
Consolidated Financial Statements

UNIQUE BROADBAND SYSTEMS, INC.

Years ended August 31, 2007 and 2006

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

The Company maintains appropriate processes to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting principles which management believes are appropriate for the Company are described in note 2 to the financial statements.

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

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



Gerald T. McGoey
Chairman and Chief Executive Officer



Malcolm Buxton-Forman
Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Unique Broadband Systems, Inc. as at August 31, 2007 and 2006 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants, Licensed Public Accountants
Toronto, Canada
November 7, 2007

UNIQUE BROADBAND SYSTEMS, INC.

Consolidated Balance Sheets
(In thousands of Canadian dollars)

August 31

	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,650	\$ 8,481
Restricted cash (note 4)	500	511
Accounts and other receivables	714	1,389
Inventory	62	174
Prepaid expenses and deposits	440	637
	<u>11,366</u>	<u>11,192</u>
Capital assets (note 5)	12,508	18,091
Deferred charges (note 6)	129	196
	<u>\$ 24,003</u>	<u>\$ 29,479</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable	\$ 12,489	\$ 10,522
Accrued liabilities	5,572	4,098
Unearned revenue	819	956
Current portion of long-term debt (note 7)	14	39
Current portion of liability component of convertible debenture	27	28
	<u>18,921</u>	<u>15,643</u>
Long-term debt (note 7)	1,800	1,814
Liability component of convertible debenture	769	793
Non-controlling interest (note 8)	2,202	7,752
Shareholders' equity:		
Share capital (note 9)	58,139	58,139
Contributed surplus	2,056	1,041
Deficit	(59,884)	(55,703)
	<u>311</u>	<u>3,477</u>
Basis of presentation - going concern (note 1)		
Commitments and contingencies (note 15)		
	<u>\$ 24,003</u>	<u>\$ 29,479</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Gerald McGoey
Director



Douglas Reeson
Director

UNIQUE BROADBAND SYSTEMS, INC.

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

Years ended August 31, 2007 and 2006

	2007	2006
Service and sales revenue (note 13)	\$ 24,620	\$ 29,877
Carrier charges and cost of sales (note 13)	11,996	13,116
Gross margin	12,624	16,761
Expenses:		
Marketing and sales	150	662
Customer care	1,978	3,193
Engineering and operations	3,325	5,002
General and administration	10,455	9,701
Amortization of capital assets	5,701	4,948
Amortization of deferred charges	67	75
	21,676	23,581
	(9,052)	(6,820)
Accretion on liability component of convertible debentures	(159)	(146)
Interest expense	(204)	(187)
Interest income	397	269
Loss on disposal of capital assets	(14)	-
Loss from continuing operations before income taxes and non-controlling interest	(9,032)	(6,884)
Income taxes recovery (note 11)	-	2
Non-controlling interest	5,851	3,249
Loss from continuing operations	(3,181)	(3,633)
Income/(loss) from discontinued operations (note 10)	(1,000)	1,221
Loss for the year	(4,181)	(2,412)
Deficit, beginning of year	(55,703)	(53,291)
Deficit, end of year	\$ (59,884)	\$ (55,703)
Loss per share from continuing operations:		
Basic and diluted	\$ (0.03)	\$ (0.03)
(Loss)/earnings per share from discontinued operations:		
Basic and diluted	\$ (0.01)	\$ 0.01
Loss per share:		
Basic and diluted	\$ (0.04)	\$ (0.02)
Weighted average number of outstanding shares in thousands:		
Basic and diluted (note 9)	102,748	102,748

See accompanying notes to consolidated financial statements.

UNIQUE BROADBAND SYSTEMS, INC.

Consolidated Statements of Cash Flows
(In thousands of Canadian dollars)

