

Unaudited Condensed Consolidated Interim Financial Statements of

**UNIQUE BROADBAND SYSTEMS, INC.**

For the three and six months ended February 28, 2014 and 2013

## **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 28,<br>2014 | August 31,<br>2013 |
|-----------------------------------------------------------------------|----------------------|--------------------|
| <b>Assets</b>                                                         |                      |                    |
| Current assets                                                        |                      |                    |
| Cash and cash equivalents (note 4)                                    | \$ 1,912             | \$ 2,869           |
| Short-term investments (note 4)                                       | 301                  | -                  |
| Accounts receivable and other receivables (note 5)                    | 228                  | 217                |
| Prepaid expenses and deposits (note 6)                                | 326                  | 303                |
|                                                                       | <b>2,767</b>         | <b>3,389</b>       |
| Restricted cash (note 4)                                              | 50                   | 50                 |
| Investment in ONEnergy Inc. (note 7)                                  | 2,218                | 2,773              |
|                                                                       | <b>\$ 5,035</b>      | <b>\$ 6,212</b>    |
| <b>Liabilities and Shareholders' Equity</b>                           |                      |                    |
| Current liabilities                                                   |                      |                    |
| Accounts payable                                                      | \$ 453               | \$ 442             |
| Accrued liabilities (note 8)                                          | 385                  | 564                |
| Accrued restructuring liabilities due to related parties (note 11(a)) | 3,882                | 3,874              |
| Provisions (note 13(a))                                               | 150                  | 150                |
|                                                                       | <b>4,870</b>         | <b>5,030</b>       |
| Shareholders' equity                                                  |                      |                    |
| Share capital (note 9)                                                | 58,139               | 58,139             |
| Share option reserve                                                  | 3,235                | 3,235              |
| Accumulated other comprehensive loss                                  | (1,207)              | (652)              |
| Deficit                                                               | (60,002)             | (59,540)           |
|                                                                       | <b>165</b>           | <b>1,182</b>       |
|                                                                       | <b>\$ 5,035</b>      | <b>\$ 6,212</b>    |

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)

For the

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|                                               | Three months ended<br>February 28, |            | Six months ended<br>February 28, |            |
|-----------------------------------------------|------------------------------------|------------|----------------------------------|------------|
|                                               | 2014                               | 2013       | 2014                             | 2013       |
| Revenue                                       | \$ -                               | \$ -       | \$ -                             | \$ -       |
| Expenses                                      |                                    |            |                                  |            |
| Compensation                                  | 43                                 | 66         | 85                               | 128        |
| General and administrative                    | 188                                | 1,369      | 384                              | 1,972      |
| Restructuring charges (note 11(a))            | 4                                  | 19         | 8                                | 37         |
|                                               | <b>235</b>                         | 1,454      | <b>477</b>                       | 2,137      |
| Loss before the undernoted                    | <b>(235)</b>                       | (1,454)    | <b>(477)</b>                     | (2,137)    |
| Interest income                               | 7                                  | 2          | 15                               | 5          |
| Gain on sale of ONEnergy shares               | -                                  | 447        | -                                | 447        |
| Equity interest in ONEnergy losses (note 7)   | -                                  | (123)      | -                                | (245)      |
| Loss before comprehensive loss                | <b>(228)</b>                       | (1,128)    | <b>(462)</b>                     | (1,930)    |
| Fair value adjustment in ONEnergy (note 7)    | <b>(832)</b>                       | (652)      | <b>(555)</b>                     | (652)      |
| Loss and comprehensive loss for the period    | <b>\$ (1,060)</b>                  | \$ (1,780) | <b>\$ (1,017)</b>                | \$ (2,582) |
| Loss per share:                               |                                    |            |                                  |            |
| Basic and diluted                             | <b>(0.010)</b>                     | (0.017)    | <b>(0.010)</b>                   | (0.025)    |
| 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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|                                               | Share Capital<br>(note 9) |                  | Share<br>Option<br>Reserve | Deficit           | Other<br>Comprehensive<br>Income | Total<br>Shareholders'<br>Equity |
|-----------------------------------------------|---------------------------|------------------|----------------------------|-------------------|----------------------------------|----------------------------------|
|                                               | Shares                    | Amount           |                            |                   |                                  |                                  |
| Balance, as at September 1, 2012              | 102,748                   | \$ 58,139        | \$ 3,235                   | \$(56,494)        | \$ -                             | \$ 4,880                         |
| Loss and comprehensive loss<br>for the period | -                         | -                | -                          | (1,930)           | (652)                            | (2,582)                          |
| <b>Balance, as at February 28, 2013</b>       | <b>102,748</b>            | <b>\$ 58,139</b> | <b>\$ 3,235</b>            | <b>\$(58,424)</b> | <b>\$ (652)</b>                  | <b>\$ 2,298</b>                  |
| Balance, as at August 31, 2013                | 102,748                   | \$ 58,139        | \$ 3,235                   | \$(59,540)        | \$ (652)                         | \$ 1,182                         |
| Loss and comprehensive loss<br>for the period | -                         | -                | -                          | (462)             | (555)                            | (1,017)                          |
| <b>Balance, as at February 28, 2014</b>       | <b>102,748</b>            | <b>\$ 58,139</b> | <b>\$ 3,235</b>            | <b>\$(60,002)</b> | <b>\$ (1,207)</b>                | <b>\$ 165</b>                    |

