

UNITY WIRELESS CORP
Form 10KSB
May 15, 2008

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

FORM 10-KSB

(Mark One)

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

(State or other jurisdiction of incorporation or organization)

91-1940650

(I.R.S. Employer Identification No.)

**P.O Box 106, Tavor Building #1,
Yokne'am Ilit, Israel**

(Address of principal executive offices)

20692

(Zip Code)

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

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

Title of each class

Nil

Name of each exchange on which registered

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

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

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.

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 (Avantrix, 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:

| | Total | Production | Research and development | Included in: | | General and administrative | Restructuring |
|--------------------------|---------|------------|--------------------------|---------------------|--|----------------------------|---------------|
| | | | | Sales and marketing | | | |
| 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 | - | - | - | | - | |

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

Other Expenses

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).

Net Loss for the Year Ended December 31, 2007

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 exercisable 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.

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 met. 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.

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 |

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| | | |
|---|--------------|---------------|
| 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 | A |
|-------------------------------------|---------------------------|---|-------------------------------|---|---|---|
| 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 | - | - | 8,999,910 | - | 90 | |
| the acquisition of Celletra | | | | | | |

| | | | | | |
|-------------------------------------|-------------|-----------|--------------|------|------|
| 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 |
| | | 27 | | | |

| | 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)) | 20,000,000 712,201 | 20,000 712 | (19,980) (711) | (20) | - (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))

Share issue costs

| | | | | | |
|---|---|----------------------|---|---|---|
| - | - | 133,133 (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 |

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| | | |
|--|-------------|--------------|
| 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.

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.

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.

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.

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.

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.

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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):

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

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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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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.

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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 |

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| | |
|------------------------------------|-------------|
| 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 |

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| | | | | |
|--|--------------|------------|--------------|------------|
| 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 |

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\$ 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:

| Issue Date | Interest | Conversion Price | Maturity Date | As at December 31, | As at December 31, |
|----------------------|----------|---------------------|--------------------|--------------------|--------------------|
| | | | | 2007 | 2006 |
| | | | | 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 | 1,600 | 44,600 |
| Total | | | | 7,249,151 | 7,911,564 |
| Less: debt discounts | | | | - | (715,904) |
| | | | | 7,249,151 | 7,195,660 |
| Current portion | | | | (7,249,151) | (1,947,552) |
| Long-term | | | | \$ - | \$ 5,248,108 |

The debentures are secured by all the assets of the Corporation and the Corporation is restricted from issuing dividends during the period that the convertible debentures remain outstanding.

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10.

Convertible debentures (continued):

(a) Issue date: August 31, 2004

In August 2004, the Corporation received gross cash proceeds of \$1,250,000 from the issuance of 8% redeemable convertible debentures of the Corporation plus 3,750,000 share purchase warrants on the completion of a private placement effected pursuant to Regulation D under the Securities Act of 1933. The debentures are convertible at the option of the holder at any time or automatically convert into common stock, subject to volume limitations, if the closing price of the common stock during a designated period is not less than \$0.30. Interest on these debentures 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.

On original issuance, each warrant issued entitled the holder to purchase one of the Corporation's common shares and is exercisable at a price of \$0.20 on or before August 31, 2009, on which date the warrants will expire.

For accounting purposes, the Corporation calculated the fair value of warrants issued with the convertible debenture using the Black-Scholes option pricing model and the intrinsic value of the beneficial conversion feature, which totaled \$705,266, and initially recorded these values as additional paid-in capital. The value attributed to the warrants was based on their relative fair value as compared to the fair value of the convertible debentures. The remaining balance of \$544,734 was recorded as a long-term liability. The carrying value of the liability was initially being accreted to the redemption value of the debentures over the period from August 31, 2004 to the original maturity date of August 31, 2006.

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10.

Convertible debentures (continued):

On February 28, 2006, the Corporation entered into an agreement with the convertible debenture holders relating to these debentures, 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 modifications to the terms of the convertible debenture have been accounted for as a debt settlement. As a result, a loss on settlement of \$270,237 was recognized during the year ended December 31, 2006 and the carrying value of the outstanding debentures was been adjusted to its fair value. No beneficial conversion option was recognized under the modified terms.

On November 27, 2006, the Corporation entered into an agreement with certain of the convertible debenture holders relating to the debentures to extend the maturity of debentures of \$250,000 to December 13, 2009, to reduce the conversion price of the debentures from \$0.16 to \$0.09 per share of common stock and to reduce the exercise price of the 500,000 warrants from \$0.16 to \$0.10 per share of common stock. The modifications to the terms of the convertible debenture were accounted for as a debt settlement. As a result, during the year ended December 31, 2006 a loss on settlement of \$32,215 was recognized and the carrying value of the outstanding debentures was adjusted to its fair value of \$277,777. The premium over the face value of the debenture of \$27,777 was being amortized over the remaining life of the debenture. No beneficial conversion option was recognized under the modified terms.

