

Unaudited Condensed Consolidated Interim Financial Statements of

UNIQUE BROADBAND SYSTEMS, INC.

For the three and six months ended February 29, 2016
and February 28, 2015

NOTICE OF NO AUDIT OR REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim financial statements of the Company 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 standards established by the Chartered Professional Accountants Canada for a review of interim financial statements by an entity's auditor.

UNIQUE BROADBAND SYSTEMS, INC.

Condensed Consolidated Interim Statements of Financial Position

(In thousands of Canadian dollars)

(Unaudited)

As at

	February 29, 2016	August 31, 2015
Assets		
Current assets		
Cash (note 4)	\$ 139	\$ 341
Accounts receivable and other receivables (note 5)	1,199	1,396
Prepaid expenses and deposits (note 6)	46	53
	<u>1,384</u>	<u>1,790</u>
Restricted cash (note 4)	-	50
Investment in ONEnergy Inc. (note 7)	1,019	2,043
	<u>\$ 2,403</u>	<u>\$ 3,883</u>
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	\$ 144	\$ 299
Accrued liabilities (note 8)	363	373
	<u>507</u>	<u>672</u>
Shareholders' equity		
Share capital (note 9)	58,139	58,139
Accumulated other comprehensive loss	(2,128)	(1,111)
Deficit	(54,115)	(53,817)
	<u>1,896</u>	<u>3,211</u>
	<u>\$ 2,403</u>	<u>\$ 3,883</u>

Subsequent event (note 18)

The accompanying notes are an integral part of the unaudited condensed consolidated interim financial statements.

Approved by the Board of Directors:

(Signed) – *Daniel S. Marks*

Director and Interim Chief Executive Officer

(Signed) – *Henry J. Kloeppe*

Director and Interim Chief Financial Officer

UNIQUE BROADBAND SYSTEMS, INC.

Condensed Consolidated Interim Statements of Income (Loss) and Comprehensive Income (Loss)

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

(Unaudited)

For the

	Three months ended		Six months ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
Revenue	\$ -	\$ -	\$ -	\$ -
Expense (Recovery)				
Compensation	45	42	89	82
General and administrative (note 11)	120	216	208	353
Restructuring (note 12)	-	(485)	-	(481)
	165	(227)	297	(46)
Income (loss) for the period before the undernoted	(165)	227	(297)	46
Interest income	1	5	2	17
Loss on sale of ONEnergy Inc. shares	-	-	(3)	-
Income (loss) before comprehensive income (loss)	(164)	232	(298)	63
Fair value adjustment in ONEnergy Inc. (note 7)	(64)	248	(1,017)	(244)
Income (loss) and comprehensive income (loss) for the period	\$ (228)	\$ 480	\$ (1,315)	\$ (181)
Income (loss) per share:				
Basic and diluted	(0.002)	0.004	(0.013)	(0.002)
Weighted average number of shares outstanding				
Basic and diluted	102,747,854	102,747,854	102,747,854	102,747,854

The accompanying notes are an integral part of the unaudited condensed consolidated interim financial statements.

UNIQUE BROADBAND SYSTEMS, INC.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

(In thousands of Canadian dollars, except shares)

(Unaudited)

	Share Capital (note 9)	Share Option Reserve	Other Comprehensive Income (loss)	Total Shareholders' Equity		
	Shares	Amount	Deficit			
Balance, as at September 1, 2014	102,747,854	\$ 58,139	\$ 3,235	\$ (56,331)	\$ (1,144)	\$ 3,899
Loss and comprehensive loss for the period	-	-	-	63	(244)	(181)
Balance, as at February 28, 2015	102,747,854	\$ 58,139	\$ 3,235	\$ (56,268)	\$ (1,388)	\$ 3,718
Balance, as at August 31, 2015	102,747,854	\$ 58,139	\$ -	\$ (53,817)	\$ (1,111)	\$ 3,211
Loss and comprehensive loss for the period	-	-	-	(298)	(1,017)	(1,315)
Balance, as at February 29, 2016	102,747,854	\$ 58,139	\$ -	\$ (54,115)	\$ (2,128)	\$ 1,896

The accompanying notes are an integral part of the unaudited condensed consolidated interim financial statements.

UNIQUE BROADBAND SYSTEMS, INC.