Years ended August 31, 2007 and 2006

	2007	2006
Cash flows from/(used in) operating activities:		
Loss from continuing operations	\$ (3,181)	\$ (3,633)
Non-controlling interest	(5,851)	(3,249)
Amortization of capital assets	5,701	4,948
Amortization of deferred charges	67	75
Amortization of stock-based compensation	1,128	451
Accretion on liability component of convertible debentures	159	146
Loss on disposal of capital assets	14	-
Change in non-cash operating working capital (note 12)	3,638	(172)
Cash flows from/(used in) continued operations	1,675	(1,434)
Cash flows used in discontinued operations	(350)	(398)
Cash flows from/(used in) operating activities	1,325	(1,832)
Cash flows from/(used in) financing activities:		
Interest on convertible debentures	(1)	(9)
Increase in mortgage payable	-	600
Repayment of obligations under capital leases	(39)	(67)
Exercise of stock options	5	-
Cash flows from/(used in) financing activities	(35)	524
Cash flows from/(used in) investing activities:		
Proceeds from the repayment of loan receivable (note 10)	-	2,423
Restricted cash	11	659
Purchase of capital assets	(159)	(771)
Deferred charges	-	(42)
Proceeds on disposition of capital assets	27	-
Cash flows from/(used in) investing activities	(121)	2,269
Increase in cash and cash equivalents	1,169	961
Cash and cash equivalents, beginning of year	8,481	7,520
Cash and cash equivalents, end of year	\$ 9,650	\$ 8,481

Supplemental cash flow information (note 12)

See accompanying notes to consolidated financial statements.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to the Consolidated Financial Statements

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

Unique Broadband Systems, Inc. (the "Company") is a publicly listed Canadian company that has a 51.6% 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 (see note 10). During 2003, UBS completed certain transactions to acquire a controlling interest in Look.

1. Basis of presentation - going concern:

These consolidated financial statements have been prepared by management, on a going concern basis, in accordance with Canadian generally accepted accounting principles. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

There is doubt about the Company's ability to continue as a going concern as it has incurred significant operating losses in recent years and has a working capital deficiency of \$7,555 as at August 31, 2007 (2006 - \$4,451).

The Company's ability to continue as a going concern is dependent upon achieving and maintaining profitable operations, the successful implementation of the Company's business strategy, the availability of financing alternatives, and an acceptable outcome to the Company's contingencies (see notes 14 and 15(b)). The outcome of these matters cannot be predicted at this time. The consolidated financial statements have been prepared on a going concern basis and do not reflect any adjustments to the amounts and classifications of the assets and liabilities and reported revenues and expenses that would be necessary if the going concern basis was not appropriate. Such adjustments could be material.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to the Consolidated Financial Statements (continued)

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

2. Significant accounting policies:

(a) Basis of consolidation:

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

In accordance with the CICA Handbook Section 1600, *Consolidated Financial Statements*, when the losses applicable to the non-controlling interest in Look exceed the non-controlling interest's carrying value in Look, the excess and any further losses should 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.

(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 years. Actual results could differ from those estimates. Significant estimates are used in determining allowances for doubtful accounts, useful lives of capital assets, capital asset impairment assessments, income tax valuation allowances, certain liabilities for cost of carrier services, stock-based compensation expense and contingent liabilities.

(c) Cash and cash equivalents:

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

(d) Inventory:

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

UNIQUE BROADBAND SYSTEMS, INC.

Notes to the Consolidated Financial Statements (continued)

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

2. Significant accounting policies (continued):

(e) Capital assets:

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

Asset	Basis	Rate
Building	Declining balance	4%
Headend and network equipment	Straight line	8 - 10 years
Customer connections	Straight line	5 - 10 years
Computer hardware	Declining balance	30%
Computer software	Straight line	Up to 1 year
Office equipment and other	Declining balance	20%
Vehicles under capital leases	Declining balance	30%

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

(f) Impairment of long-lived assets:

The carrying amount of long-lived assets to be held and used is reviewed for impairment on an ongoing basis whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment is recognized when the carrying amount of an asset to be held and used exceeds the projected undiscounted future net cash flows expected from its use and disposal, and is measured as the amount by which the carrying amount of the asset exceeds its fair value. See note 5 regarding the impairment recognized during the year ended August 31, 2007.

(g) Deferred charges:

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

UNIQUE BROADBAND SYSTEMS, INC.

Notes to the Consolidated Financial Statements (continued)

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

2. Significant accounting policies (continued):

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

(h) Revenue recognition:

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

(i) Government assistance:

Government assistance is recorded as an expense reduction in the year that the expenditure is incurred and when reasonable assurance exists that the Company has complied with the terms and conditions of the approved grant program and there is reasonable assurance that the amounts will be received. The Quebec E-business activities subsidy ended effective December 31, 2006.

