

Interim Consolidated Financial Statements of

UNISERVE COMMUNICATIONS CORPORATION

Six months ended November 30, 2007

UNAUDITED

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim consolidated 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 the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

"William Spratt"

William Spratt, President and CEO

January 29, 2008

UNISERVE COMMUNICATIONS CORPORATION

Interim Consolidated Balance Sheets

As at November 30, 2007 and May 31, 2007

	November 30, 2007 (Unaudited)	May 31, 2007 (Audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 55,611	\$ 5,711,271
Accounts receivable	3,207,633	3,211,458
Investment tax credits receivable	287,086	1,016,633
Inventory	379,258	393,906
Prepaid expenses	388,842	324,488
Future income tax asset (note 11)	59,000	59,000
	<u>4,377,430</u>	<u>10,716,756</u>
Future income tax asset (note 11)	188,859	188,859
Equipment and software (note 4)	3,118,428	3,202,062
Intangible and other assets (note 5)	12,909,141	14,835,321
Goodwill	9,790,031	9,790,031
	<u>\$ 30,383,889</u>	<u>\$ 38,733,029</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,823,590	\$ 5,997,210
Due to vendors of businesses acquired	450,000	4,421,320
Income taxes payable	650,664	962,353
Deferred revenue	1,649,617	1,807,902
Bank indebtedness and notes payable (note 7)	1,314,000	3,117,321
Current portion of due to related parties	1,650,000	1,813,944
Current portion of long-term debt	88,200	-
	<u>11,626,071</u>	<u>18,120,050</u>
Due to related parties (note 6)		-
Long-term debt (note 8)	11,132,318	10,824,985
Future income tax liability (note 11)	3,527,777	3,527,777
	<u>26,286,167</u>	<u>32,472,812</u>
Shareholders' equity		
Share capital (note 9(a))	13,742,345	13,742,296
Other equity instruments (note 9(e))	3,731,391	3,445,153
Contributed surplus	1,159,784	1,124,635
Deficit	(13,349,966)	(12,051,867)
	<u>5,283,554</u>	<u>6,260,217</u>
Nature of operations (note 1)		
Commitments (note 10)		
Subsequent events (notes 7 and 9(a)(iii))		
	<u>\$ 31,569,720</u>	<u>\$ 38,733,029</u>

See accompanying notes to consolidated financial statements

Approved on behalf of the Board:

"William Spratt"

Director

"Maurice Lees"

Director

UNISERVE COMMUNICATIONS CORPORATION

Interim Consolidated Statement of Operations and Deficit

For the six months ended November 30, 2007 and 2006

	Six months ended November 30	
	2007	2006
	(Unaudited)	(Unaudited)
Revenue	\$ 17,144,801	\$ 11,585,380
Cost of sales	7,915,085	5,274,965
Gross margin	9,229,717	6,310,414
Expenses		
Operations and service delivery costs	7,116,501	4,335,087
Sales and marketing	837,300	664,656
Amortization	1,491,065	629,305
Interest and bank charges	1,580,606	394,383
Other expenses (income)	(677,655)	(65,472)
	10,347,816	5,957,959
Loss before income taxes	(1,118,099)	352,455
Income taxes - current (note 11)	(180,000)	-
Net loss for the period	(1,298,099)	352,455
Deficit, beginning of period	(12,051,867)	(10,638,539)
Deficit, end of period	\$ (13,349,966)	\$ (10,286,084)
Basic and diluted:		
Loss per common share	\$ (0.06)	\$ 0.02
Weighted average number of common shares outstanding	22,924,367	21,584,367

See accompanying notes to consolidated financial statements.

UNISERVE COMMUNICATIONS CORPORATION

Interim Consolidated Statements of Cash Flows

For the six months ended November 30, 2007 and 2006

	Six months ended November 30	
	2007	2006
	(Unaudited)	(Unaudited)
Cash provided by (used in):		
Operations:		
Net loss for the period	\$ (1,298,099)	\$ 352,455
Items not involving cash:		
Amortization of building and equipment	510,559	233,485
Amortization of customer lists assets	615,783	326,253
Amortization of intellectual property	92,000	-
Amortization of deferred finance costs	73,978	69,567
Amortization of warrant & conversion options	142,118	-
Net long-term tax liability adjustment	-	-
Other items	35,149	(6,567)
Changes in non-cash operating working capital		
Accounts receivable	2,612	(80,186)
Investment tax credit received	729,547	-
Inventory	14,648	(81,711)
Prepaid deposits & expenses	(64,354)	827
Accounts payable and accrued liabilities	(173,620)	341,982
Deferred revenue	(158,285)	(92,473)
Payments to Vendors of business acquired	(3,639,613)	-
Payments to Vendors - adjustment	(331,707)	-
Income taxes payable	(311,689)	(7,642)
	(3,760,973)	1,055,990
Investments:		
New product development	(593,860)	(274,784)
Customer lists acquired	-	(4,174)
Business acquisitions, net of cash acquired	-	-
Purchase of capital assets	(426,925)	(373,762)
Proceeds on sale of property, buildings and equipment	-	764,730
	(1,020,785)	112,010
Financing:		
Repayment (proceeds) of bank indebtedness	1,314,000	(551,187)
Repayment of short-term financing	(3,000,000)	-
Repayment of long-term debt	(27,969)	(83,987)
Repayments to related parties	(163,944)	(367,443)
Dividends on preferred shares	(95,989)	-
Net proceeds on issuance of preferred shares	1,100,000	-
Net proceeds on issuance of common shares	-	-
	(873,901)	(1,002,617)
Increase (decrease) in cash and cash equivalents	(5,655,660)	165,382
Cash and cash equivalents, beginning of period	5,711,271	193,452
Cash and cash equivalents, end of period	\$ 55,611	\$ 358,834

