UNITY WIRELESS CORP
Form 10KSB
May 15, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

(Mark One)

[X]

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007

[ ]

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from [ ]to[ ]

Commission file number 0-30620

Unity Wireless Corporation
(name of small business issuer in its charter)

Delaware	**91-1940650**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
P.O Box 106, Tavor Building #1, Yokne'am Ilit, Israel	**20692**
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number **972-73-7374700**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Nil	Nil

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $0.001
(Title of class)

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

Yes [ ]   No [X]

Check whether the Issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X]   No [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes [ ]   No [X]

State Issuer's revenues for its most recent fiscal year: $7,022,115

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days:

182,920,028 common shares at $0.03(1) = $5,487,601

(1) Closing price on March 31, 2008

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

State the number of shares outstanding of each of the Issuer's classes of common stock, as of the latest practicable date.

182,920,028 common shares issued and outstanding as of March 31, 2008

DOCUMENTS INCORPORATED BY REFERENCE

See index to exhibits

Transitional Small Business Disclosure Format (Check one): Yes [ ] No [X]

PART I

Item 1. Description of Business

In this annual report and in our financial statements all dollar amounts refer to United States dollars unless otherwise specified.

Business Development

Unity Wireless Corporation (Unity , the Corporation or the Company) was incorporated in the State of Delaware on October 1, 1998 under the name Sonic Systems Corporation. Sonic Systems Corporation changed its name to Unity Wireless Corporation on July 17, 2000.

During the period from December 1998 until June 2001 we were engaged in the traffic control business. In November 2000 we entered the business of designing, developing and manufacturing RF (Radio Frequency) power amplifiers for the wireless network infrastructure industry. During 2001, we focused on developing new products and expanding our marketing, sales and global distribution network. Since 2003, we have focused on securing development projects and supply agreements with customers and prospective customers, and on developing new RF power amplifiers and related products.

The Company acquired three companies in fiscal 2006 as described below:

On June 8, 2006, the Corporation through its wholly owned subsidiary, Unity Wireless Microwave Systems Ltd. (UW Microwave) acquired Avantry Ltd. (Avantry) pursuant to the terms of a merger agreement dated February 15, 2006 (Merger Agreement). Avantry is in the business of offering a comprehensive transmission product line of integrated microwave radio and optical transport systems for carrying flexible combinations of voice and data traffic. The Corporation acquired Avantry in order to obtain a complementary set of products to the Corporation. Under the term of the Merger Agreement, Unity Wireless Corporation acquired the net assets of Avantry in exchange for $1,750,000 of convertible promissory notes that are convertible into common stock at $0.25 per shares and warrants to purchase an aggregate of 600,000 shares of common stock at an exercise price of $0.40. The convertible promissory notes and related warrants have been valued at their fair value of $1,755,147.

On July 3, 2006, the Corporation through its wholly owned subsidiary, Unity Wireless Acquisition Corporation (UW Acquisition) acquired Celerica Inc. (Celerica). Celerica specializes in extending RF coverage and optimizing network capacity distribution of mobile communications in urban, suburban and rural areas, using optical wireless, fiber optics and microwave technology. Under the terms of the merger agreement, the Corporation acquired the net assets of Celerica in exchange for 20,000 shares of Series A convertible non-redeemable preferred shares. The preferred shares have been valued at a fair value of $2,000,000 based on multiplying the Corporation s common shares market price as of the closing date of the acquisition by the number of common stock issuable upon conversion.

On August 17, 2006, the Corporation acquired Celletra Ltd. (Celletra). Celletra specializes in technology that provides wireless operators with solutions to achieve optimal coverage and to improve coverage and capacity of existing cells. Under the terms of the purchase agreement, the Corporation acquired the net assets of Celletra in exchange for 90,000 shares of Series B convertible non-redeemable preferred shares and warrants to purchase 40,000,000 shares of common stock at a prices between $0.20 and $0.30 expiring August 17, 2009 (or 40,000 shares of Series B Convertible Shares should there not be sufficient authorized shares of common stock). Each Series B convertible non-redeemable preferred share is convertible into 1,000 shares of common stock. The 90,000 preferred shares have been valued at a fair value of $9,000,000 based on multiplying the Corporation s common share market price as of the closing date of the acquisition by the number of common stock into which the preferred stock is convertible. The warrants have been valued at a fair value of $2,026,533 calculated using the Black-Scholes option-pricing model.

Our Current Business

Principal Products

Until February 25, 2008, Unity s products have been divided into two main lines. The first line of business is Coverage Enhancement Solutions (CES), such as repeaters, and tower mounted amplifiers, that are utilized by Wireless Network Operators to extend coverage and manipulate capacity so that their overall network performance is enhanced in the most cost effective manner.

The second area of Unity's business has been supplying high power amplifiers (HPA) and related subsystems to the large Original Equipment Manufacturers (OEM) of base transceiver stations (BTS or base stations). Base stations are the main radio system in any wireless network and Unity has developed over 40 HPA models that are used in cellular, personal communication services, (PCS), paging, wireless local loop (WLL) and third generation (3G) BTSs. Almost all of our products have been custom made or have been adapted for each customer's particular requirements.

On February 25, 2008, Unity Wireless Corporation, through its subsidiary Unity Wireless Systems Corporation, entered into an Asset Purchase Agreement for the sale of the net assets and operations of its amplifier business to Moventis Wireless Inc. (Moventis). In connection with the Asset Purchase Agreement, Unity and its subsidiaries also entered into a manufacturing services agreement with a related company of Moventis, PTL Electronics Ltd. (PTL) under which Unity has committed to use PTL (or its related companies) as its exclusive manufacturer of printed circuit board assembly products for a period of 24 months, or until all debt owed from Unity and its subsidiaries to PTL is repaid in full. Closing of the above transaction is subject to receiving the approval of the transaction by certain lien holders on the Company's assets as well as other conditions to be met as specified in the agreement. Further details of the arrangement are included in Note 21 to the Consolidated Financial Statements included in Item 7 of this Form 10-KSB.

As at December 31, 2007 the Corporations executive and head offices were in Canada located at 7438 Fraser Park Drive, Burnaby, British Columbia. Subsequent to December 31, 2007 this office was closed and our executive and head offices were moved to P.O Box 106, Tavor Building #1, Yokne'am Ilit, 20692, Israel.

Substantially all of our long-lived assets and principal business operations are located in Yokne am, Israel. Revenues from operations were $7,022,115 in the year ended December 31, 2007 and $7,343,552 in the year ended December 31, 2006. A summary of sales by geographic region for the years ended December 31, 2007 and 2006 is as follows (in thousands):

Place	**2007 Sales**	**% of Total 2007 Sales**	**2006 Sales**	**% of Total 2006 Sales**
Israel	$ 397	5%	$ 275	4%
United States	619	9%	1,242	17%
China	47	1%	1,068	15%
Canada	188	3%	1,008	14%
Hungary	406	6%	2,200	30%
India	3,922	55%	146	2%
Peru	-	-	110	1%
Turkey	164	2%	234	3%
Russia	292	4%	81	1%
Indonesia	-	-	660	9%
Cameroon	73	1%	-	-
South Africa	110	2%	-	-
Vietnam	483	7%	-	-
Other	321	5%	319	4%
Total	$ 7,022	100%	$ 7,343	100%

Product Research and Development

During the years ended December 31, 2007 and 2006, we spent $3,954,269 and $3,383,430, respectively, on research and development activities, including stock-based compensation expenses of $24,008 and $53,087, respectively.

In the most recent two years, we have augmented our research and development capabilities through our corporate acquisitions. We devote a large portion of our research and development resources towards next generation products and towards developing products for customers that we consider to have long-term revenue and growth potential.

Sales and Marketing of Our Products

Our principal customers include both direct sales to operators of wireless networks and sales to the original equipment manufacturers (OEMs) that sell their products to operators of wireless networks.

We sell our products through independent sales agents who are paid on a commission basis and through sales individuals who are employed on a full time basis. We seek to identify and engage sales representatives who will sell our products in additional markets.

Our sales to date have been by way of purchase orders that typically cover periods ranging from several months to one year. We have no sales agreements that extend beyond one year.

Manufacturing and Suppliers

We subcontract a portion of our manufacturing processes to qualified companies with a history of quality assurance. This reduces the need for capital expenditures for manufacturing facilities and staff, and allows us to utilize specialists in each stage of manufacturing. Alternate contract manufacturers are available should any of our existing contract manufacturers cease to provide services to us.

The process to assemble, test and tune many of our current products is labor intensive. We assemble, configure, tune and test our products and radio frequency circuitry in our facility located in Yokne am, Israel, for low volume production orders. We rely on contract manufacturers in Canada and China for our high volume production orders.

The principal raw materials used in the production of our products are mostly standard electronic, plastic and hardware components. We have from time to time experienced difficulties in obtaining raw materials and we reduce supply risk by using alternate suppliers.

Our arrangements with suppliers are on a short-term basis. To date we have not entered into any long-term arrangements.

Competition and Competitive Advantage

Within our market, there are two dominant companies and a number of smaller ones. The dominant companies, Powerwave Technologies and Andrew Corporation, collectively represent a significant portion of sales. These companies are vertically integrated suppliers of RF power amplifiers, components, antenna systems, primarily to customers in the telecom and defense industries, and supply the largest OEM vendors in our industry.

To compete, we focus on specific niches within the wireless network infrastructure, seek to enter into partnerships with leading edge technology vendors, and maintain a low overhead / outsourced manufacturing model. We believe our size, infrastructure technology and location allow us to provide our customers with economically attractive and timely responses to their individual requests.

Intellectual Property

We rely on a combination of trademarks and trade secrets to protect our intellectual property. We execute confidentiality and non-disclosure agreements with our management and engineering employees and limit access to our proprietary information.

Trade-Marks

We use the trade-mark "Unity Wireless," which is registered in Canada. We intend to register the "Unity Wireless" trade-mark in the U.S. and other countries. We also use the trade-marks "Celletra", Celerica , and Avantry , which are registered in Israel.

Service and Product Warranty

We offer a standard warranty of one year on parts and labor from date of shipment and on occasion offer a warranty period of up to three years. We repair units under warranty at our cost and return the units freight prepaid back to the customer. We generally warranty a repaired unit for the remainder of the original warranty period or for one year from the repair date, whichever is longer.

Our warranties specifically exclude all liabilities for "special, incidental, direct, indirect, or consequential damages or expenses whatsoever" arising from the functioning or use of, or inability to use, the warranted products. No warranties are made in the event that product has been improperly installed, subjected to abuse or negligence, or tampered with. Consumer protection and other laws may limit our ability to limit our liability or to exclude certain types of damages.