During the year ended December 31, 2006, accretion of \$51,802 was recorded as a charge to the statement of operations, and an increase in the carrying value of the liability. During the year ended December 31, 2007, amortization of premium of \$26,942 was recorded as a reduction to accretion of interest in the statement of operations, and a decrease in the carrying value of the liability. During the year of 2007, \$250,000 (2006 nil) of the debentures were converted to common shares. In accordance with the provisions of the debenture, the Corporation recorded these debentures as current liability and the remaining premium was recorded. Shareholders considered to be related parties hold \$250,000 of this debenture.

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10.

Convertible debentures (continued):

(b) Issue date: February 11, 2005

In February 2005, the Corporation received gross cash proceeds of \$1,500,000 from the issuance of 8% redeemable convertible debentures of the Corporation plus 4,500,000 share purchase warrants on the completion of a private placement effected pursuant to Regulation D under the Securities Act of 1933. The debentures are convertible at the option of the holder at any time or automatically convert into common stock, subject to volume limitations, if the closing price of the common stock during a designated period is not less than \$0.30. Interest on these debentures 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.

On original issuance, each warrant issued entitles the holder to purchase one of the Corporation's common shares and is exercisable at a price of \$0.20 on or before February 11, 2010, on which date the warrants will expire.

For accounting purposes, the Corporation calculated the fair value of warrants issued with the convertible debenture, using the Black-Scholes option pricing model and the intrinsic value of the beneficial conversion feature, which totaled \$1,452,175, and initially recorded these values as additional paid-in capital. The value attributed to the warrants was based on their relative fair value as compared to the fair value of the convertible debentures. 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 \$47,825 was recorded as a long-term liability. The carrying value of the liability was initially being accreted to the redemption value of the debentures over the period from February 11, 2005 to the original maturity date of February 11, 2007.

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 2,500,000 and 1,250,000 remaining warrants from \$0.20 to \$0.10 and \$0.16, respectively,

per share of common stock. The modifications to the terms of the convertible debenture have been accounted for as a debt settlement. As a result, during the year ended December 31, 2006 a loss on settlement of \$1,182,485 was recognized and the carrying value of the outstanding debentures was adjusted to its fair value. No beneficial conversion option was recognized under the modified terms.

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10.

Convertible debentures (continued):

On November 27, 2006, the Corporation entered into an agreement with certain of the convertible debenture holders relating to the debentures issued on February 2005, to extend the maturity of debentures of \$950,000 to December 13, 2009, to reduce the conversion price of the debentures from \$0.16 to \$0.09 per share of common stock and to reduce the exercise price of the 2,500,000 warrants from \$0.16 to \$0.10 per share of common stock. The modifications to the terms of the convertible debenture were accounted for as a debt settlement. As a result, during the year ended December 31, 2006 a loss on settlement of \$105,556 was recognized and the carrying value of the outstanding debentures was adjusted to its fair value of \$1,055,555. The premium over the face value of the debenture of \$105,555 is being amortized over the remaining life of the debenture. No beneficial conversion option was recognized under the modified terms.

During the year ended December 31, 2006, accretion of \$65,703 was recorded as a charge to the statement of operations, and an increase in the carrying value of the liability. During the year ended December 31, 2007, amortization of premium of \$102,378 has been recorded as a reduction to accretion of interest in the statement of operations, and a decrease in the carrying value of the liability. During the year ended December 31, 2007, \$250,000 (2006 nil) of the debentures were converted into common shares. In accordance with the provisions of the debenture, the Corporation recorded these debentures as current liability and the remaining premium was recorded.

(c) Issue date: March 24, 2005

In March 2005, the Corporation received gross cash proceeds of \$500,000 from the issuance of 8% redeemable convertible debentures plus 1,500,000 share purchase warrants on the completion of a private placement effected pursuant to Regulation D under the Securities Act of 1933..

Each warrant issued entitles the holder to purchase one of the Corporation's common shares and is exercisable at a price of \$0.20 on or before March 24, 2010, on which date the warrants will expire.

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10.

Convertible debentures (continued):

For accounting purposes, the Corporation allocated the proceeds of the offering to the warrants based on their relative fair value using the Black-Scholes option pricing model. The amount allocated to the warrants and the beneficial conversion option of \$484,058 has been recorded as a debt discount which is being accreted using the effective interest method to the maturity date of the debentures.

During the year ended December 31, 2007, accretion of \$86,237 (2006 - \$148,455) has been recorded as a charge to accretion of interest in the statement of operations, and an increase in the carrying value of the liability. During the year ended December 31, 2007, \$38,370 (2006 - nil) of the debentures were converted into common shares at a conversion ratio of \$0.09 per common share instead of the contractual rate of \$0.20 per share. The fair value of the additional shares issued on conversion of these debentures, amounting to \$31,483, has been included in the statement of operations as a debt conversion inducement cost classified as accretion of interest and loss on debt settlement.