Supplemental cash flow information (note 12)

See accompanying notes to consolidated interim financial statements.

UNISERVE COMMUNICATIONS CORPORATION

Consolidated Statements of Shareholders' Equity and Comprehensive Income (Loss) (unaudited)

Six months ended November 30, 2007

	Common shares	Share capital	Other equity instruments	Additional paid in capital	Accumulated deficit	Accumulated other comprehensive income	Total
Balance, May 31, 2007	22,924,367	\$ 13,742,296	\$ 3,445,153	\$ 1,124,635	\$ (12,051,867)	\$ -	\$ 6,260,217
Changes during the period:							
Issue of common shares on exercise of stock options							-
Issue of common shares on exercise of share purchase warrants							-
Amortization of share purchase warrants			286,238				286,238
Stock based compensation				35,149			35,149
Net loss					(1,298,099)		(1,298,099)
Balance, November 30, 2007	22,924,367	\$ 13,742,296	\$ 3,731,391	\$ 1,159,784	\$ (13,349,966)	\$ -	\$ 5,283,506

See accompanying notes to consolidated interim financial statements.

UNISERVE COMMUNICATIONS CORPORATION

Notes to Consolidated Interim Financial Statements

For the period ended August 31, 2007

1. Nature of operations:

Uniserve Communications Corporation (the Company) was incorporated on January 19, 1988 under the Company Act of British Columbia. The Company's principal business activity is the provision of Internet access and related communications services primarily in British Columbia, Alberta, Ontario and Quebec which represents a single operating segment. The acquisition of Parasun Technologies Inc. (Parasun) and KBT Systems Corporation (KBT) will create new revenue opportunities and adds to the product suite that can be offered to all of the Company's retail and wholesale customers.

The industry in which the Company operates requires the Company to provide services to a large number of individual customers. As such, there are significant economies of scale required to achieve continued profitability and positive operating cash flow. To attain and maintain the necessary economies of scale, the Company has completed acquisitions including Parasun on May 24, 2007 (note 3(a)), KBT on May 24, 2007 (note 3(b)) and Inter.Net Canada Ltd. (Inter.Net) on January 31, 2006 (note 3(c)).

As at November 30, 2007, the Company has a working capital deficiency of \$7,248,641 (May 31, 2007 - deficiency of \$7,403,294). For the two years ended May 31, 2007, the Company had positive cash flow from operations but incurred net losses primarily from the amortization of customer lists and other intangible assets. Accordingly, its ability to continue as a going concern, which means that it can realize its assets and discharge its liabilities in the normal course of business, is dependent in part upon the Company's ability to continue to generate positive cash flow from operations and to obtain additional equity or debt financing in the near term to continue to meet its obligations as they come due.

2. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and its wholly owned subsidiaries. Results from operations of Parasun, KBT and Inter.Net are included in these consolidated financial statements from the dates of acquisition. All significant inter-company transactions and balances have been eliminated.

(b) Use of estimates:

The preparation of the Company's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the amount of revenues and expenses recognized during the reporting period. To these financial statements, the most significant application of estimates is in the assessment of the underlying value of accounts receivable, the estimated useful lives and undiscounted net future cash flows attributed to equipment and software, intangible assets and goodwill for purposes of the purchase price allocation related to acquisitions and determining impairment, assumptions used in the determination of stock-based compensation and estimated future cash flows to support the going concern assumption. Actual results could differ from those estimates and these differences could have a material impact on the consolidated financial statements.

UNISERVE COMMUNICATIONS CORPORATION

Notes to Consolidated Financial Statements

For the period ended November 30, 2007

2. Significant accounting policies (continued):

(c) Cash and cash equivalents:

Cash and cash equivalents represent cash on deposit, term deposits having terms to maturity of 90 days or less when acquired, less cheques issued in excess of funds on deposit.

(d) Inventory:

Inventory consists of modems and pre-paid wireless phone cards for resale and various computer and office supplies. Inventory is valued at the lower of cost, on a first-in first-out basis, and net realizable value.