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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.

## Consolidated Interim Statements of Cash Flows

(In thousands of Canadian dollars)

(Unaudited)

For the

|                                                              | Three months ended<br>February 28,<br>2014 |            | Six months ended<br>February 28,<br>2014 |            |
|--------------------------------------------------------------|--------------------------------------------|------------|------------------------------------------|------------|
|                                                              | 2014                                       | 2013       | 2014                                     | 2013       |
| Cash flows from operating activities                         |                                            |            |                                          |            |
| Loss before comprehensive loss for the period                | \$ (228)                                   | \$ (1,128) | \$ (462)                                 | \$ (1,930) |
| Items not affecting cash                                     |                                            |            |                                          |            |
| Equity interest in ONEnergy's losses to<br>February 19, 2013 | -                                          | 123        | -                                        | 245        |
| Gain on sale of ONEnergy shares                              | -                                          | (447)      | -                                        | (447)      |
| Change in non-cash operating assets and liabilities          |                                            |            |                                          |            |
| Accounts receivable and other receivables                    | 20                                         | 9          | (11)                                     | (22)       |
| Prepaid expenses and deposits                                | 9                                          | 39         | (23)                                     | 127        |
| Accounts payable and accrued liabilities                     | (249)                                      | 784        | (168)                                    | 1,104      |
| Accrued restructuring liabilities due to related party       | 4                                          | 19         | 8                                        | 37         |
| Cash used in operating activities                            | (444)                                      | (601)      | (656)                                    | (886)      |
| Investing activities                                         |                                            |            |                                          |            |
| Cash received on sale of ONEnergy shares                     | -                                          | 3,788      | -                                        | 3,788      |
| Purchase of short-term investments                           | -                                          | -          | (300)                                    | -          |
| Interest earned on short-term investments                    | -                                          | -          | (1)                                      | -          |
| Cash provided by (used in) investing activities              | -                                          | 3,788      | (301)                                    | 3,788      |
| (Decrease) increase in cash and cash equivalents             | (444)                                      | 3,187      | (957)                                    | 2,902      |
| Cash and cash equivalents, beginning of period               | 2,356                                      | 1,350      | 2,869                                    | 1,635      |
| Cash and cash equivalents, end of period                     | \$ 1,912                                   | \$ 4,537   | \$ 1,912                                 | \$ 4,537   |

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, 2014 and 2013

(Unaudited)

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### 1. Nature of operation and going concern

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

#### 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, 2014, UBS has a working capital deficiency of \$2,103 (August 31, 2013 - \$1,641).

