

Consolidated Financial Statements of

LOOK COMMUNICATIONS INC.

Years ended August 31, 2006 and 2005

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements have been prepared by management and approved by the Board of Directors of the Company. Management is responsible for the information and representations contained in these financial statements.

The Company maintains appropriate processes to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles. The significant accounting principles which management believes are appropriate for the Company are described in note 3 to the financial statements.

The Board of Directors is responsible for reviewing and approving the financial statements and overseeing management's performance of its financial reporting responsibilities. An Audit Committee of three Directors is appointed by the Board.

The Audit Committee reviews the financial statements, adequacy of internal controls, audit process and financial reporting with management and with the external auditors. The Audit Committee reports to the Directors prior to the approval of the audited financial statements for publication. KPMG LLP, the Company's external auditors, who are appointed by the shareholders, audited the financial statements in accordance with Canadian Generally Accepted Auditing Standards to enable them to express to the shareholders their opinion on the financial statements. Their report is set out below.



Gerald T. McGoey
Vice-Chairman and Chief Executive Officer



Jason Redman
Senior Vice-President and Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Look Communications Inc. as at August 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years 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 audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the 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 financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Toronto, Canada
November 3, 2006

LOOK COMMUNICATIONS INC.

Consolidated Balance Sheets
(In thousands of dollars)

August 31

	2006	2005 (restated, note 2)
Assets		
Current assets:		
Cash and cash equivalents	\$5,102	\$5,366
Restricted cash (note 4)	511	1,170
Accounts receivable	386	337
Other receivable (note 10)	929	531
Inventory	174	129
Prepaid expenses and deposits	359	470
	<u>7,461</u>	<u>8,003</u>
Capital assets, net (note 5)	23,033	28,138
Deferred charges, net (note 6)	196	229
	<u>\$30,690</u>	<u>\$36,370</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable	\$10,051	\$9,485
Accrued liabilities and provisions	2,173	2,358
Unearned revenue	956	1,353
Current portion of long term debt (note 7)	39	67
Current portion of liability component of convertible debentures (note 2)	63	69
	<u>13,282</u>	<u>13,332</u>
Long-term debt (note 7)	1,814	1,253
Liability component of convertible debentures (note 2)	2,726	2,994
Shareholders' equity:		
Share capital (note 8)	32,534	31,731
Equity component of convertible debentures	1,504	1,651
Contributed surplus	10,720	10,668
Deficit	<u>(31,890)</u>	<u>(25,259)</u>
	<u>12,868</u>	<u>18,791</u>
Basis of presentation - going concern (note 1)		
Commitments and contingencies (note 13)		
	<u>\$30,690</u>	<u>\$36,370</u>

See accompanying notes to Consolidated Financial Statements.

On behalf of the Board:



Michael Cytrynbaum Director



Tim Casgrain Director

LOOK COMMUNICATIONS INC.

Consolidated Statements of Operations and Deficit
(In thousands of dollars, except shares and per share amounts)

Years ended August 31, 2006 and 2005

	2006	2005 (restated, note 2)
Service and sales revenue (note 9)	\$ 29,877	\$ 37,956
Carrier charges and cost of sales (note 9)	13,116	19,609
Gross margin	16,761	18,347
Expenses:		
Marketing and sales	662	1,983
Customer care	3,193	4,232
Engineering and operations	5,002	5,562
General and administrative (note 11)	8,178	7,500
Amortization of capital assets	5,876	6,694
Amortization of deferred charges (note 2)	75	95
	22,986	26,066
Loss from operations	(6,225)	(7,719)
Accretion on liability component of convertible debentures (note 2)	(391)	(444)
Interest and finance charges	(187)	(251)
Interest income	172	101
	(406)	(594)
Loss before income taxes	(6,631)	(8,313)
Income taxes (recovery)/expense (note 12)	-	(37)
Loss for the year	(6,631)	(8,276)
Deficit, beginning of year, as previously reported	(25,158)	(16,742)
Change in accounting policy (note 2)	(101)	(32)
Deficit, beginning of year, restated	(25,259)	(16,774)
Capital re-organization costs	-	(209)
Deficit, end of year	\$(31,890)	\$(25,259)
Basic and diluted loss per share	\$ (0.05)	\$ (0.08)
Weighted average number of shares outstanding	119,871,088	107,067,168

See accompanying notes to Consolidated Financial Statements.

LOOK COMMUNICATIONS INC.