(e) Equipment and software:

Equipment and software are recorded at cost less accumulated amortization. Amortization is provided on a declining-balance basis at the following annual rates designed to amortize the assets over their estimated useful lives:

Asset	Rate
Online equipment	15%
Office equipment and signs	20%
Computer equipment	30%
Systems software	30%
Computer software	100%

(f) Deferred finance costs:

Deferred financing costs associated with the issue of long-term indebtedness are amortized on a straight-line basis over the terms to maturity of the debt.

(g) Customer lists and intellectual property:

Acquired customer lists and intellectual property are amortized on a straight-line basis over periods ranging from three to ten years.

(h) Research and development expenditures:

Research and development costs are expensed as incurred unless they meet certain stringent criteria generally related to technical feasibility, market definition and financing availability for future development. The Company is investing in the development of proprietary new products and future services. The Company capitalizes these products development costs and amortizes such costs on a straight-line basis over their estimated useful life when the products are launched to its customer base.

(i) Impairment of long-lived assets and intangible assets:

Long-lived assets, including equipment, software, and intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of an asset exceeds the fair value of the asset.

UNISERVE COMMUNICATIONS CORPORATION

Notes to Consolidated Financial Statements

For the period ended November 30, 2007

2. Significant accounting policies (continued):

(k) Goodwill:

Goodwill represents the excess cost over the value assigned to the net assets acquired in business combinations and is not amortized. The recorded amount of goodwill is tested for impairment annually at the end of the Company's second quarter by comparing the carrying value of the reporting unit to which the goodwill relates to the fair value of that reporting unit. Fair value is determined using discounted estimated future cash flows. If the carrying value of the reporting unit exceeds its fair value, goodwill is written down to its fair value.

(l) Future income taxes:

The Company uses the asset and liability method of accounting for future income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the substantive enactment date. Future income tax assets are evaluated and if realization is not considered to be "more likely than not", a valuation allowance is provided.

(m) Revenue recognition:

Revenue derived from monthly internet access subscribers and internet access set-up charges is recognized on a monthly basis as services are provided. The Company bills its internet access subscribers in advance for direct access to the internet, but defers recognition of these revenues and recognizes them on a straight-line basis over the access period. Revenue from the sale of retail products, which to date have not been significant, is recognized when title passes upon product delivery. Revenue from consulting services is recognized when the services are performed.

In software arrangements that include rights to multiple software products and/or services, the Company uses the residual method, under which revenues are allocated to the undelivered elements based on vendor specific objective evidence of fair value of the undelivered elements and that residual amount of revenues are allocated to the delivered elements. For those contracts that consist solely of licenses and maintenance, the Company recognizes net license revenues based upon the residual method after all licensed software product has been delivered. The Company recognizes maintenance revenues over the term of the maintenance contract. The maintenance rates for both license agreements with and without stated renewal rates are based upon the Company's price list.

UNISERVE COMMUNICATIONS CORPORATION

Notes to Consolidated Financial Statements

For the period ended November 30, 2007

2. Significant accounting policies (continued):

(m) Revenue recognition (continued):

The Company maintains relationships with telecommunication partners (including cable companies) in which it provides services to customers using the "last mile" element of the telecommunication providers' networks. The term "last mile" generally refers to the element of telecommunication networks that is directly connected to homes and businesses. Generally, when the Company is the primary obligor in the transaction with the subscriber, has latitude in establishing prices, is the party determining the service specifications or has several but not all of these indicators, the Company records the revenue at the amount billed to the subscriber. If the Company is not the primary obligor and/or the telecommunications partner has latitude in establishing prices, the Company records revenue associated with the related subscribers on a net basis, netting the cost of revenue associated with the service against the gross amount billed to the customer and recording the net amount as revenue.

(n) Stock-based compensation:

The Company accounts for all stock-based payments, including stock options granted, using the fair value based method. Under the fair value based method, stock-based compensation is measured at fair value of the instrument on the grant date and recognized over the vesting period as a charge to earnings with a corresponding increase in contributed surplus. Any consideration paid by the option holders to purchase shares is credited to share capital and the related stock-based compensation recognized is reclassified from contributed surplus to share capital.

(o) Investment tax credits and government grants:

Investment tax credits and government grants related to current operating expenses are recorded as a reduction to these expenses in the period in which a reasonable estimate of the amount can be made, the Company elects to claim the amount, and collectibility is reasonably assured. Investment tax credits and government grants related to the acquisition of capital assets are deducted from the costs of the related capital assets, with any amortization calculated on the net amount.

(p) Earnings (loss) per share:

The Company calculates basic net earnings (loss) per share by dividing net earnings (loss) available to common shareholders for the period by the weighted average number of outstanding common shares. Diluted earnings (loss) per share is calculated using the treasury stock method, which takes into account the dilutive effects of outstanding stock options and warrants, if dilutive. A stock option or warrant is dilutive only when the average market price of common shares during the period exceeds the exercise price of the stock option or warrant. Convertible instruments are included in diluted earnings per share using the if-converted method which assumes that all convertible instruments are converted into common shares. As the effect of all share purchase warrants, options, and convertible securities is anti-dilutive, diluted net earnings (loss) per share is not different from basic net earnings (loss) per share for all periods presented.