(j) Foreign currency translation:

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

(k) 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 future income tax assets will not be realized.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to the Consolidated Financial Statements (continued)

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

2. Significant accounting policies (continued):

(l) Incentive Plans:

(i) Stock Option Plan:

UBS has a stock option incentive plan, which is described in note 9(c). UBS accounts for all stock-based payments to employees and non-employees using the fair value based method. Under the fair value based method, compensation cost attributable to awards to employees and directors is measured at fair value at the grant date and recognized over the vesting period. Forfeitures are accounted for as they occur. Consideration paid by employees and non employees on the exercise of stock options is recorded as share capital.

For non-employee awards, the fair value of stock-based compensation is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the period of the related service agreement.

(ii) Share Appreciation Rights Plan:

UBS has a Share Appreciation Rights ("SAR") Plan, which is described in note 9(d). UBS accounts for SAR units as a liability and compensation cost is recorded based on the intrinsic value of the award when it is considered likely that the terms and conditions of the SAR awards will be met.

(m) Basic and diluted loss per common share:

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

UNIQUE BROADBAND SYSTEMS, INC.

Notes to the Consolidated Financial Statements (continued)

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

2. Significant accounting policies (continued):

(n) Recent accounting pronouncements:

(i) Accounting changes:

In 2006, the CICA issued Handbook Section 1506, Accounting Changes ("CICA 1506"). CICA 1506 prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates, and correction of errors. This new standard will be adopted by the Company on September 1, 2007.

(ii) Financial instruments:

In 2005 and 2006, the CICA issued Handbook Section 3855, Financial Instruments - Recognition and Measurement, Handbook Section 1530, Comprehensive Income, Handbook Section 3862, Financial Instruments - Disclosures, and Handbook Section 3863, Financial Instruments - Presentation. Handbook Section 3855 prescribes criteria for the classification of financial assets and liabilities and treatment of derivatives and embedded derivatives. Handbook Section 1530 prescribes the presentation and treatment of other comprehensive income (loss) and accumulated other comprehensive income (loss). Handbook Sections 3862 and 3863 carry forward the existing presentation requirements and expand the disclosure requirements to complement the changes in accounting policy made in accordance with Handbook Section 3855. Handbook Sections 3855 and 1530 will be adopted by the Company on September 1, 2007 and Handbook Sections 3862 and 3863 will be subsequently adopted on September 1, 2008.

3. Investment in Look:

At August 31, 2007, UBS held 24,864,478 Multiple Voting Shares and 28,614,442 Subordinate Voting Shares in Look (2006 - 24,864,478 Multiple Voting Shares and 28,288,136 Subordinate Voting Shares). In addition, UBS is the holder of a convertible debenture in the principal amount of \$3,000, which may be converted into 20,000,000 Multiple Voting Shares and 20,000,000 Subordinate Voting Shares. On a fully diluted basis, UBS holds 51.6% of Look.

4. Restricted cash:

At August 31, 2007, Look pledged \$500 (2006 - \$511) of cash to its bank as collateral for the processing of credit card transactions. Of this amount, \$300 is held in interest bearing certificates at 3.93%.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to the Consolidated Financial Statements (continued)

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

5. Capital assets:

2007	Cost	Accumulated amortization	Net book value
Land	\$ 195	\$ –	\$ 195
Building	1,402	435	967
Headend and network equipment	33,071	26,584	6,487
Customer connections	13,537	9,917	3,620
Computer hardware and software	19,502	19,169	333
Office equipment and other	2,542	1,702	840
Vehicles under capital leases	267	201	66
	\$ 70,516	\$ 58,008	\$ 12,508

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

As described in note 7, certain assets have been pledged as security in connection with certain agreements.

During the fourth quarter of 2007, Look completed a review of the carrying amount of its long-lived capital assets. Through this review and based on, amongst other things, subscriber attrition and technological changes within the telecommunications sector, Look determined that certain of these long-lived capital assets were carried at amounts greater than their net recoverable amounts (based on undiscounted estimated future net cash flows). As a result of the foregoing, a non-cash write-down, net of consolidation adjustments of \$1,037, was recorded in amortization of capital assets, bringing the carrying values of the assets on par with their fair values. The fair values of the assets subject to impairment were determined using quoted market prices where available, offers to purchase, or management's assessment of market values for similar assets.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to the Consolidated Financial Statements (continued)