Furthermore, there is uncertainty regarding the outcome of certain litigation (note 13(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 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.

#### 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 9, 2014, 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).

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 former director and Chief Executive Officer Mr. Gerald McGoey and his personal service company Jolian Investments Ltd. ("Jolian"), (together referred to as the "Jolian Parties"), and former director Mr. Reeson ("Reeson");
- (iv) stay all payables owing by UBS; and
- (v) provide a process to determine the claims being asserted against UBS by the Jolian Parties and Reeson in a more cost effective and expeditious manner.

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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, 2014 and 2013

*(Unaudited)*

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### 1. Nature of operation and going concern (continued)

UBS views the CCAA claims process as the best course of action to settle the remaining claims and preserve its assets.

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.

These unaudited condensed consolidated interim financial statements were approved for issue by the Board of Directors on April 23, 2014.

### 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, 2013.

#### (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.

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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, 2014 and 2013

*(Unaudited)*

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### 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:

IFRS 9, "*Financial instruments*" ("IFRS 9"), as issued, reflects the first phase of the IASB's work on the replacement of IAS 39, "Financial instruments: Recognition and measurement" (IAS 39) and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after January 1, 2013, but "Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures", issued in December 2011, moved the mandatory effective date to January 1, 2015. Other phases of the project address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

### 4. Cash

#### (a) Cash and cash equivalents

As at February 28, 2014, the Company held \$1,912 of cash (August 31, 2013 - \$2,869) and no cash equivalents.

#### (b) Short-term investments

As at February 28, 2014, UBS held \$301 in short-term investments (August 31, 2013 – nil), which included 30-day cashable guaranteed investment certificates ("GIC") with original maturities of less than 365 days. As at February 28, 2014, the effective annual interest rate on the GICs was 1.25%. The fair value of short-term investments has been valued using Level 1 inputs.

#### (c) Restricted cash

As at February 28, 2014 and August 31, 2013, UBS had restricted cash of \$50 which was held in interest-bearing certificates at 0.3%.

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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, 2014 and 2013

*(Unaudited)*

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### 5. Accounts receivable and other receivables

Accounts receivable and other receivables balances, as at February 28, 2014 and August 31, 2013, are set out in the following table:

|                                           | February 28,<br>2014 | August 31,<br>2013 |
|-------------------------------------------|----------------------|--------------------|
| GST/HST receivable                        | \$ 13                | \$ 2               |
| Legal retainers receivable <sup>(1)</sup> | 200                  | 200                |
| Other receivables                         | 15                   | 15                 |
| Total                                     | \$ 228               | \$ 217             |

<sup>(1)</sup> On May 21, 2013, Madam Justice Mesbur of the Ontario Superior Court of Justice made a disgorgement order against the Jolian Parties totaling \$200 which resulted in a reallocation from prepaid expenses and deposits (note 13(b)(i)).

### 6. Prepaid expenses and deposits

The Company's prepaid expenses and deposits, as at February 28, 2014 and August 31, 2013, are summarized in the following table:

|                                     | February 28,<br>2014 | August 31,<br>2013 |
|-------------------------------------|----------------------|--------------------|
| 2010 legal retainers <sup>(1)</sup> | \$ 116               | \$ 116             |
| CCAA retainers <sup>(2)</sup>       | 50                   | 50                 |
| Legal retainer <sup>(3)</sup>       | -                    | 29                 |
| Other                               | 160                  | 108                |
| Total                               | \$ 326               | \$ 303             |

<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, 2014, 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. On May 21, 2013, Madam Justice Mesbur made a disgorgement order against the Jolian Parties totaling \$200 which resulted in a reallocation of \$200 to accounts receivable and other receivables (notes 5 and 13(b)(i)). As a result, as at February 28, 2014, Reeson's retainer of approximately \$116 remains outstanding.

<sup>(2)</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, 2014, approximately \$50 was expensed and \$50 remained on retainer.

<sup>(3)</sup> A legal retainer for ongoing litigation totaling \$29 was returned to UBS during the quarter ended February 28, 2014.

