

Unaudited Condensed Consolidated Interim Financial Statements of

**UNIQUE BROADBAND SYSTEMS, INC.**

For the three and six months ended February 28, 2013  
and February 29, 2012

## **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 Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

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# UNIQUE BROADBAND SYSTEMS, INC.

## Condensed Consolidated Interim Statements of Financial Position

(In thousands of Canadian dollars)

(Unaudited)

As at

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	February 28, 2013	August 31, 2012
<b>Assets</b>		
Current assets		
Cash and cash equivalents (note 3)	\$ 4,537	\$ 1,635
Accounts receivable and other receivables (note 4)	225	203
Prepaid expenses and deposits (note 5)	548	675
	<b>5,310</b>	2,513
Restricted cash (note 3)	50	50
Investment in Look Communications Inc. (note 6)	2,773	7,011
	<b>\$ 8,133</b>	<b>\$ 9,574</b>

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## Liabilities and Shareholders' Equity

Current liabilities		
Accounts payable	\$ 996	\$ 601
Accrued liabilities (note 7)	1,690	981
Accrued restructuring liabilities due to related parties (note 8)	2,999	2,962
Provisions (note 14(a))	150	150
	<b>5,835</b>	4,694
Shareholders' equity		
Share capital (note 9)	58,139	58,139
Share option reserve	3,235	3,235
Deficit	(59,076)	(56,494)
	<b>2,298</b>	4,880
	<b>\$ 8,133</b>	<b>\$ 9,574</b>

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

Approved by the Board of Directors:

(Signed) – Robert Ulicki \_\_\_\_\_

Director

(Signed) - Victor Wells \_\_\_\_\_

Director

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# UNIQUE BROADBAND SYSTEMS, INC.

## Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

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

(Unaudited)

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	Three months ended		Six months ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Revenue	\$ -	\$ 434	\$ -	\$ 867
Expenses				
Compensation (note 10)	66	324	128	435
General and administrative	1,369	926	1,972	1,108
Restructuring charges (note 8)	19	31	37	61
	<b>1,454</b>	1,281	<b>2,137</b>	1,604
Income (loss) before the undernoted	<b>(1,454)</b>	(847)	<b>(2,137)</b>	(737)
Interest income	2	1	5	3
Gain on sale of Look shares	447	-	447	-
Equity interest in Look's losses (note 6)	<b>(123)</b>	(399)	<b>(245)</b>	(697)
Loss before comprehensive loss	<b>(1,128)</b>	(1,245)	<b>(1,930)</b>	(1,431)
Fair value adjustment in Look (note 6(a))	<b>(652)</b>	-	<b>(652)</b>	-
Loss and comprehensive loss for the period	<b>\$ (1,780)</b>	\$ (1,245)	<b>\$ (2,582)</b>	\$ (1,431)
Loss per share:				
Basic and diluted loss per share	<b>(0.017)</b>	(0.012)	<b>(0.025)</b>	(0.014)
Weighted average number of shares outstanding				
Basic and diluted	<b>102,748</b>	102,748	<b>102,748</b>	102,748

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

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# UNIQUE BROADBAND SYSTEMS, INC.

## Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

(In thousands of Canadian dollars)

(Unaudited)

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	Shares	Share Capital (note 9) Amount	Share Option Reserve	Deficit	Total Shareholders' Equity
Balance, September 1, 2011	102,748	\$ 58,139	\$ 3,235	\$(54,470)	\$ 6,904
Loss and comprehensive loss for the period	-	-	-	(1,431)	(1,431)
<b>Balance, February 29, 2012</b>	<b>102,748</b>	<b>\$ 58,139</b>	<b>\$ 3,235</b>	<b>\$ (55,901)</b>	<b>\$ 5,473</b>
Balance, September 1, 2012	102,748	\$ 58,139	\$ 3,235	\$(56,494)	\$ 4,880
Loss and comprehensive loss for the period	-	-	-	(2,582)	(2,582)
<b>Balance, February 28, 2013</b>	<b>102,748</b>	<b>\$ 58,139</b>	<b>\$ 3,235</b>	<b>\$ (59,076)</b>	<b>\$ 2,298</b>

