

Unaudited Condensed Consolidated Interim Financial Statements of

UNIQUE BROADBAND SYSTEMS, INC.

For the three and nine months ended May 31, 2016 and 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

	May 31, 2016	August 31, 2015
Assets		
Current assets		
Cash (note 4)	\$ 224	\$ 341
Short-term investments (note #)	51	-
Accounts receivable and other receivables (note 5)	1,212	1,396
Prepaid expenses and deposits (note 6)	30	53
	1,517	1,790
Restricted cash (note 4)	-	50
Investment in ONEnergy Inc. (note 7)	981	2,043
	\$ 2,498	\$ 3,883
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	\$ 17	\$ 299
Accrued liabilities (note 8)	286	373
	303	672
Shareholders' equity		
Share capital (note 9)	58,549	58,139
Accumulated other comprehensive loss	(2,166)	(1,111)
Deficit	(54,188)	(53,817)
	2,195	3,211
	\$ 2,498	\$ 3,883

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. Kloepper

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		Nine months ended	
	May 31, 2016	May 31, 2015	May 31, 2016	May 31, 2015
Revenue	\$ -	\$ -	\$ -	\$ -
Expense (Recovery)				
Compensation	43	42	132	124
General and administrative (note 11)	30	281	238	634
Restructuring (note 12)	-	(57)	-	(538)
	73	266	370	220
Loss for the period before the undernoted	(73)	(266)	(370)	(220)
Interest income	-	3	2	20
Loss on sale of ONEnergy Inc. shares	-	-	(3)	-
Loss before comprehensive income (loss)	(73)	(263)	(371)	(200)
Fair value adjustment in ONEnergy Inc. (note 7)	(38)	598	(1,055)	354
Income (loss) and comprehensive income (loss) for the period	\$ (111)	\$ 335	\$ (1,426)	\$ 154
Income (loss) per share:				
Basic and diluted	(0.001)	0.003	(0.009)	0.001
Weighted average number of shares outstanding				
Basic and diluted	153,144,590	102,747,854	153,144,590	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) Shares	Share Capital (note 9) Amount	Share Option Reserve	Deficit	Other Comprehensive Income (loss)	Total Shareholders' Equity
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	-	-	-	(200)	354	154
Balance, as at May 31, 2015	102,747,854	\$ 58,139	\$ 3,235	\$ (56,531)	\$ (790)	\$ 4,053
Balance, as at August 31, 2015	102,747,854	\$ 58,139	\$ -	\$ (53,817)	\$ (1,111)	\$ 3,211
Rights offering	50,396,736	504	-	-	-	504
Share issuance costs	-	(94)	-	-	-	(94)
Loss and comprehensive loss for the period	-	-	-	(371)	(1,055)	(1,426)
Balance, as at May 31, 2016	153,144,590	\$ 58,549	\$ -	\$ (54,188)	\$ (2,166)	\$ 2,195

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		Nine months ended	
	May 31, 2016	May 31, 2015	May 31, 2016	May 31, 2015
Cash flows from operating activities				
Loss before comprehensive income (loss) for the period	\$ (73)	\$ (263)	\$ (371)	\$ (200)
Capital loss on sale of ONEnergy Inc. shares	-	-	3	-
Change in non-cash operating assets and liabilities				
Accounts receivable and other receivables	(13)	54	51	(4)
Prepaid expenses and deposits	16	13	23	90
Accounts payable and accrued liabilities	(204)	(346)	(236)	(496)
Interest earned on investments	-	(2)	(1)	(13)
Accrued restructuring liabilities due to related party	-	(500)	-	(1,037)
Provisions	-	(150)	-	(150)
Decrease in restricted cash	-	-	50	-
Cash used in operating activities	(274)	(1,194)	(481)	(1,810)
Financing activities				
Issuance of shares	504	-	504	-
Payment of share issuance costs	(94)	-	(94)	-
Cash provided by financing activities	410	-	410	-
Investing activities				
Cash received on sale of ONEnergy Inc. shares	-	-	5	-
(Purchase) redemption of short-term investments	(51)	1,050	(51)	1,550
Interest received on short-term investments	-	9	-	14
Cash provided by (used in) investing activities	(51)	1,059	(46)	1,564
Increase (decrease) in cash and cash equivalents	85	(135)	(117)	(246)
Cash and cash equivalents, beginning of period	139	227	341	338
Cash and cash equivalents, end of period	\$ 224	\$ 92	\$ 224	\$ 92

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 nine months ended May 31, 2016 and 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. (the "Monitor") 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 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 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 unaudited condensed consolidated interim 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 July 11, 2016.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Condensed Consolidated Interim Financial Statements

(In thousands, except shares and per share amounts)

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(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 May 31, 2016, the Company held \$224 of cash (August 31, 2015 - \$341) and no cash equivalents.