Government Regulation

Our products are sold as components that form part of larger systems. The manufacturer or integrator of the systems must test them for compliance with Federal Communications Commission (FCC) standards to avoid radio frequency emissions that could interfere with other radio frequency transmissions or similar regulatory standards in other countries. We do not test our amplifier products for compliance at the component level. Nonetheless, if a system in which our amplifiers are included fails to satisfy applicable standards, whether due to emissions from our amplifiers or other causes, sales of our amplifiers would be adversely affected.

Significant Customers

We had sales of $7,022,115 and $7,343,552 for the years ended December 31, 2007 and 2006, respectively. In 2007, one customer accounted for 30% of sales and another accounted for 27% of sales. In 2006, one customer accounted for 30% of sales and another accounted for 13% of sales. No other customers accounted for more than 10% of our sales in the last two fiscal years.

Employees

In connection with the sale of the amplifier business to Moventis, 6 employees in Canada were terminated. We currently employ 31 people, of which 1 is located in the United States and 30 are located in Israel. All employees are engaged on a full-time basis.

Item 2. Description of Property.

As at December 31, 2007 the Corporations executive and head offices were in Canada located at 7438 Fraser Park Drive, Burnaby, British Columbia. Subsequent to December 31, 2007 this office was closed and our executive and head offices were moved to P.O Box 106, Tavor Building #1, Yokne'am Ilit, 20692, Israel. The offices are approximately 10,000 square feet in size and are leased, expiring June 30, 2009, at a monthly rent of approximately $10,000 excluding property taxes, maintenance and utilities.

As at December 31, 2007 we had facilities in China located at 201 - The Old Soldier Industrial Park, 44 Tie Zai Road, Xi Xiang of Bao An District, Shenzhen, P. R. China and in Canada located at 7438 Fraser Park Drive, Burnaby, British Columbia. Subsequent to December 31, 2007 these facilities were closed and all operational functions were centralized in Israel.

We have a customer support office in the US located at 1313 E. Maple St. Suite# 415, Bellingham, WA, 98225, US. We rent this office on a month-to-month basis for $100 plus operating expenses per month.

Item 3. Legal Proceedings.

Other than as set forth below, we know of no material, active or pending legal proceedings against our company, nor are we involved as a plaintiff in any material proceeding or pending litigation. There are no proceedings in which any of our directors, officers or affiliates, or any registered or beneficial shareholder, is an adverse party or has a material interest adverse to our interest.

We have been sued in the Supreme Court of British Columbia, Canada, by Getec North America and Getec Industrial Limited (Getec). Getec alleges that services provided to Unity Wireless Systems Inc. have not been paid and claim in total $106,420. We dispute the allegations and are defending the claim and filed a counterclaim. No trial date has been set. The matter is at a very preliminary stage. We do not expect the proceeding to have any material adverse effect on us.

We have been sued in the Supreme Court of British Columbia, Canada, by TRS-Rentelco (TRS). TRS alleges that equipment rentals provided to Unity Wireless Systems Inc. have not been paid and claim in total approximately $400,000. We dispute the allegations and are defending the claim. No trial date has been set. The matter is at a very preliminary stage. We do not expect the proceeding to have any material adverse effect on us.

We have been sued in the Supreme Court of British Columbia, Canada, by Hency Transportation (Canada) Limited (Hency). Hency alleges that services provided to Unity Wireless Systems Inc. have not been paid and claim in total approximately $70,000. We dispute the allegations and are defending the claim. No trial date has been set. The matter is at a very preliminary stage. We do not expect the proceeding to have any material adverse effect on us.

We have been sued in the Supreme Court of British Columbia, Canada, by Telogy Inc. (Telogy). Telogy alleges that equipment rentals provided to Unity Wireless Systems Inc. have not been paid and claim in total approximately $289,000. We dispute the allegations and are defending the claim. No trial date has been set. The matter is at a very preliminary stage. We do not expect the proceeding to have any material adverse effect on us.

We have been sued in the Supreme Court of British Columbia, Canada, by RK Equity Investors (RK Equity). RK Equity alleges that services provided to Unity Wireless Corp. have not been paid and claim in total approximately $60,000. We dispute the allegations and are defending the claim. No trial date has been set. The matter is at a very preliminary stage. We do not expect the proceeding to have any material adverse effect on us.

We have been sued in the Supreme Court of British Columbia, Canada, by Canadian Circuit Inc. (Canadian Circuits). Canadian Circuits alleges that products provided to Unity Wireless Systems Inc. have not been paid and claim in total approximately $40,000. We dispute the allegations and are defending the claim. No trial date has been set. The matter is at a very preliminary stage. We do not expect the proceeding to have any material adverse effect on us.

Item 4. Submissions of Matters to a Vote of Security Holders.

On May 14, 2007, our board of directors adopted a resolution approving the increase of our authorized common stock from 400,000,000 shares of common stock, par value $0.001 to 520,000,000 shares of common stock, par value $0.001. The resolution of the directors also recommended that shareholders approve the increase in the authorized common stock. The Company subsequently obtained the written consent of shareholders holding the requisite majority of the voting rights to the increase in the authorized common stock.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters.

In the United States, our common stock is traded on the National Association of Securities Dealers OTC Bulletin Board under the symbol "UTYW." The following quotations obtained from Yahoo Finance reflect the highs and low bids for our common stock based on inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

The high and low bid prices of our common stock for the periods indicated below are as follows:

	OTC Bulletin Board	
Quarter Ended	**High**	**Low**
December 31, 2007	$0.08	$0.03
September 30, 2007	$0.15	$0.06
June 30, 2007	$0.20	$0.10
March 31, 2007	$0.12	$0.09
December 31, 2006	$0.14	$0.07
September 30, 2006	$0.14	$0.06
June 30, 2006	$0.17	$0.10
March 31, 2006	$0.21	$0.13

Our common shares are issued in registered form. Computershare Trust Company of Canada, 4th Floor, 510 Burrard Street, Vancouver, British Columbia, V6C 3B9 (Telephone: (604) 661-9400; Facsimile: (604) 661-9401) is the registrar and transfer agent for our common shares.

On March 31, 2008, the shareholders' list of our common shares showed 279 registered shareholders and 182,920,028 shares outstanding.

We have not declared any dividends since incorporation and do not anticipate that we will do so in the foreseeable future. Our intention is to retain future earnings for use in our operations and the expansion of our business. In any event, we are restricted from declaring dividends on our common shares pursuant to Convertible Note and Warrant Purchase Agreement dated August 31, 2004, February 11, 2005, March 24, 2005, February 28, 2006, and December 13, 2006.

Equity Compensation Plan Information

Our current stock option plan, entitled the 1999 Stock Option Plan, was adopted by our directors on December 6, 1999 and approved by our shareholders on July 5, 2000. The following table provides a summary of the number of options granted under our stock option plan, the weighted average exercise price and the number of options remaining available for issuance all as at December 31, 2007.

Number of Common Shares to be issued upon exercise of outstanding options	Weighted-Average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
(a)	(b)	(c)
5,020,000	$0.26	31,121,565 (1)

(1) On July 5, 2000, our shareholders approved a change in the maximum number of options issuable under the plan to 20% of the number of common shares outstanding. As at December 31, 2007, the maximum number was 36,584,006. For further information on our stock option plan, refer to footnote 13 of the audited consolidated financial statements included with this annual report.

Recent Sales of Unregistered Securities

During the three month period ended December 31, 2007 we issued:

- 2,314,290 common shares to settle the outstanding payables of $133,286.
- 712,201 common shares for the conversion of Series B Preferred Shares.

Except as noted above, we issued these securities in a private placement under the exemption set forth in Section 4(2) of the Securities Act of 1933 Act (the Act) and Rule 506 thereunder from the registration requirements under the Act.

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Item 2. Management's Discussion and Analysis or Plan of Operation

Forward-Looking Statements

This quarterly report contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may", "will", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "continue" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled "Risk Factors", that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

Our financial statements are stated in United States Dollars (US$) and are prepared in accordance with United States Generally Accepted Accounting Principles.

In this quarterly report, unless otherwise specified, all dollar amounts are expressed in United States dollars. All references to "CDN$" refer to Canadian dollars and all references to "common shares" refer to the common shares in our capital stock.

As used in this quarterly report, the terms "we", "us", "our", and "Unity" mean Unity Wireless Corporation, unless otherwise indicated.

General

Unity Wireless products are divided into two main product lines; the first is Coverage Enhancement Solutions (CES), such as repeaters, tower mounted amplifiers and point to point microwaves that are utilized by Wireless Network Operators to extend coverage and manipulate capacity so that their overall network performance is enhanced in the most cost effective manner. The second line of Unity's business is supplying high power amplifiers (HPA) and related subsystems to the large Original Equipment Manufacturers (OEM) of base transceiver stations (BTS or base stations). Base stations are the main radio system in any wireless network and Unity has developed over 40 HPA models that are used in cellular, personal communication services (PCS), paging, wireless local loop (WLL) and third generation (3G) BTSs. Almost all of the OEM products are custom made or adapted to satisfy each OEM customer's particular requirements.

On February 25, 2008, Unity Wireless Corporation, through its subsidiary Unity Wireless Systems Corporation, entered into an Asset Purchase Agreement for the sale of the net assets and operations of its amplifier business to Moventis Wireless Inc. (Moventis). In connection with the Asset Purchase Agreement, Unity and its subsidiaries also entered into a manufacturing services agreement with a related company of Moventis, PTL Electronics Ltd. (PTL) under which Unity has committed to use PTL (or its related companies) as its exclusive manufacturer of printed circuit board assembly products for a period of 24 months, or until all debt owed from Unity and its subsidiaries to PTL is repaid in full. Closing of the above transaction is subject to receiving the approval of the transaction by certain lien holders on the Company's assets as well as other conditions to be met as specified in the agreement. Further details of the arrangement are included in Note 21(a) to the Consolidated Financial Statements included in Item 7 of this Form 10-KSB.

The financial statements have been prepared on the going concern basis under which an entity is assumed to be able to realize its assets and satisfy its liabilities in the ordinary course of business. Operations to date have been primarily financed by borrowing and equity transactions. Our future operations are dependent upon the identification and successful completion of additional long-term debt or permanent equity financing, the continued support of creditors and stockholders, and, ultimately, the achievement of profitable operations. There can be no assurances that we will be successful. Currently, we are being financed by promissory notes issued to certain shareholders of the Company. If we are not, we will be required to reduce operations or liquidate assets. We will continue to evaluate our projected expenditures relative to our available cash and to seek additional means of financing in order to satisfy our working capital and other cash requirements. The auditors' report attached to the consolidated financial statements for the year ended December 31, 2007, which is included in this annual Form 10-KSB, includes an explanatory paragraph that states that as we have suffered recurring losses from operations, substantial doubt exists about our ability to continue as a going concern. The audited consolidated financial statements included with this annual form 10-KSB do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should we be unable to continue as a going concern.