Condensed Consolidated Interim Statements of Cash Flows

(In thousands of Canadian dollars)

(Unaudited)

For the

	Three months ended		Six months ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
Cash flows from operating activities				
Income (loss) before comprehensive income (loss) for the period	\$ (164)	\$ 232	\$ (298)	\$ 63
Capital loss on sale of ONEnergy Inc. shares	-	-	3	-
Change in non-cash operating assets and liabilities				
Accounts receivable and other receivables	67	(53)	64	(58)
Prepaid expenses and deposits	50	135	7	77
Accounts payable and accrued liabilities	(53)	(251)	(32)	(150)
Interest earned on investments	-	(5)	(1)	(11)
Accrued restructuring liabilities due to related party	-	(541)	-	(537)
Decrease in restricted cash	-	-	50	-
Cash used in operating activities	(100)	(483)	(207)	(616)
Investing activities				
Cash received on sale of ONEnergy Inc. shares	-	-	5	-
Redemption of short-term investments	50	200	-	500
Interest received on short-term investments	1	-	-	5
Cash provided by investing activities	51	200	5	505
Decrease in cash and cash equivalents	(49)	(283)	(202)	(111)
Cash and cash equivalents, beginning of period	188	510	341	338
Cash and cash equivalents, end of period	\$ 139	\$ 227	\$ 139	\$ 227

The accompanying notes are an integral part of the unaudited condensed consolidated interim financial statements.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Condensed Consolidated Interim Financial Statements

(In thousands, except shares and per share amounts)

For the three and six months ended February 29, 2016 and February 28, 2015

(Unaudited)

1. Nature of operation and going concern

Unique Broadband Systems, Inc. is a publicly listed Canadian company. References to "UBS" and the "Company" include the legal entity Unique Broadband Systems, Inc. and its wholly owned subsidiary, UBS Wireless Services Inc. ("UBS Wireless"). The Company trades on the NEX, which is a separate board of the TSX Venture Exchange, under the symbol UBS.H.

CCAA proceedings

On July 5, 2011, the Company commenced proceedings under the *Companies' Creditors Arrangement Act* ("CCAA") and KSV Advisory Inc. acted as the Monitor. Detailed information with respect to the CCAA proceedings can be found on their website at www.ksvadvisory.com.

On February 26, 2015, the Court ordered the termination of proceedings by way of filing a certificate (the "Termination Certificate"), upon the satisfaction of certain conditions (the "February 26 Order"). The Company successfully determined all of the claims of its creditors and, on December 22, 2015, settled all rendered professional fees and expenses, of the Monitor, its counsel and the Company's counsel, in connection with the CCAA proceedings.

In accordance with the February 26 Order, a Termination Certificate was filed on December 23, 2015 and the CCAA proceedings were terminated.

Going concern

The going concern basis of presentation assumes that UBS will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. There is some doubt about UBS' use of the going concern assumption as a result of the settlement of the Company's CCAA proceedings.

UBS may need to raise cash (note 18) and/or monetize assets, and/or reduce its outstanding commitments in order to meet the needs of its existing operations and commitments, giving rise to doubt about UBS' use of the going concern assumption.

Notwithstanding the above, these consolidated financial statements have been prepared on a going concern basis and do not include any adjustments to the carrying values and classification 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.

These unaudited condensed consolidated interim financial statements were approved for issue by the Board of Directors on April 21, 2016.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Condensed Consolidated Interim Financial Statements

(In thousands, except shares and per share amounts)

For the three and six months ended February 29, 2016 and February 28, 2015

(Unaudited)

2. Summary of significant accounting policies

(a) Statement of compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”), using accounting policies consistent with International Financial Reporting Standards (“IFRS”).

Accounting policies and methods of their application followed in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the annual audited financial statements for the year ended August 31, 2015.

(b) Basis of presentation

These unaudited condensed consolidated interim financial statements have been prepared on a historical cost basis, except for the investment in ONEnergy Inc. (“ONEnergy”), and include the accounts of Unique Broadband Systems, Inc. and its wholly-owned subsidiary, UBS Wireless Services Inc. All intercompany transactions are eliminated on consolidation.

3. Accounting standards issued but not yet effective

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective under IFRS, and determined that the following may have an impact on the Company:

The IASB published IFRS 9, “*Financial Instruments*” (“IFRS 9”), which replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, substantially overhauls accounting requirements related to hedging and introduces a new credit loss impairment model. The standard is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of determining the impact on its financial statements.

