

Consolidated financial statements of

**Uniserve Communications
Corporation**

May 31, 2008

Uniserve Communications Corporation

May 31, 2008

Table of contents

Auditors' report	1
Consolidated statement of operations and deficit	2
Consolidated balance sheet	3
Consolidated statement of cash flows.....	4
Notes to the consolidated financial statements	5-28

Auditors' report

To the Shareholders of
Uniserve Communications Corporation.

We have audited the consolidated balance sheets of Uniserve Communications Corporation as at May 31, 2008 and the consolidated statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at May 31, 2007 and the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their audit report dated August 24, 2007.

Deloitte & Touche LLP

Chartered Accountants
October 30, 2008

Uniserve Communications Corporation

Consolidated statement of operations and deficit year ended May 31, 2008

	2008	2007
	\$	\$
Revenues	33,570,473	23,297,449
Cost of sales	13,856,917	11,289,774
Gross margin	19,713,556	12,007,675
Expenses		
Operations and service delivery costs	16,707,657	9,317,545
Amortization of property and equipment (Note 5)	1,299,745	577,782
Amortization of intangible assets (Note 6)	1,745,098	830,237
Amortization of deferred finance costs	287,726	126,000
Sales and marketing	1,589,366	1,166,820
Stock-based compensation (Note 11(d))	-	467,399
	21,629,592	12,485,783
Operating loss	(1,916,036)	(478,108)
Other income (expense)		
Interest and bank charges	(2,895,368)	(1,038,664)
Foreign exchange gain	722,677	5,806
Write-down of goodwill and intangible assets (Notes 6, 7)	(1,017,572)	-
Loss on settlement of note payable (Note 9)	(149,057)	-
Accretion to face value of subordinated debt (Note 10)	(406,000)	-
Accretion to face value of preferred shares (Note 10)	(306,787)	-
Gain on sale of land and building	-	74,572
	(4,052,107)	(958,286)
Loss before income taxes	(5,968,143)	(1,436,394)
Income tax recovery (expense) (Note 13)		
Current	(606,291)	(102,013)
Future	1,372,118	125,079
	765,827	23,066
Net loss and comprehensive loss for the year	(5,202,316)	(1,413,328)
Deficit, beginning of year	(12,051,867)	(10,638,539)
Expiry of warrants	66,500	-
Deficit, end of year	(17,187,683)	(12,051,867)
Basic and diluted		
Loss and comprehensive loss per common share	(0.23)	(0.06)
Weighted average number of common shares outstanding	23,076,663	21,833,831

Uniserve Communications Corporation

Consolidated balance sheet as at May 31, 2008

	2008	2007
	\$	\$
Assets		
Current assets		
Cash	201,118	5,711,271
Accounts receivable	2,942,307	3,211,458
Investment tax credits receivable	-	1,016,633
Inventory	338,710	393,906
Prepaid expenses	438,670	324,488
Future income tax asset (Note 13)	182,871	59,000
	4,103,676	10,716,756
Future income tax asset (Note 13)	225,661	188,859
Property and equipment (Note 5)	3,218,577	3,202,062
Intangible and other assets (Note 6)	11,815,824	14,835,321
Goodwill (Note 7)	10,219,891	9,790,031
	29,583,629	38,733,029
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	7,494,143	5,997,210
Due to vendors of businesses acquired	450,879	4,421,320
Income taxes payable	484,358	962,353
Deferred revenue	1,428,316	1,807,902
Bank indebtedness and notes payable (Note 9)	1,608,035	3,117,321
Obligations under capital leases (Note 12)	524,794	-
Due to related parties (Note 8)	1,893,458	1,813,944
Current portion of future income tax liability (Note 13)	33,950	-
	13,917,933	18,120,050
Long-term debt (Note 10)	11,314,229	10,824,985
Future income tax liability (Note 13)	2,282,383	3,527,777
	27,514,545	32,472,812
Shareholders' equity		
Share capital (Note 11(a))	14,247,905	13,742,296
Other equity instruments (Note 11(e))	3,792,559	3,445,153
Contributed surplus (Note 11(a))	1,216,303	1,124,635
Deficit	(17,187,683)	(12,051,867)
	2,069,084	6,260,217
	29,583,629	38,733,029

Nature of operations and going concern (Note 1)
Commitments (Note 12)
Subsequent events (Notes 8, 9, 10, 11(a)(i) and 16)