Results of Operations

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Sales and Cost of Goods Sold

Total sales for the year ended December 31, 2007 were $7,022,115, representing a decrease of 4.38% or $321,437 over total sales of $7,343,552 for the prior fiscal year. Total sales recorded in 2007 from Canada and Israel were $1,924,115 and $5,098,000, respectively. In our historical product lines, due to competitive pressures, we have been experiencing a decline in our customer base and revenues while our new product lines, obtained through acquisitions, have seen a greater diversification in their customer base and geographical areas, where the company is now selling its expanded product offerings, resulting in an increase in revenues. This has resulted in our overall revenues remaining relatively unchanged for 2007.

Cost of goods sold for the year ended December 31, 2007 was $8,752,658, resulting in a negative gross margin of $1,730,543 or (24.64%) of net sales, compared to cost of goods sold of $5,596,185 and a gross margin of $1,747,367 or 23.8% of net sales for the year ended of 2006.

Gross margin has decreased from 2006 to 2007 due to the fact that manufacturing efficiencies have not yet been achieved in our recently introduced product lines due to set up costs amortized over smaller production runs and lower purchasing power due to purchasing of fewer components. As a result, the Corporation has realized lower gross margins and a greater amount of costs related to these products have been charged to research and development. In addition, as part of the sale of the net assets and operations of its amplifier business to Moventis Wireless Inc (note 21(a)), the parent company of our outsourced manufacturer PTL Electronics, the corporation agreed to various production related charges, amounting to $2,031,469 related to product already delivered to the Company, which have been recorded in cost of sales. The corporation also recorded an inventory write-down of $650,000.

To the extent that costs are incurred in manufacturing products and have been determined by management to be due to engineering issues these costs have been charged to research and development expenses.

Cost of goods sold included stock-based compensation expense of $4,065 for the year ended December 31, 2007 and $17,420 for the prior year.

Cost of goods sold in 2007, excluding stock based compensation expenses, attributable to Canada and Israel were $1,878,124 and $6,870,469, respectively.

Operating Expenses

Research and Development

Research and development expenses for the year ended December 31, 2007 were $3,954,269, representing an increase of $570,839 or 16.87% over research and development expenses in 2006 of $3,383,430. This increase was primarily the result of:

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Additional research and development expenses from the three companies (Avantry, Celerica, & Celletra) acquired in 2006;

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Product material costs, of approximately $663,000, required to manufacture products where the engineering process of the products was being done parallel to the production in order to fulfill certain customers expedited orders for specific equipment in both India and Russia. It is anticipated that there will be an ongoing order stream from these new, large, key accounts, which include Motorola, Nokia and Ericsson. Such additional costs incurred in manufacturing products due to engineering issues have been charged to research and development.

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Recording $772,207 as a write-down of raw materials to be used in research and development due to obsolete inventory during the year ended December 31, 2007.

The above cost increases were partially offset by the impact of our restructuring in the fourth quarter of 2006, resulting in a net year-over-year increase in research and development expenses of 24.11%.

Research and development expense includes stock-based compensation expense of $24,008 for the year ended December 31, 2007 and $53,087 for the prior year.

Research and development expenses in 2007, excluding stock based compensation expenses, attributable to Canada and Israel were $2,043,261 and $1,887,000, respectively.

Royalty payments for government grants

Royalty payments for government grants for the year ended December 31, 2007 were $378,903, an increase of $253,015 or 200.98%, from $125,888 in the prior year. This increase was primarily the result of the increase in sales of products with attached royalties during the 2007 year.

Sales and Marketing

Sales and marketing expenses for the year ended December 31, 2007 were $1,293,727, representing a decrease of $461,333 or 26.29% from sales and marketing expenses of $1,755,060 in the prior year. This decrease was primarily the result of a decrease in sales personnel following our restructuring in the fourth quarter of 2006.

Sales and marketing expenses include stock-based compensation expense of $17,982 for the year ended December 31, 2007 compared to $53,694 for the prior year.

Sales and marketing expenses in 2007, excluding stock based compensation expense, attributable to Canada and Israel were $508,745 and $767,000, respectively.

Depreciation and Amortization

Depreciation and amortization expenses for the year ended December 31, 2007 were $8,143,234, representing an increase of $6,318,666 or 346.31% over depreciation and amortization expenses of $1,824,568 in the prior year. This increase was primarily the result of the amortization and impairment of the intangible assets recorded relating to the companies acquired in 2006. During the year ended December 31, 2007, the Corporation recorded $2,955,640 related to the amortization of intangible assets and 4,755,756 related to the impairment (note 3(i) and 4(d) to the consolidated financial statements).

Foreign Exchange Loss

Foreign exchange loss for the year ended of 2007 was $55,261, an increase of $16,533, from $38,728 for the year ended December 31, 2006. This change was attributable to fluctuations in the currency exchange rate between the U.S. and Canada.

Interest Expense

Interest expense, excluding accretion of interest and loss on debt settlement, for the year ended December 31, 2007 was $1,324,383, representing an increase of $737,614 or 125.71% over interest expense of $586,769 in the prior year. This increase was primarily the result of interest expense related to the issuance of the convertible debentures in February of 2006 and December of 2006.

General and Administrative

General and administrative expenses for the year ended December 31, 2007 were $3,126,306, representing an increase of $676,871 or 27.63% over general and administrative expenses of $2,449,435 in the prior year. The change was primarily the result of reduced headcount costs due to the restructuring completed in December 2006, which was offset by an increase in investor relations activities and an increase in allowance for doubtful receivable accounts of $767,429.

General and administrative expenses in 2007 included stock-based compensation expense of $72,247, compared to $266,387 in the prior year.

General and administrative expenses in 2007, excluding stock based compensation expenses, attributable to Canada and Israel were $2,056,059 and $998,000, respectively.

Share compensation expense

Celletra s share compensation expenses were $281,250 for the year ended December 31, 2007, compared to $168,750 in the prior year. At the request of the Celletra s former shareholders, 5% of the total consideration paid for the company, or 4,500 Preferred Shares, were issued to a trust controlled by the selling shareholders. The trust was instructed to issue the shares to current and former employees of Celletra if at any time within one year after the closing date, the price per share of the Company s common stock was equal to or exceeded $0.20 for a period of seven consecutive days. If this target share price was met, the shares were to be distributed. If this milestone was not achieved the shares would be returned back to the selling shareholders of Celletra. This milestone was not achieved and, as such, the shares were returned back to the selling shareholders of Celletra. These employees were not shareholders of Celletra. As a result of the shares issued to the Celletra selling shareholders, those selling shareholders became significant (ie: holding greater than 10%) shareholders of the Company. In accordance with FAS 123(R), the Company has calculated the fair value of compensation relating to these shares that may be issued to current and former employees, to be $450,000 and has amortized the amount on a straight line basis over one year. The full amount has been amortized as of December 31, 2007.

Restructuring Costs

In the fourth quarter of 2006, the Company recorded $781,831, in which $417,831 and $364,000 were recorded for Canada and Israel s operation, respectively, as restructuring expenses related to streamlining the operations of the company globally.

The operational restructuring resulted in the termination of 40 employees, a re-alignment of research and development activities in the Corporation and a reduction of facilities occupied, all of which resulted in restructuring and other charges as follows:

			Included in:			
	Total	Production	Research and development	Sales and marketing	General and administrative	Restructu
R&D materials write-down	897,993	-	897,993	-	-	
Workforce reduction	718,252	92,159	141,894	12,208	71,509	4
Fixed asset disposal	181,555	-	-	-	-	1

Facilities restructuring	199,794	-	-		-	-
Total restructuring and other charges	1,997,594	92,159	1,039,887	12,208		71,509

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<u>Other Expenses</u>

Accretion of Interest and Loss on Debt Settlement

Accretion of interest and loss on debt settlement for the year ended December 31, 2007 was $778,998, representing a decrease of $4,671,053 or 85.71% from $5,450,051 in the prior year. This decrease was primarily the result of the loss on debt settlement recorded in 2006 related to modifications to the terms of the debentures which were issued in August 2004, February 2005 and February 2006 and to warrants issued to the former shareholders of Celletra Ltd. as part of the acquisition consideration which were modified as part of the Corporations convertible debenture financing in December 2006.

Goodwill Write-down

Due to declining operating results the Company performed an impairment test of goodwill as at December 31, 2007 which resulted in goodwill impairment charges of $6,866,647 (note 3(h) to the consolidated financial statements).

<u>Net Loss for the Year Ended December 31, 2007</u>

Net loss for the year ended December 31, 2007 was $27,939,215 compared to a net loss of $14,834,901 in the prior year. The increased loss of $13,104,314 was primarily due to the amortization and impairment of intangibles assets, goodwill write-down, and the increase in cost of goods sold

Liquidity and Capital Resources

Since our inception, we have been dependent on investment capital and debt financing as our primary sources of liquidity. We had an accumulated deficit at December 31, 2007 of $70,046,602. During the year of 2007, we incurred a net loss, after stock-based compensation, of $27,939,215.

During the year ended December 31, 2007, our cash position decreased to $444,130. This decrease was primarily due to the loss for the year, the payment of trade payables and repayment of the short-term loan.

During the year ended December 31, 2007, the Corporation issued common shares as follows:

i.

Issue of 14,303,651 common shares in settlement of $1,332,165 of accounts payable.

ii.

Issue of 27,839,558 and 5,545,454 units of common shares at a price of $0.09 and $0.11, respectively, per unit for gross proceeds of $3,115,260. Each unit entitles the holder to one common share and a warrant exerciseable into one and one half common shares.

iii.

Issue of 7,360,145 common shares on conversion of $662,413 convertible notes.

iv.

Issue of 20,000,000 common shares on conversion of 20,000 Series A preferred shares.

v.

Issue of 712,201 common shares on conversion of 712.201 Series B preferred shares.

During the year ended December 31, 2007, we purchased $12,000 in equipment.

Other than leases for premises, leased vehicles and equipment commitments for an aggregate of $503,821 through 2010, we have no material commitments outstanding at December 31, 2007.

During the year ended December 31, 2007 convertible notes amounting to $1,980,193 and promissory notes amounting to $276,000 came due. The convertible notes have not been repaid and the Company is currently negotiating new terms with the convertible note holders. As at December 31, 2007, $250,000 of the promissory note holders agreed to convert their notes into common shares of the Company at $0.09 per share.

