

UNITY WIRELESS CORP
Form 10QSB
May 12, 2006

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

FORM 10-QSB

(Mark One)

[X]
QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2006

[]

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

For the transition period from _____ to _____

Commission file number **0-30620**

UNITY WIRELESS CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

91-1940650

(I.R.S. Employer Identification
Number)

7438 Fraser Park Drive, Burnaby, British Columbia, Canada, V5J 5B9
(Address of principal executive offices)

(800) 337-6642

(Issuer's Telephone Number)

not applicable

(Former name, former address and former fiscal year, if changed since last report)

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 No

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

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

92,457,873 common shares outstanding as of April 26, 2006

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

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Financial Statements

(Expressed in United States dollars)

UNITY WIRELESS CORPORATION

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

Three months ended March 31, 2006 and 2005 (unaudited)

UNITY WIRELESS CORPORATION

Consolidated Balance Sheets

(Expressed in United States dollars)

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

| | March 31, 2006 (unaudited) | December 31, 2005 |
|---|----------------------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 917,819 | \$ 157,046 |
| Accounts receivable (less allowance for doubtful accounts of \$nil (December 31, 2005 - \$nil)) | 1,182,273 | 708,828 |
| Inventory (note 3) | 1,079,495 | 1,124,485 |
| Prepaid expenses and deposits | 95,306 | 74,466 |
| | 3,274,893 | 2,064,825 |
| Equipment, net | 1,096,924 | 1,160,539 |
| Goodwill | 741,596 | 741,596 |
| | \$ 5,113,413 | \$ 3,966,960 |
| Liabilities and Stockholders' Equity (Deficiency) | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities (note 4) | \$ 2,712,263 | \$ 2,895,507 |
| Obligations under capital leases (note 5) | 353,906 | 345,622 |
| Convertible debenture (note 6) | 94,243 | 766,109 |
| Product warranty (note 10(c)) | 42,808 | 42,961 |
| | 3,203,220 | 4,050,199 |
| Obligations under capital lease (note 5) | 360,771 | 452,567 |
| Convertible debenture (note 6) | 3,005,594 | 224,194 |
| | 6,569,585 | 4,726,960 |
| Stockholders' equity (deficiency): | | |
| Common stock, \$0.001 par value 150,000,000 | 92,457 | 90,885 |

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authorized, 92,457,873 (2005 - 90,885,396)
issued

| | | |
|---|--------------|--------------|
| and outstanding | | |
| Additional paid-in capital | 28,367,486 | 26,490,425 |
| Accumulated deficit | (29,847,291) | (27,272,486) |
| Accumulated other comprehensive income: | | |
| Cumulative translation adjustments | (68,824) | (68,824) |
| | (1,456,172) | (760,000) |
| | \$ 5,113,413 | \$ 3,966,960 |

Commitments (note 9)

Contingent liabilities (note 10)

See accompanying notes to consolidated financial statements.

UNITY WIRELESS CORPORATION

Consolidated Statements of Operations and Comprehensive Loss

(Expressed in United States dollars)

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

Three months ended March 31, 2006 and 2005 (unaudited)

| | 2006 | 2005 |
|---|--------------------|----------------------|
| Net sales | \$ 1,141,630 | \$ 1,967,570 |
| Cost of goods sold (includes stock-based compensation expense of \$6,549 in 2006 and \$3,226 in 2005 and excludes depreciation and amortization shown separately below) | 881,296 260,334 | 1,622,683 344,887 |
| Expenses: | | |
| Research and development (includes stock-based compensation expense of \$41,001 in 2006 and \$20,325 in 2005) | 395,884 | 718,252 |
| Royalty payments for government grant (note 10(b)) | 17,124 | 29,514 |
| Sales and marketing (includes stock-based compensation expense (recovery) of \$10,202 in 2006 and \$(55,068) in 2004) | 158,298 | 74,291 |
| Depreciation and amortization | 63,615 | 40,066 |
| Exchange (gain) loss | 15,474 | (24,944) |
| Interest expense, excluding accretion of interest and loss on debt settlement | 85,260 | 54,766 |
| General and administrative (includes stock-based compensation expense of \$102,578 in 2006 and \$248,749 in 2005) | 483,519 | 490,037 |

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| | | |
|--|-----------------|-----------------|
| | 1,219,174 | 1,381,982 |
| Operating loss for the period | (958,840) | (1,037,095) |
| Accretion of interest and loss on debt settlement (note 6) | (1,615,965) | (141,080) |
| Loss for the period | (2,574,805) | (1,178,175) |
| Deficit, beginning of period | (27,272,486) | (21,822,078) |
| Deficit, end of period | \$ (29,847,291) | \$ (23,000,253) |
| Basic and diluted loss per common share (note 7(b)) | \$ (0.03) | \$ (0.01) |

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)

