) continuing operations	15	(25)	16	(25)
Cash flows from discontinued operations	1,436	-	3,393	-
Cash flows from (used in) investing activities	1,451	(25)	3,409	(25)
Decrease in cash and cash equivalents	(684)	(1,147)	(295)	(3,329)
Cash and cash equivalents, beginning of period	5,557	7,468	5,168	9,650
Cash and cash equivalents, end of period	\$ 4,873	\$ 6,321	\$ 4,873	\$ 6,321

Supplemental cash flow information (note 9).

See accompanying notes to interim unaudited consolidated financial statements.

# UNIQUE BROADBAND SYSTEMS, INC.

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

Three and six months ended February 28, 2009 and February 29, 2008

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Unique Broadband Systems, Inc. (the "Company") is a publicly listed Canadian company that has a 51.8% fully diluted equity interest in Look Communications Inc. ("Look") and other assets. With its spectrum and broadcast licenses through Look, the Company is a Canadian digital television broadcaster and broadband wireless service provider. References to "UBS" include Unique Broadband Systems, Inc. and its wholly owned subsidiary, UBS Wireless Services Inc. ("UBS Wireless"). References to the Company include UBS and Look.

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

These interim unaudited consolidated financial statements should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended August 31, 2008.

## 1. Basis of presentation:

These interim unaudited 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 the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. There is significant doubt about the Company's use of the going concern assumption because it has incurred significant operating losses and negative cash flows from operations in recent years and has a working capital deficiency of \$13,225 as at February 28, 2009 (August 31, 2008 - \$13,429).

The Company will need to raise cash by July 2009 in order to meet the needs of its existing operations. This requirement and timing for capital may be adversely impacted by, amongst other things, a lack of available financing through traditional banking sources, the outcome of the contingencies (note 13(b)), a faster rate of decline in subscribers than experienced during fiscal 2008, negative pressure on average revenue per user and an unfavorable outcome to the Plan of Arrangement announced by Look on December 1, 2008. In order to alleviate this cash requirement, the Company will continue to seek any and all ways to obtain financing through, amongst other things, partnering arrangements, debt and equity partners, the sale of certain subscribers, arrangements involving some or all of the Company's spectrum, and rights offerings to existing shareholders. The outcome of these matters cannot be predicted at this time.

# UNIQUE BROADBAND SYSTEMS, INC.

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

Three and six months ended February 28, 2009 and February 29, 2008

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## 1. Basis of presentation (continued):

The ability of the Company to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities when due is dependent on the successful completion of the actions taken or planned, some of which are described above, which management believes will mitigate the adverse conditions and events which raise doubt about the validity of the going concern assumption used in preparing these consolidated financial statements. There is no certainty that these and other strategies will be sufficient to permit the Company to continue beyond July 2009.

Notwithstanding the above, the interim unaudited 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.

## 2. Significant accounting policies:

### (a) Principles of consolidation:

These interim unaudited consolidated financial statements include the accounts of the Company's controlled subsidiary, Look, and its wholly owned subsidiary, UBS Wireless. All significant intercompany balances and transactions have been eliminated upon consolidation.

In accordance with The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 1600, Consolidated Financial Statements ("Section 1600"), when the losses applicable to the non-controlling interest in Look exceeded the non-controlling interest's carrying value in Look, which occurred during the third quarter of fiscal 2008, the excess and any further losses will be fully absorbed by the Company. Subsequent earnings, if any, recorded by Look, should be allocated entirely to the Company's interest until such previously fully absorbed losses are recovered (note 6).

# UNIQUE BROADBAND SYSTEMS, INC.

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

Three and six months ended February 28, 2009 and February 29, 2008

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## 2. Significant accounting policies (continued):

### (b) Changes in accounting policies:

These interim unaudited consolidated financial statements follow the same accounting policies and methods of application as the 2008 audited financial statements except for the adoption of new accounting policies described below:

#### (i) Financial instruments – presentation and disclosures:

In December 2006, the CICA issued Section 3862, Financial Instruments - Disclosures, and Section 3863, Financial Instruments - Presentation, which supersedes Section 3861, Financial Instruments - Disclosure and Presentation. Section 3862 places an increased emphasis on disclosures about the risks associated with both recognized and unrecognized financial instruments and how these risks are managed.

Section 3862 requires disclosures, by class of financial instrument that enables users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income and other comprehensive income would have been affected by reasonably possible changes in the relevant risk variable.