During 2007, $370,000 of promissory notes bearing interest at 22% in 2007, that initially came due in December 2006, had their maturity extended to April 30, 2008 and the interest rate reduced to 8%. The note was not repaid as at April 30, 2008 and the interest rate has increased to 22% per annum. The Company is negotiating new terms with the note holders of the remaining $90,000 promissory note. None of the note or debenture holders have demanded repayment at this time.

As part of the acquisition of Avantry Ltd., the Corporation assumed a bank loan which bears interest at LIBOR + 2%. The balance of $763,000 as at December 31, 2007 is due by April 30, 2008. A floating lien has been placed on all assets, monies, property and rights of UW Microwave to secure liabilities to the bank.

As part of the acquisition of Celletra Ltd., the Corporation assumed a revolving line of credit, of a current maximum of $1,100,000, which bears interest at LIBOR + 2.5% and is secured by a general floating lien on all of Celletra s assets. As at December 31, 2007, the outstanding balance of this line of credit was $790,000.

During the year ended December 31, 2007, the Corporation obtained an additional revolving line of credit of a maximum of $2,000,000, with an initial maturity of October 17, 2008, which bears interest at LIBOR + 3.0% and is secured by a general floating lien on all of Celletra s assets. As at December 31, 2007, the outstanding balance of this line of credit was $1,751,484.

Our capital requirements may increase in light of our current strategy to expand our customer base and to develop new products and technologies. Our operations to date have been primarily financed by sales of our equity securities and debt financing, and, the company s assets are pledged to secure convertible notes that we issued in August 2004, February 2005, March 2005, February 2006 and December 2006. For any additional financing that may be required in the near term, we may be required to obtain the consent of certain of our investors prior to the issuance of our common stock or common stock equivalents and prior to entering into an agreement to assume certain liabilities.

While convertible notes and warrant purchase Agreements dated August 31, 2004, February 11, 2005, March 24, 2005, February 28, 2006 and December 13, 2006 are outstanding, we cannot declare dividends on our common shares. As of December 31, 2007, we had working capital deficit of $20,054,465 and our operations generated a net cash outflow of $5,254,807 for the year ended December 31, 2007. Our ability to continue as a going concern may be dependent upon one or more factors, that may include: our ability obtaining further financing; an increased rate of market acceptance of our current products and any new product offerings that we may introduce; the continuing successful development of our products and related technologies; and achieving a profitable level of operations Moving forward, although the issuance of additional equity securities by us could result in a significant dilution in the equity interests of our current stockholders, obtaining commercial loans, assuming those loans would be available, will increase our liabilities and future cash commitment.

On February 25, 2008, Unity Wireless Corporation, through its subsidiary Unity Wireless Systems Corporation, entered into an Asset Purchase Agreement for the sale of the net assets and operations of its amplifier business to Moventis Wireless Inc. (Moventis) for $3,000,000. In connection with the Asset Purchase Agreement, Unity and its subsidiaries also entered into a manufacturing services agreement with a related company of Moventis, PTL Electronics Ltd. (PTL) under which Unity has committed to use PTL (or its related companies) as its exclusive manufacturer of printed circuit board assembly products for a period of 24 months, or until all debt owed from Unity and its subsidiaries to PTL is repaid in full. Closing of the above transaction is subject to receiving the approval of the transaction by certain lien holders on the Company's assets as well as other conditions to be met as specified in the agreement. Further details of the arrangement are included in Note 21(a) to the Consolidated Financial Statements included in Item 7 of this Form 10-KSB.

In connection with the Asset Purchase Agreement, as settlement of the remaining debt owed by Unity and its subsidiaries to PTL, Unity agreed to issue 12,000,000 common shares to PTL (or its nominee) and to enter into a promissory note agreement in the amount of $1,878,141 in favour of PTL. Unity will provide PTL with a piggy-back registration rights agreement for the common shares. The promissory note bears interest at 10% and is repayable over 24 months commencing May 15, 2008, with payments of $20,000 per month for the first twelve months and payments of $50,000 per month thereafter. The note will be secured by a general security agreement subordinated to existing security interests. Additionally, Unity has committed that, in the event that Unity or any of its related companies completes any equity or debt financing, then the lesser of 20% of such financing, or the outstanding balance of the promissory note shall be paid to PTL.

Our Auditors report on our 2007 consolidated financial statements includes an additional explanatory paragraph that states that our recurring losses from operations raise substantial doubt about our ability to continue as a going concern. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Business Combinations

a) On June 8, 2006, the Company completed the merger by and among the Company, Unity Wireless Microwave Systems Ltd. (UW Microwave), an Israeli corporation and a wholly owned subsidiary of the Company, and Avantry Ltd. (Avantry), pursuant to the terms of a merger agreement entered into by and among the parties effective February 15, 2006 (Merger Agreement). Under the term of the Merger Agreement, Unity Wireless Corporation acquired all of the assets of Avantry in exchange for $1,750,000 of convertible promissory notes that are convertible into common stock at $0.25 per shares and warrants to purchase an aggregate of 600,000 shares of common stock at an exercise price of $0.40.

Avantry offers a comprehensive transmission product line of integrated microwave radio and optical transport systems for carrying flexible combinations of voice and data traffic. Avantry s product line offering includes:

•

Radio Ring IP A point-to-point high capacity microwave radio with integrated SDH ADM and Ethernet Switching technologies.

•

WitLink A point-to-point low to medium capacity microwave radio for carrying PDH voice and Ethernet traffic.

•

Optisky A new generation of SDH optical access system integrating voice and data for the Metropolitan Area Network (MAN).

The high technology industry, in which Avantry is involved, is highly competitive and is characterized by the risks of rapidly changing technologies as well as penetration into world market required investment of considerable resources and continuous development efforts. Avantry s future success is dependent upon several factors including the technological quality and price / performance of its products relative to those of its competitors. There can be no assurance that Avantry will be able to maintain the high technological quality of its product or to continue to develop or market its new products effectively.

b) On July 3, 2006, the Corporation through its wholly owned subsidiary, Unity Wireless Acquisition Corporation (UW Acquisition) acquired Celerica Inc. (Celerica). Under the terms of the Celerica Agreement, the Company acquired the net assets of Celerica Inc. in exchange for 20,000 shares of Series A convertible non-redeemable preferred shares. Each share of the Series A preferred stock will automatically convert into 1,000 shares of common stock. The preferred shares have been initially valued at a fair value of $2,000,000 based on multiplying the stock price as of the date of the agreement by the number of common stock that the preferred stock is convertible into.

Celerica specializes in extending RF coverage and optimizing network capacity distribution of mobile communications in urban, suburban and rural areas, using optical wireless, fiber optics and microwave technology.

The high technology industry, in which Celerica is involved, is highly competitive and is characterized by the risks of rapidly changing technologies as well as penetration into world market required investment of considerable resources and continuous development efforts. Celerica s future success is dependent upon several factors including the technological quality and price / performance of its products relative to those of its competitors. There can be no assurance that Celerica will be able to maintain the high technological quality of its product or to continue to develop or market its new products effectively.

c) On August 17, 2006, the Company completed the merger pursuant to the terms of a merger agreement. Under the term of the Celletra Agreement, the Company acquired the net assets of Celletra Ltd. in exchange for 90,000 shares of Series B convertible non-redeemable preferred shares and warrants to purchase 40,000,000 shares of common stock (or 40,000 shares of Series B Convertible Shares should there not be sufficient authorized shares of common stock). Each share of the Series B preferred stock will be converted into 1,000 shares of common stock upon approval of an increase of authorized share capital and at the election of the preferred share holders or will be automatically converted into 1,000 common stock on the later of the approval date or thirty days after the Company s second annual general meeting. The 90,000 preferred shares have been valued at a fair value of $9,000,000 based on multiplying the Corporation s common share market price as of the closing date of the acquisition by the number of common stock into which the preferred stock is convertible. The warrants have been valued at a fair value of $2,026,533 calculated using the Black-Scholes option-pricing model.

Celletra specializes in technology that provides wireless operators with solutions to achieve optimal coverage and to improve coverage and capacity of existing cells.

The high technology industry, in which Celletra is involved, is highly competitive and is characterized by the risks of rapidly changing technologies as well as penetration into the world market required investment of considerable resources and continuous development efforts. Celletra s future success is dependent upon several factors including the technological quality and price / performance of its products relative to those of its competitors. There can be no assurance that Celletra will be able to maintain the high technological quality of its product or to continue to develop or market its new products effectively.

As at December 31, 2006 all three acquired businesses had been merged into one operation, located are located at P.O Box 106, Tavor Building #1, Yokne'am Ilit, 20692, Israel.

Inflation

We do not believe that inflation has had a significant impact on our consolidated results of operations or financial condition.

NEW ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2007, the Company adopted FASB Interpretation No. 48 (FIN 48) entitled Accounting for Uncertainty in Income Taxes An interpretation of FASB Statement No. 109 . This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company evaluated all the tax positions in accordance with FIN 48 and determined that there is no impact to our financial statements. The Corporation s policy is to recognize interest and penalties expense as a component of interest expense in the statement of operations. As of the date of adoption of FIN 48, the Corporation did not have any penalties or tax-related interest, and there was no tax-related interest or penalties recognized during the year ended December 31, 2007.

As a result of the implementation of FIN 48, the Corporation performed a review of its uncertain tax positions in accordance with recognition standards established by FIN 48. Based on its review, the Corporation concluded that there are no significant unrecognized tax positions requiring recognition in the Corporation s financial statements. The Corporation does not believe there will be any material changes in its unrecognized tax positions over the next 12 months.

We conduct business globally and, as a result, file one or more income tax returns in the U.S. federal jurisdiction and various state and non-U.S. jurisdictions. In the normal course of business we are subject to examination by taxing authorities throughout the world, including such major jurisdictions as Canada, Israel and the United States. The open tax years for these jurisdictions include 2003 to 2007. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, the Corporation does not believe that the resolution of any such issue would have a material effect on the Corporation s financial position. The resolution of any matter would be recognized as an adjustment to its provision for income taxes in the period of resolution.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FAS 115 ("SFAS No. 159"). SFAS No. 159 allows companies to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. Unrealized gains and losses shall be reported on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 and will be applied prospectively. The Corporation is currently evaluating the impact of adopting SFAS No. 159 on its consolidated balance sheet, result of operations and cash flows.