Three months ended March 31, 2006 and 2005 (unaudited)

| | 2006 | 2005 |
|--|----------------|----------------|
| Operations: | | |
| Loss for the period | \$ (2,574,805) | \$ (1,178,175) |
| Adjustments to reconcile net loss to net cash used in | | |
| operating activities: | | |
| Accretion of interest and loss on debt settlement | 1,615,965 | 141,080 |
| Depreciation and amortization | 63,615 | 40,066 |
| Stock-based compensation | 160,330 | 217,232 |
| Changes in non-cash working capital relating to | | |
| operations: | | |
| Accounts receivable and government grant | | |
| receivables | (481,504) | (1,066,980) |
| Inventory | 41,495 | (47,403) |
| Prepaid expenses | (21,350) | (8,146) |
| Accounts payable and accrued liabilities | (50,522) | 821,222 |
| | (1,246,776) | (1,081,104) |
| Investments: | | |
| Acquisition of equipment | - | (46,904) |
| | - | (46,904) |
| Financing: | | |
| Capital lease obligation | (83,512) | (41,465) |
| Convertible debentures (note 6) | 2,200,000 | 2,000,000 |
| Cash proceeds on issuance of common shares | 106,222 | 79,667 |
| Share issue costs | (218,861) | (233,548) |
| | 2,003,849 | 1,804,654 |
| Effect of foreign exchange rate changes on cash and cash | 3,700 | (113,243) |

equivalents

| | | |
|--|------------|------------|
| Increase in cash and cash equivalents | 760,773 | 563,403 |
| Cash and cash equivalents, beginning of period | 157,046 | 209,546 |
| Cash and cash equivalents, end of period | \$ 917,819 | \$ 772,949 |

Supplementary information (note 11)

See accompanying notes to consolidated financial statements.

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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)

Three months ended March 31, 2006 and 2005 (unaudited)

1.

Basis of presentation:

The accompanying interim unaudited consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by the United States generally accepted accounting principles for a complete set of annual consolidated financial statements. In the opinion of management, all adjustments (consisting solely of normally recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ended December 31, 2006 or for any other period.

For further information, refer to the consolidated financial statements and footnotes thereto included in Unity Wireless Corporation's (the Corporation) annual report on Form 10-KSB for the year ended December 31, 2005. Except as indicated in note 7(c), the accounting policies applied in the preparation of these interim consolidated financial statements are consistent with those applied in the consolidated financial statements filed with the Corporation's annual report.

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 significantly financed by long-term debt and equity transactions. At March 31, 2006, the Corporation requires additional financing to continue to operate at current levels throughout the year. Accordingly, the Corporation's future operations are dependent upon the identification and successful completion of additional long-term or permanent debt and equity financing, the continued support of creditors and stockholders, and, ultimately, the achievement of profitable operations. 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.

2.

Significant accounting policies:

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America using the same accounting policies and methods of application as those disclosed in the Corporation's financial statements for the year ended December 31, 2005, except as disclosed in note 7(c).

UNITY WIRELESS CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

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

Three months ended March 31, 2006 and 2005 (unaudited)

2.

Significant accounting policies (continued):

(a) 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 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.

(b) Comparative figures:

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

1.

Inventory:

| | March 31, 2006 (unaudited) | December 31, 2005 |
|----------------|----------------------------------|----------------------|
| Raw materials | \$ 1,033,410 | \$ 940,265 |
| Finished goods | 46,085 | 184,220 |
| | \$ 1,079,495 | \$ 1,124,485 |

2.

Accounts payable and accrued liabilities:

| | March 31, 2006 (unaudited) | December 31, 2005 |
|------------------------|----------------------------------|----------------------|
| Trade accounts payable | \$ 1,973,154 | \$ 2,053,363 |
| Accrued liabilities | 739,109 | 842,144 |
| | \$ 2,712,263 | \$ 2,895,507 |

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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)

Three months ended March 31, 2006 and 2005 (unaudited)

5.

Obligations under capital leases:

The Corporation leases research and development and production equipment under capital leases expiring at various dates to 2008. As at March 31, 2006, future minimum lease payments under capital leases are as follows:

| | | |
|------------------------------|----|---------|
| 2006 | \$ | 312,949 |
| 2007 | | 398,430 |
| 2008 | | 78,095 |
| | | 789,474 |
| Amount representing interest | | 74,797 |
| | | 714,677 |
| Current portion | | 353,906 |
| | \$ | 360,771 |

Interest rates on the capital leases average approximately 9.81%. Interest expense for the three-month period ended March 31, 2006 was \$18,848, and \$14,638 for the three months ended March 31, 2005.

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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)

Three months ended March 31, 2006 and 2005 (unaudited)

6.

