

Unaudited Condensed Consolidated Interim Financial Statements of

UNIQUE BROADBAND SYSTEMS, INC.

For the three and nine months ended May 31, 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

	May 31, 2014	August 31, 2013
Assets		
Current assets		
Cash and cash equivalents (note 4)	\$ 1,827	\$ 2,869
Short-term investments (note 4)	302	-
Accounts receivable and other receivables (note 5)	1,669	217
Prepaid expenses and deposits (note 6)	305	303
	4,103	3,389
Restricted cash (note 4)	50	50
Investment in ONEnergy Inc. (note 7)	1,573	2,773
	\$ 5,726	\$ 6,212
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	\$ 448	\$ 442
Accrued liabilities (note 8)	407	564
Accrued restructuring liabilities due to related parties (note 12(a))	1,033	3,874
Provisions (note 14(a))	150	150
	2,038	5,030
Shareholders' equity		
Share capital (note 9)	58,139	58,139
Share option reserve	3,235	3,235
Accumulated other comprehensive loss	(1,852)	(652)
Deficit	(55,834)	(59,540)
	3,688	1,182
	\$ 5,726	\$ 6,212

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

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

	Three months ended May 31,		Nine months ended May 31,	
	2014	2013	2014	2013
Revenue	\$ -	\$ -	\$ -	\$ -
Expenses (recoveries)				
Compensation	41	67	126	195
General and administrative (note 11)	(1,355)	410	(971)	2,382
Restructuring (note 12(a))	(2,849)	320	(2,841)	357
	(4,163)	797	(3,686)	2,934
Income (loss) before the undernoted	4,163	(797)	3,686	(2,934)
Interest income	5	10	20	15
Gain on sale of ONEnergy shares	-	-	-	447
Equity interest in ONEnergy losses (note 7)	-	-	-	(245)
Income (loss) before comprehensive income (loss)	4,168	(787)	3,706	(2,717)
Fair value adjustment in ONEnergy (note 7)	(645)	-	(1,200)	(652)
Income (loss) and comprehensive income (loss) for the period	\$ 3,523	\$ (787)	\$ 2,506	\$ (3,369)
Income (loss) per share:				
Basic and diluted	0.034	(0.008)	0.024	(0.033)
Weighted average number of shares outstanding				
Basic and diluted	102,748	102,748	102,748	102,748

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)

(Unaudited)

	Share Capital (note 9)		Share Option Reserve	Deficit	Other Comprehensive Income	Total Shareholders' Equity
	Shares	Amount				
Balance, as at September 1, 2012	102,748	\$ 58,139	\$ 3,235	\$(56,494)	\$ -	\$ 4,880
Loss and comprehensive loss for the period	-	-	-	(2,717)	(652)	(3,369)
Balance, as at May 31, 2013	102,748	\$ 58,139	\$ 3,235	\$(59,211)	\$ (652)	\$ 1,511
Balance, as at August 31, 2013	102,748	\$ 58,139	\$ 3,235	\$(59,540)	\$ (652)	\$ 1,182
Income (loss) and comprehensive Income (loss) for the period	-	-	-	3,706	(1,200)	2,506
Balance, as at May 31, 2014	102,748	\$ 58,139	\$ 3,235	\$(55,834)	\$ (1,852)	\$ 3,688

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)