In September 2006, FASB issued SFAS No. 157 entitled Fair Value Measurements (SFAS No. 157). This statement clarifies the definition of fair value to provide greater consistency and clarity on existing accounting pronouncements that require fair value measurements, provides a framework for using fair value to measure assets and liabilities and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning on or after November 15, 2007. SFAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. The Corporation is currently evaluating the impact of adopting SFAS No. 157 on its consolidated balance sheet, result of operations and cash flows.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements and accompanying notes are prepared in accordance with generally accepted accounting principles in the United States. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. These estimates and assumptions are affected by management's application of accounting policies. We believe that understanding the basis and nature of the estimates and assumptions involved with the following aspects of our consolidated financial statements is critical to an understanding of our financials.

Our consolidated financial statements have been prepared on the going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of operations. The continuation as a going concern for the foreseeable future is dependent upon the identification and successful completion of additional debt or equity financing or the generation of positive cash flows from operating activities. Our ability to raise financing is, in part, based on market conditions that are outside of our control. If we are not able to continue as a going concern, we would likely not be able to realize on our assets at values comparable to the carrying value or the fair value estimates reflected in the balances set out in the preparation of the consolidated financial statements. Based on the carrying value of assets at December 31, 2007, the inability to continue as a going concern would require liquidation of assets not in the normal course that would primarily impact inventory, equipment, intangible assets, and goodwill's recoverable amounts.

Inventory is carried at the lower of cost, determined on an average cost method, and market. Market is considered to be replacement cost for raw materials and net realizable value for work in progress and finished goods. The cost of work in progress and finished goods includes the cost of raw material, direct labour, and an appropriate allocation of related overhead. We provide an allowance that we consider to be reasonable for its non-moving or slow moving inventory items and for items with expected future realizable value lower than cost. As at December 31, 2007, an allowance of $292,461 has been recorded. Changes in customer demands and requirements in the short term could reduce product demand and prices having a material impact on future realizable value of inventory.

Equipment is recorded at cost less accumulated depreciation. We review these assets for impairments when 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 future net cash flows expected to be generated by the asset. As actual future net cash flows are uncertain, the estimation process requires us to make reasonable assumptions about future economic trends and events. These trends and events are substantially outside of our control. To the extent that the expected future cash flows generated by the asset are reduced, we may be required to record an impairment charge against the carrying value of the equipment.

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Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the identifiable assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to our reporting units that are expected to benefit from the synergies of the business combination. Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the goodwill might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of the reporting unit's goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of a reporting unit exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the earnings statement before extraordinary items and discontinued operations. We consider ourselves to operate as two reporting units, RF power amplifiers and coverage enhancement solutions. Fair value of the reporting unit is measured by reference to such factors as estimated future cash flows and the market value of our common shares. Changes in these factors could impact future impairment Due to declining revenues and continued losses, the Company performed an impairment test of goodwill as at December 31, 2007 which resulted in goodwill impairment charges of $6,866,647 (note 3(h) to the consolidated financial statements).

Long-lived assets, such as equipment and intangible assets, 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 the assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Due to declining operating results, the Company assessed its long-lived assets, primarily intangible assets, and determined that certain of them were impaired. As a result, the Company has recorded approximately $4,755,756 in non-cash impairment charges (note 3(i) and 4(d) to the consolidated financial statements) under depreciation and amortization.

On an ongoing basis, we record our best estimate of our warranty obligations related to products sold. A liability for estimated warranty expense is established by a charge against costs of goods sold at the time revenue is recognized as the products are sold. These estimates are made after the consideration of contractual warranty obligations and historical experience. The subsequent actual costs incurred for warranty claims serve to reduce the product warranty liability that we have estimated. Unforeseen events, including increased technological difficulties with products, could occur that have not been anticipated in estimating the warranty provision. Additional costs or estimates will be recognized as determinable.

We recognize revenue when criteria specified in generally accepted accounting principles have been met. Specifically, revenue from products is recognized once a sale arrangement exists, delivery has occurred, the revenue is determinable and collectability is reasonably assured, which is upon the later of shipment or when title passes to the customer depending on the contractual terms. We do not enter into sales arrangements having post contract customer support or rights of return. We record deferred revenue when cash is received in advance of the revenue recognition criteria (discussed above) being net. Although we have no current intention of doing so, changes in our business model could impact the timing of recognition in our consolidated financial statements.

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Item 7. Financial Statements.

Our financial statements are stated in United States Dollars (US$) and are prepared in accordance with United States Generally Accepted Accounting Principles.

The Report of Independent Registered Public Accounting Firm on the audited consolidated financial statements for the years ended December 31, 2007 and 2006 dated May 1, 2008.

Consolidated Balance Sheets at December 31, 2007 and 2006.

Consolidated Statements of Operations and Comprehensive Loss for the years ended December 31, 2007 and 2006.

Consolidated Statement of Stockholders' Equity (Deficiency) for the years ended December 31, 2007 and 2006.

Consolidated Statements of Cash Flows for the years ended December 31, 2007 and 2006.

Notes to the Consolidated Financial Statements.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Unity Wireless Corporation

We have audited the accompanying consolidated balance sheets of Unity Wireless Corporation as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders equity (deficiency), and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Unity Wireless Corporation as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in conformity with U.S generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Corporation will continue as a going concern. As discussed in note 2 to the financial statements, the Corporation has suffered recurring losses from operations that raise substantial doubt about its ability to continue as a going concern. Management s plans in regard to these matters are also described in note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

KPMG LLP (signed)

Chartered Accountants

Vancouver, Canada

May 1, 2008

UNITY WIRELESS CORPORATION

Consolidated Balance Sheets

(Expressed in United States dollars)

(Prepared in accordance with United States generally accepted accounting principles)

Years ended December 31, 2007 and 2006

		2007	2006
Assets			
Current assets:			
	Cash and cash equivalents	$ 444,130	$ 1,217,792
	Restricted cash (note 3(d))	203,000	497,000
	Accounts receivable (less allowance for doubtful		
	accounts of $906,589 (2006 - $139,160)	2,487,499	3,824,447
	Inventory (note 5)	1,168,757	1,657,138
	Prepaid expenses and deposits	116,737	150,673
		4,420,123	7,347,050
Deferred financing cost (note 13(d))		105,777	-
Long-term deposits		27,000	104,000
Amounts funded for employees' right upon retirement (note 11)		327,000	676,000
Equipment, net (note 6)		601,536	1,314,291
Goodwill (note 4(d))		741,596	7,608,243
Intangibles, net (note 4(d))		-	7,711,396
		$ 6,223,032	$ 24,760,980
Liabilities and Stockholders' Equity (Deficiency)			
Current liabilities:			
	Bank Loan (note 7)	$ 3,672,000	$ 1,458,000
	Accounts payable and accrued liabilities (note 8)	12,855,835	9,601,918
	Obligations under capital leases	-	215,710
	Loans payable (note 9)	460,000	1,500,000
	Convertible debenture (note 10)	7,249,151	1,947,552
	Product warranty (note 17(c))	237,602	314,904
		24,474,588	15,038,084
Obligations under capital lease		-	39,921

Convertible debenture (note 10)	-	5,248,108
Employees' rights upon retirement (note 11)	360,000	672,000
	24,722,588	20,998,113
Stockholders' equity (deficiency):		
Common stock, $0.001 par value 520,000,000 (2006 - 400,000,000) authorized, 182,920,028 (2006 - 107,159,019) issued and outstanding	182,920	107,159
Series A convertible non-redeemable preferred shares, $0.001 par value (note 12(a))	-	20
Series B convertible non-redeemable preferred shares, $0.001 par value (note 12(b))	89	90
Additional paid-in capital	51,320,861	45,831,809
Accumulated deficit	(70,046,602)	(42,107,387)
Accumulated other comprehensive income:		
Cumulative translation adjustments	(68,824)	(68,824)
	(18,611,556)	3,762,867
	$ 6,223,032	$ 24,760,980

Future operations (note 2)

Commitments (note 16)

Contingent liabilities (note 17)

Related party transactions (note 19)

Subsequent events (note 21)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

/s/ Ilan Kenig Director /s/ Ken Maddison Director

UNITY WIRELESS CORPORATION

Consolidated Statements of Operations

(Expressed in United States dollars)

(Prepared in accordance with United States generally accepted accounting principles)

Years ended December 31, 2007 and 2006

	2007	2006
Sales	$ 7,022,115	$ 7,343,552
Cost of goods sold	8,752,658	5,596,185
	(1,730,543)	1,747,367
Expenses:		
Research and development	3,954,269	3,383,430
Royalty payments for government grant (note 17 (b))	378,903	125,888
Sales and marketing	1,293,727	1,755,060
Depreciation and amortization (note 4(d))	8,143,234	1,824,568
Foreign exchange loss	55,261	38,728
Interest expense, excluding accretion of interest and		
loss on debt settlement	1,324,383	586,769
General and administrative	3,126,306	2,449,435
Share compensation expense (note 4(c))	281,250	168,750
Restructuring costs (note 20)	-	781,831
	18,557,333	11,114,459
Operating loss for the period	(20,287,876)	(9,367,092)
Accretion of interest and loss on debt settlement		
(note 10 and 13(d))	(778,998)	(5,450,051)
Other (loss)/ income	-	50,650
Loss on disposal	(5,694)	-
Fair value adjustment on warrants (note 13(d))	-	(68,408)
Goodwill write-down (note 3(h))	(6,866,647)	-
Loss for the period	$ (27,939,215)	$ (14,834,901)

Basic and diluted loss per common share (note 13(b))	$	(0.18)	$	(0.16)

See accompanying notes to consolidated financial statement.