Section 3863, Financial Instruments - Presentation, carries forward the existing requirements on presentation of financial instruments.

These new standards were adopted by the Company on September 1, 2008 and did not have a material impact on the classification and valuation of the Company's financial instruments. These new disclosures are included in note 16.



# UNIQUE BROADBAND SYSTEMS, INC.

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

Three and six months ended February 28, 2009 and February 29, 2008

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## 2. Significant accounting policies (continued):

### (ii) Capital disclosures:

In December 2006, the Accounting Standards Board ("AcSB") issued Section 1535, Capital Disclosures, which establishes standards for disclosing information about an entity's capital and how it is managed. This standard requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital, and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. The Company adopted this standard on September 1, 2008, and the resulting disclosures are included in note 15.

### (iii) Inventory:

In June 2007, the AcSB issued Section 3031, Inventories, which replaces Section 3030, Inventories. The standard revises guidance on the determination of cost, recognition and subsequent measurement and disclosures of inventory. The Company adopted this standard on September 1, 2008 without a material impact to its financial statements.

## 3. Investment in Look:

At February 28, 2009 UBS Wireless held 24,864,478 Multiple Voting Shares and 29,505,785 Subordinate Voting Shares in Look (August 31, 2008 – 24,864,478 Multiple Voting Shares and 29,084,973 Subordinate Voting Shares). In addition, UBS Wireless is the holder of a convertible debenture in the principal amount of \$3,000, which may be converted into 20,000,000 Multiple Voting Shares and 20,000,000 Subordinate Voting Shares. On a fully diluted basis, UBS Wireless holds 51.8% of Look.

## 4. Cash:

### (a) Cash and cash equivalents:

Cash and cash equivalents consist of all bank balances and highly liquid short-term guaranteed investment certificates and banker's acceptances with original maturities of less than 90 days. At February 28, 2009, the Company had cash and cash equivalents of \$4,873 (August 31, 2008 - \$5,168), of which \$545 (August 31, 2008 - \$1,454) was held in guaranteed investment certificates and banker's acceptances.

# UNIQUE BROADBAND SYSTEMS, INC.

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

Three and six months ended February 28, 2009 and February 29, 2008

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## 4. Cash (continued):

### (b) Restricted cash:

At February 28, 2009, the Company had \$511 of restricted cash, including \$47 which was collected from subscribers by Look on behalf of the purchaser after the closing of the sale described in note 17. The Company has pledged the remaining \$464 (August 31, 2008 - \$490) of restricted cash to its banks as collateral for the processing of credit card transactions. Of this amount, the Company holds \$350 (August 31, 2008 - \$350) in interest bearing certificates at 2%.

## 5. Convertible debentures:

The convertible secured debentures bear interest at a rate of 7% per annum and will mature on December 30, 2013. Look pays interest on the debentures semi-annually in arrears, on June 30 and December 30 of each year, which commenced on June 30, 2004. Look carries the debentures at amortized cost using an effective interest rate of 13.6%. The debentures are 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. The convertible debentures are bifurcated into their debt and equity components. Look has the option to settle its obligation to pay interest and repay principal by issuing shares of Look. As at February 28, 2009, the outstanding face value, representing the non-controlling interest in Look's debentures, was \$1,164. The debentures are direct obligations of Look and rank *pari passu* with all other subordinated, secured obligations of Look.

## 6. Non-controlling interest:

Non-controlling interest in the consolidated balance sheets of the Company represents the non-controlling interest in both the equity and equity component of convertible debentures in Look. Reported operating losses of Look are allocated to the non-controlling interest at 49% but are limited to the extent of any remaining non-controlling interest in the equity of Look. During the third quarter of fiscal 2008, the non-controlling interest in Look's equity was eliminated and, in accordance with the accounting treatment noted in section 2(a) above, the Company absorbed all of the losses incurred by Look in the third and fourth quarters of fiscal 2008, resulting in an excess of \$1,717 over the Company's 51% of Look's losses. Since the non-controlling interest in the equity of Look has been eliminated, subject to any further increases in the non-controlling interest in Look resulting from, amongst other things, conversions by Look's debenture holders and payment by Look of interest in subordinate voting shares, all future losses of Look will be fully absorbed by the Company.