UNISERVE COMMUNICATIONS CORPORATION

Notes to Consolidated Financial Statements

For the period ended November 30, 2007

2. Significant accounting policies (continued):

(q) Credit risk:

The Company's accounts receivable potentially subjects the Company to credit risk, as collateral is generally not required. The Company's risk of loss is limited due to advance billings to customers for services and the use of pre-approved charges to customer credit cards. The large number of customers comprising the customer base mitigates the concentration of credit risk.

(r) Financial instruments:

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and notes payable approximate their fair values because of the short-term to maturity of these instruments. The carrying amount of bank loans and long-term debt approximate their fair values as the debt bears interest at rates which approximates market rates. The fair value of amounts due to related parties is not determinable with sufficient reliability due to their related party nature and the lack of an available market for these instruments.

(s) Comparative figures:

Certain comparative amounts have been reclassified to conform to the presentation adopted in the current year.

(t) Accounting policy developments:

Financial instruments, comprehensive income, and hedging relationships

Effective June 1, 2007, the Company adopted the new Canadian Institute of Chartered Accountants ("CICA") Handbook Sections: 3855 "Financial Instruments – Recognition and Measurement", 3865 "hedges", and 1530 "Comprehensive Income". These new accounting standards provide guidance on the accounting for financial instruments and hedges, as well as on their presentation and disclosures, and introduce the concept of "comprehensive income". As required, these accounting policy changes have been adopted on a prospective basis with no restatement of prior period financial statements. The adoption of these new standards did not have an impact on the Company's financial statements.

- (i) Section 3855 requires all financial assets, financial liabilities and non-financial derivatives to be recognized on the balance sheet at the appropriate measurement and properly disclosed in the notes to the financial statements.
- (ii) Section 3865 sets out hedge accounting prerequisites and rules and builds on existing Canadian GAAP guidance by specifying how hedge accounting is applied and disclosed.
- (iii) Section 1530 introduces new standards for the presentation and disclosure of components of comprehensive income. Comprehensive income is defined as the change in net assets of an enterprise during a reporting period from transactions and other events and circumstances from non-owner sources.

UNISERVE COMMUNICATIONS CORPORATION

Notes to Consolidated Financial Statements

For the period ended November 30, 2007

3. Acquisitions:

(a) Acquisition of Parasun Technologies Inc.:

On May 24, 2007, the Company acquired 100% of the issued and outstanding shares of Parasun for cash consideration of \$12,500,000. The business combination was accounted for using the purchase method. Parasun provides software and services to the Cable and Electric Utility Industries, enabling operators to deliver high-speed connectivity and other IP services to their customers.

The following is a summary of the consideration paid and fair value of the assets acquired and liabilities assumed by the Company. The allocation of the purchase price is preliminary and may change as the Company completes its final valuation of the fair values of the assets and liabilities acquired and completes a review of working capital adjustments. At November 30, 2007, the intangible asset values were adjusted as follows: Intellectual Property adjusted from \$6,300,000 to \$3,700,000; Customer List adjusted from \$3,300,000 to \$4,800,000; Goodwill adjusted from \$1,665,535 to \$2,765,535 before tax adjustments.

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Consideration paid:	
Cash	\$ 12,500,000
Due to vendor	0
Transaction costs	72,823
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	\$ 12,572,823
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Assets acquired:	
Cash and cash equivalents	\$ 387,819
Accounts receivable	1,890,318
Investment tax credit receivable	773,559
Future tax asset	22,000
Inventory	38,501
Prepaid expenses	180,917
Equipment	746,079
Intellectual Property	3,700,000
Customer list	4,800,000
Other assets	3,763
Goodwill	6,212,244
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	18,755,200
Liabilities assumed:	
Accounts payable and accrued liabilities	1,470,086
Income taxes payable	375,982
Deferred revenue	82,642
Due to vendor	1,420,939
Future tax liability	2,832,728
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	6,182,377
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	\$ 12,572,823
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The due to vendor amount of \$1,420,939 includes \$773,559 a portion of which has been paid and the balance is payable only if and when the Company receives the remaining investment tax credit refund. The balance of the amount represents an amount potentially payable to the vendors for working capital in excess of amounts specified in the purchase agreement, the specific amounts of which is still under

UNISERVE COMMUNICATIONS CORPORATION

Notes to Consolidated Financial Statements

For the period ended November 30, 2007

negotiation, for which Parasun declared a dividend to its shareholders in conjunction with the close of the acquisition and will be repaid in the normal course of business as cash is available. At November 30, 2007, the amount was reduced from \$773,559 to \$450,000, and the Goodwill has been adjusted accordingly.