UNITY WIRELESS CORPORATION

Consolidated Statements of Stockholders Equity (Deficiency)

(Expressed in United States dollars)

(Prepared in accordance with United States generally accepted accounting principles)

	Number of Common Stock	Common Stock Issued and Outstanding	Additional Paid-in Capital	Series A Convertible non-redeemable preferred shares	Series B Convertible non-redeemable preferred shares	Ac
Balance as at December 31, 2005	90,885,396	$90,885	$26,490,425	$ -	$ -	
Issued on exercise of options and warrants (note 13(a))	755,555	756	105,465	-	-	
Issued pursuant to private placement (note 13(a))	10,944,400	10,944	974,052	-	-	
Issued upon settlement of accounts payable (note 13(a))	4,573,668	4,574	491,819	-	-	
Preferred shares issued upon the acquisition of Celerica Inc. (note 4(b))	-	-	1,999,980	20	-	
Preferred shares issued upon the acquisition of Celletra	-	-	8,999,910	-	90	

Ltd. (note 4(c))					
Warrants related to acquisition of Celletra Ltd. (note 13(d))	-	-	2,094,941	-	-
Compensation expense of options, warrants and shares	-	-	559,338	-	-
Share issue costs	-	-	(433,961)	-	-
Loss on warrants modification (note 13(d))	-	-	1,534,639	-	-
Beneficial conversion option on convertible debenture	-	-	3,015,201	-	-
Loss for the year and comprehensive loss	-	-	-	-	-
Balance as at December 31, 2006	107,159,019	$107,159	$45,831,809	$20	$90

	Number of Common Stock	Common Stock Issued and Outstanding	Additional Paid-in Capital	Series A Convertible non-redeemable preferred shares	Series B Convertible non-redeemable preferred shares	Accumulated
Balance as at December 31, 2006	107,159,019	$107,159	$45,831,809	$20	$90	$(42,1
Issued pursuant to private placement (note 13(a))	33,385,012	33,385	3,081,875	-	-	-
Issued upon settlement of accounts payable (note 13(a))	14,303,651	14,304	1,317,861	-	-	-
Issued on notes conversion (note 13(a))	7,360,145	7,360	655,053	-	-	-
Issued on Series A Convertible non-redeemable preferred shares conversion (note 13(a))	20,000,000	20,000	(19,980)	(20)	-	-
	712,201	712	(711)		(1)	

Issued on Series B Convertible non-redeemable preferred shares conversion (note 13(a))						
Compensation expense of options, warrants and shares	-	-	399,552	-	-	-
Inducement expenses on notes conversion (note 13(d))	-	-	63,094	-	-	-
Financing cost (note 13(d))			133,133			
Share issue costs	-	-	(140,825)	-	-	-
Loss for the year and comprehensive loss	-	-	-	-	-	(27,939,215)
Balance as at December 31, 2007	182,920,028	$182,920	$51,320,861	$-	$89	$(70,046,602)

See accompanying notes to consolidated financial statements.

UNITY WIRELESS CORPORATION

Consolidated Statements of Cash Flows

(Expressed in United States dollars)

(Prepared in accordance with United States generally accepted accounting principles)

	2007	2006
Operations:		
Loss for the period	$ (27,939,215)	$ (14,834,901)
Adjustments to reconcile net loss to net cash used in operating activities:		
Accretion of interest and loss on debt settlement	778,998	5,450,051
Non-cash financing costs	27,356	-
Fair value adjustment on warrants	-	68,408
Change in employees' liability upon retirement	127,000	125,000
Depreciation and amortization	8,143,234	1,824,568
Goodwill write-down	6,866,647	-
Loss on disposal	5,694	212,861
Stock-based compensation	399,552	559,338
Inventory write-down	1,422,207	897,993
Bad debts	767,429	139,160
Changes in non-cash working capital relating to operations:		
Accounts receivable	569,519	611,666
Inventory	(933,826)	(100,263)
Prepaid expenses and deposits	33,936	(133,924)
Accounts payable and accrued liabilities	4,476,662	994,842
	(5,254,807)	(4,185,201)
Investments:		
Cash assumed on acquisition, less acquisition costs (note 4)	-	1,066,903
Acquisition of equipment	(12,000)	(8,574)
Change in long term deposits	77,000	44,994
Amounts funded for employees rights upon retirement, net	(88,000)	(222,000)
Proceeds on disposition of equipment	61,000	53,000

Restricted cash	294,000	(20,000)
	332,000	914,323
Financing:		
Bank loan	2,214,000	(1,168,000)
Short-term loan (note 9)	(1,040,000)	1,500,000
Repayment of capital lease obligation	-	(216,798)
Convertible debentures (note 10)	-	3,550,000
Cash proceeds on issuance of common shares	3,115,260	1,091,217
Share issue costs	(140,825)	(433,961)
	4,148,435	4,322,458
Effect of foreign exchange rate changes on cash and cash equivalents	710	9,166
Increase (decrease) in cash and cash equivalents	(773,662)	1,060,746
Cash and cash equivalents, beginning of period	1,217,792	157,046
Cash and cash equivalents, end of period	$ 444,130	$ 1,217,792

Supplementary information (note 18)

See accompanying notes to consolidated financial statements.

UNITY WIRELESS CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

(Prepared in accordance with United States generally accepted accounting principles)

Years ended December 31, 2007 and 2006

1.

Nature of business:

Unity Wireless Corporation (the Corporation) was incorporated in Delaware on October 1, 1998 under the name Sonic Systems Corporation (Sonic Delaware). Sonic Delaware changed its name to Unity Wireless Corporation on July 17, 2000. Unity Wireless develops and markets base station equipment and coverage enhancement solutions for wireless networks and cellular operators.

2.

Future operations:

During the year, the Corporation incurred a loss of $27,939,215 (2006 - $14,834,901) and used cash in operations of $5,254,807 (2006 - $4,091,092).

These financial statements have been prepared on the going concern basis under which an entity is considered to be able to realize its assets and satisfy its liabilities in the ordinary course of business. Operations to date have been primarily financed by both current and long-term debt and equity transactions. At December 31, 2007, the Corporation will require additional financing to continue to operate at current levels throughout 2008 and repay existing debt that is currently due or will come due in 2008. Accordingly, the Corporation s future operations are dependent upon the identification and successful completion of additional long-term or permanent equity financing, the continued support of creditors and shareholders, and, ultimately, the achievement of profitable operations. Currently, the Corporation is being funded by promissory notes issued to certain significant shareholders. There can be no assurances that the Corporation will be successful. If it is not, the Corporation will be required to reduce operations or liquidate assets. The Corporation will continue to evaluate its projected expenditures relative to its available cash and to seek additional means of financing in order to satisfy its working capital and other cash requirements. The consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should the Corporation be unable to continue as a going concern.

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UNITY WIRELESS CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

(Prepared in accordance with United States generally accepted accounting principles)

Years ended December 31, 2007 and 2006

3.

Significant accounting policies:

(a)

Principles of consolidation:

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries; Unity Wireless Systems Corp., Celerica Inc., Celletra Ltd., and Unity Wireless Microwave Systems Ltd. All significant intercompany accounts and transactions have been eliminated.

(b)

Use of estimates:

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, particularly the recoverability of inventory, equipment, intangible assets and goodwill, and liabilities (particularly product warranty) and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(c)

Financial instruments:

(i)

Fair values:

At December 31, 2007, the Corporation has the following financial instruments: cash and cash equivalents, restricted cash, accounts receivable, long-term deposits, bank loan, accounts payable and accrued liabilities, and loans payable. The carrying values of these financial instruments are considered to approximate fair value based on their short-term nature. Based on borrowing rates currently available to the Corporation, the carrying values of the obligations under capital lease approximate their fair values. The fair value of convertible debentures was determined to be $2,453,944 at December 31, 2007 (2006 - $6,798,760).

The Corporation accounts for its derivative financial instruments in accordance with SFAS No. 133, Accounting for Derivative Instruments and for Hedging Activities . This statement requires the Corporation to recognize derivatives on its balance sheet at fair value. The gains or losses resulting from changes in the fair value of derivative instruments will either be recognized in current earnings or in other comprehensive income, depending on the use of the derivative and whether the hedging instrument is effective or ineffective when hedging changes in fair value. For a derivative not designated as a hedging instrument, the gain or loss is recognized in earnings in the period of change of value. The Corporation did not hold any derivative instruments and was not involved in any hedging activities at December 31, 2007 or 2006.

UNITY WIRELESS CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

(Prepared in accordance with United States generally accepted accounting principles)

Years ended December 31, 2007 and 2006

3.

Significant accounting policies (continued):

(c)

Financial instruments (continued):

(ii)

Concentrations of credit risk:

Financial instruments that potentially subject the Corporation to concentrations of credit risk are primarily accounts receivable (note 15(d)). The Corporation maintains a reserve for potential credit losses based on a risk assessment of its customers.

(d)

Cash and cash equivalents:

Cash equivalents include short-term deposits, which are all highly liquid securities with a term to maturity of three months or less when acquired. Short-term deposits are valued at market.

Restricted cash deposits are held with a bank to secure performance guarantees with certain customers of the Corporation.

(e)

Inventory:

Inventory is carried at the lower of cost, determined on an average cost method, and market. Market is considered to be replacement cost for raw materials and net realizable value for finished goods. The cost of finished goods includes the cost of raw material, direct labor, and an appropriate allocation of related overhead.

(f)

Equipment:

Equipment are stated at cost. Depreciation is computed on a declining balance basis over the estimated useful lives of the assets as follows:

Asset	Rate
Computer equipment and software	30%
Computer equipment and software - leased	30%
Furniture and fixtures	20%
Production and R&D equipment	20%
Production and R&D equipment - leased	20%

Leasehold improvements are stated at cost and depreciated over the term of the lease on a straight-line basis.

UNITY WIRELESS CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

(Prepared in accordance with United States generally accepted accounting principles)

Years ended December 31, 2007 and 2006

3.

Significant accounting policies (continued):

(g)

Intangible assets:

Intangible assets are comprised of intellectual property acquired in business acquisitions and are being amortized over their estimated useful lives of three years.

(h)

Goodwill:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the identifiable assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Corporation s reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized, but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the goodwill might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit s goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of the reporting unit s goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of a reporting unit exceeds the implied fair value of its goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the statement of operations before extraordinary items and discontinued operations. Due to declining revenues and continued losses, the Corporation performed an impairment test of goodwill as at December 31, 2007 which resulted in goodwill impairment charges of $6,866,647 based on discounted cash flow calculation for the value of the reporting unit.

UNITY WIRELESS CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

(Prepared in accordance with United States generally accepted accounting principles)

Years ended December 31, 2007 and 2006

3.

Significant accounting policies (continued):

(i)

Impairment of long-lived assets:

Long-lived assets, such as equipment and intangible assets, 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 the assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(j)

Income taxes:

Income taxes are accounted for under the asset and liability method. Deferred 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 and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using 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 deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. To the extent that it is not considered to be more likely than not that a deferred tax asset will be realized, a valuation allowance is provided.

The corporation classifies tax-related interest and penalties as income tax expense.

(k)

Advertising costs:

Advertising costs are expensed as incurred.

UNITY WIRELESS CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

(Prepared in accordance with United States generally accepted accounting principles)

Years ended December 31, 2007 and 2006

3.

Significant accounting policies (continued):

(l)

Foreign currency translation:

The Corporation s functional currency is the U.S. dollar. The Corporation s subsidiaries also use the U.S. dollar as their functional currency. Under this method, monetary assets and liabilities denominated in a foreign currency are re-measured into U.S. dollars at the rate of exchange in effect at the balance sheet date. Other assets and revenue and expense items are re-measured using the rate of exchange prevailing at their respective transaction dates. Exchange gains and losses resulting from the re-measurement of foreign denominated monetary assets and liabilities into U.S. dollars are reflected in earnings (loss) for the period.