The notes came due on March 24, 2007. As per the terms of the agreement, the interest rate will increase to 20% per annum unless waived by the holders. The Company is currently negotiating new terms with the note holders.

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10.

Convertible debentures (continued):

(d)

Issue date: February 28, 2006

During February 2006, the Corporation realized gross cash proceeds of \$2,200,000 from the issuance of 8% redeemable convertible 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 the notes and related warrants 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 was exercisable initially at a price of \$0.16 on or before February 28, 2011, on which date the warrants will expire.

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10.

Convertible debentures (continued):

The convertible debenture issue included warrants which were convertible into 6,875,000 common shares and a conversion feature, which if exercised fully, would result in 13,750,000 common shares being issued. The limit, which was described explicitly in the agreement, required that if a warrant was presented for exercise, it would only be exercised if the Company had not already issued more than the holders proportionate allocation of 10 million common shares for prior warrant exercises or debt conversions under this specific debenture. If the limit of 10 million common shares had already been reached, there would be no remedy to the warrant holder to allow for either conversion or compensation for non-conversion. Exercise of the remaining amount would only be made once the authorized common share capital had been increased. If a debenture was presented for conversion, it would only be converted if the Company had not already issued more than the holders proportionate allocation of 10 million common shares for prior warrant conversions or debt conversions under this specific debenture. Conversion of the remaining amount would only be made once the authorized common share capital had been increased. There is no remedy to the convertible debenture holder relating to the refused conversion amount except as noted below.

In the debenture agreement, the Company has stated that it will use its best efforts to obtain an increase in authorized share capital within 120 days of the closing of the debenture issue. However, if an increase in authorized share capital was not obtained during this time period, the only remedy available to the convertible debt holders would be to request a return of their funds previously invested under the debenture from the Company. There would be no penalty amount or other remedy which could be invoked by the debenture holder.

In considering the accounting for the warrants, the Corporation determined that the warrants were indexed solely to the Company's own stock and that they should be classified as equity at their relative fair value of \$690,629 under paragraphs 12-32 of EITF 00-19. As the warrants will either be exercised into common shares under the warrant agreement (if there is sufficient room as calculated under the 10 million common share limit calculation described above) or they will ultimately expire unexercised. There is no remedy available to the holder of a warrant, if they are not able to exercise the warrants under the agreement because of the limitation on conversion (because the Company has not yet obtained an increase in authorized capital). Thus, there is no possibility that the Company would settle such warrants for cash or that there would be any liability to the warrant holders. As well, the Company may settle

the warrants for unregistered shares.

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10.

Convertible debentures (continued):

At the date of issuing the convertible note, the Corporation calculated the relative fair value of warrants issued at \$690,629 and recorded this value as additional paid-in capital. The fair value of the warrants was calculated using the Black-Scholes option-pricing model with the following assumptions: no dividend yield; volatility of 143%; a risk-free interest rate of 3.25% and an expected term of four years.

The Company evaluated the conversion feature under EITF 00-19 for classification guidance and determined that the debenture does not have a net-cash settlement feature. The debentures can be converted only if there is sufficient room as calculated under the 10 million common share limit of the debenture agreement; otherwise, such debenture, if not converted, will remain outstanding until either additional authorized common share capital is obtained or the holder demands repayment of the debenture. There are no other remedies available to the holder of a debenture and no provisions in the agreement that require or allow for cash settlement.

As the convertible debenture can only be converted into common shares of the Company, and there are no other settlement provisions, the Company concluded that the debenture was conventional convertible debt. Based on that conclusion, the Company determined that the embedded conversion feature should not be separated from the host debenture under FAS 133, instead the beneficial conversion feature should be recognized.

Under EITF 98-5 and EITF 00-27, the Company determined the amount of the beneficial conversion feature that should be recorded given that some of the debentures were immediately convertible and some of the debentures were not convertible until the increase in authorized share capital was obtained. For the debentures which could not be immediately converted into common shares, those conversion features would be treated as contingency conversion options and not recognized until such time as the increase in authorized capital was obtained.

In order to calculate the beneficial conversion feature that should be recorded under EITF 98-5 and EITF 00-27, the amount of debentures that could be immediately converted assuming that all prior issued securities of the Company had converted and assuming that all of the warrants issued under this debenture agreement had been exercised for common shares was determined to be \$500,000. The amount of the beneficial conversion option relating to these

debentures that could be immediately exercised was \$188,211. No beneficial conversion option has been recorded on the remaining debentures.

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10.