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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, 2014 and 2013

(Unaudited)

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### 7. Investment in ONEnergy Inc.

As at August 31, 2012, the Company held 24,864 multiple voting shares and 29,921 subordinate voting shares, or a 39.2% economic interest and a 37.6% voting interest in ONEnergy and accounted for its investment using the equity method of accounting.

On February 19, 2013, UBS sold 12,430 multiple voting shares and 14,630 subordinate voting shares of ONEnergy for \$0.14 per share, or \$3,788, generating a gain of \$447 and reducing its fully diluted equity interest in ONEnergy to 18.8%. Pursuant to the sale of shares, management concluded that the Company no longer had significant influence over ONEnergy and now accounts for its investment using the fair value method. This asset is classified as Available For Sale ("AFS").

On July 9, 2013, ONEnergy completed a change-of-business transaction and concurrent private placement, which further reduced the Company's holdings in ONEnergy to a 13.1% economic interest and a 12.4% voting interest.

The Company's share of ONEnergy's market capitalization, based on the bid prices of its 12,434 multiple voting shares (TSXV: OEG) and 15,291 subordinate voting shares (TSXV: OEG.A), as at February 28, 2014, of \$0.08 and \$0.08 respectively, was \$2,218 (August 31, 2013 - \$0.10 and \$0.10 respectively - \$2,773).

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

|                                                               |                 |
|---------------------------------------------------------------|-----------------|
| Investment in ONEnergy as at August 31, 2012                  | \$ 7,011        |
| Cumulative equity interest in ONEnergy's losses:              |                 |
| September 1, 2012 to November 30, 2012                        | (122)           |
| December 1, 2012 to February 19, 2013                         | (123)           |
| Partial disposition of ONEnergy shares                        | (3,341)         |
| Fair value adjustment in ONEnergy, February 19, 2013          | (652)           |
| <b>Investment in ONEnergy as at August 31, 2013</b>           | <b>\$ 2,773</b> |
| Fair value adjustment in ONEnergy, first quarter fiscal 2014  | 277             |
| Fair value adjustment in ONEnergy, second quarter fiscal 2014 | (832)           |
| <b>Investment in ONEnergy as at February 28, 2014</b>         | <b>\$ 2,218</b> |

### 8. Accrued liabilities

The Company's accrued liabilities, as at February 28, 2014 and August 31, 2013, are summarized in the following table:

|                                      | February 28,<br>2014 | August 31,<br>2013 |
|--------------------------------------|----------------------|--------------------|
| Legal expenses                       | \$ 52                | \$ 200             |
| Professional expenses <sup>(1)</sup> | 109                  | 134                |
| Board fees <sup>(2)</sup>            | 21                   | 21                 |
| Compensation accruals <sup>(3)</sup> | 200                  | 200                |
| Other                                | 3                    | 9                  |
| <b>Total</b>                         | <b>\$ 385</b>        | <b>\$ 564</b>      |

<sup>(1)</sup> Includes costs associated with the Company's audit, tax reporting and Annual General Meeting requirements.

<sup>(2)</sup> Includes, among others, accrued board fees payable to prior board members which are subject to determination in the CCAA claims process.

<sup>(3)</sup> Refer to note 11(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, 2014 and 2013

*(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, 2014 and August 31, 2013, 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. 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<br>of options | Weighted average<br>exercise price |
|----------------------------------------------------|----------------------|------------------------------------|
| Outstanding as at September 1, 2012                | 7,286                | \$ 0.27                            |
| Expired during the year ended August 31, 2013      | (1,086)              | 0.44                               |
| <b>Balance as at August 31, 2013</b>               | <b>6,200</b>         | <b>0.24</b>                        |
| Expired during the quarter ended November 30, 2013 | (200)                | 0.16                               |
| <b>Balance as at February 28, 2014</b>             | <b>6,000</b>         | <b>\$ 0.24</b>                     |