(m) Revenue recognition:

Revenue from products is recognized once a sale arrangement exists, delivery has occurred, the revenue is fixed and determinable and collectibility is reasonably assured, which is upon the later of shipment or when title passes to the customer depending on the contractual terms. The Corporation does not enter into sales arrangements having post contract customer support or rights of return. The Corporation records deferred revenue when cash is received in advance of the revenue recognition criteria being met.

(n) Product warranty:

A liability for estimated warranty expense is established by a charge against cost of goods sold at the time revenue is recognized as products are sold. The subsequent costs incurred for warranty claims serve to reduce the product warranty liability. The actual warranty costs the Corporation will ultimately pay could differ materially from this estimate (note 17(c)).

(o)

Research and development:

Research and development costs are expensed as incurred. The Corporation s costs associated with shipping and handling engineering product items to the Corporation s customers are included in the research and development expenses. In 2007, $128,432 in shipping and handling costs were recorded under research and development expenses.

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UNITY WIRELESS CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

(Prepared in accordance with United States generally accepted accounting principles)

Years ended December 31, 2007 and 2006

3.

Significant accounting policies (continued):

(p)

Stock option plan:

Prior to January 1, 2006, the Corporation accounted for employee stock-based awards under the fair value method of SFAS 123, Accounting for Stock Based Compensation as amended by FASB Statement No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*. Effective January 1, 2006, the Corporation adopted Statement of Financial Accounting Standard No. 123R, "Share-Based Payment" ("SFAS 123R"). SFAS 123R requires measurement of compensation cost for employee stock-based awards based upon fair value over the requisite service period for awards expected to vest. Furthermore, under SFAS 123R, liability based awards are recorded at fair value through to their settlement date.

Pursuant to the provisions of SFAS 123R, the Corporation applied the modified-prospective transition method. Under this method, the fair value provision of SFAS 123R are applied to new employee share-based payment awards granted or awards modified, repurchased or cancelled after December 31, 2005. Measurement and attribution of compensation cost for unvested awards at December 31, 2005, granted prior to the adoption of SFAS 123R, are recognized based upon the provisions of SFAS No. 123, after adjustment for estimated forfeitures. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Under SFAS No. 123 the Corporation had recognized forfeitures as they occurred. The cumulative impact of estimating forfeitures instead of accounting for forfeitures as they occur was not material to the consolidated financial statements.

(q)

Loss per common share:

The basic loss per share is computed by dividing the loss attributable to common stockholders by the weighted average number of common shares outstanding for that period. Diluted loss per share is computed using the treasury stock method, giving effect to all dilutive potential common shares that were outstanding during the period except to the extent where anti-dilutive.

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UNITY WIRELESS CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

(Prepared in accordance with United States generally accepted accounting principles)

Years ended December 31, 2007 and 2006

3.

Significant accounting policies (continued):

(r)

Government assistance:

Government assistance consists of government grants. Government grants are received for specific research and development projects approved by the relevant government agency. The Corporation follows the cost reduction method of accounting for government assistance, whereby the benefit of the assistance is recognized as a reduction in the cost of the related asset or credited against the expenses incurred in the statement of operations, as determined by the terms and conditions of the agreement under which the assistance is provided to the Corporation and the nature of the costs incurred. Government assistance is recognized when receipt of the assistance is reasonably assured. Reasonable assurance is based on the Corporation s past experience with claims and collections. Certain government assistance has a contingent liability for repayment. The liability to repay government assistance is recognized in the period in which conditions arise that will cause government assistance to be repayable.

(s)

Comprehensive loss:

Comprehensive loss measures all changes in stockholders' equity from transactions and other events and circumstances from non-owner sources. For the periods presented, other comprehensive loss is equal to net loss.

(t)

Comparative figures:

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

(u)

Related party transactions:

Related party transactions in the normal course of operations are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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UNITY WIRELESS CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

(Prepared in accordance with United States generally accepted accounting principles)

Years ended December 31, 2007 and 2006

3.

Significant accounting policies (continued):

(v) Amounts funded for employees rights upon retirement:

In Israel, the Corporation is required to pay severance benefits to dismissed employees under a number of circumstances. In order to satisfy the liability, the Corporation has purchased life insurance policies which are recorded at their cash redemption value or by placing deposits with insurance companies.

(w) Registration rights agreements:

In connection with the sale of certain debt and equity instruments, the Corporation has entered into a number of registration rights agreements. Generally, these agreements require the Corporation to file registration statements with the Securities and Exchange Commission (SEC) to register the resale of common shares that may be issued to selling stockholders on conversion of debt or preferred stock, to permit resale of common shares previously sold under an exemption from registration or to register the resale of common shares that may be issued on exercise of outstanding options or warrants.

These registration rights agreements sometimes require the Corporation to pay liquidating damages for any time delay in filing the required registration statements or a delay in the registration statements being declared effective or subsequently being suspended in excess of some agreed-upon period of time. These liquidating damages are generally expressed as a fixed percentage, per month, of the original investment amount the Corporation received on issuance of the debt or preferred stock, common shares, options or warrants.

The Corporation has adopted FASB Staff Position on No. EITF 00-19-2, *Accounting for Registration Payment Arrangements* (FSP EITF 00-19-2). FSP EITF 00-19-2 which provides that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement should be separately recognized and measured in accordance with SFAS No. 5, *Accounting for Contingencies* , which defines that loss contingencies should be recognized as liabilities if they are probable and reasonably estimable. Accordingly, the Corporation recognizes the liquidated damages when it becomes probable that they will be incurred. Any penalties are expensed over the period to which they relate.

UNITY WIRELESS CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

(Prepared in accordance with United States generally accepted accounting principles)

Years ended December 31, 2007 and 2006

3.

Significant accounting policies (continued):

(x)

Recent accounting pronouncements:

Effective January 1, 2007, the Company adopted FASB Interpretation No. 48 (FIN 48) entitled Accounting for Uncertainty in Income Taxes An interpretation of FASB Statement No. 109 . This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company evaluated all of its tax positions in accordance with FIN 48 and determined that there is no impact to its financial statements. The Corporation s policy is to recognize interest and penalties expense as a component of interest expense in the statement of operations. As of the date of adoption of FIN 48, the Corporation did not have any penalties or tax-related interest, and there were no tax-related interest or penalties recognized during the year ended December 31, 2007.

As a result of the implementation of FIN 48, the Corporation performed a review of its uncertain tax positions in accordance with recognition standards established by FIN 48. Based on its review, the Corporation concluded that there are no significant unrecognized tax positions requiring recognition in the Corporation s financial statements. The Corporation does not believe there will be any material changes in its unrecognized tax positions over the next 12 months.

The Corporation conducts business globally and, as a result, files one or more income tax returns in the U.S. federal jurisdiction and various state and non-U.S. jurisdictions. In the normal course of business the Corporation is subject to examination by taxing authorities throughout the world, including such major jurisdictions as Canada, Israel and the United States. The open tax years for these jurisdictions include 2003 to 2007. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, the Corporation does not believe that the resolution of any such issue would have a material effect on the Corporation s financial position. The resolution of any matter would be recognized as an adjustment to its provision for income taxes in the period of resolution.

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UNITY WIRELESS CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

(Prepared in accordance with United States generally accepted accounting principles)

Years ended December 31, 2007 and 2006

3.

Significant accounting policies (continued):

(x)

Recent accounting pronouncements (continued):

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FAS 115 ("SFAS No. 159"). SFAS No. 159 allows companies to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. Unrealized gains and losses shall be reported on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 and will be applied prospectively. The Corporation is currently evaluating the impact of adopting SFAS No. 159 on its consolidated balance sheet, result of operations and cash flows.

In September 2006, FASB issued SFAS No. 157 entitled Fair Value Measurements (SFAS No. 157). This statement clarifies the definition of fair value to provide greater consistency and clarity on existing accounting pronouncements that require fair value measurements, provides a framework for using fair value to measure assets and liabilities and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning on or after November 15, 2007. SFAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. The Corporation is currently evaluating the impact of adopting SFAS No. 157 on its consolidated balance sheet, result of operations and cash flows.

UNITY WIRELESS CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

(Prepared in accordance with United States generally accepted accounting principles)

Years ended December 31, 2007 and 2006

4. Business combination:

a) On June 8, 2006, the Corporation through its wholly owned subsidiary, Unity Wireless Microwave Systems Ltd. (UW Microwave) acquired Avantry Ltd. (Avantry). Avantry specializes in offering a comprehensive transmission product line of integrated microwave radio and optical transport systems for carrying flexible combinations of voice and data traffic.

Under the terms of the Merger Agreement, the Corporation acquired Avantry in exchange for $1,750,000 of convertible promissory notes that are convertible into common stock at $0.25 per share and warrants to purchase an aggregate of 600,000 shares of common stock at an exercise price of $0.40. The convertible promissory notes and related warrants have been valued at their fair value of $1,755,147 (See note 10(e)).

The transaction has been accounted for as a business combination by the purchase method, with Unity Wireless Corporation identified as the acquirer. The Corporation s consolidated statements of operations include the operating results of Avantry Ltd. from June 8, 2006, the date of acquisition.

The following table summarizes the allocation of the purchase price and related acquisition costs to the fair value of the assets acquired and liabilities assumed at the date of acquisition.

	$
Cash	496,896
Working capital (other than cash)	(2,519,099)
Fixed assets	508,000
Goodwill	1,557,090
Intangibles	1,791,297

Other assets	514,744
Other liabilities	(500,000)
	$
Total net assets acquired	1,848,928
Consideration:	
	$
Convertible promissory notes and warrants (note 10(e))	1,755,147
Acquisition costs	93,781
	$
	1,848,928

The goodwill allocated on the acquisition will not be deductible for tax purposes. See note 4(d) for the amortization of intangibles.

UNITY WIRELESS CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

(Prepared in accordance with United States generally accepted accounting principles)

Years ended December 31, 2007 and 2006

4. Business combination (continued):

b) On July 3, 2006, the Corporation through its wholly owned subsidiary, Unity Wireless Acquisition Corporation (UW Acquisition) acquired Celerica Inc. (Celerica). Celerica specializes in extending RF coverage and optimizing network capacity distribution of mobile communications in urban, suburban and rural areas, using optical wireless, fiber optics and microwave technology.

Under the terms of the merger agreement, the Corporation acquired Celerica in exchange for 20,000 shares of Series A convertible non-redeemable preferred shares (see note 12(a)). The preferred shares have been valued at a fair value of $2,000,000 based on multiplying the Corporation s common shares market price as of the closing date of the acquisition by the number of common stock issuable upon conversion. On April 25, 2007, the Series A convertible non-redeemable preferred shares were converted into 20,000,000 common shares.

