Consolidated Financial Statements of

UNIQUE BROADBAND SYSTEMS, INC.

For the years ended August 31, 2014 and 2013

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Unique Broadband Systems, Inc. (the "Company") and its subsidiaries and all the information in Management's Discussion and Analysis are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards. The consolidated financial statements include certain amounts that are based on the best estimates and judgments of management and in their opinion present fairly, in all material respects, the Company's financial position, results of operations and cash flows. Management has prepared the financial information presented elsewhere in Management's Discussion and Analysis and has ensured that it is consistent with the consolidated financial statements.

Management of the Company is responsible for the internal controls that provide reasonable assurance that transactions are properly authorized and recorded, financial records are reliable and form a proper basis for the preparation of consolidated financial statements and that the Company's assets are properly accounted for and safeguarded.

The Board of Directors is responsible for overseeing management's responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility through its Audit and Corporate Governance Committee (the "Audit Committee").

The Audit Committee meets periodically with management, as well as with external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues; to satisfy itself that each party is properly discharging its responsibilities; and to review Management's Discussion and Analysis, the consolidated financial statements and the external auditors' report. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the shareholders. The Audit Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or re-appointment of the external auditors.

The consolidated financial statements have been audited by Grant Thornton LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. Grant Thornton LLP has full and free access to the Audit Committee.

(Signed) - *Grant McCutcheon*

Grant McCutcheon
Chief Executive Officer
December 18, 2014

(Signed) – *Victor Wells*

Victor Wells
Director, Acting Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Unique Broadband Systems, Inc.

We have audited the accompanying consolidated financial statements of Unique Broadband Systems, Inc., which comprise the consolidated statements of financial position as at August 31, 2014 and 2013, and the consolidated statements of income (loss) and comprehensive income (loss), changes in shareholders' equity, and cash flows for the years ended August 31, 2014 and 2013, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Unique Broadband Systems, Inc. as at August 31, 2014 and 2013, and the results of its operations and its cash flows for the years ended August 31, 2014 and 2013, in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Grant Thornton LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Canada
December 18, 2014

UNIQUE BROADBAND SYSTEMS, INC.

Consolidated Statements of Financial Position

(In thousands of Canadian dollars)

As at August 31,

	2014	2013
Assets		
Current assets		
Cash and cash equivalents (note 4)	**$ 338**	$ 2,869
Short-term investments (note 4)	**1,704**	-
Accounts receivable and other receivables (note 5)	**1,604**	217
Prepaid expenses and deposits (note 6)	**292**	303
	3,938	3,389
Restricted cash (note 4)	**50**	50
Investment in ONEnergy Inc. (note 7)	**2,281**	2,773
	$ 6,269	$ 6,212
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	**$ 446**	$ 442
Accrued liabilities (note 8)	**737**	564
Accrued restructuring liabilities due to related parties (note 12(a))	**1,037**	3,874
Provisions (note 14(a))	**150**	150
	2,370	5,030
Shareholders' equity		
Share capital (note 9)	**58,139**	58,139
Share option reserve	**3,235**	3,235
Accumulated other comprehensive loss	**(1,144)**	(652)
Deficit	**(56,331)**	(59,540)
	3,899	1,182
	$ 6,269	$ 6,212

Subsequent event (note 17)

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

Approved by the Board of Directors:

(Signed) – *Robert Ulicki*

Director

(Signed) - *Victor Wells*

Director

UNIQUE BROADBAND SYSTEMS, INC.

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

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

For the years ended August 31,

	2014	2013
Revenue	**$ -**	$ -
Expense (recovery)		
Compensation	**165**	242
General and administrative (note 11)	**(512)**	2,118
Restructuring (note 12(a))	**(2,837)**	912
	(3,184)	3,272
Income (loss) for the year before the undernoted	**3,184**	(3,272)
Interest income	**25**	24
Gain on sale of ONEnergy shares	**-**	447
Equity interest in ONEnergy losses (note 7)	**-**	(245)
Income (loss) before comprehensive income (loss)	**3,209**	(3,046)
Fair value adjustment in ONEnergy (note 7)	**(492)**	(652)
Income (loss) and comprehensive income (loss) for the year	**$ 2,717**	$ (3,698)
Income (loss) per share		
Basic and diluted	**$ 0.026**	$ (0.036)
Weighted average number of shares outstanding		
Basic and diluted	**102,748**	102,748

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

UNIQUE BROADBAND SYSTEMS, INC.