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

# UNIQUE BROADBAND SYSTEMS, INC.

## Consolidated Interim Statements of Cash Flows

(In thousands of Canadian dollars)

(Unaudited)

	Three months ended		Six months ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Cash flows from operating activities				
Loss and comprehensive loss for the period	\$ (1,780)	\$ (1,245)	\$ (2,582)	\$ (1,431)
Less: Fair value adjustment in Look	652	-	652	-
Items not affecting cash				
Equity interest in Look's losses to February 19, 2013	123	399	245	697
Gain on sale of Look shares	(447)	-	(447)	-
Change in non-cash operating assets and liabilities				
Accounts receivable and other receivables	9	(93)	(22)	65
Prepaid expenses and deposits	39	97	127	93
Accounts payable and accrued liabilities	784	839	1,104	979
Accrued restructuring liabilities due to related party	19	31	37	61
Deferred revenue	-	(434)	-	(867)
Cash used in operating activities	(601)	(406)	(886)	(403)
Investing activities				
Cash received on sale of Look shares	3,788	-	3,788	-
Cash provided by investing activities	3,788	-	3,788	-
Increase (decrease) in cash and cash equivalents	3,187	(406)	2,902	(403)
Cash and cash equivalents, beginning of period	1,350	948	1,635	945
Cash and cash equivalents, end of period	\$ 4,537	\$ 542	\$ 4,537	\$ 542

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

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# UNIQUE BROADBAND SYSTEMS, INC.

## Notes to Condensed Consolidated Interim Financial Statements

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

For the three and six months ended February 28, 2013 and February 29, 2012

*(Unaudited)*

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### 1. Nature of operation

Unique Broadband Systems, Inc. is a publicly listed Canadian company, trading on the TSX Venture Exchange under the symbol UBS.

In 2003, UBS transitioned from a technology company that designed, developed and manufactured broadband wireless equipment to a holding company, when it acquired a controlling interest in Look Communications Inc. ("Look"). Effective May 25, 2010, UBS redeemed its convertible debenture in Look which reduced its holdings to a 39.2% fully diluted equity interest. On February 19, 2013, UBS sold 12,430 multiple voting shares and 14,630 subordinate voting shares of Look. Upon determination that the Company no longer has significant influence over Look, effective February 20, 2013, the Company accounts for its investment in Look using the fair value method (note 6).

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").

These unaudited condensed consolidated interim financial statements were approved for issue by the Board of Directors on April 26, 2013.

### 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, 2012.

#### (b) Basis of presentation

These unaudited condensed consolidated interim financial statements have been prepared on a historical cost basis 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.

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# UNIQUE BROADBAND SYSTEMS, INC.

## Notes to Condensed Consolidated Interim Financial Statements

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

For the three and six months ended February 28, 2013 and February 29, 2012

*(Unaudited)*

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### 2. Summary of significant accounting policies (continued)

#### (b) Basis of presentation (continued)

##### 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 significant doubt about UBS' use of the going concern assumption because, as at February 28, 2013, UBS has a working capital deficiency of \$525 (August 31, 2012 - \$2,181).

Furthermore, there is uncertainty regarding the outcome of certain litigation (note 14(b)). UBS will 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 classifications of assets and liabilities and reported revenue and expenses that would be necessary if the going concern basis was not appropriate. Such adjustments could be material.

##### Investment in Look

Effective February 20, 2013, the Company accounts for its investment in Look using the fair value method (note 6). This asset is classified as Available For Sale ("AFS").

##### CCAA proceedings

On July 5, 2011, UBS and UBS Wireless commenced proceedings under the *Companies' Creditors Arrangement Act* (the "CCAA"). The court has made an order staying all proceedings against UBS and its directors until May 30, 2013, and Duff & Phelps Canada Limited (the "Monitor") has been appointed as the Monitor of UBS. Further information with respect to the CCAA proceedings can be found on the Monitor's website at [www.duffandphelps.com](http://www.duffandphelps.com).

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# UNIQUE BROADBAND SYSTEMS, INC.