Approved by the Directors

"William Spratt"
Director

"Maurice Lees"
Director

Uniserve Communications Corporation

Consolidated statement of cash flows
year ended May 31, 2008

	2008	2007
	\$	\$
Operating activities		
Net loss for the year	(5,202,316)	(1,413,328)
Items not involving cash		
Amortization of property and equipment	1,299,745	577,782
Amortization of intangible assets	1,745,097	830,237
Amortization of deferred finance costs	287,726	126,000
Purchase price re-allocation of intangible assets	1,340,000	-
Purchase price re-allocation of goodwill	(915,273)	-
Write-down of goodwill and intangible assets	1,017,572	-
Accretion of face value of preferred shares	306,787	-
Accretion to face value of promissory notes	406,000	-
Other non-cash interest expense	-	124,578
Stock-based compensation	-	467,399
Unrealized gain on foreign exchange	(887,029)	-
Future income taxes	(1,372,118)	(125,079)
Loss on settlement of note payable	149,057	-
Gain on sale of land and building	-	(74,572)
Changes in non-cash operating working capital		
Accounts receivable	246,440	(186,262)
Investment tax credits receivable	1,016,633	-
Inventory	55,196	(69,018)
Prepaid expenses	(192,048)	(25,402)
Accounts payable and accrued liabilities	1,496,933	1,101,851
Deferred revenue	(379,586)	(9,591)
Income taxes payable	(477,995)	209,370
	(59,179)	1,533,965
Investing activities		
New product development	(1,100,893)	(931,256)
Purchase of property and equipment	(753,650)	(827,647)
Due to vendors of businesses acquired	(3,638,734)	-
Customer lists acquired	-	(329,185)
Business acquisitions, net of cash acquired	-	(10,459,763)
Proceeds on sale of land and buildings	-	839,302
	(5,493,277)	(11,708,549)
Financing activities		
Repayment of capital lease obligations	(37,816)	-
Revolving line of credit	1,500,000	-
Repayment of short-term debt	(158,343)	-
Issue of long-term debt	-	10,831,500
Repayment of long-term debt	-	(907,053)
Deferred finance costs incurred	(38,431)	(842,273)
Issue of promissory notes	-	3,000,000
Repayment of promissory notes	(3,000,000)	(350,000)
Advances from related parties	400,000	650,000
Repayments to related parties	(320,487)	(524,771)
Net proceeds on issuance of preferred shares	1,120,000	3,165,000
Net proceeds on issuance of common shares	527,277	670,000
Net proceeds from common shares to be issued	70,000	-
	62,200	15,692,403
Effect of foreign exchange rate changes on cash and cash equivalents	(19,897)	-
Increase (decrease) in cash and cash equivalents	(5,490,256)	5,517,819
Cash, beginning of year	5,711,271	193,452
Cash, end of year	201,118	5,711,271

Supplemental cash flow information (Note 15)

Uniserve Communications Corporation

Notes to the consolidated financial statements

May 31, 2008

1. Nature of operations and going concern

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 completed the acquisitions of Parasun on May 24, 2007 (Note 4(a)), and KBT on May 23, 2007 (Note 4(b)).

As at May 31, 2008, the Company has a working capital deficiency of \$9,814,257 (2007 - deficiency of \$7,403,294). For the year ended May 31, 2008, the Company had positive cash flow from operations but incurred net losses due to interest expense, foreign exchange, amortization of customer lists and other intangible assets, accretion to face value of subordinated debt and preferred shares, the write-down of goodwill and intangible assets and loss on settlement of note payable. 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. 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, estimated future cash flows to support the going concern assumption, future income taxes and contingencies and commitments. 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 the consolidated financial statements

May 31, 2008

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) *Property and equipment*

Property and equipment including leasehold improvements 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, except leasehold improvements, where amortization is provided on a straight-line basis:

<u>Asset</u>	<u>Rate</u>
Online equipment	15%
Office equipment and signs	20%
Computer equipment	30%
Systems software	30%
Computer software	100%
Leasehold improvements	
- shorter of term of lease and estimated useful life	

(f) *Financing Costs*

Costs directly identifiable with the raising of capital are charged against the related capital stock. Costs incurred to obtain debt financing are netted against the related indebtedness, and amortized by a charge to interest expense over the term of the related debt using the effective interest rate method.

(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 eight 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.

Uniserve Communications Corporation

Notes to the consolidated financial statements

May 31, 2008

2. Significant accounting policies (continued)

(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.

(j) *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.

(k) *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.

(l) *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 the consolidated financial statements

May 31, 2008

2. Significant accounting policies (continued)

(l) *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.

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.

(m) *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.

(n) *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.

Uniserve Communications Corporation

Notes to the consolidated financial statements

May 31, 2008

2. Significant accounting policies (continued)

(o) *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.

(p) *Financial instruments*

i) Credit risk exposure

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and accounts receivable. The Company limits its exposure to credit loss by placing its cash with high credit quality financial institutions. Concentration of credit risk, with respect to accounts receivable is considered to be limited due to the credit quality of the customers comprising the Company's customer base. The Company performs ongoing credit evaluations of its customers' financial condition to determine the need for an allowance for doubtful accounts. The Company has not experienced significant credit losses to date. The maximum amount of credit risk exposure is limited to the carrying amounts of these balances in the consolidated financial statements.