4. Cash

(a) Cash

As at February 29, 2016, the Company held \$139 of cash (August 31, 2015 - \$341) and no cash equivalents.

(b) Restricted cash

As at August 31, 2015, UBS recorded restricted cash of \$50. On November 15, 2015, the Company’s credit card was cancelled, reducing restricted cash to nil.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Condensed Consolidated Interim Financial Statements

(In thousands, except shares and per share amounts)

For the three and six months ended February 29, 2016 and February 28, 2015

(Unaudited)

5. Accounts receivable and other receivables

Accounts receivable and other receivables balances, as at February 29, 2016 and August 31, 2015, are set out in the following table:

	February 29, 2016	August 31, 2015
Recoveries – Jolian Parties	\$ 1,184	\$ 1,184
Insurance recovery	-	160
GST/HST receivable	15	37
Other	-	15
Total	\$ 1,199	\$ 1,396

(a) Recoveries – Jolian Parties

The Company is seeking to recover, from former Chief Executive Officer (“CEO”) Gerald McGoey and Jolian Investments Ltd, together referred to as the “Jolian Parties”, cost orders totaling \$1,384 and a \$200 disgorgement order (note 15(a)). The Company believes that it will recover the amount of \$1,584 from the Jolian Parties. However, there may be costs incurred to collect the debt and risk in amount and timing of the cash flows.

Accordingly, the Company has made an estimate at this time of this impact in the amount of \$400. If the amount is fully recovered, the difference between the proceeds and the carrying value will be credited to net income.

Estimation Uncertainty

To collect the amount of \$1,584, it is anticipated that there will be legal costs for collection. The amount of ultimate net cash flows from the recovery could vary, according to amount, timing and related costs, as the process of collection unfolds.

(b) Insurance recovery

On December 18, 2015, the Company reached a settlement with its insurance provider for all insurance claims submitted, which resulted in a reimbursement of \$160 to the Company.

6. Prepaid expenses and deposits

The Company’s prepaid expenses and deposits, as at February 29, 2016 and August 31, 2015, are summarized in the following table:

	February 29, 2016	August 31, 2015
Monitor retainers ⁽¹⁾	\$ -	\$ 35
Legal retainers ⁽²⁾	8	11
Other	38	7
Total	\$ 46	\$ 53

⁽¹⁾ Funds were placed on retainer with the Monitor on June 27, 2011 for, among other things, advice with regard to CCAA. The retainer balance, upon completion of the CCAA process totaling \$30, was returned to the Company on January 6, 2016.

⁽²⁾ Funds are held in trust with law firms for, among other things, legal advice with regard to the Jolian Parties recoveries.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Condensed Consolidated Interim Financial Statements

(In thousands, except shares and per share amounts)

For the three and six months ended February 29, 2016 and February 28, 2015

(Unaudited)

7. Investment in ONEnergy Inc.

As at August 31, 2015, the Company held 2,553,000 common shares in ONEnergy (TSXV: OEG).

During the first quarter of fiscal 2016, UBS sold 6,500 shares in ONEnergy and, as at February 29, 2016, the economic and voting interest of ONEnergy was 10.6%.

The value of the Company's shares of ONEnergy as at February 29, 2016, based on the bid price of its common shares of \$0.40, was \$1,019 (August 31, 2015 – \$0.80; \$2,043).

The Company accounts for its investment using the fair value method, and this asset is classified as Available For Sale ("AFS").

8. Accrued liabilities

The Company's accrued liabilities, as at February 29, 2016 and August 31, 2015, are summarized in the following table:

	February 29, 2016	August 31, 2015
HST on cost recoveries ⁽¹⁾	\$ 152	\$ 152
Professional expenses ⁽²⁾	114	134
Board fees ⁽³⁾	46	23
Compensation accruals ⁽⁴⁾	51	34
Legal expenses	-	30
Total	\$ 363	\$ 373

⁽¹⁾ Refer to note 15(a).

⁽²⁾ Includes costs associated with the Company's audit, tax reporting and Annual General Meeting requirements.

⁽³⁾ Includes accrued director fees for the Board of Directors appointed May 4, 2015.