For the

	Three months ended May 31,		Nine months ended May 31,	
	2014	2013	2014	2013
Cash flows from operating activities				
Income (loss) before comprehensive income (loss) for the period	\$ 4,168	\$ (787)	\$ 3,706	\$ (2,717)
Items not affecting cash				
Equity interest in ONEnergy's losses to February 19, 2013	-	-	-	245
Gain on sale of ONEnergy shares	-	-	-	(447)
Change in non-cash operating assets and liabilities				
Accounts receivable and other receivables	(1,441)	(147)	(1,452)	(169)
Prepaid expenses and deposits	21	224	(2)	351
Accounts payable and accrued liabilities	17	(1,739)	(151)	(635)
Accrued restructuring liabilities due to related party	(2,849)	871	(2,841)	908
Cash used in operating activities	(84)	(1,578)	(740)	(2,464)
Investing activities				
Cash received on sale of ONEnergy shares	-	-	-	3,788
Purchase of short-term investments	-	(2,789)	(300)	(2,789)
Interest earned on short-term investments	(1)	(10)	(2)	(10)
Cash provided by (used in) investing activities	(1)	(2,799)	(302)	989
Decrease in cash and cash equivalents	(85)	(4,377)	(1,042)	(1,475)
Cash and cash equivalents, beginning of period	1,912	4,537	2,869	1,635
Cash and cash equivalents, end of period	\$ 1,827	\$ 160	\$ 1,827	\$ 160

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 of Canadian dollars, except per share amounts)

For the three and nine months ended May 31, 2014 and 2013

(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"). Effective June 27, 2014, the Company's shares are listed on the NEX board of the TSX Venture Exchange ("NEX") under the symbol "UBS.H" (note 17(a)).

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 May 31, 2014, there is uncertainty regarding the outcome of certain litigation (note 14(b) and 17(b)) and the Company remains under the protection of the *Companies' Creditors Arrangement Act* ("CCAA"). 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 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 CCAA. The court has made an order staying all proceedings against UBS and its directors until September 7, 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.

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 ("McGoey") and his personal service company Jolian Investments Ltd. ("Jolian"), (together referred to as the "Jolian Parties") (note 17(b)), and former director Mr. Douglas Reeson ("Reeson");
- (iv) stay all payables owing by UBS; and
- (v) provide a process to determine the claim being asserted against UBS by Reeson in a more cost effective and expeditious manner.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Condensed Consolidated Interim Financial Statements

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

For the three and nine months ended May 31, 2014 and 2013

(Unaudited)

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 July 28, 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") (note 7), 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.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Condensed Consolidated Interim Financial Statements

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

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(Unaudited)

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 May 31, 2014, the Company held \$1,827 of cash (August 31, 2013 - \$2,869) and no cash equivalents.

(b) Short-term investments

As at May 31, 2014, UBS held \$302 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 May 31, 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 May 31, 2014 and August 31, 2013, UBS had restricted cash of \$50 which was held in interest-bearing certificates at 0.3%.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Condensed Consolidated Interim Financial Statements

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

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(Unaudited)

5. Accounts receivable and other receivables

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

	May 31, 2014	August 31, 2013
GST/HST receivable	\$ 4	\$ 2
2010 legal retainers receivable ^(a)	200	200
Trial and appeal cost recovery ^(b)	1,450	-
Other receivables	15	15
Total	\$1,669	\$ 217

(a) 2010 legal retainers receivable

During June and July, 2010, the former Board of Directors of the Company advanced funds to various professional firms as retainers for future services for the then directors, officers and consultants, which included \$200 on behalf of the Jolian Parties.

On May 21, 2013, Madam Justice Mesbur made a disgorgement order against the Jolian Parties to repay to the Company the funds advanced on their behalf totaling \$200. This amount was the subject of a cross-appeal by the Jolian Parties which was heard on June 17, 2014 and subsequently dismissed on July 10, 2014 (note 17(b)).

The advance to Reeson, totaling \$116, is reflected in prepaid expenses and deposits and will be determined in the CCAA claims process.

(b) Trial and appeal cost recovery

On July 10, 2014, the Court of Appeal ordered the Jolian Parties to pay the costs of the trial held in February and March 2013 which the Company estimates to be approximately \$1,390, on a substantial indemnity scale, and also ordered costs of the appeal heard on June 17, 2014 totaling \$60. These amounts have been reversed to general and administrative expenses and reflected in accounts receivable and other receivables.

