

Consolidated financial statements of

**Uniserve Communications Corporation**

Six months ended November 30, 2008

(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 28, 2009

# Uniserve Communications Corporation

## Consolidated statement of operations and deficit

	Three months ended Nov. 30,		Six months ended Nov. 30,	
	2008	2007	2008	2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	\$	\$	\$	\$
<b>Revenues</b>	<b>5,759,248</b>	8,263,828	<b>13,473,060</b>	17,144,801
Cost of sales	<b>2,686,005</b>	3,597,829	<b>6,056,632</b>	7,915,085
Gross margin	<b>3,073,243</b>	4,665,999	<b>7,416,428</b>	9,229,716
Expenses				
Operations and service delivery costs	<b>3,400,226</b>	3,927,677	<b>7,085,877</b>	7,116,501
Sales and marketing	<b>138,301</b>	373,526	<b>500,333</b>	837,300
Amortization of property and equipment	<b>360,929</b>	313,620	<b>635,899</b>	580,371
Amortization of intangible assets (Note 3)	<b>222,230</b>	(1,852)	<b>570,911</b>	766,830
Amortization of deferred finance costs (Note 3)	<b>71,813</b>	40,431	<b>143,744</b>	143,864
Stock-based compensation (Note 9(d))	-	35,149	<b>2,937</b>	35,149
	<b>4,193,499</b>	4,688,551	<b>8,939,701</b>	9,480,015
Operating loss	<b>(1,120,256)</b>	(22,552)	<b>(1,523,273)</b>	(250,299)
Other income (expense)				
Interest and bank charges	<b>(1,162,544)</b>	(698,119)	<b>(1,956,499)</b>	(1,580,606)
Foreign exchange gain (loss)	<b>(180,765)</b>	616,025	<b>(739,732)</b>	712,805
Write-down of goodwill	<b>(309,197)</b>	-	<b>(309,197)</b>	-
Accretion to face value of subordinated debt (Note 8)	<b>(101,500)</b>	-	<b>(203,000)</b>	-
Accretion to face value of preferred shares (Note 8)	<b>(79,798)</b>	-	<b>(159,597)</b>	-
Gain on sale of Parasun	<b>8,301,251</b>	-	<b>8,301,251</b>	-
Loss on repayment of subordinated debt	<b>(1,421,000)</b>	-	<b>(1,421,000)</b>	-
	<b>5,046,447</b>	(82,094)	<b>3,512,226</b>	(867,801)
Income (loss) before income taxes	<b>3,926,191</b>	(104,646)	<b>1,988,953</b>	(1,118,100)
Income tax recovery (expense)				
Current	<b>(30,000)</b>	(90,000)	<b>(120,000)</b>	(180,000)
Future	<b>26,735</b>	-	<b>93,936</b>	-
	<b>(3,265)</b>	(90,000)	<b>(26,064)</b>	(180,000)
<b>Net income (loss) and comprehensive income (loss) for the period</b>	<b>3,922,926</b>	(194,646)	<b>1,962,889</b>	(1,298,100)
Deficit, beginning of period	<b>(19,147,720)</b>	(13,155,321)	<b>(17,187,683)</b>	(12,051,867)
<b>Deficit, end of period</b>	<b>(15,224,794)</b>	(13,349,967)	<b>(15,224,794)</b>	(13,349,967)
<b>Earnings per share</b>				
Net income (loss) and comprehensive income (loss) per common share - basic	<b>0.16</b>	(0.01)	<b>0.08</b>	(0.06)
Net income (loss) and comprehensive income (loss) per common share - diluted	<b>0.13</b>	-	<b>0.06</b>	-
Weighted avg # of common shares outstanding - basic	<b>24,630,865</b>	22,924,367	24,588,242	22,924,367
Weighted avg # of common shares outstanding - diluted	<b>31,368,568</b>	-	<b>31,375,626</b>	-