## Notes to Condensed Consolidated Interim Financial Statements

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

For the three and six months ended February 28, 2013 and February 29, 2012

*(Unaudited)*

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## 2. Summary of significant accounting policies (continued)

### (b) Basis of presentation (continued)

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

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

UBS has been successful in obtaining the reversal of approximately \$2,925 of awards granted by UBS’ prior board in 2009, settling certain claims, and significantly reducing operating expenses. However the Plaintiff Group continues to pursue claims against UBS for approximately \$10,000 in termination and other payments. UBS views the CCAA claims process as the best course of action to preserve its assets.

On July 6, 2012, UBS and its directors reached a settlement agreement with Mr. Dolgonos, 2064818 Ontario Inc., 6138241 Canada Inc. and DOL Technologies Inc. (the “Dolgonos Parties”) (note 14(b)(ii)).

A trial was held in the Ontario Superior Court of Justice between UBS and the Jolian Parties, which was completed on March 1, 2013. The Court decision has not been issued.

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

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# UNIQUE BROADBAND SYSTEMS, INC.

## Notes to Condensed Consolidated Interim Financial Statements

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

For the three and six months ended February 28, 2013 and February 29, 2012

*(Unaudited)*

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### 3. Cash and cash equivalents and restricted cash

#### (a) Cash and cash equivalents

As at February 28, 2013, the Company held \$4,537 of cash (August 31, 2012 - \$1,635) and no cash equivalents.

#### (b) Restricted cash

As at February 28, 2013 and August 31, 2012, UBS had restricted cash of \$50 which was held in interest-bearing certificates at 0.3%.

### 4. Accounts receivable and other receivables

Accounts receivable and other receivable balances, as at February 28, 2013 and August 31, 2012, are set out in the following table:

	February 28, 2013	August 31, 2012
GST/HST receivable	\$ 179	\$ 120
Legal retainer receivable <sup>(1)</sup>	-	37
Indemnity claims receivable <sup>(2)</sup>	30	30
Other receivables	16	16
Total	\$ 225	\$ 203

<sup>(1)</sup> During the quarter ended February 28, 2011, as a result of a settlement agreement executed between the Company and a former director, a legal retainer totaling \$37 was reallocated from prepaid expenses and deposits (note 5) to accounts receivable. During the quarter ended November 30, 2012, this retainer was expensed to professional fees.

<sup>(2)</sup> During the quarter ended May 31, 2012, the Company's insurance providers approved claims totaling \$30.

### 5. Prepaid expenses and deposits

The Company's prepaid expenses and deposits, as at February 28, 2013 and August 31, 2012, are summarized in the following table:

	February 28, 2013	August 31, 2012
2010 legal retainers <sup>(1)</sup>	\$ 316	\$ 316
Legal retainer <sup>(2)</sup>	32	201
CCAA retainers <sup>(3)</sup>	50	50
Other	150	108
Total	\$ 548	\$ 675

<sup>(1)</sup> During June and July, 2010, the former Board of Directors of the Company approved \$570 of advances to various professional firms as retainers for future services for the then directors, officers and consultants. As at February 28, 2013, UBS has been advised that the amounts on retainer had been drawn down by a total of approximately \$235. \$19 was returned to UBS as a result of a settlement agreement executed between UBS and the former CFO. As a result, it is estimated that approximately \$316 remains on retainer as at February 28, 2013.

<sup>(2)</sup> Funds totaling \$330 were placed on retainer with a legal firm on February 24, 2011 for, among other things, legal advice with regard to ongoing litigation. As at February 28, 2013, approximately \$149 was expensed, \$149 was returned to UBS, and \$32 remained on retainer.

<sup>(3)</sup> Funds totaling \$100 were placed on retainer with legal firms on June 27, 2011 for, among other things, legal advice with regard to the CCAA claims process. As at February 28, 2013, approximately \$50 was expensed and \$50 remained on retainer.

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# UNIQUE BROADBAND SYSTEMS, INC.