Consolidated Statements of Cash Flows
(In thousands of dollars)

Years ended August 31, 2006 and 2005

	2006	2005 (restated, note 2)
Cash provided by (used in):		
Operating activities:		
Loss for the year	\$ (6,631)	\$ (8,276)
Items not affecting cash:		
Amortization of capital assets	5,876	6,694
Amortization of deferred charges	75	95
Amortization of stock-based compensation	52	118
Accretion on liability component of convertible debentures	391	444
Gain on settlement of liabilities	-	(323)
	(237)	(1,248)
Change in non-cash operating working capital:		
Accounts receivable and other	(447)	1,921
Inventory	(45)	92
Prepaid expenses and deposits	111	55
Accounts payable and accrued liabilities	381	932
Unearned revenue	(397)	(218)
	(634)	1,534
Financing activities:		
Interest payments on convertible debentures	(9)	(13)
Increase in long-term debt (note 7)	600	-
Share issuance costs	-	(10)
Repayment of obligations under capital leases	(67)	(44)
	524	(67)
Investing activities:		
Purchase of capital assets	(771)	(896)
Redemption (purchase) of short-term investments	-	2,510
(Increase)/decrease in deferred charges	(42)	(29)
(Increase)/decrease in restricted cash	659	(678)
	(154)	907
Increase/(decrease) in cash and cash equivalents	(264)	2,374
Cash and cash equivalents, beginning of year	5,366	2,992
Cash and cash equivalents, end of year	\$ 5,102	\$ 5,366

Supplemental cash flow disclosure (note 14)

See accompanying notes to Consolidated Financial Statements.

LOOK COMMUNICATIONS INC.

Notes to Consolidated Financial Statements

(In thousands of dollars, except shares and per share amounts)

Years ended August 31, 2006 and 2005

1. Basis of presentation - going concern:

These consolidated financial statements have been prepared on a going concern basis, in accordance with Canadian generally accepted accounting principles. The going concern basis of presentation assumes that Look Communications Inc. (the "Company") will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

There is doubt about the Company's ability to continue as a going concern as it has incurred significant operating losses in recent years and has a working capital deficiency of \$5,821 as at August 31, 2006 (2005 - \$5,329).

The Company's ability to continue as a going concern is dependent upon achieving and maintaining profitable operations and successful implementation of the Company's business strategy. The outcome of these matters cannot be predicted at this time. The consolidated financial statements have been prepared on a going concern basis and do not include any adjustments to the amounts and classifications of the assets and liabilities and reported revenues and expenses that would be necessary if the going concern basis was not appropriate. Such adjustments could be material.

2. Change in accounting policy:

In November, 2003 the AcSB approved amendments to CICA Handbook 3860, *Financial Instruments – Presentation and Disclosure*, which was replaced in April, 2005 with HB 3861 *Financial Instruments – Presentation and Disclosure*. HB 3861 requires obligations that may be settled, at the issuer's option, by a variable number of the issuer's own equity instruments to be presented as liabilities. Thus securities issued by an enterprise that give the issuer unrestricted rights to settle the principal amount in cash or in the equivalent value of its own equity instruments are no longer presented as equity.

Effective September 1, 2005, the Company adopted these amendments as they pertain to the Company's convertible debentures. As a result, the Company has bifurcated the principal component and interest component of the convertible debentures into their debt and equity components and recorded the debt component as a liability and the equity component as equity. In determining the valuation of the liability and equity components, the Company calculated the value of the liability component first, using a discount rate appropriate for what a similar debt instrument, absent any conversion features, would have commanded at that time. The residual of the proceeds over the inherent value of the liability component, was attributed to the equity portion of the debentures. Accretion charges on the liability component of the

LOOK COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except shares and per share amounts)

Years ended August 31, 2006 and 2005

2. Change in accounting policy (continued):

convertible debentures, which are calculated using this discount rate, are recorded in the statement of operations.