6. Prepaid expenses and deposits

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

	May 31, 2014	August 31, 2013
2010 legal retainers ⁽¹⁾	\$ 116	\$ 116
CCAA retainers ⁽²⁾	50	50
Legal retainer ⁽³⁾	-	29
Other	139	108
Total	\$ 305	\$ 303

⁽¹⁾ Refer to note 5, "2010 legal retainers receivable".

⁽²⁾ 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 May 31, 2014, approximately \$50 was expensed and \$50 remained on retainer.

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

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Condensed Consolidated Interim Financial Statements

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

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(Unaudited)

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%. Effective February 20, 2013, the Company accounts for its investment in ONEnergy 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 May 31, 2014, of \$0.065 and \$0.05 respectively, was \$1,573 (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 February 19, 2013	(245)
Partial disposition of ONEnergy shares	(3,341)
Fair value adjustment in ONEnergy, February 19, 2013	(652)
Investment in ONEnergy as at February 20, 2013 and August 31, 2013	\$ 2,773
Fair value adjustment in ONEnergy, first quarter fiscal 2014	277
Fair value adjustment in ONEnergy, second quarter fiscal 2014	(832)
Fair value adjustment in ONEnergy, third quarter fiscal 2014	(645)
Investment in ONEnergy as at May 31, 2014	\$ 1,573

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Condensed Consolidated Interim Financial Statements

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

For the three and nine months ended May 31, 2014 and 2013

(Unaudited)

8. Accrued liabilities

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

	May 31, 2014	August 31, 2013
Legal expenses	\$ 73	\$ 200
Professional expenses ⁽¹⁾	121	134
Board fees ⁽²⁾	11	21
Compensation accruals ⁽³⁾	200	200
Other	2	9
Total	\$ 407	\$ 564

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

⁽²⁾ Includes accrued board fees payable to prior board members which are subject to determination in the CCAA claims process. Pursuant to the findings as outlined in Note 17(b), on May 31, 2014, the Company reversed accrued board fees payable to McGoey of \$10 to general and administrative expenses.

⁽³⁾ Refer to note 12(b).

9. Share capital

(a) Authorized

Unlimited common shares

Unlimited Class A non-voting shares

(b) Issued and outstanding

As at May 31, 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 NEX (note 17(a)) 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.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Condensed Consolidated Interim Financial Statements

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

For the three and nine months ended May 31, 2014 and 2013

(Unaudited)

9. Share capital (continued)

(c) Stock option incentive plan (continued)

The following table reflects activity under the Option Plan:

	Number of options	Weighted average exercise price
Outstanding as at September 1, 2012	7,286	\$ 0.27
Expired during the year ended August 31, 2013	(1,086)	0.44
Balance as at August 31, 2013	6,200	0.24
Expired during the first quarter fiscal 2014	(200)	0.16
Expired during the third quarter fiscal 2014	(3,000)	0.33
Balance as at May 31, 2014	3,000	\$ 0.15

A summary of the status of the Option Plan, as at May 31, 2014, is as follows:

Exercise price	Options outstanding and exercisable as at May 31, 2014 (in thousands)	Weighted average remaining contractual life
\$ 0.15	1,000	5.25 years
\$ 0.15	2,000	5.25 years
	3,000	5.25 years

During the nine months ended May 31, 2014, no stock options were granted and 3,200 stock options expired. During the year ended August 31, 2013 – no stock options were granted and 1,086 expired.

10. Segment disclosure

There were no recorded revenues for the three and nine months ended May 31, 2014 and 2013.

11. General and administrative expense (recovery)

During the three and nine months ended May 31, 2014, the Company recorded general and administrative expenses totaling \$95 and \$479 respectively, offset by the recovery of legal costs from the Jolian Parties during the third quarter of fiscal 2014, as ordered by the Ontario Court of Appeal (note 17(b)). The Company estimates costs to be \$1,450, on a substantial indemnity scale, the settlement of which will ultimately be determined in the CCAA claims proceedings.