## Notes to Condensed Consolidated Interim Financial Statements

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

For the three and six months ended February 28, 2013 and February 29, 2012

(Unaudited)

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### 6. Look investment

#### (a) Carrying value in Look

On February 19, 2013, UBS sold 12,430 multiple voting shares and 14,630 subordinate voting shares in Look, to 2092390 Ontario Inc., for \$0.14 per share, or \$3,788, generating a gain of \$447. This transaction reduced the Company's holdings in Look, resulting in the Company reassessing the determination of significant influence on Look. The Company's investment in Look, as at February 28, 2013, of 12,435 multiple voting shares and 15,291 subordinate voting shares, represented a 19.8% economic interest and an 18.8% voting interest (August 31, 2012 – 24,864 multiple voting shares and 29,921 subordinate voting shares, or a 39.2% economic interest and a 37.6% voting interest). Management concluded that the Company no longer had significant influence on Look, pursuant to the sale of shares.

Up to February 19, 2013 the Company accounted for its investment in Look using the equity method of accounting. Subsequently, the Company determined it no longer had significant influence over Look and now accounts for its investment using the fair value method. This asset is classified as Available For Sale ("AFS").

The Company's share of Look's market capitalization, based on the bid prices of its multiple and subordinate voting shares, as at February 20, 2013 and February 28, 2013, of \$0.100 and \$0.100 respectively, was \$2,773.

The Company's carrying value of its investment in Look is summarized as follows:

Investment in Look as at September 1, 2011	\$ 11,405
Return of capital from Look	(2,739)
Cumulative equity interest in Look's losses for the year ended August 31, 2012	(1,655)
<b>Investment in Look as at August 31, 2012</b>	<b>7,011</b>
Cumulative equity interest in Look's losses from September 1, 2012 to February 19, 2013	(245)
Partial disposition of Look shares	(3,341)
Fair value adjustment in Look	(652)
<b>Investment in Look as at February 20, 2013 and February 28, 2013</b>	<b>\$ 2,773</b>

An analysis of UBS' equity interest in the post-acquisition income and losses of Look, up to February 19, 2013, is as follows:

Cumulative equity interest in Look's losses as at September 1, 2011	\$ (524)
Equity interest in Look's losses for fiscal 2012	(1,655)
Equity interest in Look's losses for the first quarter of fiscal 2013	(122)
Equity interest in Look's losses for the period December 1, 2012 to February 19, 2013	(123)
<b>Cumulative equity interest in Look's losses as at February 19, 2013</b>	<b>\$ (2,424)</b>

#### (b) Return of capital from Look

On March 13, 2012, Look paid \$6,985 to the holders of its multiple voting shares and subordinate voting shares as a return of capital, of which UBS received \$2,739.

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# UNIQUE BROADBAND SYSTEMS, INC.

## Notes to Condensed Consolidated Interim Financial Statements

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

For the three and six months ended February 28, 2013 and February 29, 2012

(Unaudited)

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### 7. Accrued liabilities

The Company's accrued liabilities, as at February 28, 2013 and August 31, 2012, are summarized in the following table:

	February 28, 2013	August 31, 2012
Legal expenses <sup>(1)</sup>	\$ 1,354	\$ 619
Professional expenses <sup>(2)</sup>	109	129
Board fees <sup>(3)</sup>	21	21
Compensation accruals <sup>(4)</sup>	200	200
Other	6	12
<b>Total</b>	<b>\$ 1,690</b>	<b>\$ 981</b>

<sup>(1)</sup> Includes, amongst others, an estimate of the costs related to the claims of certain members of the Plaintiff Group for payments under certain management services agreements and are subject to determination in the CCAA claims process (note 14(b)).

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

<sup>(3)</sup> Includes accrued board fees payable to certain members of the Plaintiff Group which are subject to determination in the CCAA claims process.

<sup>(4)</sup> Refer to note 12(c).