(b) Short-term investments

As at May 31, 2016, UBS held \$51 in short-term investments (August 31, 2015 – nil), which included a fully cashable guaranteed investment certificate (“GIC”) with original maturity of one year. As at May 31, 2016, the effective annual interest rate on the GIC was 0.71%. The fair value of short-term investments has been valued using Level 1 inputs.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Condensed Consolidated Interim Financial Statements

(In thousands, except shares and per share amounts)

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(Unaudited)

4. Cash (continued)

(c) 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.

5. Accounts receivable and other receivables

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

	May 31, 2016	August 31, 2015
Recoveries – Jolian Parties (net of \$400 reserve)	\$ 1,184	\$ 1,184
Insurance recovery	-	160
GST/HST receivable	22	37
Other	6	15
Total	\$ 1,212	\$ 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.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Condensed Consolidated Interim Financial Statements

(In thousands, except shares and per share amounts)

For the three and nine months ended May 31, 2016 and 2015

(Unaudited)

6. Prepaid expenses and deposits

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

	May 31, 2016	August 31, 2015
Monitor retainers ⁽¹⁾	\$ -	\$ 35
Legal retainers ⁽²⁾	8	11
Other	22	7
Total	\$ 30	\$ 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.

7. Investment in ONEnergy

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 May 31, 2016, the economic and voting interest of ONEnergy was 10.6%.

The value of the Company's shares of ONEnergy as at May 31, 2016, based on the bid price of its common shares of \$0.385, was \$981 (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 May 31, 2016 and August 31, 2015, are summarized in the following table:

	May 31, 2016	August 31, 2015
HST on cost recoveries ⁽¹⁾	\$ 152	\$ 152
Professional expenses ⁽²⁾	134	164
Board fees ⁽³⁾	-	23
Compensation accruals ⁽⁴⁾	-	34
Total	\$ 286	\$ 373

⁽¹⁾ Refer to note 15(a).

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

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

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

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Condensed Consolidated Interim Financial Statements

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9. Share capital

(a) Authorized

Unlimited common shares

Unlimited Class A non-voting shares

(b) Issued and outstanding

As at May 31, 2016, UBS had 153,144,590 common shares (the "Common Shares") and no Class A non-voting shares issued and outstanding, totaling \$58,549 (August 31, 2015, 102,747,854 and \$58,139 respectively).

(c) Rights Offering

On February 25, 2016, the Company issued rights ("Right" or "Rights") of its Common Shares in connection with a 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.

Rights Offering Results

The issued Rights expired on March 25, 2016 and the Rights Offering was fully subscribed on closing. 27,368,867 shares were issued under the basic subscription, and 23,027,869 were issued under the additional subscription, and results are summarized as follows:

	Number of shares	Total
Balance, as at August 31, 2015	102,747,854	\$58,139
Issued in Rights Offering, net of costs of issuance of \$94	50,396,736	410
Balance, as at May 31, 2016	153,144,590	\$58,549

UNIQUE BROADBAND SYSTEMS, INC.

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(Unaudited)

9. Share capital (continued)

(d) 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 May 31, 2016	-	-

As at May 31, 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.

10. Segment disclosure

There were no recorded revenues for the three and nine months ended May 31, 2016 and 2015.

11. General and administrative

During the three and nine months ended May 31, 2016, the Company recorded general and administrative expenses totaling \$30 and \$238 respectively (May 31, 2015 - \$281 and \$634 respectively).

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Condensed Consolidated Interim Financial Statements

(In thousands, except shares and per share amounts)

For the three and nine months ended May 31, 2016 and 2015

(Unaudited)

12. Restructuring

There were no restructuring expenses recorded during Fiscal 2016.

The Company recorded \$nil and \$8 respectively in accrued interest on the accrued restructuring awards during the three and nine months ended May 31, 2015.

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.

During the three months ended May 31, 2015, UBS reversed \$57 in accrued restructuring awards due to related parties, representing the HST portion of a \$500 settlement which was paid on April 27, 2015, pursuant to the February 26 Order.

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 nine months ended May 31, 2016 totaled \$43 and \$129 respectively, which included \$18 and \$52 for director fees. For the three and nine months ended May 31, 2015, key management compensation totaled \$250 and \$340 respectively which included \$24 and \$74 respectively for director fees, and the release of a CEO termination accrual of \$200, in accordance with the February 26 Order.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Condensed Consolidated Interim Financial Statements

(In thousands, except shares and per share amounts)

For the three and nine months ended May 31, 2016 and 2015

(Unaudited)

14. Income taxes

As at May 31, 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)).

(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 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.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Condensed Consolidated Interim Financial Statements

(In thousands, except shares and per share amounts)

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(Unaudited)

15. Contingencies (continued)

- (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.

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 May 31, 2016 and August 31, 2015.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Condensed Consolidated Interim Financial Statements

(In thousands, except shares and per share amounts)

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(Unaudited)

17. Financial instruments and risk management (continued)

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.