The transaction has been accounted for as a business combination by the purchase method, with Unity Wireless Corporation identified as the acquirer. The Corporation s consolidated statements of operations include the operating results of Celerica Inc. from July 3, 2006, the date of acquisition.

The following table summarizes the allocation of the purchase price and related acquisition costs to the fair value of the assets acquired and liabilities assumed at the date of acquisition.

Cash	$	222,000
Working capital (other than cash)		(665,000)
Fixed assets		327,000
Goodwill		1,209,272
Intangibles		887,211
Other assets		110,000
Other liabilities		(72,000)
Total net assets acquired	$	2,018,483
Consideration:		
Fair value of preferred shares issued (note 12(a))	$	2,000,000
Acquisition costs		18,483
	$	2,018,483

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UNITY WIRELESS CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

(Prepared in accordance with United States generally accepted accounting principles)

Years ended December 31, 2007 and 2006

4. Business combination (continued):

The goodwill allocated on the acquisition will not be deductible for tax purposes. See note 4(d) for the amortization of intangibles.

c) On August 17, 2006, the Corporation acquired Celletra Ltd. (Celletra). Celletra specializes in technology that provides wireless operators with solutions to achieve optimal coverage and to improve coverage and capacity of existing cells

Under the terms of the purchase agreement, the Corporation acquired Celletra in exchange for 70,000 shares of Series B convertible non-redeemable preferred shares (see note 12(b)) and contingent consideration of 20,000 shares of Series B convertible non-redeemable preferred shares and warrants to purchase 40,000,000 shares of common stock at a prices between $0.20 and $0.30 expiring August 17, 2009 (or 40,000 shares of Series B Convertible Shares should there not be sufficient authorized shares of common stock). The contingency was met in 2006 and the contingent consideration was issued in 2006.

The 90,000 preferred shares have been valued at a fair value of $9,000,000 based on multiplying the Corporation s common share market price as of the closing date of the acquisition by the number of common stock into which the preferred stock is convertible. The warrants have been valued at a fair value of $2,026,533 calculated using the Black-Scholes option-pricing model with the following weighted-average assumptions: no dividend yield; volatility of 108%; a risk-free interest rate of 4.01% and expected term of three years.

The transaction has been accounted for as a business combination by the purchase method, with Unity Wireless Corporation identified as the acquirer. The Corporation s consolidated statements of operations include the operating results of Celletra Ltd. from August 17, 2006, the date of acquisition.

UNITY WIRELESS CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

(Prepared in accordance with United States generally accepted accounting principles)

Years ended December 31, 2007 and 2006

4. Business combination (continued):

The following table summarizes the allocation of the purchase price and related acquisition costs to the fair value of the assets acquired and liabilities assumed at the date of acquisition.

Cash	$	489,000
Working capital (other than cash)		(114,000)
Fixed assets		305,000
Goodwill		4,100,285
Intangibles		6,277,978
Other assets		762,000
Other liabilities		(765,001)
Total net assets acquired	$	11,055,262
Consideration:		
Fair value of preferred shares issued (note 12(b))	$	9,000,000
Fair value of warrants issued (note 13(d))		2,026,533
Acquisition costs		28,729
	$	11,055,262

The goodwill allocated on the acquisition will not be deductible for tax purposes. See note 4(d) for the amortization of intangibles.

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4. Business combination (continued):

At the request of the Celletra shareholders 5% of the total preferred share consideration, or 4,500 Preferred Shares, were issued to a trust controlled by the selling shareholders of Celletra which was instructed to issue the shares to current and former employees of Celletra, if at any time within one year after the closing date, the price per share of Unity common stock equaled or exceeded US$0.20 for a period of seven consecutive days. If the target share price was met, the shares would be distributed. If this milestone was not achieved the shares will be returned back to the selling shareholders of Celletra. This milestone was not achieved and, as such, the shares were returned back to the selling shareholders of Celletra. These employees were not shareholders of Celletra. As a result of the shares issued to the Celletra selling shareholders, those selling shareholders became significant (ie: holding greater than 10%) shareholders of Unity. In accordance with FAS 123(R), the Corporation has calculated the fair value of compensation relating to these shares that may be issued to current and former employees, to be $450,000 and has amortized the amount on a straight line basis over one year. The amortization for the year ended December 31, 2007 was $281,250 (2006 - $168,750). The full amount has been amortized as of December 31, 2007.

(d) The Corporation has recorded $8,956,486 as identifiable intangible assets resulting from the acquisitions in note 4(a) to note 4(c). Intangibles amortization for the period ended December 31, 2007, has been recognized at a rate of 33.3% per annum.

Intangible assets acquired	$	8,956,486
Amortization to December 31, 2006		(1,245,090)
Balance, December 31, 2006		7,711,396

Amortization to December 31, 2007		(2,955,640)
Impairment as at December 31, 2007		(4,755,756)
Balance, December 31, 2007	$	-

Due to declining revenues and continued losses, the Corporation assessed its long-lived assets, primarily intangible assets, and determined that certain of them were impaired. As a result, based on a discounted cash flow calculation, the Corporation has recorded $4,755,756 in non-cash impairment charges under depreciation and amortization.

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5. Inventory:

	2007	2006
Raw materials	$ 965,757	$ 1,560,681
Finished goods	203,000	96,457
	$ 1,168,757	$ 1,657,138

During the year ended December 31, 2007, the Corporation recorded $1,422,207 (2006 - $897,993) as a write-down of raw materials, due to obsolete inventory, of which $650,000 was recorded as a charge to cost of sales and $772,207 was recorded as a charge to research and development. The charge to research and development relates to write-downs in inventory that was to be used in the research and development process.

6.

Equipment:

	2007		2006	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation

Computer equipment	$ 239,879	$ 204,222	$ 272,879	$ 194,037
Computer software	146,587	118,020	161,587	95,605
Computer software (under capital lease)	-	-	229,997	100,670
Furniture and fixtures	105,910	52,837	154,910	54,457
Leasehold improvements	23,000	3,000	26,000	3,000
Production and R&D equipment	807,286	413,127	1,090,696	491,538
Production and R&D equipment (under capital lease)	127,975	57,894	370,694	53,165
	$ 1,450,637	$ 849,100	$ 2,306,763	$ 992,472
Net book value	$ 601,536		$ 1,314,291	

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7. Bank loan:

As part of the acquisition of Avantry Ltd., the Corporation assumed a bank loan which bears interest at LIBOR + 2% (December 31, 2007 6.82%). The balance of $763,000 as at December 31, 2007 (December 31, 2006 - $781,000) is due by April 30, 2008. A floating lien has been placed on all assets, monies, property and rights of UW Microwave to secure liabilities to the bank.

As part of the acquisition of Celletra Ltd., the Corporation assumed a revolving line of credit, of a current maximum of $1,100,000, which bears interest at LIBOR + 2.5% (December 31, 2007 7.32%) and is secured by a general floating lien on all of Celletra s assets. As at December 31, 2007, the outstanding balance of this line of credit was $790,000 (December 31, 2006 - $677,000).

During the year ended December 31, 2007, the Corporation obtained an additional revolving line of credit of a maximum of $2,000,000, with an initial maturity of October 17, 2008, which bears interest at LIBOR + 3.0% (December 31, 2007 7.82%) and is secured by a general floating lien on all of Celletra s assets. In connection with the facility, the Corporation issued 5,555,555 warrants (note 13(d)) at a price of $0.09 and an expiry date of five years from the date of issuance. As at December 31, 2007, the outstanding balance of this line of credit was $1,751,484.

The remaining balance relates to the bank overdraft.

8. Accounts payable and accrued liabilities:

		2007		2006
Trade accounts payable	$	4,315,057	$	5,302,979
Accrued liabilities		8,540,778		4,298,939

$	12,855,835	$	9,601,918

Included in trade accounts payable is a loan of $276,000 (2006 - $259,000), which bears interest at 8% and was due July 3, 2007, payable to former shareholders of Celerica Ltd. The loan was not repaid on July 3, 2007. As at December 31, 2007, $250,000 of the loan holders agreed to convert their loan into common shares of the Company at $0.09 per share. The conversion is expected to take place in 2008.

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1.

Loan Payable:

In October 2006, the Corporation issued an 8% interest bearing promissory note for $1,500,000, secured by all the assets of the Corporation, plus 3,000,000 share purchase warrants effected pursuant to Regulation D under the Securities Act of 1933. The note was initially due on December 22, 2006, however, the holders had not demanded repayment of the note. In accordance with the terms of the note, the rate of interest was increased to 22% after the initial due date. During the year ended December 31, 2007 the Corporation repaid $1,040,000 of the promissory note. During 2007, $370,000 of promissory notes had their maturity extended to April 30, 2008 and the interest rate reduced to 8%. The note was not repaid as at April 30, 2008 and the interest rate has increased to 22% per annum. The Company is negotiating new terms with the note holders of the remaining $90,000 promissory note.

Each warrant issued entitles the holder to purchase one of the Corporation s common shares and is exercisable at a price of $0.10 and $0.15 relating to 1,500,000 and 1,500,000 warrants, respectively, on or before October 31, 2011 on which date the warrants will expire.

For accounting purposes, the Corporation calculated the fair value of warrants issued with the promissory note, using the Black-Scholes option pricing model, which totaled $224,473, and initially recorded these values as additional paid-in capital. The Corporation evaluated these warrants under EITF 00-19 and determined that they should be classified as equity. The value attributed to the warrants was based on their relative fair value as compared to the fair value of the promissory note. The remaining balance of $1,275,527 was recorded as a current liability. The carrying value of the liability was accreted to the redemption value of the note over the period from October 31, 2006 to the maturity date of December 22, 2006. The total of $224,473 of accretion was recognized in 2006.

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10.

Convertible debentures:

The following table discloses the terms and principle values of the convertible debentures outstanding:

				As at December 31, 2007	As at December 31, 2006
Issue Date	Interest	Conversion Price	Maturity Date	Face Value	Face Value
August 2004(a)	8%	$ 0.16	February 28, 2009	$ 700,000	$ 700,000
August 2004(a)	8%	$ 0.09	December 13, 2009	-	250,000
February 2005(b)	8%	$ 0.16	February 28, 2009	400,000	400,000
February 2005(b)	8%	$ 0.09	December 13, 2009	700,000	950,000
March 2005(c)	20%	$ 0.20	March 24, 2007	228,594	266,964
February 2006(d)	8%	$ 0.09	December 13, 2009	2,200,000	2,200,000
June 2006(e)	-	$ 0.25	June 12, 2007	1,750,000	1,750,000
December 2006(f)	8%	$ 0.09	December 13, 2009	1,268,957	1,350,000
September 2004(g)	8%	$ 0.18	September 28, 2006		