Convertible debentures:

(a)

On February 28, 2006, the Corporation entered into an agreement with the convertible debenture holders relating to the debentures issued on August 2004, to extend the maturity of the remaining debentures of \$950,000 to February 28, 2009, to reduce the conversion price of the debentures from \$0.20 to \$0.16 per share of common stock and to reduce the exercise price of the 1,125,000 remaining warrants from \$0.20 to \$0.16 per share of common stock. The modification to the terms of the convertible debenture have been accounted for as a debt settlement. As a result, as described further below, a loss on settlement has been recognized and the outstanding debentures carrying value has been adjusted to its fair value.

During the three-month period ended March 31, 2006, accretion of \$52,638 has been recorded as a charge to the statement of operations, and an increase in the carrying value of the liability, and \$270,237 was charged to the statement of operations as a loss of settlement due to modifications to the terms of the debentures. As at March 31, 2006, \$950,000 of these debentures remains outstanding. No beneficial conversion option has been recognized under the modified terms.

(b)

On February 28, 2006 the Corporation entered into an agreement with the convertible debenture holders relating to the debentures issued on February 2005, to extend the maturity of the remaining debentures of \$1,350,000 to February 28, 2009, to reduce the conversion price of the debentures from \$0.20 to \$0.16 per share of common stock and to reduce the exercise price of the remaining warrants of 2,500,000 and 1,125,000 from \$0.20 to \$0.10 and \$0.16, respectively, per share of common stock. The modification to the terms of the convertible debenture have been accounted for as a debt settlement. As a result, as described further below, a loss on settlement has been recognized and the outstanding debentures carrying value has been adjusted to its fair value.

During the three-month period ended March 31, 2006, accretion of \$68,881 has been recorded as a charge to the statement of operations, and an increase in the carrying value of the liability, and \$1,182,485 was charged to the statement of operations as a loss of settlement due to modifications to the terms of the debentures. As at March 31, 2006, \$1,350,000 of these debentures remains outstanding. No beneficial conversion option has been recognized under the modified terms.

(c)

During March 2005, the Corporation received gross cash proceeds of \$500,000 from the issuance of 8% redeemable convertible debentures of the Corporation. During the three month period ended March 31, 2006, accretion of \$17,373 has been recorded as a charge to the statement of operations, and an increase in the carrying value of the liability. As at March 31, 2006, \$266,964 of these debentures remains outstanding.

UNITY WIRELESS CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

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

Three months ended March 31, 2006 and 2005 (unaudited)

6.

Convertible debentures (continued):

(d)

During February 2006, the Corporation realized gross cash proceeds of \$2,200,000 from the issuance of 8% redeemable convertible notes (Notes) of the Corporation plus 6,875,000 share purchase warrants on the completion of a private placement effected pursuant to Regulation D under the Securities Act of 1933. The agreement was signed on February 28, 2006 and the Notes are to mature on February 28, 2009. The Notes are convertible into common stock at the option of the holders at \$0.16 per share, provided that until July 1, 2006 the Notes are convertible into a maximum aggregate of 10,000,000 shares of common stock. Also, subject to certain conditions, the Corporation can force conversion of the Notes if the volume weighted average price of the common stock is at least \$0.32 for 20 consecutive trading days. Interest on these notes is payable quarterly. At the option of the Corporation, and subject to certain conditions being met, the Corporation may make quarterly interest payments in cash or in common stock of the Corporation. If the Corporation elects to settle with shares, the number of shares issuable is calculated by reference to the market price at that time. Each warrant issued entitles the holder to purchase one of the Corporation's common shares and is exercisable at a price of \$0.16 on or before February 28, 2011, on which date the warrants will expire.

For accounting purposes, the Corporation calculated the fair value of warrants issued with the convertible debenture and the intrinsic value of the beneficial conversion feature, which totaled \$1,518,757, and initially recorded these values as additional paid-in capital. The intrinsic value of the beneficial conversion feature is the amount by which the fair value of the underlying common shares at the date of the agreement exceeded the value of shares issuable based on the carrying value of the debenture, after reducing such carrying value for the fair value of the warrants. These assigned values were recorded as a reduction to the amount initially assigned to the debentures and as additional paid-in capital. The remaining balance of \$681,243 was recorded as a long-term liability. The carrying value of the liability is being accreted to the redemption value of the debentures over the period from February 28, 2006 to the initial maturity date of February 28, 2009.

During the three-month period ended March 31, 2006, accretion of \$24,351 has been recorded as a charge to the statement of operations, and an increase in the carrying value of the liability. Also, during the three-month period ended March 31, 2006, no debentures were converted. As at March 31, 2006, \$2,200,000 of these debentures remains outstanding.

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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)

Three months ended March 31, 2006 and 2005 (unaudited)

7.

Common stock:

(a)

Issued and outstanding

During the three-month period ended March 31, 2006, the Corporation issued 816,922 common shares in settlement of \$124,513 of accounts payable, 555,555 common shares upon exercise of warrants for cash proceeds of \$72,222, 200,000 common shares upon exercise of options for cash proceeds of \$34,000.