The standard is effective on a retroactive basis with restatement of prior periods. As a result of adoption of this standard, the Company:

- a) Reclassified \$2,994 from convertible debentures previously in shareholders' equity to long term debt, as the Liability Component of the convertible debentures, as at August 31, 2005. During the year ended August 31, 2006 debenture holders converted \$415 in debentures to shares of the Company, of which \$268 was attributed to the Liability Component of convertible debentures, resulting in a balance of \$2,726 at August 31, 2006.
- b) Reclassified \$55 from accrued liabilities to current portion of Liability Component of convertible debentures representing the unpaid interest on the Liability Component, as at August 31, 2005. In addition, the Company recognized additional accretion charges of \$14 within the current portion of Liability Component of convertible debentures during the fiscal year ended August 31, 2005.
- c) Increased deficit as at September 1, 2004 by \$41 and as at September 1, 2005 by \$129 to recognize additional accretion costs related to the Liability Component.
- d) Reclassified deferred charges of \$56 as at September 1, 2004 to share capital reflecting the equity portion of the charges, on a pro-rata basis, incurred on issuance of the debentures. As a result of this reclassification, the deficit as at September 1, 2004 was decreased by \$9 and the net loss for the year ended August 31, 2005 was reduced by \$19 to reverse accumulated amortization related to the deferred charges charged to share capital.
- e) Increased share capital by net \$59 as at August 31, 2005 to reflect accretion charges accrued but not paid out to debenture holders, and also to reflect the reclassification noted in d) above.
- f) Recorded \$444 and \$321 in accretion charges on the Liability Component of convertible debentures in the Statements of Operations during the year ended August 31, 2005 and the period ended August 31, 2004, respectively. Interest on convertible debentures of \$356 and \$280 for the periods ended August 31, 2005 and 2004 respectively, previously recorded as a direct charge to deficit, was reversed.

LOOK COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except shares and per share amounts)

Years ended August 31, 2006 and 2005

2. Change in accounting policy (continued):

The net impact on net loss for the year ended August 31, 2005 as a result of these changes was to increase the net loss by \$425. The impact on basic and diluted loss per share was to increase the basic and diluted loss per share by (\$0.01) for 2005.

3. Significant accounting policies:

(a) Principles of consolidation:

These Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiaries. All significant inter-company balances and transactions have been eliminated upon consolidation.

(b) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. Significant estimates are used in determining allowances for doubtful accounts, useful lives of capital assets, capital asset impairment assessments, income tax valuation allowances, accruals for cost of carrier services, and contingent liabilities.

(c) Cash and cash equivalents:

Cash and cash equivalents consist of all bank balances and highly liquid short-term investments with original maturities of less than 90 days.

(d) Inventory:

Inventory, which consists primarily of modems, antennae, and remote controls, is recorded at the lower of cost and net realizable value.

LOOK COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except shares and per share amounts)

Years ended August 31, 2006 and 2005

3. Significant accounting policies (continued):

(e) Capital assets:

Capital assets are recorded at cost less accumulated amortization. Amortization is provided at rates and on bases designed to amortize the cost of the assets over their estimated useful lives as follows:

Asset	Basis	Rate
Building	Declining balance	4%
Headend and network equipment	Straight line	10 years
Customer connections	Straight line	5 - 10 years
Computer hardware	Declining balance	30%
Computer software	Straight line	1 year
Office equipment and other	Declining balance	20%
Vehicles under capital leases	Declining balance	30%

Capital assets associated with the Company's network and customer connections are subject to technological risks and market changes due to new products and services and changing customer demands. These changes may result in changes to the estimated useful lives of these assets.

(f) Impairment of long-lived assets:

The carrying amount of long-lived assets to be held and used is reviewed for impairment on an ongoing basis whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment is recognized when the carrying amount of an asset to be held and used exceeds the projected undiscounted future net cash flows expected from its use and disposal, and is measured as the amount by which the carrying amount of the asset exceeds its fair value.

(g) Deferred charges:

Deferred charges consists primarily of license renewal application costs, and deferred financing charges. License renewal application costs represent expenditures incurred in the course of obtaining the license renewals from the Canadian Radio-television and Telecommunications Commission (the "CRTC") and are being amortized on a straight-line basis over the term of the license of approximately seven years.

Deferred financing charges represent costs incurred to complete the rights offering (note 8) and are amortized on a straight-line basis over the term of the debt.

LOOK COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except shares and per share amounts)

Years ended August 31, 2006 and 2005

3. Significant accounting policies (continued):

(h) Revenue recognition:

Service and sales revenue includes earned subscriber service revenue for television and internet access. Service charges billed or paid for in advance are recorded as revenue when services are provided. Revenue from the sale of receiving equipment and modems is recognized in the period in which the services are activated. Customer installation costs are expensed as incurred. Unearned revenue consists of prepayments under certain customer contracts and is amortized to revenue over the term of the contract.

(i) Government assistance:

Government assistance is recorded as an expense reduction in the period that the expenditure is incurred and when reasonable assurance exists that the Company has complied with the terms and conditions of the approved grant program and there is reasonable assurance that the proceeds will be received.