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

6. Deferred charges:

			2007	2006
	Cost	Accumulated amortization	Net book value	Net book value
License renewal application costs	\$ 252	\$ 154	\$ 98	\$ 134
Deferred financing	169	142	27	55
Customer lists	12	8	4	7
	\$ 433	\$ 304	\$ 129	\$ 196

7. Long-term debt:

	2007	2006
Mortgage payable (a)	\$ 1,800	\$ 1,800
Obligations under capital leases (b)	14	53
	1,814	1,853
Less current portion	14	39
	\$ 1,800	\$ 1,814

(a) The mortgage payable bears interest at 10.5% per annum and matures on August 21, 2009. The mortgage is collateralized by a general security agreement over the assets at Look's Milton, Ontario premises, and a first legal charge over the land and building of Look.

(b) Obligations under capital leases at August 31, 2007 represent the Company's vehicle purchases under capital leases. These capital leases bear interest at 9% to 10% per annum.

Long-term debt is repayable as follows:

Years ended August 31:

2008	\$ 14
2009	1,800
	\$ 1,814

UNIQUE BROADBAND SYSTEMS, INC.

Notes to the Consolidated Financial Statements (continued)

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

8. Non-controlling interest:

The non-controlling interest in the consolidated balance sheets of the Company is based on the outside shareholders' interest in the equity of Look and the outstanding debentures as set out in the table below.

	2007	2006
Shares and equity	\$ 1,778	\$ 7,315
Equity component of convertible debentures	424	437
Non-controlling interest in Look	\$ 2,202	\$ 7,752

9. Share capital:

(a) Authorized:

Unlimited common shares

Unlimited Class A non-voting shares

(b) Issued:

At August 31, 2007, UBS had issued 91,442,522 common shares (2006 - 91,442,522) and 11,305,332 Class A non-voting shares (2006 - 11,305,332).

(c) Stock option 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 market value on the date of grant, and in the absence of terms specifying otherwise, vest annually over a three-year period and are exercisable during a period not to exceed 10 years from such grant.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to the Consolidated Financial Statements (continued)

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

9. Share capital (continued):

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

	2007		2006	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	15,954,000	\$ 0.28	13,976,000	\$ 0.31
Granted	2,620,000	\$ 0.35	2,008,000	\$ 0.13
Cancelled/expired	(2,600,000)	\$ 0.48	(30,000)	\$ 1.89
Outstanding, end of year	15,974,000	\$ 0.26	15,954,000	\$ 0.28

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

Exercise price	2007			2006		
	Options outstanding, end of year	Weighted average remaining contractual life (years)	Options exercisable, end of year	Options outstanding, end of year	Weighted average remaining contractual life (years)	Options exercisable, end of year
\$0.12 - \$0.14	2,008,000	3.6	1,561,333	2,008,000	4.6	947,667
\$0.15 - \$0.17	4,900,000	2.1	4,566,667	4,900,000	3.1	3,108,333
\$0.19 - \$0.20	1,188,000	2.5	1,188,000	1,188,000	3.5	863,333
\$0.23 - \$0.27	2,258,000	0.7	2,258,000	2,258,000	1.7	2,258,000
\$0.28 - \$0.34	2,020,000	9.8	6,667	—	—	—
\$0.40 - \$0.48	3,600,000	2.0	2,300,000	5,600,000	0.9	600,000
	15,974,000	3.1	11,880,667	15,954,000	2.4	7,777,333

During the year ended August 31, 2007, UBS recorded stock-based compensation expense of \$135 (2006 - \$243) related to options issued to employees and \$880 (2006 - \$156) related to options issued to non-employees, which has been recorded in contributed surplus. The fair value for the options granted during the year was determined using the Black-Scholes option pricing model with the following weighted average assumptions: an average risk free interest rate of 4.53% (2006 - 4.03%), a dividend yield of 0% (2006 - 0%), a volatility factor of the expected market price of UBS shares of 123% (2006 - 70%), and an expected option life of 4.7 years (2006 - 3.5 years). The weighted average fair value of options granted in the year was \$0.29 (2006 - \$0.07). The options have varying vesting terms and expire between five years and ten years from the date of grant.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to the Consolidated Financial Statements (continued)

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

9. Share capital (continued):

The CICA Handbook, Section 3870, requires the disclosure of pro forma loss and basic and diluted loss per share information for those options issued prior to June 1, 2003. Had compensation cost for options granted prior to June 1, 2003 been determined based on the fair value method of accounting for stock-based compensation, the Company's loss for 2007 and 2006 and basic and diluted loss per share would have been increased to the pro forma amounts as follows:

	2007	2006
Loss for the period, as reported	\$ (4,181)	\$ (2,412)
Stock-based compensation expense	–	(116)
Pro forma loss for the year	\$ (4,181)	\$ (2,528)
Basic and diluted loss per share, as reported	\$ (0.04)	\$ (0.02)
Pro forma basic and diluted loss per share	\$ (0.04)	\$ (0.02)

Under generally accepted accounting principles, the fair value of stock-based awards to employees is calculated through the use of option pricing models, such as the Black-Scholes model, even though such models were developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions. These models also require subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values. Because the stock-based awards have characteristics significantly different from those of freely traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock-based awards.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to the Consolidated Financial Statements (continued)

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

9. Share capital (continued):

(d) Share Appreciation Rights Plan:

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

As at August 31, 2007, the Board of Directors had awarded 8,000,000 SAR units at a weighted average grant price of \$0.15 based on the market values of UBS' common shares on the date of the awards. The awards are subject to specific market conditions being fulfilled. No charge has been recorded in the financial statements for the year ended August 31, 2007 (2006 - nil).

10. Discontinued operations:

The loss from discontinued operations in the year ended August 31, 2007 relates to additional charges for the settlement of the claim against UBS for leased premises used by UBS Technologies A/S, its Danish subsidiary that filed for bankruptcy in 2003. The income in 2006 resulted mainly from the repayment of a loan that had previously been provided for amounting to \$2,423.

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

	2007	2006
Accrued liabilities	\$ (1,871)	\$ (1,221)

UNIQUE BROADBAND SYSTEMS, INC.

Notes to the Consolidated Financial Statements (continued)

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

11. Income taxes:

(a) Income tax recovery:

Total income tax recovery varies from the amounts that would be computed by applying the statutory income tax rate of 36.1% (2006 - 36.1%) to loss before income taxes for the following reasons:

	2007	2006
Effective income tax recovery on loss before income taxes	\$ (3,623)	\$ (1,939)
Decrease (increase) results from:		
Expiration of Ontario income tax loss carry forwards	924	1,740
Change in valuation allowance for future income tax assets allocated to income tax expense	(3,582)	(3,339)
Adjustments to future income tax assets and liabilities for enacted changes in tax laws and rates	6,677	4,368
Large Corporations Tax		—
Other	(396)	(832)
	\$ —	\$ (2)

(b) Future income tax assets:

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

UNIQUE BROADBAND SYSTEMS, INC.

Notes to the Consolidated Financial Statements (continued)

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

11. Income taxes (continued):

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

	2007	2006
Future income tax assets:		
Non-capital and capital income tax losses carried forward	\$ 114,753	\$ 120,544
Capital assets - differences in net book value and undepreciated capital cost	4,165	2,007
Future deductions relating to scientific research and development	2,694	2,619
Future deductions related to financing charges and other provisions	267	501
	<u>121,879</u>	<u>125,671</u>
Future income tax liability:		
Future income inclusion relating to labour tax credits	(111)	(321)
Less valuation allowance	(121,768)	(125,350)
	<u>(121,879)</u>	<u>(125,671)</u>
	<u>\$ -</u>	<u>\$ -</u>

(c) Income tax losses:

As at August 31, 2007, the Company had 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 December 31 as follows (see note 18):

2007	\$ 110,971
2009	32,612
2010	199,090
2014	21,666
2015	1,056
2026	403
2027	1,680
	<u>\$ 367,478</u>

In addition, as at August 31, 2007, the Company had allowable federal and provincial capital losses of \$2,059 and \$12,175, respectively, with an unlimited expiration period.

As at August 31, 2007, the Company had investment tax credits available for carry forward totaling approximately \$3,092 (2006 - \$2,511). The benefit of this amount has also not been reflected in these consolidated financial statements.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to the Consolidated Financial Statements (continued)

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

12. Consolidated statement of cash flows:

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

	2007	2006
Accounts and other receivables	\$ 675	\$ (416)
Inventory	112	(45)
Prepaid expenses and deposits	197	(112)
Accounts payable and accrued liabilities	2,791	798
Unearned revenue	(137)	(397)
	\$ 3,638	\$ (172)

- (b) Supplemental cash flow information:

	2007	2006
Interest paid	\$ 204	\$ 187
Interest received	397	269
Income taxes recovered	–	2

13. Segment disclosure:

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

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

UNIQUE BROADBAND SYSTEMS, INC.