(b)

Loss per share:

The following table sets forth the computation of basic and diluted loss per share:

| | 2006 (unaudited) | 2005 (unaudited) |
|---|---------------------|---------------------|
| Loss for the period | \$ (2,574,805) | \$ (1,178,175) |
| Weighted average number of common shares outstanding | 91,672,247 | 80,398,552 |
| Basic and diluted loss per common share | \$ (0.03) | \$ (0.01) |

For the three-month period ended March 31, 2006 and 2005, all of the Corporation's common shares issuable upon the exercise of outstanding stock options and warrants were excluded from the determination of dilutive loss per share as their effect would be 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)

Three months ended March 31, 2006 and 2005 (unaudited)

7.

Common stock (continued):

(c)

Stock option plan:

Prior to January 1, 2006, the Corporation accounted for employee stock-based awards under SFAS 123, *Accounts 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 is 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, *Accounting for Stock-Based Compensation*, 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 recognized forfeitures as they occurred.

The fair value of stock options are determined using the Black-Scholes option-pricing model, which is consistent with the valuation techniques previously utilized for recording stock-based compensation expense reflected in the consolidated statement of operations under SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*. As a result, there was no material impact of adopting SFAS No. 123R on the financial statements of the Corporation. The Corporation has recorded \$160,330 and \$217,232 of stock-based compensation expense during the three months ended March 31, 2006 and 2005, respectively, and there was no change in the previously reported basic and diluted loss per share in the first quarter of 2005.

As of March 31, 2006, total unrecognized compensation cost related to unvested stock options was \$382,250 and is expected to be recognized over a weighted-average period of 3.58 years.

The Corporation grants options to employees and non-employees. The fair value of employee and non-employee grants in 2006 and 2005 was calculated using the Black-Scholes option-pricing model with the following

weighted-average assumptions: no dividend yield; volatility of 143% (2005 154%) based on weekly stock price; risk-free interest rate of 3.25% (2005 3.25%) and expected lives between 1 to 5 years.

The weighted-average grant-date fair value of stock options granted during the three months ended March 31, 2006 and 2005 was \$0.13 and \$0.24, respectively.

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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)

Three months ended March 31, 2006 and 2005 (unaudited)

7.

Common stock (continued):

(c)

Stock option plan(continued):

Stock option transactions for the respective period and the number of stock options outstanding are summarized as follows:

| | Shares available to be granted under option plan | Number of common shares issuable | Outstanding Options Weighted average exercise price |
|-----------------------------------|--|-------------------------------------|---|
| Balance, December 31, 2005 | 11,401,662 | 6,775,417 | \$ 0.25 |
| Options granted | (960,000) | 960,000 | 0.15 |
| Options expired | 89,584 | (89,584) | 0.23 |
| Options exercised | - | (200,000) | 0.17 |
| Increase in reserved for issuance | 514,496 | - | |
| Balance, March 31, 2006 | 11,045,742 | 7,445,833 | \$ 0.24 |

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The following table summarizes information about stock options under the plan outstanding at March 31, 2006:

| Range of exercise prices | Number outstanding at March 31, 2006 | Options Outstanding | Weighted average exercise price | Options Exercisable | Weighted average exercise price |
|--------------------------|--------------------------------------|---|---------------------------------|--------------------------------------|---------------------------------|
| | | Weighted average remaining contractual life (years) | | Number outstanding at March 31, 2006 | |
| \$0.11 - 0.20 | 4,030,417 | 3.71 | \$0.15 | 1,957,674 | \$0.15 |
| \$0.23 - 0.29 | 2,090,000 | 3.80 | \$0.27 | 800,833 | \$0.27 |
| \$0.30 - 0.38 | 925,416 | 2.68 | \$0.34 | 662,916 | \$0.33 |
| \$0.70 | 400,000 | 3.25 | \$0.70 | 233,333 | \$0.70 |
| | 7,445,833 | 3.58 | \$0.24 | 3,654,756 | \$0.24 |

Stock options become exercisable at dates determined by the Board of Directors at the time of granting the option.

Stock options have initial terms of five years.

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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)

Three months ended March 31, 2006 and 2005 (unaudited)

(d)

Warrants:

The following transferable share purchase warrants were outstanding as at March 31, 2006:

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| Expiry date | Exercise price per share | Number of shares |
|--------------------|--------------------------|------------------|
| October 13, 2006 | \$ 0.20 | 125,000 |
| May 01, 2007 | 0.32 | 120,000 |
| September 30, 2007 | 0.50 | 525,700 |
| September 30, 2007 | 0.25 | 1,553,433 |
| October 01, 2007 | 0.20 | 100,000 |
| January 30, 2008 | 0.25 | 100,000 |
| January 30, 2008 | 0.35 | 100,000 |
| February 13, 2008 | 0.20 | 555,555 |
| March 31, 2008 | 0.50 | 2,059,492 |
| October 01, 2008 | 0.25 | 150,000 |
| August 31, 2009 | 0.16 | 1,750,000 |
| October 13, 2009 | 0.20 | 150,000 |
| February 11, 2010 | 0.10 | 2,500,000 |
| February 11, 2010 | 0.16 | 2,000,000 |
| March 14, 2010 | 0.20 | 625,000 |
| July 01, 2010 | 0.40 | 75,000 |
| July 01, 2010 | 0.50 | 75,000 |
| February 28, 2011 | 0.16 | 6,875,000 |
| February 28, 2011 | 0.16 | 1,375,000 |

UNITY WIRELESS CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

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

Three months ended March 31, 2006 and 2005 (unaudited)

8.