# Uniserve Communications Corporation

## Consolidated balance sheet

	November 30, 2008 (Unaudited)	May 31, 2008 (Audited)
	\$	\$
<b>Assets</b>		
Current assets		
Cash	426,233	201,118
Accounts receivable	1,037,533	2,942,307
Inventory	327,356	338,710
Prepaid expenses	31,374	438,670
Amounts held in escrow (Notes 4, 11)	3,092,500	-
Future income tax asset	-	182,871
	<b>4,914,996</b>	<b>4,103,676</b>
Future income tax asset	188,859	225,661
Property and equipment	1,732,652	3,218,577
Intangible and other assets (Notes 3, 4)	4,250,333	11,815,824
Goodwill (Note 5)	4,312,884	10,219,891
	<b>15,399,724</b>	<b>29,583,629</b>
<b>Liabilities and shareholders' equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	6,401,670	7,494,143
Due to vendors of businesses acquired	-	450,879
Income taxes payable	369,358	484,358
Deferred revenue	1,201,737	1,428,316
Bank indebtedness (Note 7)	160,444	1,608,035
Obligations under capital leases	-	524,794
Due to related parties (Note 6)	-	1,893,458
Current portion of future income tax liability	-	33,950
	<b>8,133,209</b>	<b>13,917,933</b>
Long-term debt (Note 8)	3,167,825	11,314,229
Future income tax liability	63,780	2,282,383
	<b>11,364,814</b>	<b>27,514,545</b>
<b>Shareholders' equity</b>		
Share capital (Note 9(a))	14,315,028	14,247,905
Other equity instruments (Note 9(e))	3,792,559	3,792,559
Contributed surplus (Note 9(a))	1,152,117	1,216,303
Deficit	(15,224,794)	(17,187,683)
	<b>4,034,910</b>	<b>2,069,084</b>
	<b>15,399,724</b>	<b>29,583,629</b>

Contingency (Note 11)

Approved by the Directors

"William Spratt"  
Director

"Maurice Lees"  
Director

# Uniserve Communications Corporation

## Consolidated statement of cash flows

	Three months ended Nov. 30,		Six months ended Nov. 30,	
	2008 (Unaudited) \$	2007 (Unaudited) \$	2008 (Unaudited) \$	2007 (Unaudited) \$
<b>Operating activities</b>				
Net income (loss) for the period	3,922,926	(194,646)	1,962,889	(1,298,099)
Items not involving cash				
Amortization of property and equipment	360,929	283,118	635,899	510,559
Amortization of intangible assets	222,230	3,565	570,911	707,783
Amortization of deferred finance costs	71,813	(38,833)	143,744	73,978
Amortization of warrant & conversion options	-	(77,756)	-	142,118
Write-down of goodwill	309,197	-	309,197	-
Accretion to face value of preferred shares	79,798	-	159,597	-
Accretion to face value of subordinated debt	101,500	-	203,000	-
Stock-based compensation	-	35,149	2,937	35,149
Unrealized loss on foreign exchange	(991,899)	-	(301,828)	-
Future income taxes	192,938	270,129	125,738	-
Loss on settlement of subordinated debt	1,421,000	-	1,421,000	-
Gain on sale of investment in Parasun	(8,301,251)	-	(8,301,251)	-
Net proceeds on issuance of common shares	-	-	70,000	-
Net proceeds from common shares to be issued	-	-	(70,000)	-
Changes in non-cash operating working capital				
Accounts receivable	2,711	(346,002)	78,240	2,612
Investment tax credits receivable	-	(243,507)	-	729,547
Inventory	(65,654)	90,121	(31,302)	14,648
Prepaid expenses	31,574	(37,136)	282,685	(64,354)
Accounts payable and accrued liabilities	(2,272,711)	531,446	(622,712)	(173,620)
Deferred revenue	(16,824)	28,986	(126,759)	(158,285)
Income taxes payable	(11,045)	(229,588)	(66,822)	(311,689)
	(4,942,768)	75,046	(3,554,837)	210,347
<b>Investing activities</b>				
New product development	(210,028)	(260,403)	(451,553)	(593,860)
Purchase of property and equipment	(113,176)	(292,816)	(282,729)	(426,925)
Business disposition, net of cash	18,326,723	-	17,768,623	-
Due to vendors of businesses acquired	-	(2,823,697)	-	(3,971,320)
	18,003,519	(3,376,916)	17,034,341	(4,992,105)
<b>Financing activities</b>				
Repayment of capital lease obligations	(53,935)	-	-	-
Revolving line of credit	(1,340,000)	1,314,000	(1,410,000)	1,314,000
Repayment of short-term debt	(18,740)	-	(37,591)	-
Repayment of long-term debt	(9,930,000)	(27,969)	(9,930,000)	(27,969)
Repayments to related parties	(1,888,383)	(85,251)	(1,893,458)	(163,944)
Repayment of promissory notes	-	-	-	(3,000,000)
Dividends on preferred shares	-	(95,989)	-	(95,989)
Net proceeds on issuance of preferred shares	-	250,000	-	1,100,000
	(13,231,058)	1,354,791	(13,271,049)	(873,902)
Effect of foreign exchange rate changes on cash	31,220	-	16,660	-
Increase (decrease) in cash	(170,307)	(1,947,079)	208,455	(5,655,660)
Cash, beginning of period	565,320	2,002,690	201,118	5,711,271
<b>Cash, end of period</b>	<b>426,233</b>	<b>55,611</b>	<b>426,233</b>	<b>55,611</b>