# UNIQUE BROADBAND SYSTEMS, INC.

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

Three and six months ended February 28, 2009 and February 29, 2008

## 6. Non-controlling interest (continued):

Subsequent earnings, if any, recorded by Look, will be allocated entirely to the Company's interest until such previously fully absorbed losses are recovered. In the first quarter of fiscal 2009, as a result of the sale of its web hosting and domain name business, Look made a profit of \$1,799, which was allocated in its entirety to the Company's interest in Look. In the second quarter of fiscal 2009, the Company absorbed virtually all of Look's losses due to the elimination of the non-controlling interest in Look's equity.

The non-controlling interest in Look is set out below:

	February 28, 2009	August 31, 2008
Shares and equity	-	-
Equity component of convertible debentures	414	422
Non-controlling interest in Look	\$ 414	\$ 422

## 7. Share capital:

### (a) Issued and outstanding:

As at February 28, 2009 and August 31, 2008, the Company had 91,442,522 common shares and 11,305,322 Class A non-voting shares issued and outstanding.

### (b) 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 19,765,396 common shares may be issued from treasury. Options are granted at prices equal to or greater than the closing market price of the Company's shares on the business day immediately preceding the day on which an option is granted and in the absence of terms specifying otherwise, vest annually over a three-year period and are exercisable during a period not to exceed 10 years from such grant.

During the quarter ended November 30, 2008, 400,000 options expired and UBS granted 650,000 options to acquire shares of the Company at an exercise price of \$0.16 with vesting terms of one half on the date of grant, one quarter six months after the date of grant and the remainder 18 months after the date of grant. The options expire on November 20, 2013. The fair value for the options granted during the quarter was \$0.11, determined using the Black Scholes option pricing model with the following assumptions: an average risk-free interest rate of 3.4%, a dividend yield of nil, a volatility factor of the expected market price of UBS shares of 110% and an expected life of 3.5 years.

# UNIQUE BROADBAND SYSTEMS, INC.

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

Three and six months ended February 28, 2009 and February 29, 2008

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## 7. Share capital (continued):

No options expired or were granted or exercised during the quarter ended February 28, 2009.

During the three and six months ended February 28, 2009, UBS recorded stock-based compensation expense of \$22 and \$80 respectively (February 29, 2008 – Nil and Nil respectively) related to options issued to employees and \$42 and \$49 respectively (February 29, 2008 – Nil and \$225 respectively) related to options issued to non-employees, which has been recorded in contributed surplus.

### (c) Share appreciation rights plan ("SAR Plan"):

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

As at February 28, 2009 and August 31, 2008, the Board of Directors had awarded 11,300,000 SAR units at a weighted average grant price of \$0.20 based on the opening market values of UBS' common shares on the date of the awards. The awards are subject to specific terms and conditions being fulfilled. No charges in respect of SARs awarded have been recorded in the financial statements for the quarter ended February 28, 2009 (February 29, 2008 - nil). No unit payouts have been made under the SAR Plan and no expenses have been recognised since the SAR Plan's inception.

## 8. Discontinued operations:

During the quarter ended November 30, 2008, Look sold its web hosting and domain name business. As a result, Look segregated the results of operations in respect of this business commencing in the first quarter of fiscal 2008 to record the contribution from this segment of its business in discontinued operations. This contribution amounted to \$331 and \$567 for the three and six months ended February 28, 2009, respectively (February 29, 2008 - \$575 and \$1,142) (note 10). In addition, the gain on sale of the web hosting and domain name business amounted to \$4,200 and was included in discontinued operations. There were no transactions in either quarter related to the sale of the E&M Business.

# UNIQUE BROADBAND SYSTEMS, INC.

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

Three and six months ended February 28, 2009 and February 29, 2008

## 8. Discontinued operations (continued):

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

	February 28, 2009	August 31, 2008
Accrued liabilities from the sale of E&M Business	\$ 147	\$ 147
Restricted cash from web hosting and domain name business	47	-
	<u>\$ 194</u>	<u>\$ 147</u>

## 9. Consolidated statement of cash flows:

(a) The change in non-cash operating working capital in respect of continuing operations consists of the following:

	Three months ended		Six months ended	
	February 28, 2009	February 29, 2008	February 28, 2009	February 29, 2008
Accounts receivable	\$ 34	\$ 51	\$ 2	\$ 19
Inventory	8	7	(3)	(7)
Prepaid expenses and deposits	48	95	165	186
Accounts payable and accrued liabilities	406	(536)	(65)	(440)
Unearned revenue	8	34	1	53
	<u>\$ 504</u>	<u>\$ (349)</u>	<u>\$ 100</u>	<u>\$ (189)</u>