Segmented information:

(a)

Segment information:

During the three-month period ended March 31, 2006 and 2005, the Corporation was operating only in the RF power amplifier segment and coverage enhancement solutions.

(b)

Geographic information:

Substantially all assets and operations are in Canada. A summary of sales by region of customer location is as follows (\$000):

| | 2006 (unaudited) | 2005 (unaudited) |
|---------------|---------------------|---------------------|
| China | \$ 85 | \$ 1,417 |
| United States | 802 | 551 |
| Israel | 35 | - |
| Canada | 220 | - |
| Total sales | \$ 1,142 | \$ 1,968 |

(c)

Major customers:

Sales to customers representing greater than 10% of total sales are as follows (\$000):

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| | 2006 | 2005 |
|------------|-------------|-------------|
| | (unaudited) | (unaudited) |
| Customer A | \$ 85 | \$ 619 |
| Customer B | 77 | 921 |
| Customer C | 114 | 202 |
| Customer D | 450 | - |
| Customer E | 220 | - |

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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)

Three months ended March 31, 2006 and 2005 (unaudited)

1.

Segmented information:

(d) Accounts receivable representing greater than 10% of total outstanding accounts receivables were shown as follow (\$000):

| | March 31, 2006 (unaudited) | December 31, 2005 (unaudited) |
|------------|----------------------------------|-------------------------------------|
| Customer A | \$ 85 | \$ 174 |
| Customer D | 450 | - |
| Customer E | 272 | 395 |

9.

Commitments:

The Corporation has the following future minimum lease commitments for premises:

| | |
|------|------------|
| 2006 | \$ 79,066 |
| 2007 | 105,421 |
| 2008 | 105,421 |
| 2009 | 52,711 |
| | \$ 342,619 |

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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)

Three months ended March 31, 2006 and 2005 (unaudited)

10.

Contingent liabilities:

(a)

The Corporation is currently a party to two actions in the Supreme Court of British Columbia, Vancouver Registry, brought by two suppliers of the Corporation for approximately \$153,000.

The Corporation provides for costs related to contingencies when a loss is probable and the amount is reasonably determinable. It is the opinion of management, based in part on advice of legal counsel, that the ultimate resolution of these contingencies, to the extent not previously provided for, will not have a material adverse effect on the financial condition of the Corporation.

(b)

Contingent liability on sale of products:

(i)

Under a license agreement, the Corporation is committed to royalty payments based on the sales of products using certain technologies. Royalties are paid between 5% to 6% of sales of licensed products sold integrating the XNN Technology into various products to a minimum of \$150,000 within twelve months subsequent to the first commercial sales of the integrated product. No such sales have occurred to March 31, 2006.

(ii)

Under an agreement with the Government's National Research Council Canada IRAP (IRAP) program, the Corporation received conditionally repayable government assistance amounting to \$368,275 (CDN\$483,491) to support the development of a multi-carrier linear power amplifier. Under the terms of the agreement, an amount up to a maximum of \$534,000 (CDN\$725,236) is to be repaid at a rate of 1.5% of quarterly gross revenue commencing on September 1, 2003, on a quarterly basis. For the three months ended March 31, 2006, the Corporation recorded \$17,124 (CDN\$19,884) as royalties expense and \$29,514 (CDN \$36,063) in 2005.

(iii)

Under an agreement with the Canada Israel Industrial Research & Development Foundation, the Corporation is eligible to receive conditionally repayable government assistance amounting to \$262,078 (CDN\$350,000) to support the development of a *multi-carrier linear power amplifier*. To date, the Corporation claimed gross proceeds of \$98,622 (CDN\$ 116,667) in 2005, which have been recorded as government grant income, a reduction of expenses incurred. Under the terms of the agreement, commencing with the first commercial transaction, the assistance is repayable to the extent of 2.5% of yearly gross sales until 100% of the grant has been repaid. As of March 31, 2006, the Corporation has not yet commenced the commercialization of such product, and thus no repayment is required.

The Corporation recognizes royalty obligations as determinable in accordance with agreement terms.