A summary of the status of the Option Plan, as at February 28, 2014, is as follows:

| Exercise price | Options outstanding<br>and exercisable as at<br>February 28, 2014<br>(in thousands) | Weighted average<br>remaining<br>contractual life |
|----------------|-------------------------------------------------------------------------------------|---------------------------------------------------|
| \$ 0.15        | 1,000                                                                               | 5.51 years                                        |
| \$ 0.15        | 2,000                                                                               | 5.51 years                                        |
| \$ 0.32        | 1,000                                                                               | 0.20 years                                        |
| \$ 0.34        | 2,000                                                                               | 0.20 years                                        |
|                | <b>6,000</b>                                                                        | <b>2.89 years</b>                                 |

During the six months ended February 28, 2014, no stock options were granted and 200 stock options expired. During the year ended August 31, 2013 – no stock options were granted and 1,086 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, 2014 and 2013

(Unaudited)

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### 10. Segment disclosure

There were no recorded revenues for the three and six months ended February 28, 2014 and 2013.

### 11. Related party transactions

#### (a) Accrued restructuring liabilities due to related parties

UBS recorded related party transactions as follows:

| Accrued Restructuring Liabilities |                                        |                                                      |                                                      |                                                    |                                        |                                                      |                                          |
|-----------------------------------|----------------------------------------|------------------------------------------------------|------------------------------------------------------|----------------------------------------------------|----------------------------------------|------------------------------------------------------|------------------------------------------|
|                                   | Balance<br>as at<br>August 31,<br>2012 | Interest<br>accrued<br>fiscal<br>2013 <sup>(4)</sup> | Awards and<br>interest<br>reversed<br>fiscal<br>2013 | Jolian<br>enhanced<br>severance<br>accrual<br>2013 | Balance<br>as at<br>August 31,<br>2013 | Interest<br>accrued<br>fiscal<br>2014 <sup>(4)</sup> | Balance<br>as at<br>February 28,<br>2014 |
| Jolian Parties <sup>(1)</sup>     | \$ 1,957                               | \$ 42                                                | \$ (1,999)                                           | \$ 2,853                                           | \$ 2,853                               | \$ -                                                 | \$ 2,853                                 |
| Dolgonos Parties <sup>(2)</sup>   | 500                                    | -                                                    | -                                                    | -                                                  | 500                                    | -                                                    | 500                                      |
| D. Reeson <sup>(3)</sup>          | 505                                    | 16                                                   | -                                                    | -                                                  | 521                                    | 8                                                    | 529                                      |
| Total                             | \$ 2,962                               | \$ 58                                                | \$ (1,999)                                           | \$ 2,853                                           | \$ 3,874                               | \$ 8                                                 | \$ 3,882                                 |

<sup>(1)</sup> Note 13(b)(i).

<sup>(2)</sup> Note 13(b)(iii).

<sup>(3)</sup> This amount was approved in 2009 by the then directors and is currently the subject of dispute in the CCAA claims proceedings (note 13(b)(ii)).

<sup>(4)</sup> The interest on accrued restructuring liabilities due to related parties is charged to restructuring charges.

#### (b) 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.

#### (c) Compensation of key management personnel

The Company's key management personnel include 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 28, 2014 totaled \$49 and \$97 respectively (February 28, 2013 – \$70 and \$136 respectively) which includes \$27 and \$53 respectively paid to directors (February 28, 2013 – \$27 and \$53 respectively).

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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, 2014 and 2013

*(Unaudited)*

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### 12. 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 | \$ 7,928         |
| 2015 | 1,001            |
| 2027 | 2,215            |
| 2028 | 423              |
| 2029 | 1,626            |
| 2030 | 1,656            |
| 2031 | 5,134            |
| 2032 | 1,791            |
| 2033 | 2,346            |
|      | <u>\$ 24,120</u> |

### 13. 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 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. Subsequent to UBS commencing proceedings in the CCAA, the Jolian Parties submitted three proofs of claim against UBS totaling approximately \$9,500 plus indemnity in respect of professional fees incurred in pursuing their claims (the "Jolian Claims"). These claims were disputed in the CCAA proceedings and a process was put in place to determine the validity and quantum of the Jolian Claims.