(b) Supplemental cash flow information:

	Three months ended		Six months ended	
	February 28, 2009	February 29, 2008	February 28, 2009	February 29, 2008
Interest paid	\$ 49	\$ 50	\$ 100	\$ 100
Interest received	27	76	63	174
	<u>\$ (22)</u>	<u>\$ 26</u>	<u>\$ (37)</u>	<u>\$ 74</u>

# UNIQUE BROADBAND SYSTEMS, INC.

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

Three and six months ended February 28, 2009 and February 29, 2008

## 10. Segment disclosure:

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

The services and sales revenue and cost of sales from continuing operations are as follows:

Services	Three months ended February 28, 2009		Three months ended February 29, 2008	
	Revenue	Carrier charges and cost of sales	Revenue	Carrier charges and cost of sales
Broadcast	\$1,649	\$ 953	\$2,258	\$1,373
Internet	1,594	805	2,003	902
Other	41	11	25	14
	3,284	1,769	4,286	2,289
Sales and installations	43	45	71	60
	\$3,327	\$1,814	\$4,357	\$2,349

Services	Six months ended February 28, 2009		Six months ended February 29, 2008	
	Revenue	Carrier charges and cost of sales	Revenue	Carrier charges and cost of sales
Broadcast	\$3,445	\$2,011	\$4,614	\$2,744
Internet	3,296	1,628	4,075	1,817
Other	80	21	49	29
	6,821	3,660	8,738	4,590
Sales and installations	94	94	146	125
	\$6,915	\$3,754	\$8,884	\$4,715

All of the Company's revenue is generated in Canada and all of its assets are located in Canada. No one customer accounts for more than 10% of revenue or gross accounts receivable.

# UNIQUE BROADBAND SYSTEMS, INC.

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

Three and six months ended February 28, 2009 and February 29, 2008

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## 10. Segment disclosure (continued):

During the first quarter of fiscal 2009, Look sold its web hosting and domain name business for consideration of approximately \$3,800 (note 17).

During the three month period ended February 28, 2009, Look's hosting and domain name business did not generate any revenue or cost of sales. During the six month period ended February 28, 2009, the hosting and domain name business generated \$520 of revenue and had associated costs of sales of \$189 resulting in gross margin of \$331 which is recorded as earnings from discontinued operations (three and six month periods ended February 29, 2008 - \$887, \$312, and \$575, and \$1,779, \$637, and \$1,142 respectively).

## 11. Income taxes:

In December 2007, Look implemented the reorganization plan (the "Plan"), approved on October 10, 2007, by transferring certain assets of Look to a 100% controlled entity. The purpose of the Plan is to utilize certain of Look's non-capital losses, which would have otherwise expired, to reduce future taxable income.

Subsequent to the Plan, Look has sufficient tax loss carryforwards to offset the gain recognized on the sale of the web hosting and domain name business (note 17).

## 12. Economic dependence:

Look purchases a significant portion of its telecommunications services from Bell Canada. These telecommunications services are not available from other service providers and, as a result, the provision of many of Look's service offerings to its subscribers and the revenue generated therefrom are dependent upon Bell Canada continuing to provide its network services to Look (note 13(b)(ii)).

# UNIQUE BROADBAND SYSTEMS, INC.

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

Three and six months ended February 28, 2009 and February 29, 2008

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## 13. Commitments and contingencies:

### (a) Commitments:

- (i) Pursuant to CRTC regulation, Look is required to make annual contributions to the Canadian Television Fund ("CTF"), which is a cable industry fund designed to foster the production of Canadian television programming. Contributions to the CTF are based on a formula, including gross broadcast revenue and the number of subscribers. Look may elect to spend a portion of the above amount for local television programming and may also elect to contribute a portion to another CRTC-approved independent production fund. Look estimates that its total contributions to the CTF and CRTC for 2009 will amount to approximately \$350.

### (b) Contingencies:

- (i) Claim for damages against Inukshuk et al.:

In April 2004, UBS Wireless filed a statement of claim against Allstream Inc. (now MTS Allstream Inc.), Microcell Telecommunications Inc., Microcell Solutions Inc. and Inukshuk Internet Inc. (now wholly owned subsidiaries of Rogers Communications Inc. ("Rogers")) (collectively the "Defendants"). The damages claimed, totalling \$160,000 against the Defendants, are for, amongst other things, specific performance, breach of contract, breach of confidence and breach of fiduciary duty as a result of the Defendants actions involving the MCS spectrum.