Notes to the Consolidated Financial Statements (continued)

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

13. Segment disclosure (continued):

The service and sales revenues and cost of sales are as follows:

Service	2007		2006	
	Revenues	Cost of sales	Revenues	Cost of sales
Broadcast distribution	\$10,903	\$6,163	\$12,698	\$ 5,739
Internet services	9,370	3,954	11,923	5,012
Other services	3,957	1,483	4,629	1,592
Total	24,230	11,600	29,250	12,343
Sales and installations	390	396	627	773
Total service and sales	\$24,620	\$11,996	\$29,877	\$13,116

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

14. Economic dependence:

Look purchases a significant portion of its telecommunications needs from Bell Canada. 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 provision its network services to Look (see note 15(b)(ii)).

15. Commitments and contingencies:

(a) Commitments:

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

2008	\$ 714
2009	346
2010	236
2011	186
2012	178
	\$ 1,660

UNIQUE BROADBAND SYSTEMS, INC.

Notes to the Consolidated Financial Statements (continued)

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

15. Commitments and contingencies (continued):

- (ii) 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 2007 will amount to approximately \$600.

(b) Contingencies:

- (i) Claim for damages against Inukshuk:

On January 16, 2003, UBS Wireless entered into a signed Right of Use Agreement (the "Agreement") with Inukshuk Internet Inc. ("Inukshuk"), a subsidiary of Microcell Telecommunications Inc. ("Microcell"), which would allow UBS to use the Multipoint Communications Systems ("MCS") spectrum licenses held by Inukshuk within certain license service areas. In addition, the Agreement gave UBS Wireless the right to match any binding, written irrevocable offer that Inukshuk was prepared to accept for the remaining MCS spectrum licensed to Inukshuk.

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

On April 21, 2004, after attempting unsuccessfully to resolve issues related to the Agreement, UBS Wireless commenced legal action against Allstream Inc. (now MTS Allstream Inc.), Microcell Telecommunications Inc., Microcell Solutions Inc. and Inukshuk (wholly-owned subsidiaries of Microcell and now of Rogers Communications Inc. ("Rogers") following its acquisition of Microcell in September 2004). The damages claimed are for, amongst other things, specific performance, breach of contract, breach of confidence and breach of fiduciary duty. Damages totaling \$160,000 and disgorgement of profits are claimed against each of the defendants as a result of their actions involving the Inukshuk spectrum. Statements of Defence have been filed by the defendants.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to the Consolidated Financial Statements (continued)

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

15. Commitments and contingencies (continued):

On September 16, 2005, Rogers and Bell Canada announced an agreement to jointly build and manage a Canada-wide wireless broadband network using the Inukshuk spectrum. Pursuant to this agreement, Rogers and Bell Canada were to transfer, amongst other things, the Inukshuk spectrum in the 2.5GHz frequency range to the Inukshuk Wireless Partnership (the "Inukshuk Partnership").

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

During fiscal 2007, UBS Wireless commenced proceedings to bring a motion to add the Inukshuk Partnership as a defendant to the original lawsuit. This motion was withdrawn and on August 22, 2007 UBS Wireless filed a Statement of Claim directly against the Inukshuk Partnership. The Statement of Claim seeks, amongst other things, a mandatory order requiring the Inukshuk Partnership to return to Fido Solutions Inc. ("Fido", formerly Microcell Telecommunications Inc.) any and all rights or licences 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.

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

(ii) Bell Canada:

In response to Bell Canada's "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.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to the Consolidated Financial Statements (continued)

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

15. Commitments and contingencies (continued):

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

1. Look will pay Bell Canada \$360 per month from May 1, 2007;
2. Look may not encumber or transfer its spectrum without the consent of the Court;
and
3. 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. In addition, 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, and in addition to 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 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.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to the Consolidated Financial Statements (continued)

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

15. Commitments and contingencies (continued):

(iii) Other claims:

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

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

On October 27, 2006, the Ontario Superior Court of Justice heard a motion brought by Craig Wireless to amend its claim so as to add additional defendants. The Court denied Craig Wireless' motion on January 24, 2007 and awarded costs in favour of the Company. The Company has been advised that, at this time, Craig Wireless does not intend to further amend its claim. The Company believes that the entire claim is unfounded and intends to vigorously defend itself. No accrual has been recorded in the accounts for this claim.