Consolidated Statements of Changes in Shareholders' Equity

(In thousands of Canadian dollars)

	Share Capital (note 9) Shares	Amount	Share Option Reserve	Deficit	Other Comprehensive Income	Total Shareholders' Equity
Balance, as at September 1, 2012	102,748	$ 58,139	$ 3,235	$ (56,494)	$ -	$ 4,880
Loss and comprehensive loss for the year	-	-	-	(3,046)	(652)	(3,698)
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 year	-	-	-	3,209	(492)	2,717
Balance, as at August 31, 2014	**102,748**	**$ 58,139**	**$ 3,235**	**$ (56,331)**	**$ (1,144)**	**$ 3,899**

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

UNIQUE BROADBAND SYSTEMS, INC.

Consolidated Statements of Cash Flows

(In thousands of Canadian dollars)

For the years ended August 31,

	2014	2013
Cash flows from operating activities		
Income (loss) before comprehensive income (loss) for the year	**$ 3,209**	$ (3,046)
Items not affecting cash		
Equity interest in ONEnergy's losses to February 19, 2013	**-**	245
Gain on sale of ONEnergy shares	**-**	(447)
Interest earned on short-term investments	**-**	(16)
Change in non-cash operating assets and liabilities		
Accounts receivable and other receivables	**(1,387)**	(14)
Prepaid expenses and deposits	**11**	372
Accounts payable and accrued liabilities	**177**	(576)
Accrued restructuring liabilities due to related party	**(2,837)**	912
Cash used in operating activities	**(827)**	(2,570)
Cash provided by (used in) investing activities		
Cash received on sale of ONEnergy shares	**-**	3,788
Purchase of short-term investments	**(1,700)**	-
Interest received (earned) on short-term investments	**(4)**	16
Cash provided by (used in) investing activities	**(1,704)**	3,804
(Decrease) increase in cash and cash equivalents	**(2,531)**	1,234
Cash and cash equivalents, beginning of year	**2,869**	1,635
Cash and cash equivalents, end of year	**$ 338**	$ 2,869

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

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").

Change to NEX listed company

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.

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 August 31, 2014, there is uncertainty regarding the outcome of certain litigation (note 14(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 regarding UBS’ use of the going concern assumption.

Notwithstanding the above, these consolidated financial statements have been prepared on a going concern basis and do not include any adjustments to the carrying values and classification of assets and liabilities and reported revenue and expenses that would be necessary if the going concern basis was not appropriate. Such adjustments could be material.

1. Nature of operation and going concern (continued)

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 February 27, 2015, 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 continues 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 ("Mr. McGoey") and his personal service company Jolian Investments Ltd. ("Jolian"), (together referred to as the "Jolian Parties") (note 14(b)(i)), and former director Mr. Douglas Reeson ("Mr. Reeson") (note 14(b)(ii));
(iv) stay all payables owing by UBS; and
(v) provide a process to determine the claim being asserted against UBS by Mr. Reeson in a more cost effective and expeditious manner.

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 consolidated financial statements were approved for issue by the Board of Directors on December 18, 2014.

2. Summary of significant accounting policies

(a) Statement of compliance

These consolidated financial statements are consistent with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), effective August 31, 2014.

(b) Basis of presentation

These consolidated 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.

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit with banks and highly liquid short-term interest-bearing investments with maturities of 90 days or less from the original date of acquisition.

(d) Restricted cash

Restricted cash is held in a 90-day cashable interest-bearing certificate with maturity of 18 months from the original date of acquisition, currently with an interest rate of 1.8%. Funds are restricted to secure the Company's credit card.

(e) Financial instruments

Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held to maturity investments ("HTM"), or available for sale financial assets ("AFS"), as appropriate at initial recognition and, except in very limited circumstances, the classification is not changed subsequent to initial recognition. The classification is determined at initial recognition and depends on the nature and purpose of the financial asset. A financial asset is derecognized when its contractual rights to the asset's cash flows expire or if substantially all the risks and rewards of the asset are transferred.

2. Summary of significant accounting policies (continued)

(e) Financial instruments (continued)

Loans and receivables

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Accounts receivable are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortized cost. Bad debts are written off during the period in which they are identified. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the consolidated statements of income (loss) and comprehensive income (loss) when the receivables are derecognized or impaired, as well as through the amortization process. The Company classifies cash and cash equivalents, restricted cash, accounts receivable and other receivables as loans and receivables. Effective February 20, 2013, the Company's investment in ONEnergy has been classified as AFS.

Impairment of financial assets

The Company assesses at the end of each reporting period whether a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate.

The carrying amount of all financial assets, excluding accounts receivable, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. Accounts receivable and associated allowances are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. Subsequent recoveries of amounts previously allowed for are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statement of income (loss) and comprehensive income (loss).