As a result of a request by Bell Canada and Rogers for Industry Canada to transfer the MCS spectrum out of the companies being litigated against, UBS Wireless filed a statement of claim in August 2007 against the Inukshuk Wireless Partnership (the "Partnership"), which is jointly owned by Rogers and Bell Canada. The claim is for, amongst other things, a mandatory order requiring the Partnership to return to Fido Solutions Inc. ("Fido", formerly Microcell Telecommunications Inc.) any and all rights or licenses to use or exploit the MCS spectrum and such other, interim, interlocutory or final relief as may be necessary to enable Fido to comply with any order requiring the specific performance of certain obligations to UBS Wireless.

During 2008, the Ontario Superior Court of Justice dismissed the 2007 claim against the Partnership. UBS Wireless has appealed this decision by the Ontario Superior Court of Justice and a decision by the Appeal Court is pending.

The assets and rights pursuant to the agreement related to the MCS spectrum are significant to the Company's shareholders and as such, UBS intends to vigorously pursue its rights.



# UNIQUE BROADBAND SYSTEMS, INC.

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

Three and six months ended February 28, 2009 and February 29, 2008

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## 13. Commitments and contingencies (continued):

### (ii) Bell Canada:

In response to Bell Canada's April 10, 2007 "Notice of Intent to Disconnect" Look's services, on April 27, 2007, Look filed a statement of claim with the Ontario Superior Court of Justice against Bell Canada. Look claims damages in the aggregate amount of \$25,000 plus interest, costs, and any applicable taxes for, amongst other things, Bell Canada's breach of contract, misrepresentation, and unlawful interference with economic relations. Look is also seeking \$10,000 in aggravated and/or punitive damages.

On May 8, 2007, Look filed a notice of motion seeking Interim and Interlocutory Injunctions (the "Injunctions") preventing Bell Canada from terminating, reducing, restricting, or in any way interfering with the telecommunications services provided by Bell Canada to Look pending the final determination of the motion or until such other time as the Court may direct. The Injunctions were heard by the Ontario Superior Court of Justice on July 23, 2007 and granted on July 31, 2007. In light of the Injunctions granted, Look believes it will be able to carry on business in the normal course of operations.

The major Terms and Conditions of the Injunctions are as follows:

- (a) Look will pay Bell Canada \$360 per month from May 1, 2007;
- (b) Look may not encumber or transfer its spectrum license without the consent of the Court; and
- (c) Bell Canada will pay Look's costs of the Injunctions.

Look is fully complying with the Terms and Conditions set forth by the Ontario Superior Court of Justice. Look will expeditiously continue to vigorously pursue its aforementioned statement of claim against Bell Canada.

On July 5, 2007, Bell Canada filed its statement of defence and counterclaim against Look claiming, amongst other things, damages for trade payables in the amount of \$13,689, damages in the amount of \$2,300 for credit notes improperly issued by Bell Canada, and \$1,000 in aggravated and/or punitive damages. The legal outcome of the claims described herein may result in the obligation recognized as of February 28, 2009 being materially different, either positively or negatively, than the amount ultimately settled.

# UNIQUE BROADBAND SYSTEMS, INC.

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

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## 13. Commitments and contingencies (continued):

The hearing date for these actions has yet to be determined and the outcome of these actions cannot be predicted at this time. These claims are significant to the Company's shareholders. In the Company's opinion, Bell Canada's counterclaim is without merit and Look intends to vigorously pursue its rights.

### (iii) Craig Wireless International Inc.:

On February 19, 2004, Craig Wireless International Inc. ("Craig Wireless") filed a statement of claim against the Company before the Ontario Superior Court of Justice. In its action, Craig Wireless claims that Look conducted its affairs in a manner that was oppressive and unfairly prejudicial to Craig Wireless and requests damages in the aggregate amount of \$12,000.

Statements of defence were filed by UBS and Look in October 2008 and on April 3, 2009, UBS and Look filed amended statements of defence in response to Craig Wireless' amended statement of claim filed on February 23, 2009.

The Company believes that the entire claim is without merit and intends to vigorously defend itself.