UNITY WIRELESS CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

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

Three months ended March 31, 2006 and 2005 (unaudited)

10.**Contingent liabilities (continued):**

(c)

Product warranties:

The Corporation provides for estimated warranty costs at the time of product sale. Warranty expense accruals are based on best estimate with reference to historical claims experience. Since warranty estimates are based on forecasts, actual claim costs may differ from amounts provided. An analysis of changes in liability for product warranties follows:

| | | |
|-------------------------------------|----|---------|
| Balance, December 31, 2005 | \$ | 42,961 |
| Provision increase | | 7,407 |
| Expenditures | | (7,560) |
| Balance, March 31, 2006 (unaudited) | \$ | 42,808 |

11.**Supplementary information:**

| | 2006 (unaudited) | 2005 (unaudited) |
|--|---------------------|---------------------|
| Cash paid for: | | |
| Interest | \$ 18,914 | \$ 15,740 |
| Non-cash financing and investing activities: | | |
| | 124,513 | 54,957 |

| | | |
|--|---|---------|
| Issuance of common shares in settlement of accounts payable | | |
| Issuance of common shares on conversion of convertible debenture | - | 18,600 |
| Purchase of equipment funded by obligation under capital lease | - | 314,365 |

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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)

Three months ended March 31, 2006 and 2005 (unaudited)

12. Acquisition:

Effective February 15, 2006, the Corporation entered into a merger agreement (the "Agreement") with Avantry Ltd., an Israeli corporation ("Avantry"), for the merger of Avantry into Unity Wireless Microwave Systems Ltd., a newly formed Israeli corporation that is wholly owned by the Corporation.

At closing, the Corporation will issue to the shareholders of Avantry convertible promissory notes of the Corporation in the aggregate principal amount of USD \$1,750,000 and warrants to purchase an aggregate of 600,000 shares of common stock at an exercise price of USD \$0.40 a share.

The closing of the transaction is subject to standard closing conditions, including regulatory approvals and is expected to close by May 31, 2006.

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

The following discussion of the financial condition, changes in financial condition, and results of operations of Unity Wireless Corporation should be read in conjunction with our most recent financial statements and notes appearing: (1) in this Form 10-QSB; and (2) the Form 10-KSB for the year ended December 31, 2005 filed on March 31, 2006.

The 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 borrowing and equity transactions. Our future operations are dependent upon the identification and successful completion of additional long-term 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. 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 on the audited consolidated financial statements for the fiscal year ended December 31, 2005 contained in the 10-KSB filed on March 31, 2005, 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 or the interim quarterly unaudited consolidated financial statements included with this quarterly report do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should we are unable to continue as a going concern.

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

We make high power radio frequency amplifiers and related subsystems used in both mobile and fixed wireless networks. We have developed over 40 models of our products that are used in cellular, personal communication services (PCS), paging, wireless local loop (WLL) and third generation (3G) networks. Almost all of our products are custom made or adapted to satisfy each customer's particular requirements covering a range of average output power levels (from 2 watts to 80 watts) and a number of different operating frequency bands.

Most of our products are high power amplifiers and related subsystems used in base transceiver stations (BTS or base stations), to amplify signals sent from the network to a terminal such as a cell phone. We also make products used in signal repeaters and tower-top antenna systems that are used to extend and enhance wireless network coverage.

Results of Operations

Three months Ended March 31, 2006 and March 31, 2005

Sales

Net sales in the first quarter of 2006 were \$1,141,630, a decrease of 41.98% or \$825,940, from \$1,967,570 in the first quarter of 2005. This decrease was primarily due to fluctuations in the delivery of our production volume projects to our customers.

Cost of Goods Sold and Operating Expenses

Cost of goods sold during the first quarter of 2006 was \$881,296 resulting in a gross margin of \$260,334 or 22.80% of net sales, compared to \$1,622,683 in the first quarter of 2005 resulting in a gross margin of \$344,887, or 17.53% of net sales. The increase in gross margin percentage is primarily due to improved pricing for material costs and other efficiencies achieved through manufacturing outsourcing arrangements entered into since the first quarter of 2005. Cost of goods sold includes stock-based compensation expense of \$6,549 in the first quarter of 2006 versus \$3,226 in the first quarter of 2005.

Research and development expenses in the first quarter of 2006 were \$395,884, a decrease of \$322,368 or 44.88%, from \$718,252 in the first quarter of 2005. This decrease was primarily due to additional processes established around the development of new products which has resulted in more effective use of materials and improved labour utilization. Research and development expense includes stock-based compensation expense of \$41,001 in the first quarter of 2006 versus \$20,325 in the first quarter of 2005.

Sales and marketing expenses in the first quarter of 2006 were \$158,298, an increase of \$84,007, or 113.08%, from \$74,291 in the first quarter of 2005. The increase was primarily due to additional sales initiatives that include additional sales personnel on staff, increased travel expenses to visit new customers and additional trade show exhibition expenses. Sales and marketing expenses include stock-based compensation expense of \$10,202 in the first quarter of 2006 versus the recovery of \$55,068 in the first quarter of 2005.