As at May 31, 2008, a balance from one (2007 – nil) customer made up 18.2% of total accounts receivable.

ii) Interest rate risk exposure

Financial instruments that potentially subject the Company to interest rate risk consist primarily of its bank indebtedness and long-term debt.

iii) Fair values

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, bank indebtedness 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.

Uniserve Communications Corporation

Notes to the consolidated financial statements

May 31, 2008

2. Significant accounting policies (continued)

(q) *Leases*

Leases are classified as either capital or operating leases. A lease that transfers substantially all the benefits and risks incidental to the ownership of property is classified as a capital lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred. At the inception of a capital lease, an asset and an obligation are recorded at an amount equal to the lesser of the present value of the future minimum lease payments or the property's fair value at the beginning of such lease.

(r) *Deferred Lease Inducements*

Lease inducements, including rent free periods, are deferred and accounted for as a reduction of rent expense over the term of the related leases on a straight-line basis.

(s) *Debt Instruments*

Where the Company issues debt instruments with detachable warrants or conversion options in connection with a debt instrument, the estimated fair market value of the warrants and conversion feature are credited to shareholders' equity. The reduced liability component of the debt is accreted by a charge to interest expense.

(t) *Comprehensive Loss*

Comprehensive loss includes all changes in equity except those resulting from investments by owners and distribution to shareholders.

(u) *Comparative figures*

Certain comparative amounts on the consolidated statement of operations and deficit have been reclassified to conform to the presentation adopted in the current year.

3. Changes in accounting policies

Effective June 1, 2007, the Company adopted retrospectively without adjustment of prior years the recommendations of CICA Handbook Section 1530, Comprehensive Income; Section 3855, Financial Instruments - Recognition and Measurement; Section 3861, Financial Instruments - Disclosure and Presentation; Section 3865, Hedges; and Section 3251, Equity. These sections provide standards for recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives, and describe when and how hedge accounting may be applied.

Section 1530 provides standards for the reporting and presentation of comprehensive income, which represents the change in equity from transactions and other events and circumstances from non-owner sources. Other comprehensive income is defined by revenue, expenses, gains and losses that are recognized in comprehensive income, but excluded from net income, in conformity with generally accepted accounting principles.

Under the new standards, all financial assets are classified as held for trading, held-to-maturity investments, loans and receivables or available-for-sale categories. Also, all financial liabilities must be classified as held for trading or other financial liabilities. The financial instruments are measured at their fair values, except for held-to-maturity investments, loans and receivables and other financial liabilities, which are measured at amortized cost using the effective interest method.

Uniserve Communications Corporation

Notes to the consolidated financial statements

May 31, 2008

3. Changes in accounting policies (continued)

The change in the fair value of a financial asset or financial liability classified as held for trading is included in operations in the period in which it arises, and the change in the fair value of available for-sale financial assets is recognized in other comprehensive income until the financial asset is derecognized and any cumulative gain or loss is then recognized in operations.

As a result of the implementation of the standards, the Company has classified cash as held for trading. Accounts receivable has been classified as loans and receivables. Accounts payable and accrued liabilities, bank indebtedness and notes payable, obligations under capital lease and long-term debt have been classified as other financial liabilities.

The Company had no "other comprehensive income or loss" transactions during the year ended May 31, 2008. Adopting these standards had no impact on the consolidated financial statements.

Prior to June 1, 2007 transaction and financing costs incurred to obtain financing were deferred and amortized on a straight-line basis over the term of the respective indebtedness. The unamortized balance was included in other assets. Pursuant to CICA Handbook Section 3855, effective June 1, 2007, transactions and financing costs are capitalized to the related liability and are measured at amortized cost using the effective interest method. The Company recalculated the amortization of the loan origination fees for the prior period using the effective interest method and concluded that the difference is immaterial, and therefore no adjustment has been made to opening balances at June 1, 2007.

As part of the process of implementing these new standards, all contracts signed after June 1, 2003, were reviewed to identify embedded derivatives requiring separation from the host contract. No material embedded derivatives requiring separation were identified.

Effective July 1, 2008, the Company will be required to adopt the additional requirements of the CICA Handbook Section 1400, "General Standards of Financial Statements". The additional requirements require management to make an assessment of the Company's ability to continue as a going concern, and to disclose any material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The Company does not anticipate any impact to its consolidated financial statements arising from this accounting pronouncement.

The following accounting pronouncements have been released but have not yet been adopted by the Company.

(i) Capital disclosures:

In October 2006, the Accounting Standards Board (AcSB) issued Section 1535, Capital Disclosures, which establishes standards for disclosing information about an entity's capital and how it is managed. This standard requires disclosure of: an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital, and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically June 1, 2008 for the Company. The Company is currently assessing the impact of the new standard.