# Uniserve Communications Corporation

## Notes to the consolidated financial statements

November 30, 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 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 and KBT on May 23, 2007. In order to improve its liquidity the Company completed the sale of Parasun on October 7, 2008.

As at November 30, 2008, the Company has a working capital deficiency of \$3,218,213 (May 31, 2008 - deficiency of \$9,814,257). For the period ended November 30, 2008 and the year ended May 31, 2008 the Company had positive cash flow from operations but incurred net losses primarily 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, loss on repayment of note payable and management contract termination fees. 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 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. Basis of Presentation and Accounting Policies:

#### (a) Basis of presentation:

The unaudited interim Consolidated Financial Statements include the accounts of Uniserve Communications Corp., and its subsidiaries (collectively the "Company"). The notes presented in these unaudited interim Consolidated Financial Statements include only significant events and transactions occurring since the Company's last fiscal year end and are not fully inclusive of all matters required to be disclosed in the Company's annual audited consolidated financial statements. As a result, these unaudited interim Consolidated Financial Statements should be read in conjunction with the Company's consolidated financial statements for the year ended May 31, 2008.

#### (b) Accounting Policies:

The unaudited interim Consolidated Financial Statements follow the same accounting policies and method of application as the most recent annual consolidated financial statements.

# Uniserve Communications Corporation

Notes to the consolidated financial statements

November 30, 2008

### 3. Intangible and other assets

	November 30, 2008			
	Cost	Accumulated amortization	Write-down	Net book value
	\$	\$		\$
Customer lists	15,984,206	14,462,651	395,866	1,125,689
Intellectual property	520,000	52,000	468,000	-
Deferred finance costs	1,258,705	746,471	-	512,234
Product development costs	2,612,410	-	-	2,612,410
	<b>20,375,321</b>	<b>15,261,122</b>	<b>863,866</b>	<b>4,250,333</b>

	May 31, 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
	<b>28,359,704</b>	<b>15,680,014</b>	<b>863,866</b>	<b>11,815,824</b>

### 4. Sale of Parasun Technologies Inc.

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 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, see note 11.

In conjunction with the sale, the subordinated debt of US\$10,000,000 including an early payment fee of US\$400,000 plus the accrued interest was repaid, see note 8. Amounts due to related parties totaling \$1,888,383 and the revolving line of credit balance of \$1,500,000 were also repaid, see notes 6 & 7.

# Uniserve Communications Corporation

Notes to the consolidated financial statements

November 30, 2008

## 4. Sale of Parasun Technologies Inc. (continued)

The following is a summary of the consideration received and the book value of the assets and liabilities of Parasun. The sale resulted in a gain on sale of \$8,301,251 before income taxes. The Company has sufficient tax losses available to fully offset this gain; therefore no income tax expense has been recorded for the sale transaction. The allocation of the purchase price and the gain on sale as at November 30, 2008 is preliminary and may change as IBBS completes its final valuation of the fair values of the assets and liabilities acquired and review of working capital adjustments and the expiration of the 1 year escrow period.

	November 30, 2008 USD \$	November 30, 2008 CDN \$
Consideration received		
Cash	17,500,000	19,533,500
Amounts held in escrow	2,500,000	2,790,500
Management contract termination fee	500,000	558,100
Working capital deficiency	(254,434)	(284,000)
Transaction costs		(975,420)
		<u>21,622,680</u>
Assets		
Cash		505,547
Accounts receivable		1,809,701
Investment tax credits receivable		800,294
Inventory		42,656
Prepaid expenses		124,611
Equipment		1,132,755
Other assets		46,780
Intellectual property		3,027,688
Customer list		4,238,763
Goodwill		5,597,810
		<u>17,326,605</u>
Liabilities		
Accounts payable and accrued liabilities		1,488,957
Deferred revenue		99,820
Due to former shareholders		440,652
Future tax liability		1,975,747
		<u>4,005,176</u>
Net book value		<u>13,321,429</u>