Exchange loss in the first quarter of 2006 increased by \$40,418, to an exchange loss of \$15,474 from an exchange gain of \$24,944 in the first quarter of 2005 due to fluctuations in the currency exchange rate between the U.S. and Canada.

General and administrative expenses in the first quarter of 2006 were \$483,519, a decrease of \$6,518, or 1.33%, from \$490,037 in the first quarter of 2005. General and administrative expenses include stock-based compensation expense of \$102,578 in the first quarter of 2006 versus \$248,749 in the first quarter of 2005.

Accretion of interest and loss on debt settlement for the first quarter of 2006 were \$1,615,965, an increase of \$1,474,885, compared to \$141,080 in the first quarter of 2005. The increase was primarily due to the interest accretion in relation to convertible debentures issued since August 2004 and loss on debt settlement related to modifications to the terms of the debentures which were issued on August 2004 and February 2005.

Loss in the first quarter of 2006 was \$2,574,805, an increase of \$1,396,630, or 118.54%, from a loss of \$1,178,175 in the first quarter of 2005.

Non-GAAP Financial Information

Certain non-GAAP financial information as defined by the U.S. Securities Commission Regulation G is presented below. Pursuant to the requirements of this regulation, a reconciliation of this financial information to our financial statements as prepared under generally accepted accounting principles in the United States (GAAP) is included.

Unity's management believes that the disclosure of this non-GAAP financial information is useful to our investors and the investment community since certain non-cash charges and expenses may not be reflective of future expenses.

Loss for the quarter ended March 31, 2006 was \$2,574,805 compared to \$1,178,175 in 2005. Net of stock based compensation and other non-cash expenses of \$1,891,249 in the quarter ended March 31, 2006 and \$429,424 in 2005, loss for the quarter ended March 31, 2006 was \$683,556 compared to \$748,751 in 2005.

RECONCILIATION OF STATEMENT OF OPERATIONS TO NON-GAAP MEASURES

| | 2006 | | 2005 |
|-----------------------------------|----------------|----|-------------|
| Loss for the period | \$ (2,574,805) | \$ | (1,178,175) |
| Addback: | | | |
| Stock based compensation | 160,330 | | 217,232 |
| Accretion of interest and loss on | | | |
| debt settlement | 1,615,965 | | 141,080 |
| Amortization | 63,615 | | 40,066 |
| Shares issued in settlement of | 51,339 | | 31,046 |

| | | |
|----------------------------------|-----------|-----------|
| interest | | |
| Loss for the period, net of non- | | |
| cash charges | (683,556) | (748,751) |

Liquidity and Capital Resources

Since our inception, we have been dependent on investment capital as our primary source of liquidity. We had an accumulated deficit at March 31, 2006 of \$29,847,291. During the three-month period ended March 31, 2006, we incurred a net loss, after stock-based compensation, of \$2,574,805.

During the three-month period ended March 31, 2006, our cash position was increased to \$917,819. This increase was primarily due to convertible debentures issued in the period. The primary use of cash was for our continued operations.

During the three-month period ended March 31, 2006, the Corporation issued 816,922 common shares in settlement of \$124,513 of accounts payable, 555,555 common shares upon exercise of warrants for cash proceeds of \$72,222, and 200,000 common shares upon exercise of options for cash proceeds of \$34,000.

Other than leases for premises and equipment commitments for an aggregate of \$1,132,093 through 2009, we have no material commitments outstanding at March 31, 2006.

Our capital requirements are difficult to plan in light of our current strategy to expand our customer base and to develop new products and technologies. We do not expect positive cash flow from operations in the near term. We may not be able to obtain additional equity or debt financing on acceptable terms when we need it. We have pledged all of our assets to secure convertible notes that we issued in August 2004, February 2005, March 2005 and February 2006. 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. Our operations to date have been primarily financed by sales of our equity securities and debt financing. We are restricted from declaring dividends on our common shares pursuant to Convertible Note and Warrant Purchase Agreements dated August 31, 2004, February 11, 2005, March 24, 2005 and February 28, 2006 for so long as any of these issued convertible notes are outstanding. As of March 31, 2006, we had working capital of \$71,673. Our operations presently are generating negative cash flow, and we do not expect positive cash flow from operations in the near term. Our ability to continue as a going concern is dependent upon obtaining further financing, successful and sufficient 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, finally, achieving a profitable level of operations. 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 commitments.

Subsequent Events

Avantry acquisition:

Effective February 15, 2006, the Corporation entered into a merger agreement (the "Agreement") dated February 7, 2006 with Avantry Ltd., an Israeli corporation ("Avantry"), for the merger of Avantry into Unity Wireless Microwave Systems Ltd., a newly formed Israeli corporation that is wholly owned by the Corporation.

At the closing the Corporation will issue to the shareholders of Avantry convertible promissory notes of the Corporation in the aggregate principal amount of USD \$1,750,000 and warrants to purchase an aggregate of 600,000 shares of common stock at an exercise price of USD \$0.40 a share.