### 8. Restructuring

On May 5, 2009, UBS announced the sale of its wireless spectrum and commenced the restructuring of its operations. UBS recorded contingent awards, approved and allocated by its directors in June 2009, as human resource restructuring costs and these are set out in the following table:

Accrued restructuring liabilities due to related parties <sup>(1)</sup>	Total restructuring amounts
Balance as at August 31, 2011	\$ 4,003
Expensed in fiscal 2012	114
Reversal of accrual in fiscal 2012	(1,155)
<b>Balance as at August 31, 2012</b>	<b>\$2,962</b>
Expensed in first quarter of fiscal 2013	18
Expensed in second quarter of fiscal 2013	19
<b>Balance as at February 28, 2013</b>	<b>\$ 2,999</b>

<sup>(1)</sup> See note 12(d).

During the three and six months ended February 28, 2013, UBS expensed \$19 and \$37 respectively in accrued interest on the awards due to related parties (February 29, 2012 - \$30 and \$61 respectively).

On July 6, 2012, UBS settled the accrued restructuring award granted to DOL Technologies Inc. ("DOL"), which resulted in, among other things, a \$1,030 reversal of the restructuring award originally granted in June 2009 and \$125 in accrued interest, totalling \$1,155 to restructuring charges. The remaining balance of \$500 will be settled under the CCAA claims process (note 14(b)).

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# UNIQUE BROADBAND SYSTEMS, INC.

## Notes to Condensed Consolidated Interim Financial Statements

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

For the three and six months ended February 28, 2013 and February 29, 2012

(Unaudited)

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### 9. Share capital

#### (a) Authorized

Unlimited common shares

Unlimited Class A non-voting shares

#### (b) Issued and outstanding

As at February 28, 2013 and August 31, 2012, UBS had 102,748 common shares and no Class A non-voting shares issued and outstanding, totaling \$58,139.

#### (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 common shares may be issued from treasury. The exercise price of the options is determined by the Board of Directors at the time of the grant of an option, but cannot be lower than the closing market price of UBS' shares on the TSX Venture Exchange on the business day immediately preceding the day on which an option is granted, and not less than \$0.10 per share. 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
Outstanding as at September 1, 2011	9,586	\$ 0.32
Expired during the year ended August 31, 2012	(2,300)	0.47
Balance as at August 31, 2012 and February 28, 2013	7,286	\$ 0.27

A summary of the status of the Option Plan, as at February 28, 2013, is as follows:

Exercise price	Options outstanding and exercisable as at February 28, 2013 (in thousands)	Weighted average remaining contractual life
\$ 0.44	86	0.40 years
\$ 0.16	100	0.73 years
\$ 0.16	100	0.73 years
\$ 0.15	1,000	6.51 years
\$ 0.32	1,000	1.20 years
\$ 0.44	1,000	0.40 years
\$ 0.15	2,000	6.51 years
\$ 0.34	2,000	1.20 years
	7,286	3.25 years

During the three and six months ended February 28, 2013 no stock options were granted or expired (February 29, 2012 – no stock options granted and 2,000 expired).

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# UNIQUE BROADBAND SYSTEMS, INC.

## Notes to Condensed Consolidated Interim Financial Statements

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

For the three and six months ended February 28, 2013 and February 29, 2012

*(Unaudited)*

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### 10. Compensation

During the three and six months ended February 28, 2013, the Company expensed \$66 and \$128 respectively in compensation (February 29, 2012 - \$324 and \$435 respectively), which included \$38 and \$77 in key management compensation respectively (February 29, 2012 - \$269 and \$337 respectively).

### 11. Segment disclosure

There were no recorded revenues for the three and six months ended February 28, 2013.

The recorded revenues for the three and six months ended February 29, 2012 were pursuant to the Look Management Services Agreement (note 12(a)), which expired on May 19, 2012 and were drawn down from deferred.

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

### 12. Related party transactions

#### (a) Management Services Agreement with Look

Under the original terms of the Management Service Agreement entered into between Look and UBS on May 19, 2004 ("Look MSA"), Look had been required to pay an annual fee of \$2,400 to UBS and, in September 2007, Look advanced a prepaid annual fee of \$2,400. Effective January 1, 2011, UBS expensed the deferred revenue, at approximately \$145 per month, over the remaining term of the Look MSA, which expired on May 19, 2012.