(j) Foreign currency translation:

Monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate in effect at the balance sheet date. Revenue and expense items are translated at the exchange rate in effect at the date of the transaction. Resulting exchange gains or losses are included in the loss for the period.

(k) Income taxes:

Under the asset and liability method of tax allocation, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future income tax assets or liabilities are expected to be settled or realized. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

LOOK COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except shares and per share amounts)

Years ended August 31, 2006 and 2005

3. Significant accounting policies (continued):

(l) Stock-based compensation:

(i) Stock option incentive plan:

The Company has a stock option incentive plan, which is described in note 8(c). The Company accounts for all stock options to employees and non-employees using the fair value-based method. Under the fair value-based method, compensation cost attributable to awards to employees is measured at fair value at the grant date and recognized over the vesting period. Forfeitures are accounted for as they occur. Consideration paid by employees and non-employees on the exercise of stock options is recorded as share capital.

(ii) Share appreciation rights plan:

The Company has a Share Appreciation Rights plan (SAR), which is described in note 8(d). The Company accounts for SAR units as a liability and compensation cost is recorded based on the intrinsic value of the award when it is considered likely that the terms and conditions of the SAR plan will be met.

(m) Basic and diluted loss per share:

Basic loss per share is calculated using the weighted average number of Multiple Voting and Subordinate Voting Shares outstanding during the period. Diluted loss per share reflects the dilution that would occur if outstanding stock options were exercised or converted into the Company's Subordinate Voting Shares using the treasury stock method. For the years ended August 31, 2006 and 2005, the inclusion of the Company's stock options in the computation of diluted loss per share would have an anti-dilutive effect on loss per share and are, therefore, excluded from the computation.

4. Restricted cash:

The Company pledged \$511 (2005 - \$1,170) of cash to its bank as collateral for the processing of credit card transactions. Of this amount, \$300 is held in interest bearing certificates at 3.25%.

LOOK COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except shares and per share amounts)

Years ended August 31, 2006 and 2005

5. Capital assets:

August 31, 2006	Cost	Accumulated amortization	Net book value
Land	\$ 195	\$ –	\$ 195
Building	1,402	394	1,008
Headend and network equipment	34,513	22,212	12,301
Customer connections	20,766	13,108	7,658
Computer hardware and software	19,438	18,627	811
Office equipment and other	2,539	1,580	959
Vehicles under capital leases	284	183	101
	<u>\$ 79,137</u>	<u>\$ 56,104</u>	<u>\$ 23,033</u>

August 31, 2005	Cost	Accumulated amortization	Net book value
Land	\$ 195	\$ –	\$ 195
Building	1,381	353	1,028
Headend and network equipment	33,966	19,060	14,906
Customer connections	20,751	11,162	9,589
Computer hardware and software	19,269	18,076	1,193
Office equipment and other	2,512	1,436	1,076
Vehicles under capital leases	292	141	151
	<u>\$ 78,366</u>	<u>\$ 50,228</u>	<u>\$ 28,138</u>

As described in notes 7 and 8, certain assets have been pledged as security in connection with certain agreements.

6. Deferred charges:

August 31, 2006	Cost	Accumulated amortization	Net book value
License renewal application costs	\$252	\$118	\$134
Deferred financing costs	169	114	55
Customer lists	12	5	7
	<u>\$433</u>	<u>\$237</u>	<u>\$196</u>

LOOK COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except shares and per share amounts)

Years ended August 31, 2006 and 2005

6. Deferred charges (continued):

August 31, 2005			
	Cost	Accumulated amortization	Net book value
License renewal application costs	\$252	\$99	\$153
Deferred financing costs	127	61	66
Customer lists	12	2	10
	<u>\$391</u>	<u>\$162</u>	<u>\$229</u>

7. Long-term debt:

August 31	2006	2005
Mortgage payable (a)	\$ 1,800	\$ 1,200
Obligations under capital leases (b)	53	120
	<u>1,853</u>	<u>1,320</u>
Less current portion	39	67
	<u>\$ 1,814</u>	<u>\$ 1,253</u>

(a) The mortgage payable bears interest at 10.5% per annum and matures on August 21, 2009. The mortgage is collateralized by a first legal charge over the land and building of the Company.

(b) Obligations under capital leases at August 31, 2006 represent the Company's vehicle purchases under capital leases. These capital leases bear interest at 9-10% per annum.