2. Summary of significant accounting policies (continued)

(e) Financial instruments (continued)

Effective interest method

The effective interest method calculates the amortized cost of a financial instrument asset or liability and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts or disbursements over the expected life of the financial asset or liability, or where appropriate, a shorter period. Income or expense is recognized on an effective interest basis for debt instruments other than those financial assets classified as FVTPL.

Financial liabilities

Financial liabilities are classified as financial liabilities at FVTPL, or other financial liabilities, as appropriate upon initial recognition. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. Subsequent to the initial recognition, other financial liabilities are measured at amortized cost using the effective interest method. The Company's other financial liabilities include accounts payables, accrued restructuring liabilities, and accrued liabilities.

Financial instruments carried at fair value

Financial instruments carried at fair value on the consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2. Summary of significant accounting policies (continued)

(f) Income taxes

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income (loss) or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute deferred tax assets and liabilities are measured at future anticipated tax rates which have been enacted or substantively enacted at the reporting date. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to set off the amounts, and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

With certain exceptions, deferred tax assets and liabilities are provided on all qualifying temporary differences at the end of the reporting period between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are only recognized to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future and future taxable profit will be available against which the temporary difference can be utilized.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

(g) Provisions and contingencies

Provisions are recognized when a legal or constructive obligation exists, as a result of past events, and it is probable that an outflow of resources that can be reliably estimated will be required to settle the obligation. Where the effect is material, the provision is discounted using an appropriate current market-based pre-tax discount rate. The increase in the provision due to passage of time is recognized as interest expense.

When a contingency substantiated by confirming events can be reliably measured and is likely to result in an economic outflow, a liability is recognized as the best estimate required to settle the obligation. A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events, or where the amount of a present obligation cannot be measured reliably or will likely not result in an economic outflow. Contingent assets are only disclosed when the inflow of economic benefits is probable. When the economic benefit becomes virtually certain, the asset is no longer contingent and is recognized in the consolidated financial statements.

2. Summary of significant accounting policies (continued)

(h) Basic and diluted income (loss) per share

Basic income (loss) per share is computed by dividing the net income (loss) applicable by the weighted average number of shares outstanding during the reporting period. Diluted earnings per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of common share purchase options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants.

(i) Share-based payments

Equity-settled share-based payments for directors, officers and employees are measured at fair value at the date of grant and recorded as compensation expense in the consolidated financial statements. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period based on the Company's estimate of shares that will eventually vest. The number of forfeitures likely to occur is estimated on grant date. Any consideration paid by directors, officers and employees on exercise of equity-settled share-based payments is credited to share capital. Shares are issued from treasury upon the exercise of equity-settled share-based instruments.

Compensation expense on stock options granted to non-employees is measured at the fair value of the goods and services on the date when the goods or services are received and is recorded as an expense in the same period as if the Company had paid cash for the goods or services received.

When the fair value of the goods or services received from non-employees in exchange for the share-based payment cannot be reliably estimated, the fair value of the shares issued is measured by use of a Black-Scholes option pricing model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. No share-based payments were made during fiscal 2014 and 2013.

2. Summary of significant accounting policies (continued)

(j) Significant accounting judgments and estimates

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences.

Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Significant management estimation is required in determining accrued liabilities and accrued restructuring liabilities due to related parties.

Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable income together with future tax planning strategies. Factors considered in the assessment of the likelihood and value of the realizable deferred tax assets include the Company’s forecast of the amount and timing of future net income before taxes, available tax planning strategies that could be implemented to realize the deferred tax assets and the remaining period of loss carry forwards. Significant judgement is also required in assessing the collectability of accounts receivable and other receivables. Factors considered in assessment of collectability included the ability of the counterparty to pay and the actions available to the Company to enforce collection.

3. Accounting standards issued but not yet effective

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

The IASB published IFRS 9*, “Financial instruments”* (“IFRS 9”), which replaces IAS 39 Financial instruments: Recognition and measurement. IFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities. The standard is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of determining the impact on its financial statements.

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

4. Cash

(a) Cash and cash equivalents

As at August 31, 2014, the Company held $338 of cash (August 31, 2013 - $2,869) and no cash equivalents.

(b) Short-term investments

As at August 31, 2014, UBS held $1,704 in short-term investments (August 31, 2013 – nil), which included 90-day cashable guaranteed investment certificates ("GICs") with original maturities of one year. As at August 31, 2014, the effective annual interest rate on the GICs was 1.33%. The fair value of short-term investments has been valued using Level 1 inputs.