The closing of the transaction is subject to standard closing conditions, including regulatory approvals and is expected to close by May 31, 2006.

Inflation

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

Item 3. Controls and Procedures

An evaluation has been carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and the operation of our "disclosure controls and procedures" (as such term is defined in Rules 13a-15(e) under the Securities Exchange Act of 1934) as of March 31, 2006. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures are reasonably designed and effective to ensure that (i) information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

PART II - OTHER INFORMATION

Items 3, 4, & 5 are not applicable and have been omitted.

Item 1. 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 Dorigo Systems Ltd.. The lawsuit was commenced on March 29, 2006. Dorigo Systems Ltd. alleges that services provided to Unity Wireless Systems Inc. have not be paid and claim in total \$55,305Cdn. We dispute the allegations and are defending the claim. No trial date has been set. No Examinations for Discovery have been conducted or have been scheduled. 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 Getec North America and Getec Industrial Limited(Getec). The lawsuit was commenced on March 30, 2006. Getec alleges that services provided to Unity Wireless Systems Inc. have not be 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. No Examinations for Discovery have been conducted or have been scheduled. The matter is at a very preliminary stage. We do not expect the proceeding to have any material adverse effect on us.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

i) On February 28, 2006, the Company sold to the following investors, \$2,200,000 principal amount of Secured Convertible Three-Year Promissory Notes (Notes) and Warrants to purchase 6,875,000 shares of common stock at \$0.16 per share (Warrants):

Name

Notes

Warrants

Bushido Capital Master Fund LP

\$ 800,000

2,500,000

Gamma Opportunity Capital Patners LP

\$ 300,000

937,500

Centrecourt

\$1,100,000

3,437,500

The Notes are convertible into common stock at the option of the holders at \$0.16 per share.

These securities were issued in a private placement under the exemption set forth in Section 4(2) of the Securities Act of 1993 Act (the Act) and Rule 506 thereunder from the registration requirements under the Act..

The Company described the February 2006 financing in its report on Form 8-K filed with the Securities and Exchange Commission on March 6, 2006.

All amounts are in US\$.

ii) During the three-month period ended March 31, 2006, the Corporation issued 223,333 common shares to Ken Maddison, Victor Halpert and Doron Nevo in settlement of \$33,500 in director fees.

iii) During the three-month period ended March 31, 2006, the Corporation issued 250,000 common shares to Dallas Pretty in settlement of \$37,500 in salaries payable.

iv) During the three-month period ended March 31, 2006, the Corporation issued 14,493 common shares to John Doulgas Shields in settlement of \$2,173 services provided to the Corporation.

v) During January 2006, the Corporation issued 200,000 two-years warrants to the Investor Relation Group with an exercise price of \$0.25 for 100,000 warrants, and \$0.35 for 100,000 warrants.

vi) During February 2006, the Corporation also issued replacement warrants to purchase 555,555 shares of common stock exercisable at \$0.20 for a period of two years to the warrant holders who exercised their warrants during February of 2006.

Item 6. Exhibits

(a) Exhibits Required by Item 601 of Regulation S-B

Exhibit Number

Description

31.1

Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.

31.2

Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.

32.1

Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Signatures

Pursuant to the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNITY WIRELESS CORPORATION

/s/ Ilan Kenig

By: Ilan Kenig, President, Chief Executive Officer
(Principal Executive Officer)
May 12, 2006

/s/ Dallas Pretty

By: Dallas Pretty, Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
May 12, 2006

Exhibit 31.1

CERTIFICATION

I, Ilan Kenig, certify that:

1.

I have reviewed this quarterly report on Form 10-QSB of Unity Wireless Corporation;

2.

Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3.

Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4.

The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

a)

designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b)

evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c)

disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5.

The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a)

all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b)

any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2006

/s/ Ilan Kenig

Ilan Kenig
Chief Executive Officer

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Exhibit 31.2

CERTIFICATION

I, Dallas Pretty, certify that:

1.

I have reviewed this quarterly report on Form 10-QSB of Unity Wireless Corporation;

2.

Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3.

Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4.

The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

a)

designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b)

evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c)

disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5.

The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a)

all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b)

any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2006

/s/ Dallas Pretty

Dallas Pretty
Chief Financial Officer

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Exhibit 32.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Unity Wireless Corporation (the Company) on Form 10-QSB for the quarter ended March 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Ilan Kenig, Chief Executive Officer, of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

1.

the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2.

the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Ilan Kenig

By: Ilan Kenig, President, Chief Executive Officer
May 12, 2006

Exhibit 32.2

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Unity Wireless Corporation (the Company) on Form 10-QSB for the quarter ended March 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Dallas Pretty, Chief Financial Officer, of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

3.

the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

4.

the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Dallas Pretty

By: Dallas Pretty, Chief Financial Officer
May 12, 2006