⁽⁴⁾ Includes consulting fees accrued for services rendered by the CEO who was appointed May 4, 2015.

9. Share capital

(a) Authorized

Unlimited common shares

Unlimited Class A non-voting shares

(b) Issued and outstanding

As at February 29, 2016 and August 31, 2015, UBS had 102,747,854 common shares (the "Common Shares") and no Class A non-voting shares issued and outstanding, totaling \$58,139 (note 18).

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Condensed Consolidated Interim Financial Statements

(In thousands, except shares and per share amounts)

For the three and six months ended February 29, 2016 and February 28, 2015

(Unaudited)

9. Share capital (continued)

(c) 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. The exercise price of the options is determined by the Board of Directors at the time of the grant of an option, but cannot be lower than the closing market price of UBS' shares on the NEX on the business day immediately preceding the day on which an option is granted. In the absence of terms specifying otherwise, options vest annually over a three-year period and are exercisable during a period not to exceed 10 years from such grant.

The following table reflects activity under the Option Plan:

	Number of options	Weighted average exercise price
Balance as at September 1, 2014	3,000,000	\$ 0.15
Expired during the year ended August 31, 2015	(3,000,000)	0.15
Balance as at August 31, 2015 and February 29, 2016	-	-

As at February 29, 2016 and August 31, 2015, no stock options were issued or outstanding.

During the year ended August 31, 2015, no stock options were granted and 3,000,000 stock options were recognized as expired.

(d) Rights Offering

On February 25, 2016, the Company issued rights ("Right" or "Rights") of its Common Shares in connection with a previously announced rights offering (the "Rights Offering") to eligible shareholders for maximum gross proceeds to the Company of \$504.

The Rights Offering was made to residents in all of the provinces of Canada. Under the Rights Offering, the Company issued one Right for every issued and outstanding eligible Common Share to shareholders of record at the close of business on February 25, 2016 (the "Record Date"). There were 100,793,472 outstanding eligible Common Shares on the Record Date. Each registered shareholder of eligible Common Shares on the Record Date received one Right for each Common Share held by such shareholder. Two Rights plus the sum of \$0.01 entitled the Rights holder to subscribe for one Common Share.

Eligible shareholders were entitled to subscribe for additional Common Shares, subject to certain limitations as set out in the Company's Rights Offering Circular which was filed on www.sedar.com, together with a Rights Offering Notice, on February 25, 2016. Refer to Note 18 for results.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Condensed Consolidated Interim Financial Statements

(In thousands, except shares and per share amounts)

For the three and six months ended February 29, 2016 and February 28, 2015

(Unaudited)

10. Segment disclosure

There were no recorded revenues for the three and six months ended February 29, 2016 and February 28, 2015.

11. General and administrative

During the three and six months ended February 29, 2016, the Company recorded general and administrative expenses totaling \$120 and \$208 respectively (February 28, 2015 - \$216 and \$353 respectively).

12. Restructuring

On February 26, 2015, the Company settled all claims brought by a former director ("Former Director"), which resulted in the reversal of a contingent award approved by the previous directors in 2009 in the amount of \$465, accrued interest of \$80, and recovery of \$60 from the remaining \$116 advanced during fiscal 2010 to a professional firm on the Former Director's behalf. \$50 was reimbursed by the Former Director to the Company, \$10 was applied against expenses incurred from the Company's former legal counsel, and the balance of \$56 was expensed to restructuring during the quarter ended February 28, 2015.

13. Related party transactions

(a) Compensation of key management personnel

The Company's key management personnel includes members of the executive team and the board of directors of the Company and its wholly owned subsidiaries.

Key management compensation for the three and six months ended February 29, 2016 totaled \$43 and \$86 (February 28, 2015 - \$45 and \$90) respectively, which included \$17 and \$35 for director fees (February 28, 2015 - \$24 and \$50) respectively.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Condensed Consolidated Interim Financial Statements

(In thousands, except shares and per share amounts)

For the three and six months ended February 29, 2016 and February 28, 2015

(Unaudited)

14. Income taxes

As at February 29, 2016, UBS had \$18,530 in non-capital income tax losses with expiry dates between 2027 and 2035, SRED pool carryforwards of \$11,545, capital loss carryforwards of \$23,294, and non-tax deductible reserves of \$384.