During the three and nine months ended May 31, 2013, general and administrative expenses totaled \$410 and \$2,382 respectively. Higher costs during fiscal 2013 resulted mainly from the timing of the CCAA claims advancement, and specifically costs arising from the trial between UBS and the Jolian Parties which was completed on March 1, 2013.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Condensed Consolidated Interim Financial Statements

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

For the three and nine months ended May 31, 2014 and 2013

(Unaudited)

12. Related party transactions

(a) Accrued restructuring liabilities due to related parties

UBS recorded related party transactions as follows:

Accrued restructuring liabilities due to related parties								
	Balance as at August 31, 2012	Interest accrued fiscal 2013 ⁽⁴⁾	Awards and interest reversed fiscal 2013	Jolian enhanced severance accrual fiscal 2013	Balance as at August 31, 2013	Interest accrued fiscal 2014 ⁽⁴⁾	Jolian enhanced severance reversed fiscal 2014	Balance as at May 31, 2014
Jolian Parties ⁽¹⁾	\$ 1,957	\$ 42	\$ (1,999)	\$ 2,853	\$ 2,853	\$ -	\$ (2,853)	\$ -
Dolgonos Parties ⁽²⁾	500	-	-	-	500	-	-	500
Reeson ⁽³⁾	505	16	-	-	521	12	-	533
Total	\$ 2,962	\$ 58	\$ (1,999)	\$ 2,853	\$ 3,874	\$ 12	\$ (2,853)	\$ 1,033

⁽¹⁾ Note 14(b)(i) and 17(b).

⁽²⁾ Note 14(b)(iii).

⁽³⁾ This amount was approved in 2009 by the then directors (note 14(b)(ii)), and will ultimately be determined in the CCAA claims proceedings.

⁽⁴⁾ The interest on accrued restructuring liabilities due to related parties is charged to restructuring expense.

(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 (together the "Dolgonos Parties") 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 nine months ended May 31, 2014 totaled \$49 and \$146 respectively (May 31, 2013 – \$100 and \$236 respectively) which includes \$26 and \$79 respectively paid to directors (May 31, 2013 – \$56 and \$109 respectively).

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Condensed Consolidated Interim Financial Statements

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

For the three and nine months ended May 31, 2014 and 2013

(Unaudited)

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:

2015	\$ 1,001
2027	2,215
2028	423
2029	1,626
2030	1,656
2031	5,134
2032	1,791
2033	2,346
	<hr/>
	\$ 16,192

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 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 ("Jolian MSA") 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 found that the former UBS board, including Gerald McGoey, failed to consider the interests of shareholders and breached their fiduciary duties.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Condensed Consolidated Interim Financial Statements

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

For the three and nine months ended May 31, 2014 and 2013

(Unaudited)

14. 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 Jolian's share appreciation rights; (ii) disallowed the Jolian Parties' claim for payment of a deferred bonus; (iii) disallowed the Jolian Parties' claim for indemnification; 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 the Jolian MSA, Jolian was entitled to an "enhanced severance" as a result of the termination of its contract with UBS. The Company's initial estimate of this amount, having regard to her Honour's decision, was approximately \$2,853. Jolian's revised proof of claim was in excess of \$4,000.

On October 31, 2013, the Company was granted leave to appeal the Judgment of the Honourable Madam Justice Mesbur, in which she found that, pursuant to the Jolian MSA, Jolian was entitled to an "enhanced severance".

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

The appeal and cross-appeal were heard on June 17, 2014 and the Court of Appeal of Ontario released its decision on July 10, 2014 which is summarized in Note 17(b).

(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.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Condensed Consolidated Interim Financial Statements

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

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14. Provisions and contingencies (continued)

(b) Contingencies (continued)

(iii) Dolgonos Parties claims

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 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 (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.