### (iv) Border Broadcasters Inc. et al.:

On December 27, 2007, Border Broadcasters Inc. et al. ("Border Broadcasters") served a statement of claim against Look filed before the Federal Court. In its action, Border Broadcasters is seeking, amongst other things:

(a) Payment of royalties due in the amount of \$4,500 for the retransmission of distant television signals pursuant to:

- (i) The Statement of Royalties to be Collected for the Retransmission of Distant Radio and Television Signals in Canada in 1998 through to 2003 as certified by the Copyright Board of Canada, and
- (ii) The Interim Tariffs for the Retransmission of Distant Radio and Television Signals in Canada for the period commencing January 1, 2004.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Interim Unaudited Consolidated Financial Statements (continued)  
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## 13. Commitments and contingencies (continued):

- (b) Pre-judgment interest on unpaid royalties in the amount of \$2,500.

Look believes that all debts, including any royalties due up to and including February 11, 2002, were extinguished by virtue of the Plan of Implementation approved by the Court under the Plan of Arrangement effective February 11, 2002.

Look intends to vigorously defend itself and the outcome of this action cannot be predicted at this time.

- (v) Refer to the 2008 annual financial statements for the contingencies related to other litigation involving the Company.

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

## 14. Related party transactions:

- (a) Management service agreement with Jolian Investments Ltd.:

Management service fees pursuant to the management service agreement between UBS and Jolian Investments Ltd., which is controlled by the Chairman and CEO of the Company, charged to general and administration expenses amounted to \$151 and \$301 for the three and six months ended February 28, 2009 respectively (February 29, 2008 - \$143 and \$285 respectively). As at February 28, 2009, amounts included in accrued liabilities and provisions related to the management service agreement totalled \$697 (August 31, 2008 - \$680).

- (b) Consulting agreement with DOL Technologies Inc.:

Consulting fees pursuant to the consulting agreement between UBS and DOL Technologies Inc., which is controlled by Mr. Dolgonos, charged to general and administration expenses amounted to \$125 and \$250 for the three and six months ended February 28, 2009 respectively (February 29, 2008 - \$119 and \$238 respectively). As at February 28, 2009, amounts included in accrued liabilities and provisions related to Mr Dolgonos' consulting services totalled \$503 (August 31, 2008 - \$492).

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Interim Unaudited Consolidated Financial Statements (continued)  
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## 15. Capital risk management:

The Company manages its capital to maximize value to shareholders and other stakeholders. The Company's capital structure includes cash and cash equivalents, long-term debt, convertible debentures, and equity consisting of share capital, contributed surplus, and deficit.

The Company manages, to the extent of its abilities, its capital structure to enable the continued operation of its business. The Company will need to raise cash by July 2009 in order to meet the needs of its existing operations. (See note 1 for a discussion of the requirement and timing of the need for capital). The Company will consider the appropriateness of all sources of capital including, but not limited to, new share issuances, the issue of debt, equity, or hybrid instruments along with other activities considered appropriate under the circumstances.

The Company is not subject to externally-imposed capital requirements and the Company's overall strategy with respect to capital risk management has not changed significantly from the year ended August 31, 2008.

## 16. Financial risk management:

### (a) Overview:

The Company has exposure to credit risk, liquidity risk and market risk. The Company's board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The audit committee of the board reviews the Company's risk management policies from time to time on an as needed basis.

### (b) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable. The carrying amount of financial assets represents the Company's estimate of its maximum credit exposure.

The Company's exposure to credit risk with its subscribers is influenced mainly by the individual characteristics of each subscriber. All of the Company's subscribers are located in Canada and are either residential or commercial in nature. No individual subscriber's trade receivable poses a significant credit risk to the Company.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Interim Unaudited Consolidated Financial Statements (continued)  
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Three and six months ended February 28, 2009 and February 29, 2008

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## 16. Financial risk management (continued):

The Company establishes an allowance for doubtful accounts that represents its estimate of likely losses with respect to its trade receivables. This allowance is established based on historic trends and other information available to the Company. As at February 28, 2009, Look had total past due accounts receivable of \$210 and an allowance for doubtful accounts of \$119 (August 31, 2008 - \$264 and \$147 respectively).

### (c) Liquidity risk:

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

Effective December 31, 2006, Look may redeem the convertible debentures in certain circumstances at a price equal to par plus accrued and unpaid interest up to, but not including, the date of redemption. Look has the option to settle its obligation and repay the principal by issuing shares of Look.

The mortgage payable bears interest at the rate of 10.5% per annum and matures on August 21, 2009.