Uniserve Communications Corporation

Notes to the consolidated financial statements

May 31, 2008

3. Changes in accounting policies (continued)

(ii) Financial instruments - disclosures:

In October 2006, the CICA issued Section 3862, Financial Instruments - Disclosures and Section 3863, Financial Instruments - Presentation, which supersedes Sections 3861, Financial Instruments - Presentations and Disclosures. Section 3862 places an increased emphasis on disclosures about the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. Section 3862 requires disclosures, by class of financial instrument that enables users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income and other comprehensive income would have been affected by reasonably possible changes in the relevant risk variable.

This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically on June 1, 2008 for the Company. The Company does not expect the adoption of this standard to have a material impact on its financial statements.

(iii) Financial instruments - presentation:

In October 2006, the AcSB approved Section 3863, Financial Instruments - Presentation, which replaces Section 3861, Financial Instruments - Disclosure and Presentation. The existing requirements on presentation of financial instruments have been carried forward unchanged to Section 3863, Financial Instruments - Presentation.

This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically June 1, 2008 for the Company. The Company does not expect the adoption of this standard to have a material impact on its financial statements.

(iv) Goodwill and Intangible Assets:

In 2008, the CICA issued Handbook Section 3064 ("CICA 3064"), "Goodwill and Intangible Assets". CICA 3064 replaces Section 3062 "Goodwill and Intangible Assets", and Section 3450, "Research and Development Costs". It establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Company's interim and annual consolidated financial statements commencing June 1, 2009. The Company is currently assessing the impact of the new standard.

4. 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. At the time of acquisition there was an amount payable to the former shareholders of Parasun for dividends declared prior to the completion of the sale, of which \$440,652 remains payable as of May 31, 2008 (2007 - \$1,089,232). The amount was paid subsequent to the balance sheet date in conjunction with the sale of Parasun to Integrated Broadband Services ("IBBS"), see note 16. 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.

Uniserve Communications Corporation

Notes to the consolidated financial statements

May 31, 2008

4. Acquisitions (continued)

(a) *Acquisition of Parasun Technologies Inc.*

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 as at May 31, 2007 was preliminary and was subject to change. During the year ended May 31, 2008 the Company completed the final valuation of the fair values of the assets and liabilities acquired and the final review of the working capital adjustments resulting in changes to the amounts allocated to intellectual property, customer list, due to vendor and future tax liability amounts.

	2008 Final \$	2007 Preliminary \$
Consideration paid		
Cash	12,500,000	10,000,000
Due to vendors	0	2,500,000
Transaction costs	72,823	72,823
	<u>12,572,823</u>	<u>12,572,823</u>
Assets acquired		
Cash	387,819	387,819
Accounts receivable	1,890,318	1,890,318
Investment tax credit receivable	773,559	773,559
Future tax asset	22,000	22,000
Inventory	38,501	38,501
Prepaid expenses	180,917	180,917
Equipment	746,079	746,079
Intellectual property	4,000,000	6,300,000
Customer list	4,400,000	3,300,000
Other assets	3,763	3,763
Goodwill	5,597,810	5,112,244
	<u>18,040,766</u>	<u>18,755,200</u>
Liabilities assumed		
Accounts payable and accrued liabilities	1,470,086	1,470,086
Income taxes payable	375,982	375,982
Deferred revenue	82,642	82,642
Due to former shareholders	1,089,232	1,420,939
Future tax liability	2,450,001	2,832,728
	<u>5,467,943</u>	<u>6,182,377</u>
	<u>12,572,823</u>	<u>12,572,823</u>

The due to former shareholders amount of \$1,089,232, is comprised of investment tax credits and working capital in excess of amounts specified in the purchase agreement 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. The balance owing as at May 31, 2008 of \$440,652 was repaid in conjunction with the sale of Parasun, see note 16.

Uniserve Communications Corporation

Notes to the consolidated financial statements

May 31, 2008

4. Acquisitions (continued)

(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 \$1,146,143, of which \$nil remains payable at May 31, 2008 (2007 - \$500,381). 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 as at May 31, 2007 was preliminary and was subject to change. During the year ended May 31, 2008 the Company completed the final valuation of the fair values of the assets and liabilities acquired and the final review of the working capital adjustments resulting in changes to the amounts allocated to intellectual property, customer list, due to vendor and future tax liability amounts.