(b) Acquisition of Knowledge Based Telephony Systems Corp.:

On May 23, 2007, the Company acquired 100% of the issued and outstanding shares of KBT for cash consideration of \$1,196,143. The business combination was accounted for using the purchase method. KBT is a carrier based service provider that owns and operates software-based switching facilities in Western and Central Canada.

The following is a summary of the consideration paid and fair value of the assets acquired and liabilities assumed by the Company. The allocation of the purchase price is preliminary and may change as the Company completes its final valuation of the fair values of the assets and liabilities acquired and completes a review of working capital adjustments. At November 30, 2007, the intangible asset values were adjusted as follows: Intellectual Property adjusted from \$840,000 to \$520,000; Customer List adjusted from \$220,000 to \$400,000; Goodwill increased by \$140,000.

Consideration paid:	
Cash	\$ 1,146,143
Due to vendor	0
Transaction costs	66,877
	<hr/>
	\$ 1,213,020
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Assets acquired:	
Cash and cash equivalents	\$ (62,120)
Accounts receivable	291,772
Inventory	195,125
Prepaid expenses	16,377
Future income tax asset	36,000
Equipment	414,109
Customer list	400,000
Intellectual Property	520,000
Goodwill	504,903
	<hr/>
	2,316,166
Liabilities assumed:	
Accounts payable and accrued liabilities	449,571
Short-term debt	266,378
Future income tax liability	387,197
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	1,103,146
	<hr/>
	\$ 1,213,020
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(c) Acquisition of Inter.Net Canada Ltd.:

On January 31, 2006, the Company acquired 100% of the issued and outstanding common shares of Inter.Net for \$3,000,000 in cash and the issuance of 4,600,000 units with each unit consisting of one

UNISERVE COMMUNICATIONS CORPORATION

Notes to Consolidated Financial Statements

For the period ended November 30, 2007

common share and one-half share purchase warrant and the assumption of certain liabilities of the vendor. Each whole warrant is exercisable for up to 23 months at \$0.65 per share. The value assigned to the common shares issued is based on the average price of the Company's shares two days before and after the date of public announcement of the transaction of \$0.418 per share. The value assigned to the warrants of 0.251 per share was determined using the Black-Scholes option pricing formula with

3. Acquisitions (continued):

(c) Acquisition of Inter.Net Canada Ltd (continued):

the following assumptions: risk free interest rate - 3.75%; annual dividends - nil; expected life - 23 months; expected stock price volatility - 148%.

This business combination was accounted for using the purchase method and the results from operations of Inter.Net included in results from operations from January 31, 2006. The following is a summary of the consideration paid and fair value of the assets acquired and liabilities assumed by the Company:

Consideration paid:		
Cash	\$	3,000,000
Common shares		1,920,900
Warrants		577,975
Transaction costs		146,247
		<hr/>
	\$	5,645,122
		<hr/>
Assets acquired:		
Cash and cash equivalents	\$	142,321
Accounts receivable		131,370
Inventory		40,064
Prepaid expenses		31,181
Equipment		118,142
Customer list		2,200,000
Goodwill		4,312,884
		<hr/>
		6,975,962
		<hr/>
Liabilities assumed:		
Accounts payable and accrued liabilities		724,625
Deferred revenue		588,403
Short-term debt		17,812
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		1,330,840
		<hr/>
	\$	5,645,122
		<hr/>

(d) Other:

On February 1, 2007, the Company acquired a customer list and other assets for contingent consideration of 33% of earnings before interest, taxes, depreciation and amortization of the Company's business units that will utilize the assets over a 24 month period after acquisition. In addition, the Company acquired the interests of certain secured creditors of the vendor for \$325,000. Total consideration has been allocated to customer lists.

UNISERVE COMMUNICATIONS CORPORATION

Notes to Consolidated Financial Statements

For the period ended November 30, 2007

4. Land, building and equipment:

November 30, 2007	Cost	Accumulated amortization	Net book value
Equipment	\$ 9,059,381	\$ 6,376,759	\$ 2,682,622
Software	586,453	150,646	435,807
	\$ 9,645,834	\$ 6,527,405	\$ 3,118,429

May 31, 2007	Cost	Accumulated amortization	Net book value
Equipment	\$ 7,814,114	\$ 4,909,188	\$ 2,904,926
Software	378,465	81,329	297,136
	\$ 8,192,579	\$ 4,990,517	\$ 3,202,062

On June 6, 2006, the Company finalized the sale of a redundant real estate asset. The property, consisting of land and a building having a carrying value of \$764,730, was sold for consideration of \$860,000. The Company received cash of \$710,000 on the date of sale and provided the purchaser with a \$150,000 loan. The loan bore interest at 12% per annum, and was repaid in full on October 6, 2006. In addition, the Company guaranteed the lease of the present tenant for one year from the closing date of the sale. In connection with the sale, the Company retired the commercial mortgage in the amount of \$551,186 (note 8).