(c) Restricted cash

As at August 31, 2014, UBS had restricted cash of $50 which was held in interest-bearing certificates at 1.8% (2013 - $50 at 0.2%).

5. Accounts receivable and other receivables

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

	August 31, 2014	August 31, 2013
GST/HST receivable	**$ 5**	$ 2
2010 legal retainers receivable[(a)]	**200**	200
Trial and appeal cost recovery[(b)]	**1,384**	-
Other receivables	**15**	15
Total	**$1,604**	$ 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 14(b)(i)).

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

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

5. Accounts receivable and other receivables (continued)

(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 (the "Jolian Trial") totaling $1,324 on a substantial indemnity scale (notes 14(b)(i) and 17), 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 August 31, 2014 and 2013, are summarized in the following table:

	August 31, 2014	August 31, 2013
2010 legal retainers[1]	**$ 116**	$ 116
CCAA retainers[2]	**50**	50
Legal retainer[3]	**-**	29
Other	**126**	108
Total	**$ 292**	$ 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 August 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.

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 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 August 31, 2014, of $0.085 and $0.08 respectively, was $2,281 (August 31, 2013 - $0.10 and $0.10 respectively - $2,773).

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

7. Investment in ONEnergy Inc. (continued)

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, fiscal 2014	**(492)**
Investment in ONEnergy as at August 31, 2014	**$ 2,281**

8. Accrued liabilities

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

	August 31, 2014	August 31, 2013
Legal expenses	**$ 237**	$ 200
Professional expenses[(1)]	**134**	134
Board fees[(2)]	**11**	21
Compensation accruals[(3)]	**200**	200
HST on cost recoveries[(4)]	**152**	-
Other	**3**	9
Total	**$ 737**	$ 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 14(b)(i), on May 31, 2014, the Company reversed accrued board fees payable to Mr. McGoey of $10 to general and administrative expenses.
(3) Refer to note 12(b).
(4) Refer to note 17.

9. Share capital

(a) Authorized

Unlimited common shares – No par value. Entitled to one vote for each share.

Unlimited Class A non-voting shares – Class A shares can be converted into common shares on a one-for-one basis in accordance with the Articles of the Company. The Class A shares are identical to the common shares in all material respects with the exception of the right to vote at meetings of the Company's shareholders.

(b) Issued and outstanding

As at August 31, 2014 and 2013, UBS had 102,748 common shares and no Class A non-voting shares issued and outstanding, totaling $58,139.

9. Share capital (continued)

(c) Stock option incentive plan

UBS' stock option plan (the "Option Plan") provides for the granting of stock options to employees, directors and consultants of UBS. Under the Option Plan, up to 19,765 common shares may be issued from treasury. The exercise price of the options is determined by the Board of Directors at the time of the grant of an option, but cannot be lower than the closing market price of UBS' shares on the NEX on the business day immediately preceding the day on which an option is granted. In the absence of terms specifying otherwise, options vest annually over a three-year period and are exercisable during a period not to exceed 10 years from such grant.

The following table reflects activity under the Option Plan:

	Number of options	Weighted average exercise price
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 year ended August 31, 2014	(3,200)	0.33
Balance as at August 31, 2014	3,000	$ 0.15

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

Exercise price	Options outstanding and exercisable as at August 31, 2014 (in thousands)	Weighted average remaining contractual life
$ 0.15	1,000	5.0 years
$ 0.15	2,000	5.0 years
	3,000	5.0 years

During the year ended August 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 years ended August 31, 2014 and 2013.

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

11. General and administrative expense (recovery)

During the year ended August 31, 2014, the Company recorded general and administrative expenses totaling $720, offset by the recovery of legal costs from the Jolian Parties as ordered by the Ontario Court of Appeal (notes 14(b)(i) and 17), resulting in a reversal of $1,232 to general and administrative expense (recovery).

During the year ended August 31, 2013, general and administrative expenses totaled $2,118. Higher costs during fiscal 2013 resulted mainly from the timing of the CCAA claims advancement, and costs arising from the Jolian Trial.

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 reversal fiscal 2014	**Balance as at August 31, 2014**
Jolian Parties[1]	$ 1,957	$ 42	$ (1,999)	$ 2,853	**$ 2,853**	$ -	$ (2,853)	**$ -**
Dolgonos Parties[2]	500	-	-	-	**500**	-	-	**500**
Mr. Reeson[3]	505	16	-	-	**521**	16	-	**537**
Total	$ 2,962	$ 58	$ (1,999)	$ 2,853	**$ 3,874**	$ 16	$ (2,853)	**$ 1,037**

[1] Note 14(b)(i)
[2] Note 14(b)(iii)
[3] Note 14(b)(ii)
[4] The interest on accrued restructuring liabilities due to related parties is charged to restructuring expense (recovery).