	2008 Final \$	2007 Preliminary \$
<hr/>		
Consideration paid		
Cash	1,146,143	645,762
Due to vendor	0	500,381
Transaction costs	66,877	66,877
	<hr/> 1,213,020	<hr/> 1,213,020
<hr/>		
Assets acquired		
Accounts receivable	291,772	291,772
Inventory	195,125	195,125
Prepaid expenses	16,377	16,377
Future income tax asset	36,000	36,000
Equipment	414,109	414,109
Customer list	400,000	220,000
Intellectual property	520,000	840,000
Goodwill	462,903	364,903
	<hr/> 2,336,286	<hr/> 2,378,286
<hr/>		
Liabilities assumed		
Cheques issued in excess of cash on hand	62,120	62,120
Accounts payable and accrued liabilities	449,571	449,571
Short-term debt	266,378	266,378
Future tax liability	345,197	387,197
	<hr/> 1,123,266	<hr/> 1,165,266
	<hr/> 1,213,020	<hr/> 1,213,020
<hr/>		

Uniserve Communications Corporation

Notes to the consolidated financial statements

May 31, 2008

4. Acquisitions (continued)

(c) *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. During the year ended May 31, 2008 the contingent consideration obligations were settled for a cash payment of \$12,000.

5. Property and equipment

	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Equipment	10,534,497	8,017,005	2,517,492
Software	1,050,658	510,668	539,990
Leasehold improvements	448,630	287,535	161,095
	12,033,785	8,815,208	3,218,577

			2007
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Equipment	9,529,971	6,918,552	2,611,419
Software	764,569	402,084	362,485
Leasehold improvements	426,857	198,699	228,158
	10,721,397	7,519,335	3,202,062

The cost of property under capital leases, equipment and software aggregated \$463,018 as at May 31, 2008 (2007 - \$nil). Amortization charged to operations, which includes amortization associated with property under capital leases, was \$1,299,745 and \$577,782 for the years ended May 31, 2008 and 2007, respectively.

Uniserve Communications Corporation

Notes to the consolidated financial statements

May 31, 2008

6. Intangible and other assets

				2008
	Cost	Accumulated amortization	Write-down	Net book value
	\$	\$		\$
Customer lists	20,871,161	14,675,288	395,866	5,800,007
Intellectual property	4,020,000	402,000	468,000	3,150,000
Deferred finance costs	1,258,705	602,726	-	655,979
Product development costs	2,160,857	-	-	2,160,857
Other assets	48,981	-	-	48,981
	28,359,704	15,680,014	863,866	11,815,824

				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	1,220,274	315,000		905,274
Product development costs	1,059,964	-		1,059,964
Other assets	3,763	-		3,763
	28,515,163	13,679,842		14,835,321

7. Goodwill

Balance, May 31, 2006	4,312,884
Acquisition of Parasun	5,112,244
Acquisition of KBT	364,903
Balance, May 31, 2007	9,790,031
Purchase price reallocation - Parasun	485,566
Purchase price reallocation - KBT	98,000
Write-down - KBT	(153,706)
Balance, May 31, 2008	10,219,891

Uniserve Communications Corporation

Notes to the consolidated financial statements

May 31, 2008

8. Related party transactions

	2008	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 (notes 8(a), 8(b), 8(c))	912,055	1,000,000
\$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 (note 8(b))	581,403	650,000
\$400,000 loan payable to a company controlled by 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 (note 8(b))	400,000	-
\$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
	1,893,458	1,813,944

(a) The Company was charged \$100,000 in loan extension fees in the year ended May 31, 2008 (2007 - \$nil). These fees were outstanding as at May 31, 2008 (2007 - \$nil) and were included in accounts payable and accrued liabilities.

(b) As at May 31, 2008 accumulated interest in arrears of \$141,603, \$113,520, and \$18,345 was included in accounts payable and accrued liabilities for the \$1,000,000, \$650,000 and \$400,000 loans respectively.

On October 7, 2008, subsequent to the balance sheet date, the \$1,000,000, the \$650,000 and the \$400,000 loans plus accrued interest amounts of \$190,493, \$151,141, \$43,938 respectively, were paid in conjunction with the sale of Parasun to IBBS, see note 16.

Uniserve Communications Corporation

Notes to the consolidated financial statements

May 31, 2008

8. Related party transactions (continued)

- (c) During 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 the \$1,000,000 loan. Each warrant entitled the holder to purchase one common share at an exercise price of \$0.40; the fair value of these warrants was \$66,500. These warrants expired on March 9, 2008, and the previously recorded warrant value was charged to deficit.
- (d) One of the Company's subsidiaries entered into a lease agreement, commencing June 1, 2008 with a private company controlled by a director and shareholder, see note 12(b).

Related party transactions are in the normal course of operations and are recorded at amounts established and agreed between the related parties.

9. Bank indebtedness and notes payable

	2008	2007
	\$	\$
Revolving credit facility bearing interest at prime plus 2%, secured by a general security agreement constituting a first ranking security interest in all assets of the Company	1,410,000	-
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	198,035	266,378
Promissory note \$3,000,000, maturing August 23, 2008, bearing interest at 2% per month, unsecured, net of unamortized discount of \$149,057 (Note 11(e)(i))	-	2,850,943
	1,608,035	3,117,321

The revolving credit facility was repaid subsequent to the balance sheet date in conjunction with the sale of the Company's wholly owned subsidiary, Parasun, see note 16.