5. Intangible and other assets:

November 30, 2007	Cost	Accumulated amortization	Net book value
Customer lists	\$ 19,091,162	\$ 14,475,140	\$ 4,616,022
Intellectual property	7,140,000	92,000	7,048,000
Deferred finance costs	1,224,037	400,459	823,578
Product development costs	1,661,541	-	1,661,541
	\$ 29,116,740	\$ 14,967,599	\$ 14,149,141

May 31, 2007	Cost	Accumulated amortization	Net book value
Customer lists	\$ 19,091,162	\$ 13,364,842	\$ 5,726,320
Intellectual property	7,140,000	-	7,140,000
Deferred finance costs	1,224,037	315,000	909,037
Product development costs	1,059,964	-	1,059,964
	\$ 28,515,163	\$ 13,679,842	\$ 14,835,321

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Notes to Consolidated Financial Statements

For the period ended November 30, 2007

6. Related party transactions:

	November 30, 2007	May 31, 2007
\$1,000,000 loan payable to a director and shareholder of the Company, payable on demand, bearing interest at 15% per annum payable monthly, secured by a general security agreement granting first charge subject to permitted encumbrances over all assets of the Company	\$ 1,000,000	\$ 1,000,000
\$750,000 promissory note payable to a director and shareholder of the Company maturing November 19, 2007 bearing interest at 13% per annum. Monthly principal repayments are \$26,087 to maturity with a final payment of \$32,968 on November 19, 2007	-	163,944
\$650,000 loan payable to a director and shareholder of the Company, payable on demand, bearing interest at 18% per annum payable monthly, secured by a general security agreement granting first charge subject to permitted encumbrances over all assets of the Company	650,000	650,000
\$650,000 loan payable to a director and shareholder of the Company, payable on demand, bearing interest at 15% per annum payable monthly, secured by a general security agreement granting first charge subject to permitted encumbrances over all assets of the Company	-	-
	1,650,000	1,813,944
Current portion of due to related parties	1,650,000	1,813,944
	\$ -	\$ -

- (a) In the year ended May 31, 2007, the Company incurred costs associated with issuing 350,000 share purchase warrants to a director and shareholder for the extension of the expiry date of certain loan facilities. Each warrant entitles the holder to purchase one common share at an exercise price of \$0.40 expiring on March 9, 2008. The fair value of these warrants was \$66,500.
- (b) During the year ended May 31, 2006, the Company incurred consulting fees in the amount of \$21,293 to a former director and current officer of the Company for legal services.
- (c) During the year ended May 31, 2006, 85,000 bonus shares with a fair value at the date of issue of \$40,803 were issued to a director and officer of the Company for providing a guarantee of certain corporate indebtedness.

UNISERVE COMMUNICATIONS CORPORATION

Notes to Consolidated Financial Statements

For the period ended November 30, 2007

7. Bank indebtedness and notes payable:

	November 30, 2007	May 31, 2007
Promissory note \$3,000,000, maturing August 23, 2008, bearing interest at 2% per month, unsecured, net of unamortized discount of \$149,057 (note 9(e)(i))	\$ 0	\$ 2,850,943
Bank demand loan bearing interest at prime plus 3% repayable in monthly blended payments of \$7,650; secured by a general security agreement over assets of KBT	88,200	266,378
Demand promissory note, bearing interest at 15%, secured by a general security agreement granting first charge subject to permitted encumbrances over all assets of the Company	-	-
	<u>\$ 88,200</u>	<u>\$ 3,117,321</u>

Although the \$3,000,000 demand promissory note is due on August 23, 2008, the Company has classified this amount in current liabilities as it was the Company's intent to repay this amount when longer term financing was secured. The loan was repaid on July 23, 2007.

8. Long-term debt:

	November 30, 2007	May 31, 2006
Subordinated debt, US\$10,000,000 bearing interest at 12% per annum, maturing November 24, 2012, net of unamortized discount of \$2,030,000 (note 9(e)(i)). Interest-only payments to the end of May 2009, with the loan repayable thereafter at US\$62,500 per month with the balance at maturity.	\$ 8,173,000	\$8,829,638
Series A Convertible Preferred Shares, \$4,285,000 redeemable at the option of the holder on or after May 24, 2014, 8% cumulative dividends, net of unamortized discount of \$1,451,391 (note 9(a)(iii))	2,208,109	1,995,347
Commercial mortgage maturing July 5, 2006 and payable in monthly installments (principal and interest) of \$3,900 at prime plus 1% per annum and secured by land and building and assignment of rental income	-	-
Four secured promissory notes payable bearing interest at 13% per annum, with principal and interest payments increasing to maturity at November 19, 2007	-	-
Bank demand loan bearing interest at prime plus 3% repayable in monthly blended payments of \$7,650; secured by a general security agreement over assets of KBT	150,209	-
	<u>11,132,318</u>	<u>10,824,985</u>
Current portion of long-term debt	-	-
	<u>\$ 11,132,318</u>	<u>\$10,824,985</u>

UNISERVE COMMUNICATIONS CORPORATION

Notes to Consolidated Financial Statements

For the period ended November 30, 2007

8. Long-term debt (continued):

Principal payments due on the subordinated debt are as follows:

Years ending May 31:	US \$	
2008	-	-
2009	-	-
2010	750,000	
2011	750,000	
2012	750,000	
Thereafter	7,750,000	
		US \$ 10,000,000

9. Share capital:

(a) Authorized and issued:

The authorized share capital of the Company consists of an unlimited number of common shares and unlimited, Convertible Preferred Shares, Series A. 428,500 Preferred Shares, Series A are outstanding. Common no par value shares outstanding are as follows:

	Number of shares	Amount
Balance, May 31, 2005	13,711,867	\$ 9,749,293
Bonus share issue (note 6(c))	85,000	40,803
Issued on acquisition of Inter.Net (note 3(c))	4,600,000	1,920,900
Private placement (ii)	1,500,000	600,000
Warrants exercised for cash	1,687,500	761,300
Balance, May 31, 2006	21,584,367	13,072,296
Private placement (i)	830,000	415,000
Warrants exercised for cash	510,000	255,000
Balance, November 30, 2007	22,924,367	\$ 13,742,296

(i) On March 24, 2007, the Company issued 830,000 units via a private placement. Each unit consisted of one common share at \$0.50 and one half share purchase warrant. Warrants are exercisable until October 18, 2008 at an exercise price of \$0.75.

(ii) On January 31, 2006, the Company issued 1,500,000 units via a private placement. Each unit consisted of one common share at \$0.40 plus one-half share purchase warrant. Warrants are exercisable up to February 3, 2007 at a price of \$0.50 per share.

UNISERVE COMMUNICATIONS CORPORATION

Notes to Consolidated Financial Statements

For the period ended November 30, 2007

9. Share capital (continued):

(a) Authorized and issued (continued):

(iii) On May 31, 2007, the Company announced the offering by way of Private Placement of \$5,000,000 in Series A Convertible Preferred Shares. The first tranche of 316,500 Preferred Shares was issued on May 24, 2007 for proceeds of \$3,165,000. These Preferred Shares are convertible to common shares at \$0.75 in year one, \$0.80 in year two, \$0.90 in year three, \$1.05 in year four and \$1.25 in year five and carry a cumulative dividend rate of 8%. The Company can, at its option, force conversion, if, at any time during the term, the common shares of the Company trade at 200% of the conversion price then in effect for a period of 30 days. The Preferred Shares are redeemable at the option of the holder on or after the fifth anniversary of the date of issue. As the Company may be required to redeem the preferred shares for cash, they have been classified as long-term debt with the value of the conversion right included in other equity instruments. On issue the amount allocated to long-term debt was \$2,699,347 and \$1,565,653 was allocated to the conversion right. The carrying value of the amount allocated to long-term debt is being accreted to the face value of the preferred shares over a five year period.

On June 28, 2007, the Company issued a second tranche of 60,000 Preferred Shares for gross proceeds of \$600,000.

On August 28, 2007, the Company issued a third tranche of 25,000 Preferred Shares for gross proceeds of \$250,000.

On November 27, 2007, the Company issued a fourth tranche of 25,000 Preferred Shares for gross proceeds of \$250,000.

On December 5, 2007, the Company issued a fifth tranche of 2,000 Preferred Shares for gross proceeds of \$20,000.

(b) Escrow:

As at May 31, 2007, 192,624 (2006 - 192,624) shares are held in trust and are subject to arbitration proceedings.

(c) Share purchase warrants:

The following share purchase warrants were outstanding as of November 30, 2007:

Issue date	Expiry date	Number of warrants	Exercise price
March 9, 2007	March 9, 2008	500,000	\$ 0.40
April 18, 2007	October 18, 2008	415,000	\$ 0.75
May 24, 2007	May 24, 2009	350,000	\$ 0.70
May 24, 2007	May 24, 2012	3,500,000	\$ 0.70
		4,765,000	

UNISERVE COMMUNICATIONS CORPORATION

Notes to Consolidated Financial Statements

For the period ended November 30, 2007

9. Share capital (continued):

(d) Share purchase options:

Pursuant to the policies of the TSX Venture Exchange, the Company may grant incentive stock options to its officers, directors and employees. TSX Venture Exchange policies permit the Company's directors to grant incentive stock options of the purchase of shares of the Company to persons in consideration for services. Stock options must be non-transferable and the aggregate number of shares that may be reserved for issuance pursuant to stock options may not exceed 10% of the issued shares of the Company at the time of granting and may not exceed 5% to any individual. The exercise price of stock options and vesting period is determined by the Board of Directors of the Company at the time of grant and may not be less than the average closing price of the Company's shares on the ten trading days immediately preceding the day on which the option is granted and publicly announced. Options have a maximum term of five years and terminate 30 days following the termination of the optionee's employment, except in the case of retirement, death, or disability, in which case they terminate one year after the event.