# Uniserve Communications Corporation

## Notes to the consolidated financial statements

November 30, 2008

### 4. Sale of Parasun Technologies Inc. (continued)

For the six months ended November 30, 2008, the financial results associated with Parasun are as follows:

	November 30, 2008 Parasun	November 30, 2008 Uniserve Excluding Parasun	November 30, 2008 Uniserve Consolidated
Revenues	3,485,106	9,987,954	13,473,060
Gross margin	2,617,731	4,798,697	7,416,428
Expenses	2,401,495	6,538,206	8,939,701
Operating income (loss)	216,236	(1,739,509)	(1,523,273)
Other income	24,682	3,487,544	3,512,226
Income before income taxes	240,918	1,748,035	1,988,953
Income taxes recovery (expense)	(120,000)	93,936	(26,064)
Net income and comprehensive income for the period	120,918	1,841,971	1,962,889

### 5. 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
Sale of Parasun	(5,597,810)
Write-down - KBT	(309,197)
Balance, November 30, 2008	4,312,884

# Uniserve Communications Corporation

## Notes to the consolidated financial statements

November 30, 2008

### 6. Related party transactions

	Nov. 30, 2008	May 31, 2008
	\$	\$
\$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 6(a), 6(b), 6(c))	-	912,055
\$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 6(b))	-	581,403
\$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 6(b))	-	400,000
	-	1,893,458

- (a) The Company was charged \$100,000 in loan extension fees in the year ended May 31, 2008 (2007 - \$nil). These fees were paid in conjunction with the sale of Parasun to IBBS, see note 4.
- (b) On October 7, 2008, the \$1,000,000, the \$650,000 and the \$400,000 loans plus accrued interest amounts of \$189,954, \$149,088, and \$43,792 respectively, were paid in conjunction with the sale of Parasun to IBBS, see note 4.
- (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 in the year ended May 31, 2008.
- (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.

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

# Uniserve Communications Corporation

## Notes to the consolidated financial statements

November 30, 2008

### 7. Bank indebtedness

	Nov. 30, 2008	May 31, 2008
	\$	\$
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	160,444	198,035
	<b>160,444</b>	<b>1,608,035</b>

The revolving credit facility was repaid in conjunction with the sale of the Company's wholly owned subsidiary, Parasun, see note 4.

### 8. Long-term debt

	Nov. 30, 2008	May 31, 2008
	\$	\$
Subordinated debt, US\$10,000,000 bearing interest at 12% per annum, maturing November 24, 2012, net of unamortized discount of \$1,522,500 (May 31, 2008 - \$1,624,000), (note 9(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
Series A Convertible Preferred Shares, \$4,285,000 (May 31, 2008 - \$4,285,000) redeemable at the option of the holder on or after May 24, 2014, 8% cumulative dividends, net of unamortized discount of \$1,117,175 (May 31, 2008 - \$1,276,771 (Note 9(a)(iii)))	3,167,825	3,008,229
	<b>3,167,825</b>	<b>11,314,229</b>
Current portion of long-term debt	-	-
	<b>3,167,825</b>	<b>11,314,229</b>

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.

The subordinated debt was repaid in conjunction with the sale of the Company's wholly owned subsidiary, Parasun, see note 4. The subordinated debt was carried on the books at an amount lower than the face value due to the warrants issued to the subordinated debt holder being recorded as other equity. Consequently, the repayment of the face value of the subordinated debt resulted in a loss on repayment of debt of \$1,421,000 which has been charged to the statement of operations.

# Uniserve Communications Corporation

## Notes to the consolidated financial statements

November 30, 2008

### 8. Long-term debt (continued)

As at November 30, 2008 the dividends on the Series A Convertible Preferred Shares are in arrears in the amount of \$314,233 (May 31, 2008 - \$142,833) and are included in accounts payable and accrued liabilities.