The base fee, pursuant to the Look MSA earned by UBS during the three and six months ended February 29, 2012, amounted to \$434 and \$867 respectively, and was reported as revenue.

#### (b) Rent of Milton premises

During the three months ended November 30, 2012, UBS subleased a portion of Look's premises in Milton for \$2 (three and six months ended February 29, 2012 - \$6 and \$12 respectively). The sublease was terminated on September 30, 2012.

#### (c) CEO termination clause

On January 3, 2012, 2064818 Ontario Inc., which is a corporation controlled by Mr. Dolgonos, acquired additional shares with the effect of increasing the indirect holdings of UBS over which Mr. Dolgonos exercised control and direction to greater than 20%. This triggered a "deemed" termination clause in the current CEO's employment agreement, triggering a lump sum payment of \$200 in lieu of notice of termination and has been recorded in accrued liabilities.

# UNIQUE BROADBAND SYSTEMS, INC.

## Notes to Condensed Consolidated Interim Financial Statements

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

For the three and six months ended February 28, 2013 and February 29, 2012

(Unaudited)

### 12. Related party transactions (continued)

#### (d) Related party accrued restructuring liabilities

UBS recorded related party transactions as follows:

	Accrued Restructuring Liabilities					
	Balance as at August 31, 2011	Interest accrued fiscal 2012 <sup>(3)</sup>	Awards and interest reversed fiscal 2012 <sup>(2)</sup>	Balance as at August 31, 2012	Interest accrued fiscal 2013 <sup>(3)</sup>	Balance as at February 28, 2013
Jolian Investments Ltd. /McGoey <sup>(1)</sup>	\$ 1,899	\$ 58	\$ -	\$ 1,957	\$ 29	\$ 1,986 <sup>(4)</sup>
DOL Technologies Inc. /Dolgonos <sup>(2)</sup> - Settled	1,614	41	(1,155)	500	-	500 <sup>(2)</sup>
Former UBS director – Douglas Reeson	490	15	-	505	8	513 <sup>(4)</sup>
Total	\$ 4,003	\$ 114	\$ (1,155)	\$ 2,962	\$ 37	\$ 2,999

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

On July 5, 2010, the former Board of Directors, including Mr. McGoey, were removed by shareholders at a special meeting, which resulted in Jolian alleging a Company Default pursuant to the Jolian Management Services Agreement with UBS ("Jolian MSA") and a subsequent claim for, among other things, payment for termination of services and the outstanding accrued restructuring liability to Jolian (note 14(b)(i)).

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

On July 6, 2012, UBS reached a settlement agreement with the Dolgonos Parties, which resulted in, among other things, a \$1,030 reversal of the restructuring award and \$125 in accrued interest, totalling \$1,155, to restructuring charges. The remaining balance of \$500 will be settled under the CCAA claims process.

<sup>(3)</sup> The interest on accrued restructuring liabilities due to related parties is charged to restructuring charges.

<sup>(4)</sup> These amounts were approved in 2009 by the directors and are currently the subject of dispute in the CCAA claims proceedings (note 14(b)(i)).

### 13. Income taxes

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:

2014	\$ 8,527
2015	1,001
2027	2,215
2028	423
2029	1,626
2030	1,656
2031	5,134
2032	1,620
	\$ 22,202

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# UNIQUE BROADBAND SYSTEMS, INC.

## Notes to Condensed Consolidated Interim Financial Statements

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

For the three and six months ended February 28, 2013 and February 29, 2012

*(Unaudited)*

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### 14. Provisions and contingencies

#### (a) Provisions

##### Leased premises

On May 24, 2011, UBS settled the action that was brought against UBS in respect of certain repairs to premises under a lease entered into by UBS in 1999. Under the terms of the settlement, \$150 remains payable by UBS, and is subject to the claims process to be determined under CCAA.

#### (b) Contingencies

##### (i) Jolian and Reeson claims

On July 12, 2010, Jolian served a statement of claim on UBS seeking approximately \$8,610 plus applicable taxes and interest in respect of the Jolian management services agreement with UBS and certain contingent payments approved by the previous directors in 2009 (the "Jolian Claims"). Former director, Mr. Reeson, also served a statement of claim on UBS seeking approximately \$465 plus interest in respect of the contingent award approved and allocated to him by the previous directors of UBS during fiscal 2009 (the "Reeson Claim").