(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.

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

12. Related party transactions (continued)

(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 year ended August 31, 2014 totaled $189 (2013 - $288) which included $105 paid to directors (2013 - $135).

13. Income taxes

The effective income tax rate differs from the statutory rate that would be obtained by applying the combined Canadian basic federal and provincial income tax rate to income (loss) before income taxes. These differences result from the following items:

	2014	2013
Income (loss) before income taxes	**$ 3,427**	$ (3,698)
Combined basic federal and provincial tax rates	**26.50%**	26.50%
Computed expected tax recovery	908	(980)
Increase resulting from:		
Impact due to change in future tax rates	-	(17)
Current year loss and other differences not recognized	(2,512)	877
Loss expiration	1,625	-
Non-deductible items	(21)	120
	$ -	$ -

The amount of deductible temporary differences and unused tax losses for which no deferred income tax assets have been recognized are as follows:

	2014	2013
Non-capital loss carryforwards	**$ 17,476**	$ 24,120
SRED pool carryforwards	**11,545**	11,545
Capital loss carryforwards	**23,400**	23,400
Non-tax deductible reserves	**1,475**	4,311
	$ 53,896	$ 63,376

Non-capital loss carry forwards expire between 2015 and 2034 while SRED pool and capital loss carry forwards do not expire.

In assessing deferred income tax assets, management considers whether it is probable that some portion or all of the deferred income tax assets will be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the years in which those temporary differences become deductible. Management considers the scheduled reversals of deferred income tax liabilities, the character of the deferred income tax assets and available tax planning strategies in making this assessment.

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

13. Income taxes (continued)

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	2,423
2034	1,207
	$ 17,476

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 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.

The Jolian Trial was completed on March 1, 2013. On May 21, 2013, the Honourable Madam Justice Mesbur found that the former UBS board, including Mr. McGoey, failed to consider the interests of shareholders and breached their fiduciary duties.

Based on these findings, Her Honour disallowed the Jolian Parties' claims for (i) payment in respect of the cancellation of Jolian’s share appreciation rights, (ii) payment of a deferred bonus; and (iii) indemnification, and ordered the Jolian Parties to repay UBS the $200 previously advanced to them in the nature of indemnification.

14. Provisions and contingencies (continued)

(b) Contingencies (continued)

(i) Jolian claims (continued)

Notwithstanding Madam Justice Mesbur's findings of wrongdoing on the part of the Jolian Parties, 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 was approximately $2,853.

An appeal and cross-appeal were heard on June 17, 2014 and the Court of Appeal of Ontario released its decision on July 10, 2014, granting the Company's appeal and dismissing the Jolian Parties' cross-appeal. The Court of Appeal upheld the Trial Judge's findings that Mr. 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 Mr. McGoey's wrongful conduct, as it constituted "cause" under the Jolian MSA. Therefore the Company has reversed $2,853 to restructuring expense (recovery).

The Ontario Court of Appeal awarded costs to UBS for both the Jolian Trial heard in February and March 2013 and the appeal and cross-appeal heard on June 17, 2014. Costs of the appeal were set at $60 and costs of the Jolian Trial were determined on a substantial indemnity scale to be $1,324 (note 17). Costs were recorded as a receivable owed by the Jolian Parties and offset to general and administrative expense (recovery).

Accordingly, the total owed to UBS by the Jolian Parties is $1,584. The Company is seeking recovery of the cost awards and disgorgement and has recorded the amounts in accounts receivable and other receivables.

(ii) Reeson claims

Former director Mr. Reeson served a statement of claim on UBS 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.

(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.

14. Provisions and contingencies (continued)

(b) Contingencies (continued)

(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.

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.

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

16. Financial instruments and risk management (continued)

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:

	August 31, 2014	August 31, 2013
Accounts receivable and other receivables		
Currently due	**$1,404**	$ 17
Past due by 90 days or less and not impaired	**-**	200
Past due by greater than 90 days and not impaired	**200**	-
	$1,604	$ 217

Interest rate risk

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

17. Subsequent event

On December 8, 2014, the trial Judge, Madame Justice Mesbur, released her decision on costs of the Jolian Trial, having received submissions from all parties. Her Honour concluded that Mr. McGoey and Jolian Investments Limited are jointly and severally liable to pay UBS' costs on a substantial indemnity scale amounting to $995 for fees, $177 for disbursements, plus HST on those amounts totaling $152, for a total of $1,324.