Although the \$3,000,000 demand promissory note was due on August 23, 2008, the Company classified this amount in current liabilities as at May 31, 2007 as the loan was repaid on July 23, 2007. The repayment of the note resulted in a loss of \$149,057 which has been charged to the statement of operations.

Uniserve Communications Corporation

Notes to the consolidated financial statements

May 31, 2008

10. Long-term debt

	2008	2007
	\$	\$
Subordinated debt, US\$10,000,000 bearing interest at 12% per annum, maturing November 24, 2012, net of unamortized discount of \$1,624,000 (2007 - \$2,030,000) (note 11(e)(i)), interest-only payments to May 2009, with the loan repayable thereafter at US\$62,500 per month with the balance at maturity	8,306,000	8,829,638
Series A Convertible Preferred Shares, \$4,285,000 (2007 - \$3,165,000) redeemable at the option of the holder on or after May 24, 2014, 8% cumulative dividends, net of unamortized discount of \$1,276,771 (2007 - \$1,169,653 (Note 11(a)(iii)))	3,008,229	1,995,347
	11,314,229	10,824,985
Current portion of long-term debt	-	-
	11,314,229	10,824,985

The Company agreed to pay US\$50,000 per month for a six month period commencing December 2007 as part of a temporary relaxation of the financial covenants with the holder of the subordinated debt. As of June 1, 2008 the interest rate on the subordinated debt increased to 18% as the Company was not able to meet the financial covenants of the subordinated debt.

Subsequent to the balance sheet date the subordinated debt was repaid in conjunction with the sale of the Company's wholly owned subsidiary, Parasun, see note 16.

Uniserve Communications Corporation

Notes to the consolidated financial statements

May 31, 2008

11. Share capital

(a) *Authorized and issued and contributed surplus*

The authorized share capital of the Company consists of an unlimited number of common shares and an unlimited number of Convertible Preferred Shares. As at May 31, 2008, 428,500 (2007 – 316,500) Preferred Shares, Series A are outstanding. Common no par value shares outstanding are as follows:

	Number of shares	Share Capital Amount \$	Contributed Surplus \$
Balance, May 31, 2006	21,584,367	13,072,296	657,236
Private placement (ii)	830,000	415,000	-
Warrants exercised for cash	510,000	255,000	-
Stock-based compensation expense	-	-	467,399
Balance, May 31, 2007	22,924,367	13,742,296	1,124,635
Private placement (i)	1,506,498	505,609	-
Private placement (i)	-	-	21,668
Private placement (i)	-	-	70,000
Balance, May 31, 2008	24,430,865	14,247,905	1,216,303

- (i) On April 24, 2008, the Company issued 1,506,498 units via a private placement. Each unit consisted of one common share at \$0.35 and one half share purchase warrant for total proceeds of \$527,277. Warrants are exercisable until April 24, 2010 at an exercise price of \$0.45. On issue the amount allocated to share capital was \$505,069 and \$21,668 was allocated to the warrant. The value assigned to the warrants of \$0.03 per share was determined using the Black Scholes option pricing formula with the following assumptions: risk free interest rate – 3.25%; annual dividends – nil; expected life – 23 months; expected stock price volatility – 40%.

As at May 31, 2008, the Company had received \$70,000 for an additional 200,000 units which were not issued until subsequent to the balance sheet.

- (ii) 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. These warrants expired subsequent to the balance sheet date. The value assigned to the warrants of \$0.00 per share was determined using the Black Scholes option pricing formula with the following assumptions: risk free interest rate – 3.25%; annual dividends – nil; expected life 19 months; expected stock volatility – 120%.

Uniserve Communications Corporation

Notes to the consolidated financial statements

May 31, 2008

11. Share capital (continued)

(a) *Authorized and issued and contributed surplus (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. 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.

The first tranche of 316,500 Preferred Shares was issued on May 24, 2007 for proceeds of \$3,165,000. 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.

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 \$3,008,228 and \$1,276,772 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.

(b) *Escrow*

As at May 31, 2008, 192,624 (2007 - 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 May 31, 2008:

<u>Issue date</u>	<u>Expiry date</u>	<u>Number of warrants</u>	<u>Exercise price</u> \$
April 18, 2007	October 18, 2008 ⁽¹⁾	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
April 24, 2008	April 24, 2010	753,251	0.45
		<u>5,018,251</u>	

⁽¹⁾ All of the 415,000 warrants expired subsequent to the balance sheet date.