Subsequent to the commencement of the CCAA claims process, the Monitor received proofs of claims from Jolian, totaling \$10,112, and from Mr. Reeson, totaling \$585.

A trial was held in the Ontario Superior Court of Justice between UBS and the Jolian Parties, which was completed on March 1, 2013. The Court decision has not been issued.

The Jolian and Reeson Claims continue to be disputed and will be determined in the CCAA claims proceedings (note 14(b)(iii)).

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# UNIQUE BROADBAND SYSTEMS, INC.

## Notes to Condensed Consolidated Interim Financial Statements

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

For the three and six months ended February 28, 2013 and February 29, 2012

*(Unaudited)*

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### 14. Provisions and contingencies (continued)

#### (b) Contingencies (continued)

##### (ii) Dolgonos Parties claims

On July 12, 2010, DOL served a statement of claim on UBS seeking approximately \$7,545 plus interest in respect of the DOL management services agreement with UBS and certain contingent payments approved by the previous directors in 2009.

On December 23, 2010, 2064818 Ontario Inc. served a statement of claim on UBS and its directors. These claims sought various relief, including the removal of the directors of UBS from its board of directors, the setting aside of the amendment to the Look MSA or, in lieu thereof, damages in the amount of \$900, and restrictions on dilutive financing.

On July 6, 2012, the Dolgonos Parties claims of approximately \$8,000 were settled for a claim of \$500, the payment of which will be determined under the CCAA proceedings. All other claims and actions were dismissed, withdrawn and fully released, and the \$100 advanced to counsel for DOL, in June, 2010, was expensed in the fourth quarter of fiscal 2012.

##### (iii) CCAA

On July 5, 2011, the Ontario Superior Court made an Order under the CCAA and a subsequent Order on August 4, 2011 which, amongst other things, provided for a comprehensive stay of proceedings against UBS and that all disputed claims are to be determined in the CCAA proceedings.

Reference is made to the website of the Court Appointed Monitor supervising the CCAA proceedings [www.duffandphelps.com](http://www.duffandphelps.com) (see "restructuring cases").

(iv) In the normal course of its operations, the Company may be subject to other litigation and claims.

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

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# UNIQUE BROADBAND SYSTEMS, INC.

## Notes to Condensed Consolidated Interim Financial Statements

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

For the three and six months ended February 28, 2013 and February 29, 2012

*(Unaudited)*

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### 15. Management of capital

The Company determines capital to include shareholders' equity. The Company's overall strategy with respect to management of capital is to hold low-risk highly-liquid cash accounts.

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.

### 16. 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, foreign currency risk and commodity 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, at the end of the reporting period under its financial instruments, is summarized as follows:

	February 28, 2013	August 31, 2012
<u>Accounts and other receivables</u>		
Currently due	\$ 179	\$ 33
Past due by 90 days or less and not impaired	46	19
Past due by greater than 90 days and not impaired	-	151
	<b>\$ 225</b>	<b>\$ 203</b>

#### 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 15, in normal circumstances.

The Company's financial liabilities are comprised of its accounts payable, accrued liabilities, accrued restructuring liabilities, accrued restructuring liabilities due to related parties, and provisions, the contractual maturities of which are not determinable, because it depends on the outcome of the CCAA claims process.

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# UNIQUE BROADBAND SYSTEMS, INC.

## Notes to Condensed Consolidated Interim Financial Statements

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

For the three and six months ended February 28, 2013 and February 29, 2012

*(Unaudited)*

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### 16. Financial instruments and risk management (continued)

#### Interest rate risk

The Company had no significant exposure, as at February 28, 2013 and August 31, 2012, to interest rate risk through its financial instruments.

### 17. Subsequent events

#### **The Jolian Parties v UBS**

A trial was held in the Ontario Superior Court of Justice between UBS and the Jolian Parties, which was completed on March 1, 2013. The Court decision has not been issued.