Long-term debt is repayable as follows:

Year ended August 31	
2007	\$ 39
2008	14
2009	1,800
	<u>\$ 1,853</u>

LOOK COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except shares and per share amounts)

Years ended August 31, 2006 and 2005

8. Share capital:

(a) Authorized:

Preference Shares - issuable in series

Unlimited Multiple Voting Shares – voting, entitled to 150 votes per share (except at separate meetings of holders of shares of any other class), subject to the rights of holders of any preferred shares, entitled to dividends, and to the receipt of any distribution of property or assets upon the liquidation, winding-up or other dissolution of the Company.

Unlimited Subordinate Voting Shares - voting, entitled to one vote per share (except at separate meetings of holders of shares of any other class), subject to the rights of holders of any preferred shares, entitled to dividends and to the receipt of any distribution of property or assets upon the liquidation, winding-up or other dissolution of the Company.

Unlimited Class A Non-Voting Shares.

(b) Issued and outstanding

	2006				
	Multiple voting shares		Subordinate voting shares		Total \$
	#	\$	#	\$	
Balance, Beginning of period	56,811,602	15,797	58,788,783	15,934	31,731
Shares issued pursuant to debenture conversion (i)	2,766,667	208	2,766,667	207	415
Shares issued as consideration for financing charges (ii)	-	-	2,805,257	388	388
Balance, End of period	59,578,269	16,005	64,360,707	16,529	32,534

	2005					
	Multiple voting shares		Subordinate voting shares		Common shares	
	#	\$	#	\$	#	\$(restated, note 2)
Balance, Beginning of period	-	-	-	-	90,849,012	29,763
Shares issued pursuant to debenture conversion (i)	-	-	-	-	20,773,331	1,558
Shares issued as consideration for financing charges (ii)	-	-	1,977,181	136	2,000,651	182
Change in Accounting Policy [note 2(e)]	-	46	-	46	-	-
Exchange of shares (iii)	56,811,602	15,751	56,811,602	15,752	(113,622,994)	(31,503)
Balance, End of period	56,811,602	15,797	58,788,783	15,934	-	-

LOOK COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except shares and per share amounts)

Years ended August 31, 2006 and 2005

8. Share capital (continued):

- (i) The convertible secured debentures bear interest at a rate of 7% per annum and will mature on December 30, 2013. The Company pays interest on the debentures semi-annually in arrears, on June 30 and December 30 of each year, commencing June 30, 2004. The debentures are convertible at the option of the holder into Multiple Voting and Subordinate Voting Shares of the Company at a conversion price of \$0.075 per each Multiple Voting and Subordinate Voting Share, representing 6,667 Multiple Voting Shares and 6,667 Subordinate Voting Shares per \$1 debenture. The convertible debentures are bifurcated into their debt and equity components, as described in note 2 above, and the Company has the option to settle its obligation to pay interest and repay the principal by issuing shares of the Company.

If all the 7% convertible debentures convert to shares, the impact would be to increase the number of Multiple Voting Shares outstanding from 59,578,269 to 87,778,269 and the number of Subordinate Voting Shares outstanding from 64,360,707 to 92,560,707. The convertible debentures are secured by an unsubordinated, fixed and floating security interest on all the present and future assets and undertakings of the Company, as per the registered security agreement.

The convertible debentures will generally not be redeemable by the Company prior to December 31, 2006. Thereafter, the Company may redeem the convertible debentures in certain circumstances at a price equal to par plus accrued and unpaid interest up to, but not including, the date of redemption.

During the year ended August 31, 2006, convertible debentures in the amount of \$415 were converted into 2,766,667 Multiple Voting and 2,766,667 Subordinate Voting Shares of the Company.

LOOK COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except shares and per share amounts)

Years ended August 31, 2006 and 2005

8. Share capital (continued):

- (ii) The Company obtained regulatory approvals to pay the interest on the convertible debentures in shares in lieu of cash. Accordingly, on June 30, 2006, 1,509,640 Subordinate Voting Shares were issued in consideration for \$148 of interest payable. On December 31, 2005, 1,295,617 Subordinate Voting Shares were issued in consideration for \$155 of interest payable. On June 30, 2005, 1,977,181 Subordinate Voting Shares were issued in consideration for \$161 of interest payable, less costs of \$25. On December 31, 2004, 2,000,651 Common Shares were issued in consideration for \$182 of interest payable.

Share capital increased by \$85 related to the accretion charges recorded on the convertible debentures.