Uniserve Communications Corporation

Notes to the consolidated financial statements

May 31, 2008

11. Share capital (continued)

(d) Share purchase options (continued)

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 were outstanding as at May 31, 2007. These options were granted at an exercise price of \$0.50 or \$0.65 and expire five years from the date of grant. The vesting periods ranged from vesting immediately to vesting over a 3 year period.

During the year ended May 31, 2008, no stock options were granted. For the year ended May 31, 2008, the Company recognized stock-based compensation related to stock options of \$nil (2007 - \$467,399). The weighted average fair value of the options granted during the year ended May 31, 2007 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.

Stock option activity is summarized as follows:

	Shares available for grant	Number of optioned common shares	Options outstanding Weighted average exercise price \$
Balance, May 31, 2006	-	-	-
Available for grant	2,292,437		
Options granted	(2,275,000)	2,275,000	0.51
Balance, May 31, 2007	17,437	2,275,000	0.51
Options forfeited	482,500	(482,500)	0.50
Additional shares available for grant	150,650	-	
Balance, May 31, 2008	650,587	1,792,500	0.51

Uniserve Communications Corporation

Notes to the consolidated financial statements

May 31, 2008

11. Share capital (continued)

(d) Share purchase options (continued)

The following table summarizes information about stock options outstanding and exercisable as at May 31, 2008:

Range of exercise prices	Options outstanding		Options exercisable	
	Number of common shares issuable	Remaining contractual life (years)	Number of common shares issuable	Remaining contractual life (years)
\$				
0.50	1,642,500	2.73	1,145,000	3.44
0.65	150,000	3.99	50,000	3.99
	1,792,500	2.83	1,195,000	3.46

Stock-based compensation

The fair value of the Company's stock-based awards granted in 2007 was estimated using the Black-Scholes valuation model using the following assumptions:

	2008	2007
Volatility	-	47%
Expected life of stock options	-	3 years
Expected dividend yield	-	0.0%
Risk free interest rate	-	3.80%

(e) Other equity instruments

	2008	2007
	\$	\$
Conversion rights on Series A preferred shares (Note 10(a)(iii))	1,583,559	1,169,653
Warrants (i)	150,500	150,500
Warrants (ii)	2,030,000	2,030,000
Warrants (iii)	-	66,500
Warrants (iv)	28,500	28,500
	3,792,559	3,445,153

- (i) As part of the \$3,000,000 promissory note payable described in Note 9, the Company issued 350,000 warrants. On issue, the Company allocated \$150,500 of the proceeds received to the warrants issued based on their fair value with the remaining amounts allocated to the promissory note payable. The carrying value of the promissory note payable is being accreted to the face value over the term to maturity.

Uniserve Communications Corporation

Notes to the consolidated financial statements

May 31, 2008

11. Share capital (continued)

(e) *Other equity instruments (continued)*

- (ii) As part of the US\$10,000,000 subordinated debt financing arrangements described in Note 10, the Company issued a total of 3,500,000 warrants. On issue, the Company allocated \$2,030,000 of the proceeds received to the warrants issued based on their fair value with the remaining amounts allocated to the subordinated debt. The subordinated debt was repaid subsequent to the balance sheet date, see note 16.
- (iii) During the year ended May 31, 2007, in consideration for certain modifications to related party indebtedness (Note 8(c)), the Company issued warrants with a fair value of \$66,500. These warrants expired on March 9, 2008, and the previously recorded warrant value was charged to deficit.
- (iv) During the year ended May 31, 2007, in consideration for the issue of certain interim financing, the Company issued warrants with a fair value of \$28,500.

12. 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:

	\$
2009	316,690
2010	60,100
	<u>376,790</u>

- (b) The Company leases office space and equipment under non-cancelable operating leases expiring in various years through 2016 and also leases office furniture and computer hardware and software under non-cancelable capital leases. Minimum commitments under non-cancelable leases as at May 31, 2008 are as follows:

	Capital leases \$	Operating leases \$
2009	216,130	729,783
2010	183,100	593,863
2011	80,995	494,634
2012	65,937	360,289
2013	54,948	1,322,916
Total minimum lease payments	601,110	<u>3,501,485</u>
Less: amount representing interest	76,316	
Present value of future lease payments	524,794	
Less: current portion	524,794	
Long-term portion of capital lease obligation	<u>-</u>	

Uniserve Communications Corporation

Notes to the consolidated financial statements

May 31, 2008

13. 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 32.46% (2007 - 34.10%) to income before income taxes. The reasons for the differences are as follows:

	2008	2007
	\$	\$
Computed tax recovery (expense)	1,937,277	481,945
Tax effect of:		
Change in tax rates	(393,668)	(104,376)
Change in valuation allowance	(242,898)	1,241,394
Expired tax losses	-	(1,244,509)
Non-deductible items and other	(534,884)	(351,388)
	<u>(1,171,450)</u>	<u>(458,879)</u>
	<u>765,827</u>	<u>23,066</u>