15. 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 on unused capital.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Condensed Consolidated Interim Financial Statements

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

For the three and nine months ended May 31, 2014 and 2013

(Unaudited)

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 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:

	May 31, 2014	August 31, 2013
<u>Accounts and other receivables</u>		
Currently due	\$1,469	\$ 17
Past due by 90 days or less and not impaired	-	200
Past due by greater than 90 days and not impaired	200	-
	\$1,669	\$ 217

Interest rate risk

The Company had no significant exposure to interest rate risk through its financial instruments as at May 31, 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 15, 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.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Condensed Consolidated Interim Financial Statements

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

For the three and nine months ended May 31, 2014 and 2013

(Unaudited)

17. Subsequent events

(a) Change to NEX listed company

On July 6, 2011, UBS received notice from the TSX Venture Exchange (the "Exchange") that, in accordance with its Continued Listing Requirements outlined in Exchange Policy 2.5, UBS no longer meets the tests related to having a significant interest in a business or primary asset used to carry on business. Effective May 9, 2011, the Exchange issued a bulletin reclassifying UBS to Tier 2 and subsequently placed the Company on notice to transfer to NEX, subject to the Company making a submission by June 26, 2014 that it meets all Tier 2 Continued Listing Requirements.

On June 14, 2014, the Company submitted a request for an extension of the transfer to the NEX until December 31, 2014 to allow for the completion of the CCAA claims process and time to seek a qualifying transaction to be approved by shareholders, but this request was denied.

In accordance with TSX Venture Policy 2.5, UBS has not maintained the requirements for a TSX Venture Tier 2 company. Therefore, effective Friday, June 27, 2014, the Company's listing was transferred to NEX and its Tier classification changed from Tier 2 to NEX.

As of June 27, 2014, the Company is subject to restrictions on share issuances and certain types of payments as set out in the NEX policies.

The trading symbol for the Company's shares changed from UBS to UBS.H. There is no change in the Company's name or CUSIP number and no consolidation of capital. The symbol extensions differentiate NEX symbols from Tier 1 or Tier 2 symbols within the TSX Venture market.

(b) Ontario Court of Appeal Decision

The Company has previously reported that:

- (i) certain, but not all, of the claims of the Jolian Parties in the aggregate approximate amount of \$9,500, were disallowed in connection with the Company's ongoing CCAA proceedings,
- (ii) UBS was granted leave to appeal the judgment of the Honourable Madam Justice Mesbur in which she found that, pursuant to the Jolian MSA, Jolian was entitled to an enhanced severance as a result of the termination of its contract with UBS, which Jolian calculated to be an amount in excess of \$4,000, and
- (iii) the Jolian parties brought a cross-appeal in respect of Justice Mesbur's decision disallowing their claim for payment in respect of the cancellation of Jolian's share appreciation rights, and a deferred bonus, and indemnification of legal fees and expenses.

The appeal and cross-appeal were heard on June 17, 2014.

UNIQUE BROADBAND SYSTEMS, INC.

Notes to Condensed Consolidated Interim Financial Statements

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

For the three and nine months ended May 31, 2014 and 2013

(Unaudited)

17. Subsequent events (continued)

(b) Ontario Court of Appeal Decision (continued)

On July 10, 2014, the Court of Appeal released its decision granting the Company's appeal and dismissing the Jolian Parties' cross-appeal. The Court of Appeal upheld the Trial Judge's findings that McGoey breached his fiduciary duties owed to the Company and shareholders and held that under the correct interpretation of the Jolian MSA, Jolian is not entitled to receive any enhanced severance as a result of McGoey's wrongful conduct, which resulted in a reversal of \$2,853 to restructuring expense.

The Jolian parties have been ordered to disgorge \$200 that was advanced to the Jolian parties before McGoey was removed from the Company's board by shareholders and to pay the costs of the trial and the appeal, which the Company estimates to be approximately \$1,450 on a substantial indemnity scale.