The Company has incurred significant operating losses and negative cash flows from operations in recent years and has a working capital deficiency of \$13,225 (August 31, 2008 - \$13,429). The Company will need to raise cash by July 2009 in order to meet the needs of its existing operations and there is significant doubt about the Company's use of the going concern assumption (See note 1).

As at February 28, 2009, the Company had financial assets held for trading of \$5,639 and financial liabilities of \$19,439 (August 31, 2008 - \$5,984 and \$19,652 respectively). The Company manages its liquidity risk by monitoring forecasted and actual gross margin and cash flows from operations on an ongoing basis.

# UNIQUE BROADBAND SYSTEMS, INC.

Notes to Interim Unaudited Consolidated Financial Statements (continued)  
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Three and six months ended February 28, 2009 and February 29, 2008

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## 16. Financial risk management (continued):

### (d) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, and interest rates will affect the Company's income or the value of its financial instruments. The Company's products and services are available solely in Canada and substantially all of the Company's financial assets and liabilities originate in Canadian dollars. The Company is, however, exposed to currency risk for purchases that are denominated in foreign currencies. The Company believes this risk is minimal and has not entered into any currency hedging transactions.

The Company is subject to interest rate risk on its cash and cash equivalents and restricted cash (see notes 4 and 16). The Company estimates that for each 1% decline in the interest rate earned on its cash holdings, interest income will decline by approximately \$40 per annum.

The Company may also be subject to interest rate risk on its mortgage payable which bears interest at the rate of 10.5% per annum and matures on August 21, 2009. A 1% increase or decrease in the interest rate charged on the mortgage is expected to impact net income, either positively or negatively respectively, by \$18 per annum.

Look's convertible secured debentures bear interest at a rate of 7% per annum and will mature on December 30, 2013. The interest on the debentures has historically been paid in shares.

### (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, accounts payable and accrued liabilities and provisions, carrying amounts approximate fair value due to the short-term nature of the assets and liabilities;
- (ii) The long-term debt, due within one year is carried at amortized cost; and,
- (iii) The liability component of the convertible debentures is carried at amortized cost.

# UNIQUE BROADBAND SYSTEMS, INC.

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

Three and six months ended February 28, 2009 and February 29, 2008

## 16. Financial risk management (continued):

(f) Financial instruments:

(i) Classification of financial instruments:

	February 28, 2009	August 31, 2008
Financial assets:		
Held for trading, measured at fair value:		
Cash and cash equivalents	\$ 4,873	\$ 5,168
Accounts receivable	255	326
Restricted cash	511	490
	<u>\$ 5,639</u>	<u>\$ 5,984</u>
Financial liabilities:		
Held for trading:		
Accounts payable	\$11,443	\$11,932
Accrued liabilities and provisions	5,275	5,004
	<u>\$16,718</u>	<u>\$16,936</u>
Amortized cost:		
Long-term debt, due within one year	1,794	1,787
Liability component of convertible debentures	927	929
	<u>\$ 2,721</u>	<u>\$ 2,716</u>
	<u>\$19,439</u>	<u>\$19,652</u>

The Company had not classified any assets as available-for-sale or held-to-maturity during the three and six month periods ended February 28, 2009.

(ii) Investment income and expense:

	Three months ended February 28, 2009	Three months ended February 29, 2008
Interest income earned on financial assets held for trading:		
Cash and cash equivalents	\$ 22	\$ 73
Restricted cash	5	3
	<u>\$ 27</u>	<u>\$ 76</u>
Interest expense on financial liabilities:		
Long-term debt, due within one year	\$ (46)	\$ (50)
Liability component of convertible debentures	(31)	(39)
	<u>\$ (77)</u>	<u>\$ (89)</u>

# UNIQUE BROADBAND SYSTEMS, INC.

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

Three and six months ended February 28, 2009 and February 29, 2008

## 16. Financial risk management (continued):

	Six months ended February 28, 2009	Six months ended February 29, 2008
Interest income earned on financial assets held for trading:		
Cash and cash equivalents	\$ 55	\$ 168
Restricted cash	8	6
	<u>\$ 63</u>	<u>\$ 174</u>
Interest expense on financial liabilities:		
Long-term debt, due within one year	\$ (93)	\$ (100)
Liability component of convertible debentures	(65)	(78)
	<u>\$(158)</u>	<u>\$(178)</u>

(iii) Accounts receivable:

	February 28, 2009	August 31, 2008
Trade receivable	\$ 322	\$ 438
Allowance for doubtful accounts	(119)	(147)
	<u>\$ 203</u>	<u>\$ 291</u>

## 17. Sale of business:

On October 17, 2008, Look executed an Asset Purchase Agreement (the "Agreement") for the sale of its web hosting and domain name business. The Agreement, which closed on November 1, 2008, requires the following:

- (a) Consideration in the amount of approximately \$3,800 payable to Look, subject to potential post-closing adjustments; and
- (b) A 40-month Shared Hosting Marketing and Licensing Agreement, whereby the EasyHosting brand will be jointly promoted and the revenue generated therefrom will be shared.

Look recorded a gain on the sale of the business of \$4,200 and was relieved of its obligation to certain subscribers to provide future services which led to a decline of \$507 in unearned revenue. An amount payable for services provided to Look of \$331 was offset against consideration to be received from the sale. At February 28, 2009 Look had collected net cash of \$3,440.



# UNIQUE BROADBAND SYSTEMS, INC.

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

Three and six months ended February 28, 2009 and February 29, 2008

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## 18. Plan of arrangement:

On December 1, 2008, Look announced that it would apply to the Ontario Superior Court of Justice for an Interim Order under the Canada Business Corporations Act (Section 192) permitting it to hold a special meeting of shareholders to approve a plan to permit the orderly sale of some or all, in whole or in part, of its assets. The Ontario Superior Court of Justice granted the Interim Order permitting Look to hold the aforementioned special meeting on January 14, 2009.

At the meeting, Look's shareholders were asked to approve (by 66 2/3% of the votes cast in person or by proxy) both the sales process and the arrangement, as set forth in the Plan of Arrangement, to permit the orderly sale of some or all, in whole or in part, of Look's assets to maximize shareholder value.

Look's assets include:

- 1) Spectrum – Approximately 100 MHz of contiguous licensed spectrum in Ontario and Québec covering approximately 18 million people (1.8 billion MHz/Pops);
- 2) Broadcast License – A Canadian Radio-television and Telecommunications Commission ("CRTC") mobile broadcast license which has been renewed by the CRTC to August 2011;
- 3) Subscribers – Approximately 30,000 broadcast and Internet subscribers;
- 4) Network – A network consisting of two network operating centers (Toronto, Ontario and Montreal, Québec), 26 one-way broadcast sites and 10 two-way broadcast sites; and
- 5) Tax Attributes – Approximately \$300 million in tax attributes.

At the special meeting, shareholders overwhelmingly approved, by approximately 94%, the aforementioned sales process and the arrangement resolutions, as set forth in the Plan of Arrangement.

On January 21, 2009, the Ontario Superior Court of Justice granted the Sales Process Order permitting Look to commence a sales process for some or all, in whole or in part, of its assets. The Court also appointed Grant Thornton Limited to work with Look's Board of Directors and act as Monitor to conduct and manage the sales process.

On February 17, 2009, Look announced that the deadline for the delivery of bids to Grant Thornton Limited had passed and that the bids received were under evaluation.

Look has disclosed all publicly-available documents related to its intent to sell some or all, in whole or in part, of its assets on its website: [www.look.ca/en/maximizingshareholdervalue](http://www.look.ca/en/maximizingshareholdervalue)

# UNIQUE BROADBAND SYSTEMS, INC.

Shareholder Information

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## Board of Directors

Gerald T. McGoey  
Peter Minaki  
Louis Mitrovich  
Douglas Reeson

## Officers

Gerald T. McGoey  
Chairman and Chief Executive Officer

Malcolm Buxton-Forman  
Chief Financial Officer

## Chief Technology Consultant

Alex Dolgonos

## Auditors

KPMG LLP  
Yonge Corporate Centre  
4100 Yonge Street, Suite 200  
Toronto, Ontario  
M2H 2H3

## Shareholder inquiries

UBS Investor Relations  
8250 Lawson Road  
Milton, Ontario  
L9T 5C6

email: [irinfo@uniquebroadband.com](mailto:irinfo@uniquebroadband.com)

## Transfer agent

Equity Transfer & Trust Company  
200 University Avenue, Suite 400  
Toronto, Ontario  
M5H 4H1  
Tel: (416) 361-0152  
Fax: (416) 361-0470

email: [irinfo@equitytransfer.com](mailto:irinfo@equitytransfer.com)

## Common shares

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