- (iii) On April 8, 2005, a capital reorganization of the Company was completed pursuant to which each outstanding common share of the Company was exchanged for one-half of a Multiple Voting Share and one-half of a Subordinate Voting Share. Both of these classes of shares are fully participating equity shares, but the Multiple Voting Shares carry 150 votes per share and the Subordinate Voting Shares carry one vote per share.

(c) Stock option incentive plan:

On March 25, 2002, the Board of Directors of the Company approved the 2002 Stock Option Incentive Plan (the "2002 Plan"). The objective of the 2002 Plan is to provide directors, officers and employees of, and service providers to, the Company with a proprietary interest through the granting of options to purchase Subordinate Voting Shares of the Company. The groups are primarily responsible for the management, growth and protection of the business of the Company. Under the 2002 Plan, as subsequently amended in 2004, the Board of Directors of the Company may, by resolution, grant options provided that the total number of options issued under the 2002 Plan does not exceed 17,460,912. The total number of shares that may be issued under the 2002 Plan represents approximately 14.1% of the Company's currently issued and outstanding shares. The exercise price of the options is determined by the Board of Directors at the time of the grant of an option, but cannot be lower than the market price of the Company's shares on the TSX Venture Exchange on the business day immediately preceding the day on which an option is granted. The options vest over a two or three-year period and the maximum period during which an option may be exercised is 10 years from the date on which it is granted. The Board of Directors at its discretion can change the vesting period. Certain options granted in 2004 and 2005 vested over a two-year period.

LOOK COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except shares and per share amounts)

Years ended August 31, 2006 and 2005

8. Share capital (continued):

The following table reflects activity under the 2002 Plan during 2006 and 2005:

	2006		2005	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding, beginning of year	3,600,877	\$0.122	1,957,390	\$0.065
Granted	1,150,000	\$0.120	1,830,936	\$0.190
Cancelled	803,649	\$0.190	187,449	\$0.190
Outstanding, end of year	3,947,228	\$0.108	3,600,877	\$0.122

Note: No options were exercised during the years ended August 31, 2005 or 2006.

Information related to the options outstanding at August 31, 2006 is presented below:

Exercise Price	Number Outstanding	Weighted average remaining life (years)	Number Exercisable
\$0.065	1,957,390	7.9	1,957,390
\$0.120	850,000	9.3	375,000
\$0.190	1,139,838	8.5	569,291
Total	3,947,228	8.2	2,901,681

During the year, the Company recorded stock-based compensation expense of \$52 (2005 - \$118) related to the options granted to directors and employees. The Black-Scholes option pricing model assumptions were as follows:

	2006	2005
Expected option life (years)	3	4
Expected volatility	107%	120%
Risk-free interest rate	3.88%	3.05%
Dividend yield	nil	nil

The weighted average fair value of options granted during the year was \$0.08 (2005 - \$0.149) per option.

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Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except shares and per share amounts)

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8. Share capital (continued):

(d) Share appreciation rights plan:

On February 22, 2005, the Board of Directors approved a Share Appreciation Rights (SAR) Plan for the Company. Pursuant to the plan, directors, employees and consultants may be awarded units from time to time that will be subject to conditions set by the Board of Directors. The value of a SAR unit will be equivalent to the market value at the date when all the conditions attached to the SAR unit are met, less the market value at the date of the award of the unit.

On February 22, 2005, the Board of Directors awarded 37,590,597 SAR units at a grant price of \$0.19, the market value of the Company's common share on that date. The awards are subject to specific terms and conditions being fulfilled. The balance of SAR units outstanding as of August 31, 2006 is 33,547,599 (2005 – 36,482,927). Compensation expense for the year ended August 31, 2006 relating to the SAR Plan was Nil (2005 – Nil).

On October 11, 2006, the Board of Directors awarded 2,594,000 SAR units at a grant price of \$0.10, the market value of the Company's Subordinate Voting Share on that date. The awards are subject to specific terms and conditions being fulfilled.

No unit payouts have been made under the SAR Plan since inception.

9. Segment disclosure:

The Company currently operates in a single segment as a wireless broadband carrier, delivering a full spectrum of communications services, including wireless digital television distribution, dial-up and high speed internet access and web-related services, including web-hosting and domain name registration.

Service and sales revenue consists of Broadcast Services, Internet Services, Other Services, and equipment sales and installation revenue. Broadcast distribution revenue is earned from the provision of services to residential and commercial customers. Internet Services revenue is earned from monthly and annual subscriptions from individuals and businesses for access to the internet. Other revenues are earned from web-hosting, domain name registration and web-server co-location. Equipment sales are earned from the sale of equipment to customers.