- (b) Certain claims have been 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. On January 22, 2007, UBS settled a claim related to leased premises used by UBS Technologies A/S in Denmark. This settlement was charged to discontinued operations (refer to note 10 for more information). A second claim, which relies on an alleged guarantee by UBS in respect to a subcontracting agreement for the manufacture of electronic products is proceeding through the Danish courts.

Management believes it has a good defense against the remaining claim and continues to vigorously defend its position.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to the Consolidated Financial Statements (continued)

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

15. Commitments and contingencies (continued):

- (c) On May 17, 2005, a proceeding was brought against UBS alleging damages of approximately \$700 for repairs to premises under a lease. UBS has filed a third party claim against a sub-tenant for indemnification of any damages to the subleased premises. Management believes it has a good defense and intends to vigorously defend its position.
- (d) On June 8, 2005, an investment dealer filed a third party claim against UBS resulting from litigation against that investment dealer by two shareholders of UBS. The claim against the investment dealer, for \$42,000, is for negligence and breach of contract pertaining to a secondary sale of UBS shares in 2000, on behalf of the two shareholders. The third party claim against UBS alleges that UBS indemnified the investment dealer against claims on the performance of the investment dealer with respect to this secondary sale of UBS shares. Management sees no merit in the third party claim and intends to vigorously defend its position.
- (iv) 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.

16. Financial instruments:

- (a) Foreign exchange risk:

The purchase of equipment from suppliers billing in foreign currencies exposes the Company to fluctuations in foreign currency exchange rates. The Company does not use derivative financial instruments to reduce its currency risk. As at August 31, 2007, approximately 1.0% (2006 – 1.3%) of the balance of accounts payable and accrued liabilities is denominated in U.S. dollars.

- (b) Credit risk:

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

UNIQUE BROADBAND SYSTEMS, INC.

Notes to the Consolidated Financial Statements (continued)

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

16. Financial instruments (continued):

(c) Fair values:

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

17. Related party transactions:

(a) Management Services Agreement with Look:

On May 19, 2004, UBS and Look entered into an agreement under which UBS is providing Look with a wide range of services designed to maximize Look's full commercial potential. Under the terms of the agreement, Look is required to pay UBS an annual fee of \$2,400. Look may, from time to time, recognize the performance of UBS in the form of cash bonus payments, direct grant of treasury shares of Look, or options for the purchase of subordinate voting shares from treasury. All options shall conform to Look's stock option plan. Look shall also reimburse UBS for certain expenses and disbursements incurred in respect of the agreement and the services provided by UBS.

The initial term of the agreement is for a moving three-year period commencing on May 19, 2004 (the "execution date"). On each anniversary of the execution date, the term will automatically recommence unless, prior to an annual anniversary, Look's Board of Directors has communicated in writing to UBS its intent that the agreement not recommence, in which event, the agreement expires on the completion of the remaining term.

(b) 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, amounted to \$516 for the year ended August 31, 2007 (2006 - \$732).

(c) Consulting Agreement:

Consulting fees, pursuant to a consulting agreement entered into in 2002 with Mr. Dolgonos, former President and CEO of UBS, amounted to \$428 for the year ended August 31, 2007 (2006 - \$692).

UNIQUE BROADBAND SYSTEMS, INC.

Notes to the Consolidated Financial Statements (continued)

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

17. Related party transactions (continued):

(d) Rent of Milton Premises

UBS has subleased a portion of Look's premises in Milton for a five-year term at an annual rent of \$74 (2006 - \$73).

18. Subsequent events:

On October 10, 2007, Look's Board of Directors approved a certain reorganization plan (the "Plan") which involves the transfer of certain assets to a wholly owned entity of Look. The purpose of the Plan is to utilize certain of Look's \$315,815 of non-capital losses, which may otherwise expire, to reduce future taxable income.

On November 7, 2007, Look was granted an order by the Ontario Superior Court of Justice that permitted it to transfer certain assets in accordance with the Plan.

UNIQUE BROADBAND SYSTEMS, INC.

Shareholder Information

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

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Stock Exchange Listing

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