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

2027	\$ 2,215
2028	423
2029	1,626
2030	1,656
2031	5,134
2032	1,791
2033	2,423
2034	1,174
2035	2,088
	<hr/>
	\$ 18,530

15. Contingencies

(a) Jolian claims

The Company was successful in defending, at trial and on appeal, all claims brought by the Jolian Parties in respect of certain contingent awards approved by the previous directors in 2009 and claims for enhanced severance. The Company was awarded costs, for both the trial heard in February and March 2013 ("Jolian Trial") and the appeal and cross-appeal heard on June 17, 2014, totaling \$1,384.

The Jolian Parties' claim for indemnification was disallowed during the Jolian Trial and was upheld on appeal. The Jolian Parties were ordered to repay UBS the \$200 legal retainer advanced to their counsel, pursuant to a disgorgement order.

Accordingly, the total owed to UBS by the Jolian Parties is \$1,584. The Company is seeking recovery of the cost and disgorgement orders and has recorded the amounts in accounts receivable and other receivables (note 5(a)).

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Condensed Consolidated Interim Financial Statements

(In thousands, except shares and per share amounts)

For the three and six months ended February 29, 2016 and February 28, 2015

(Unaudited)

15. Contingencies (continued)

(b) CCAA

On July 5, 2011, the Company commenced proceedings under CCAA and KSV Advisory Inc. acted as the Monitor. Detailed information with respect to the CCAA proceedings can be found on their website at www.ksvadvisory.com.

On February 26, 2015, the Court ordered the termination of proceedings by way of filing a Termination Certificate, upon the satisfaction of certain conditions. The Company successfully determined all of the claims of its creditors and, on December 22, 2015, settled all rendered professional fees and expenses, of the Monitor, its counsel and the Company's counsel, in connection with the CCAA proceedings.

In accordance with the February 26 Order, a Termination Certificate was filed on December 23, 2015 and the CCAA protection was terminated.

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

16. Management of capital

The Company's overall strategy with respect to management of capital is to provide the financial capacity and flexibility in order to preserve its ability to meet its strategic objectives and financial obligations and continue as a going concern. This is effected by offsetting less liquid strategic investment holdings with low-risk highly-liquid cash accounts and, from time to time, short-term deposits.

The Company currently does not use other sources of financing that require fixed payments of interest and principal due to the lack of cash flow from current operations and is not subject to any externally imposed capital requirements.

The Company invests its liquid capital in short-term investments to obtain adequate cash returns. The investment decision is based on cash management to ensure working capital is available to meet the Company's short-term obligations while maximizing liquidity, and returns on unused capital and allowing flexibility in holding longer term strategic investments.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Condensed Consolidated Interim Financial Statements

(In thousands, except shares and per share amounts)

For the three and six months ended February 29, 2016 and February 28, 2015

(Unaudited)

17. Financial instruments and risk management

The Company's activities may expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate and equity price risk).

Risk management is carried out by the Company's management team with guidance from the Audit Committee, under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

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 obligations. The Company's maximum exposure to credit risk relates to the management of cash.

Interest rate risk

The Company had no significant exposure to interest rate risk through its financial instruments as at February 29, 2016 and August 31, 2015.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. The Company has a planning and budgeting process in place by which it anticipates and determines the funds required to support normal operation requirements. The Company coordinates this planning and budgeting process with its financing activities through the capital management process described in note 16, in normal circumstances.

The Company's financial liabilities are comprised of its accounts payable and accrued liabilities.

Other price risk

The Company is exposed to other price risk on its investment in equities quoted in an active market since changes in market prices could result in changes in the fair value of the investment.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Condensed Consolidated Interim Financial Statements

(In thousands, except shares and per share amounts)

For the three and six months ended February 29, 2016 and February 28, 2015

(Unaudited)

18. Subsequent events

Rights Offering Results

The issued Rights, as detailed in Note 9(d), expired on March 25, 2016 and the Rights Offering was fully subscribed on closing. Details, excluding share issuance costs, are as follows:

Common Shares	#	\$
Balance, as at February 25, 2016 (Record Date)	102,747,854	\$58,139
Issuance of shares for cash:		
Basic subscription	27,368,867	274
Additional subscription	23,027,869	230
Balance, as at April 4, 2016	153,144,590	\$58,643