LOOK COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except shares and per share amounts)

Years ended August 31, 2006 and 2005

9. Segment disclosure (continued):

The service and sales revenue and cost of sales are as follows:

	2006			2005		
	Revenues	Cost of Sales	Gross Margin	Revenues	Cost of Sales	Gross Margin
Service						
Broadcast Distribution	\$ 12,698	\$ 5,739	54.8%	\$ 16,556	\$ 9,675	41.6%
Internet Services	11,923	5,012	58.0%	15,162	7,161	52.8%
Other Revenues	4,629	1,592	65.6%	5,192	1,790	65.5%
Total	29,250	12,343	57.8%	36,910	18,626	49.5%
Sales and Installations	627	773		1,046	983	
Total Service and sales	\$29,877	\$13,116		\$37,956	\$19,609	

All of the Company's revenue is generated in Canada and all of its assets are located in Canada. No one customer accounts for more than 10% of revenues or accounts receivable.

10. Government assistance:

During the period, the Company recognized government assistance of \$398 (2005 - \$977) related to the creation of permanent jobs by the Company in the Province of Quebec. This assistance has been recorded as a reduction of the Company's compensation expense. At August 31, 2006, the amount receivable by the Company for government assistance is \$929 (2005 - \$531).

11. Related party transactions:

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The Company enters into transactions with its majority shareholder, UBS, and companies controlled by its majority shareholder. Related party transactions and balances with UBS are as follows:

	2006	2005
Payment of management fees (i)	\$ 2,400	\$ 2,400
Payment of interest (ii)	210	210
Rent revenue (iii)	(73)	(42)

LOOK COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except shares and per share amounts)

Years ended August 31, 2006 and 2005

11. Related party transactions (continued):

- (i) On May 19, 2004, the Company and UBS entered into an agreement under which UBS is providing the Company with a wide range of services designed to maximize the Company's full commercial potential.

Under the terms of the agreement, the Company is required to pay an annual fee of \$2,400. The Company may, from time to time, recognize the performance of UBS in the form of cash bonus payments, direct grant of treasury shares of the Company, or options for the purchase of Subordinate Voting Shares from treasury. All options shall conform to the Company's stock option plan (note 8(c)). The Company shall also reimburse UBS for certain expenses and disbursements incurred in respect of the agreement and the services provided by UBS. The initial term of the agreement is for a moving three-year period commencing on May 19, 2004 (the "execution date"). On each anniversary of the execution date, the term will automatically recommence unless, prior to an annual anniversary, the Company's Board of Directors has communicated in writing to UBS its intent that the agreement not recommence, in which event, the agreement expires on the completion of the remaining term.

- (ii) During the year the Company paid \$210 (2005 - \$210) by way of issuance of shares to UBS related to interest expense on the convertible debentures held by UBS.
- (iii) During the year, the Company subleased a portion of its premises to UBS in the amount of \$73 (2005 - \$42), which has been recorded as a reduction of general and administrative expenses. The Company has signed a five year lease with UBS regarding the rental of this space.
- (iv) The Company was charged by a company controlled by the Chairman of the Board of Directors of the Company in connection with management and consulting fees and related expenses amounting to \$343 (2005 - \$255), which are included in general and administrative expenses.

LOOK COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except shares and per share amounts)

Years ended August 31, 2006 and 2005

12. Income taxes:

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to losses before income taxes and non-controlling interest. The reasons for the differences are as follows:

	2006	2005
Tax recovery at combined federal and provincial rates	\$ (2,289)	\$ (2,676)
Expiration of Ontario loss carryforwards	1,740	1,220
Large Corporations Tax	-	(37)
Change in valuation allowance	(2,105)	1,523
Change in enacted tax rates	3,020	-
Other	(366)	(67)
Income taxes recovery	\$ -	\$ (37)

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at August 31, 2006 and 2005 are presented below:

	2006	2005
Future tax assets:		
Non-capital loss carryforwards	\$ 101,476	\$ 105,465
Tax basis in excess of book value	1,601	-
	103,077	105,465
Future tax liabilities:		
Labor tax credit	(321)	(181)
Book value in excess of tax basis	-	(423)
	(321)	(604)
Valuation allowance	(102,756)	(104,861)
Net future tax assets	\$ -	\$ -

In assessing the realizability of future income tax assets, management considers whether it is more likely than not that some portion or all of the future income tax assets will be realized. The ultimate realization of future income tax assets is dependent upon the generation of future taxable income during the year in which the temporary differences are deductible. Management considers the scheduled reversals of future income tax liabilities, the character of the income tax asset, and the tax planning strategies in making this assessment. To the extent that management believes that the realization of future income tax assets does not meet the

LOOK COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except shares and per share amounts)

Years ended August 31, 2006 and 2005

12. Income taxes (continued):

more likely than not realization criterion, a valuation allowance is recorded against the future tax assets.