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at May 31, 2008 are presented below:

	2008	2007
	\$	\$
Future tax assets		
Loss carry forwards	1,320,228	645,485
Difference between book and tax value of software and equipment	572,345	496,662
	<u>1,892,573</u>	<u>1,142,147</u>
Valuation allowance	<u>(1,998,429)</u>	<u>(1,755,531)</u>
	<u>(105,856)</u>	<u>(613,384)</u>
Future tax liability		
Difference between book value and tax value of intangible and other assets	(1,801,945)	(2,597,033)
Investment tax credits	-	(69,501)
	<u>(1,801,945)</u>	<u>(2,666,534)</u>
Net future liability	<u>(1,907,801)</u>	<u>(3,279,918)</u>

Uniserve Communications Corporation

Notes to the consolidated financial statements

May 31, 2008

13. Income taxes (continued)

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

	2008	2007
	\$	\$
Current future tax asset	182,871	59,000
Long-term future tax asset	225,661	188,859
Current future tax liability	(33,950)	-
Long-term future tax liability	(2,282,383)	(3,527,777)
	<u>(1,907,801)</u>	<u>(3,279,918)</u>

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, 2008, the Company has non-capital loss carry forwards in Canada aggregating approximately \$4,583,601 available to reduce taxable income otherwise calculated in future years. These losses will expire as follows:

	\$
2009	346,900
2010	425,679
2026	235,880
2027	931,541
2028	2,643,601
	<u>4,583,601</u>

14. Business Segment Information

The Company carries on business in Internet access and related communications services industry and all sales are made in this segment. Geographic revenue information is based on the location of the customer invoiced. All of the long-lived assets including property and equipment and intangible assets are located in Canada. For additional segment information, please refer to Note 16.

	2008	2007
	\$	\$
Revenue		
United States	9,151,251	222,397
Canada	24,419,222	23,075,052
Total	<u>33,570,473</u>	<u>23,297,449</u>

Uniserve Communications Corporation

Notes to the consolidated financial statements

May 31, 2008

15. Cash flow supplemental information

	2008	2007
	\$	\$
Supplementary information		
Interest paid	1,766,583	427,812
Non-cash financing and investing transactions		
Obligations under capital leases	524,794	-
Expiration of warrants	66,500	-
Taxes paid	357,580	-

16. Subsequent events

On October 7, 2008, the Company completed the sale of its wholly owned subsidiary, Parasun to IBBS, for cash consideration of US\$20,000,000 in exchange for all of the issued and outstanding shares of Parasun. Of the purchase price, US\$2,500,000 US is to be held in escrow for a period of 1 year to satisfy any indemnification claims for any deficiencies in the representations and warranties and for any taxes owing up to the date of sale.

In conjunction with the sale, the long-term debt of US\$10,000,000 including an early payment fee of \$400,000 plus the accrued interest was repaid. Amounts due to related parties totaling \$1,893,458, capital lease obligations totaling \$524,794 and amounts due to vendors of businesses acquired totaling \$440,562 as at May 31, 2008 were also paid out in conjunction with the sale. In addition, the balance outstanding on the revolving line of credit was repaid.

Uniserve Communications Corporation

Notes to the consolidated financial statements

May 31, 2008

16. Subsequent events (continued)

As at May 31, 2008 the financial results associated with Parasun are as follows:

	2008 Parasun	2008 Uniserve Excluding Parasun	2008 Uniserve Consolidated
Revenues	10,381,894	23,188,579	33,570,473
Gross margin	7,798,371	11,915,185	19,713,556
Expenses	8,000,659	13,628,933	21,629,592
Operating loss	(202,288)	(1,713,748)	(1,916,036)
Other income (loss)	(301,451)	(3,750,656)	(4,052,107)
Loss before income taxes	(503,739)	(5,464,404)	(5,968,143)
Income taxes	658,023	107,804	765,827
Net loss and comprehensive loss for the year	154,284	(5,356,600)	(5,202,316)
Current assets	2,589,967	1,513,709	4,103,676
Future income tax asset	-	225,661	225,661
Property and equipment	1,066,440	2,152,137	3,218,577
Intangible and other assets	9,436,915	2,378,909	11,815,824
Goodwill	4,932,807	5,287,084	10,219,891
Total assets	18,026,129	11,557,500	29,583,629
Current liabilities	2,354,247	11,563,686	13,917,933
Long-term debt	-	11,314,229	11,314,229
Future income tax liability	2,274,048	8,335	2,282,383
Total liabilities	4,628,295	22,886,250	27,514,545
Shareholders' equity	13,397,834	(11,328,750)	2,069,084
Total liabilities and shareholders' equity	18,026,129	11,557,500	29,583,629