### 9. 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 November 30, 2008, 428,500 (May 31, 2008 – 428,500) 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, 2007	22,924,367	13,742,296	1,124,635
Private placement (ii)	1,506,498	505,609	21,668
Private placement (i)	-	-	70,000
Balance, May 31, 2008	24,430,865	14,247,905	1,216,303
Private placement (i)	-	-	(70,000)
Private placement (i)	200,000	67,123	2,877
Stock-based compensation expense	-	-	2,937
<b>Balance, November 30, 2008</b>	<b>24,630,865</b>	<b>14,315,028</b>	<b>1,152,117</b>

- (i) On July 9, 2008, the Company issued 200,000 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 \$70,000. Warrants are exercisable until July 9, 2010 at an exercise price of \$0.45. On issue the amount allocated to share capital was \$67,123 and \$2,877 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%.

- (ii) 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%.

# Uniserve Communications Corporation

## Notes to the consolidated financial statements

November 30, 2008

### 9. Share capital (continued)

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

- (iii) During the year ended May 31, 2007, the Company issued the first tranche of 316,500 Series A Convertible Preferred Shares by way of Private Placement for gross proceeds of \$3,165,000. During the year ended May 31, 2008, the Company issued an additional 112,000 Series A Convertible Preferred Shares in four tranches for gross proceeds of \$1,120,000. 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.

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 \$2,701,441 and \$1,583,559 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 November 30, 2008, 192,624 (May 31, 2008 - 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, 2008:

<u>Issue date</u>	<u>Expiry date</u>	<u>Number of warrants</u>	<u>Exercise price</u> \$
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
July 9, 2008	July 9, 2010	100,000	0.45
		<u>4,703,251</u>	

# Uniserve Communications Corporation

## Notes to the consolidated financial statements

November 30, 2008

### 9. 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 and the period ended November 30, 2008, no stock options were granted. For the period ended November 30, 2008, the Company recognized stock-based compensation related to stock options of \$2,937 (November 30, 2007 - \$35,149). 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:

		Options outstanding	
	Shares available for grant	Number of optioned common shares	Weighted average exercise price \$
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	-	-
Options forfeited	355,000	(355,000)	0.50
Balance, May 31, 2008	1,005,587	1,437,500	0.51
Additional shares available for grant	20,000	-	-
Options forfeited	200,000	(200,000)	0.54
Balance, November 30, 2008	1,225,587	1,237,500	0.51

# Uniserve Communications Corporation

Notes to the consolidated financial statements

November 30, 2008

## 9. Share capital (continued)

### (d) Share purchase options (continued)

The following table summarizes information about stock options outstanding and exercisable as at November 30, 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	1,187,500	2.94	1,092,500	2.94
0.65	50,000	0.11	50,000	0.11
	<b>1,237,500</b>	<b>2.83</b>	<b>1,142,500</b>	<b>2.82</b>

### Stock-based compensation

The fair value of the Company's stock-based awards granted was estimated using the Black-Scholes valuation model. For the period ended November 30, 2008 the Company recognized stock-based compensation related to stock options of \$2,937 (November 30, 2007 - \$35,149).

### (e) Other equity instruments

	Nov. 30, 2008	May 31, 2008
	\$	\$
Conversion rights on Series A preferred shares (Note 9(a)(iii))	<b>1,583,559</b>	1,583,559
Warrants (i)	<b>150,500</b>	150,500
Warrants (ii)	<b>2,030,000</b>	2,030,000
Warrants (iii)	<b>28,500</b>	28,500
	<b>3,792,559</b>	3,792,559

- (i) As part of the \$3,000,000 promissory note payable that was repaid in the year ended May 31, 2008, 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.

# Uniserve Communications Corporation

Notes to the consolidated financial statements

November 30, 2008

## 9. Share capital (continued)

(e) *Other equity instruments (continued)*

- (ii) As part of the US\$10,000,000 subordinated debt financing arrangements described in Note 8, 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 in conjunction with the sale of Parasun, see note 4.
- (iii) 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.

## 10. Cash flow supplemental information

	Nov. 30, 2008	Nov. 30, 2007
	\$	\$
Supplementary information		
Interest paid	1,308,762	625,068
Non-cash financing and investing transactions		
Obligations under capital leases	40,874	-

## 11. Contingent liability

As a result of the sale of Parasun there is a total of US\$2,500,000 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, see note 4. In the event that the amounts held in escrow are not sufficient to cover all claims, the Company would be potentially liable for amounts in excess of the funds held in escrow. As at November 30, 2008 the amounts to be paid out of the escrow funds is indeterminable and therefore, no amount has been recorded in the statement of operations.