An appeal in the Ontario Superior Court of Justice of the denial of the Jolian Claims against UBS was completed on March 1, 2013. On May 21, 2013, the Honourable Madam Justice Mesbur released Reasons for Decision, finding that the former UBS board, including Gerald McGoey, failed to consider the interests of shareholders and breached their fiduciary duties.

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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, 2014 and 2013

*(Unaudited)*

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### 13. Provisions and contingencies (continued)

#### (b) Contingencies (continued)

##### (i) Jolian claims (continued)

Based on these findings, Her Honour (i) disallowed the Jolian Parties' claim for payment in respect of the cancellation of the Company's share appreciation rights plan, resulting in a reversal of \$600 plus \$66 in accrued interest; (ii) disallowed the Jolian Parties' claim for payment of a deferred bonus, resulting in a reversal of \$1,200 plus \$133 in accrued interest; (iii) disallowed the Jolian Parties' claim for indemnification, resulting in a reversal of \$551 to general and administrative; and (iv) ordered the Jolian Parties to repay UBS the \$200 previously advanced to them in the nature of indemnification.

Notwithstanding Madam Justice Mesbur's findings of wrongdoing on the part of the Jolian Parties, including breach of fiduciary duty, she found that, pursuant to its services agreement with UBS, Jolian was entitled to an "enhanced severance" and asked that Jolian file a revised proof of claim in this respect. The Company's initial estimate of this amount, having regard to her Honour's decision, is approximately \$2,853. Jolian's revised proof of claim is in excess of \$4,000.

On October 31, 2013, the Honourable Mr. Justice Doherty of the Ontario Court of Appeal granted leave to the Company to appeal the Judgment of the Honourable Madam Justice Mesbur, in which she found that, pursuant to its services agreement with UBS, Jolian was entitled to an "enhanced severance" as a result of the termination of its contract with UBS.

The Jolian Parties subsequently brought a cross-appeal as to decisions of the Honourable Madam Justice Mesbur.

The appeal and cross-appeal are scheduled to be heard on October 15, 2014. This hearing will ultimately determine the validity and quantum of the Jolian Parties claims.

##### (ii) Reeson claims

Former director, Mr. Douglas Reeson, 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 Claims").

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

The Reeson Claims continue to be disputed and will be determined in the CCAA claims proceedings.

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# UNIQUE BROADBAND SYSTEMS, INC.

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

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*(Unaudited)*

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### 13. Provisions and contingencies (continued)

#### (b) Contingencies (continued)

##### (iii) Dolgonos Parties claims

On July 6, 2012, the Dolgonos Parties ("DOL") claims of approximately \$8,000 were settled for a claim of \$500, the payment of which will be determined in the CCAA proceedings.

##### (iv) 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").

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

(vi) 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.

### 14. Management of capital

The Company determines capital to include shareholders' equity. While the Company remains under CCAA, the Company's overall strategy with respect to management of capital is to hold low-risk highly-liquid cash accounts and short-term investments.

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 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 of unused capital.

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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, 2014 and 2013

*(Unaudited)*

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### 15. 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, at the end of the reporting period under its financial instruments, is summarized as follows:

|                                                   | February 28,<br>2014 | August 31,<br>2013 |
|---------------------------------------------------|----------------------|--------------------|
| <u>Accounts and other receivables</u>             |                      |                    |
| Currently due                                     | \$ 28                | \$ 17              |
| Past due by 90 days or less and not impaired      | -                    | 200                |
| Past due by greater than 90 days and not impaired | 200                  | -                  |
|                                                   | <b>\$ 228</b>        | <b>\$ 217</b>      |

#### Interest rate risk

The Company had no significant exposure to interest rate risk through its financial instruments as at February 28, 2014 and August 31, 2013.

#### 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 14, in normal circumstances.

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

#### 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.