During the year ended May 31, 2007, 2,275,000 stock options were granted all of which are outstanding as of May 31, 2007. All options were granted at an exercise price of \$0.50 and expire five years from the date of grant. As at May 31, 2007, 1,245,000 options are exercisable. For the year ended May 31, 2007, the Company recognized stock-based compensation related to stock options of \$467,399. The weighted average fair value of the options granted was \$0.34. Stock-based compensation was measured using the Black Scholes option pricing formula with the following weighted average assumptions: risk free interest rate 3.97%, annual dividend rate nil; expected stock-price volatility 120%; expected life of options 5 years. As at May 31, 2006 there were no stock options outstanding and none were granted in the year ended May 31, 2006.

(e) Other equity instruments:

Conversion rights on Series A preferred shares (note 9(a)(iii))	\$ 1,451,391
Warrants (i)	2,185,000
Warrants (ii)	95,000
	<hr/>
	\$ 3,731,391

(i) As part of the \$3,000,000 promissory note payable and US\$10,000,000 subordinated debt financing arrangements described in note 7 and note 8, the Company issued a total of 3,850,000 warrants. On issue, the Company allocated \$2,180,500 of the proceeds received to the warrants issued based on their fair value with the remaining amounts allocated to the promissory note payable and subordinated debt. The carrying values of the promissory note payable and subordinated debt are being accreted to their face value over the term to maturity.

(ii) In consideration for certain modifications to related party indebtedness (note 6(a)) and the issue of certain interim financing, the Company issued warrants with a fair value of \$95,000.

UNISERVE COMMUNICATIONS CORPORATION

Notes to Consolidated Financial Statements

For the period ended November 30, 2007

10. Commitments:

- (a) The Company has obligations under long-term contracts with suppliers of communication services relating to the internet services businesses. The contracts have minimum monthly base charges and pre-determined penalties of terminated costs. Minimum payments under these contracts are as follows:

2008	\$1,631,300
2009	14,400
	<u>\$1,645,700</u>

- (b) The Company is committed to operating leases for premises. Future minimum lease payments under these operating leases are as follows:

Years ending May 31:	
2008	\$ 1,192,000
2009	817,000
2010	792,000
2011	712,000
2012	540,000
2013	68,000
	<u>\$ 4,121,000</u>

11. Income taxes:

Income tax recovery (expense) differs from the amount that would be computed by applying the combined Canadian Federal and provincial statutory income tax rates of 34.1% (2006 - 34.1%) to income before income taxes. The reasons for the differences are as follows:

	2007	2006
Computed tax recovery (expense)	\$ 481,945	\$ 255,116
Tax effect of:		
Change in tax rates	(104,376)	(113,852)
Change in valuation allowance	(1,244,509)	(420,998)
Expired tax losses	1,241,394	-
Non-deductible items and other	(351,388)	(97,266)
	<u>(458,879)</u>	<u>(632,116)</u>
	<u>\$ 23,066</u>	<u>\$ (377,000)</u>

UNISERVE COMMUNICATIONS CORPORATION

Notes to Consolidated Financial Statements

For the period ended November 30, 2007

11. Income taxes (continued):

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at May 31, 2007 and 2006 are presented below:

	2007	2006
Future tax assets:		
Benefit of loss carry forwards for tax purposes	\$ 645,485	\$ 1,588,394
Difference between book value and tax value of software and equipment	496,662	437,580
Difference between book value and tax value of intangible assets and other assets	1,191,481	1,037,868
	2,333,628	3,063,842
Valuation allowance	(1,755,531)	(2,996,926)
	578,097	66,916
Future tax liability:		
Difference between book value and tax value of intangible and other assets	(3,788,514)	-
Investment tax credits	(69,501)	-
Difference between book value and tax value of deferred revenue	-	(66,916)
	(3,858,015)	(66,916)
Net future liability	\$ (3,279,918)	\$ -

The net future tax liability is presented on the balance sheet as follows:

	2007	2006
Current future tax asset	\$ 59,000	\$ -
Long-term future tax asset	188,859	-
Long-term future tax liability	(3,527,777)	-
	\$ (3,279,918)	\$ -

In determining the valuation allowance, management considers whether it is more likely than not that some portion of all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent on the generation of future income during the periods in which those temporary differences become deductible.

As at May 31, 2007, the Company has non-capital loss carry forwards in Canada aggregating approximately \$1,940,000 available to reduce taxable income otherwise calculated in future years. These losses will expire as follows:

2009	\$ 346,900
2010	425,679
2014	235,880
2016	811,269
2017	120,272
	\$ 1,940,000

UNISERVE COMMUNICATIONS CORPORATION

Notes to Consolidated Financial Statements

For the period ended November 30, 2007

12. Cash flow supplemental information:

	November 30,2007	May 31,2006
Supplementary information:		
Income taxes paid	\$ -	\$ -
Interest paid	625,068	427,812
Non-cash financing and investing transactions:		
Common shares issued for business acquisitions	-	-
Common shares issued in exchange for provision of guarantee on indebtedness	-	-