As at August 31, 2006, the Company has the following Federal non-capital income tax losses, which may be carried forward to reduce future years' taxable income. These losses expire in the taxation years ending December 31 as follows:

2007	\$ 111,026
2009	7,093
2010	184,303
2014	12,588
2026	783
	<hr/>
	\$ 315,793

13. Commitments and contingencies:

a) Commitments

Future minimum annual lease payments under operating leases for premises and equipment as at August 31, 2006 are as follows:

2007	\$ 747
2008	696
2009	344
2010	230
2011	185
Thereafter	178
	<hr/>
	\$ 2,380

On November 26, 2003, the Company pledged a security interest in all of its personal property to UBS for any liabilities owing by the Company to UBS.

LOOK COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except shares and per share amounts)

Years ended August 31, 2006 and 2005

13. Commitments and contingencies (continued):

As described in note 11(i), the Company is required to pay \$2,400 annually for services received from UBS.

(b) Contingencies

On February 19, 2004, Craig Wireless International Inc. ("Craig Wireless") filed a statement of claim against the Company before the Ontario Superior Court of Justice. In its action, Craig Wireless seeks numerous sanctions against the Company and other parties.

On May 4, 2004, the Company obtained an order from the Ontario Superior Court of Justice dismissing with prejudice the motion brought by Craig Wireless for, amongst other things, an injunction that would prevent UBS from voting its shares of the Company and converting into common shares its convertible debentures pursuant to the Company's February 2004 rights offering. At the same time, Craig Wireless also withdrew its challenge to the CRTC approval of UBS acquiring a controlling interest in the Company. Craig Wireless is still pursuing its claim that the Company conducted its affairs in a manner that was oppressive and unfairly prejudicial to Craig Wireless and requests damages in the aggregate amount of \$12,000.

The Company has been advised that Craig Wireless has taken steps to amend its claim. As at August 31, 2006, an amended claim had not been filed. The Company believes that the claim is unfounded and intends to vigorously defend itself. No accrual has been recorded in the accounts for this claim.

In the normal course of its operations, the Company may be subject to other litigation and claims. Although it is not possible to estimate the extent of potential costs, if any, management believes that the ultimate resolution of such contingencies would not have a material adverse effect on the results of operations, financial position, or liquidity of the Company.

The Company indemnifies its directors, officers, and employees against claims reasonably incurred and resulting from the performance of their services to the Company, and maintains liability insurance for its directors and officers.

LOOK COMMUNICATIONS INC.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except shares and per share amounts)

Years ended August 31, 2006 and 2005

14. Supplemental cash flow disclosure:

The consolidated statements of cash flows exclude the following non-cash transactions:

	2006	2005
Conversion of debentures to share capital [note 8(b)]	\$ 415	\$ 1,558
Shares issued in consideration of interest payable [note 8(b)]	388	343
Capital re-organization costs included in payables	—	209
Share issuance costs included in payables	—	10
Assets acquired by capital lease	—	55

During the year ended August 31, 2006, the Company paid \$140 in cash interest (2005 - \$118). Income tax payments of \$Nil (2005 - \$Nil) were made during the year.

15. Financial instruments:

(a) Fair values:

The fair values of cash and cash equivalents, restricted cash, accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to their short-term nature. The fair value of long-term debt, which bears interest at current market rates, approximates its carrying value based on discounted cash flow using current market rates.

(b) Currency risk:

The purchase of equipment from suppliers billing in foreign currencies exposes the Company to fluctuations in foreign currency exchange rates. The Company does not use derivative financial instruments to reduce its currency risk.

As at August 31, 2006, approximately 1.3% (2005 - 1.0%) of the balance of accounts payable and accrued liabilities is denominated in U.S. dollars.

(c) Credit risk:

The Company is exposed to credit risk by its customers. However, credit risk concentration is minimized because of the large number of customers.