Convertible debentures (continued):

The remaining portion of the funds raised under the debenture (not allocated to the warrants or beneficial conversion feature) have been classified as debt, in the amount of \$1,321,160. The debt will be accreted to its redemption value over the term of the debt. The contingent conversion feature would only be considered as a beneficial conversion option once the increase in authorized capital has taken place as after that point in time, the conversion would no longer be contingent.

An additional beneficial conversion option of \$639,918 relating to the debentures which were not immediately convertible was re-classified from liability to additional paid-in capital on November 24, 2006 when the Corporation obtained an approval from its stockholders to increase the authorized share capital.

On November 27, 2006, the Corporation entered into an agreement with the convertible debenture holders relating to the debentures issued in February 2006, to extend the maturity of debentures of \$2,200,000 to December 13, 2009, to reduce the conversion price of the debentures from \$0.16 to \$0.09 per share of common stock and to reduce the exercise price of the 6,875,000 warrants from \$0.16 to \$0.10 per share of common stock. The modifications to the terms of the convertible debenture have been accounted for as a debt settlement. As a result, during the year ended December 31, 2006, a loss on settlement of \$1,608,384 was recognized and the carrying value of the outstanding debentures was adjusted to its fair value of \$2,444,444. The premium over the face value of the debenture of \$244,444 is being amortized over the remaining life of the debenture. No beneficial conversion option has been recognized under the modified terms.

During the year ended December 31, 2006, accretion of \$173,463 was recorded as a charge to the statement of operations, and an increase in the carrying value of the liability. During the year ended December 31, 2007, amortization of premium of \$237,084 has been recorded as a reduction to accretion of interest in the statement of operations, and a decrease in the carrying value of the liability. During the years ended December 31, 2007 and 2006, no debentures were converted. In accordance with the provisions of the debenture, the Corporation recorded these debentures as current liability and the remaining premium was recorded.

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10.

Convertible debentures (continued):

(e)

Issued date: June 12, 2006

In June 2006 (See note 4(a)), the Corporation issued \$1,750,000 of non-interest bearing 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 per share to complete the acquisition of Avantry. The notes mature on June 12, 2007. Each warrant issued entitles the holder to purchase one of the Corporation's common shares and is exercisable at a price of \$0.40 on or before June 8, 2009, on which date the warrants will expire.

For accounting purposes, the Corporation recorded additional paid-in capital of \$71,064 relating to the fair value of warrants issued. The remaining balance of \$1,684,083 at the date of issuance was recorded as a current liability. There was no intrinsic value of the beneficial conversion feature. The carrying value of the liability is being accreted to the redemption value of the promissory notes over the period from June 12, 2006 to the initial maturity date of June 12, 2007.

During the year ended December 31, 2007, accretion of \$27,774 (2006 - \$38,144) has been recorded as a charge to accretion of interest in the statement of operations, and an increase in the carrying value of the liability. There were no promissory notes converted during the years ended December 31, 2007 and 2006.

The note was initially due on June 12, 2007, however, the holders have not demanded repayment of the note and the note remains outstanding. The Company is currently negotiating new terms with the note holders.

(f)

Issue date: December 13, 2006

In December 2006, the Corporation received gross cash proceeds of \$1,350,000 from the issuance of 8% redeemable convertible debentures of the Corporation plus 7,500,000 share purchase warrants on the completion of a private placement effected pursuant to Regulation D under the Securities Act of 1933. The debentures are convertible at the option of the holder at any time or automatically convert into common stock, subject to volume limitations, if the closing price of the common stock during a designated period is not less than \$0.20. Interest on these debentures 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.

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10.

Convertible debentures (continued):

Each warrant issued entitles the holder to purchase one of the Corporation's common shares and is exercisable at a price of \$0.10 on or before December 13, 2011, on which date the warrants will expire.

For accounting purposes, the Corporation calculated the fair value of warrants issued with the convertible debenture, using the Black-Scholes option pricing model and the intrinsic value of the beneficial conversion feature, which totaled \$982,801, and recorded these values as additional paid-in capital. The value attributed to the warrants was based on their relative fair value as compared to the fair value of the convertible debentures. The remaining balance of \$367,199 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 December 13, 2006 to the maturity date of December 13, 2009.

During the year ended December 31, 2007, accretion of \$968,307 (2006 - \$14,495) has been recorded as a charge to accretion of interest in the statement of operations, and an increase in the carrying value of the liability. During the year ended December 31, 2007, \$81,043 (2006 - \$nil) of the debentures were converted to common shares. In accordance with the provisions of the debenture, the Corporation recorded these debentures as current liability and the remaining accretion was recorded. Shareholders considered to be related parties hold \$439,262 of this debenture.

(g) Issue date: September 30, 2004

During the year ended December 31, 2007, \$43,000 of the debentures were converted to common shares at a conversion ratio of \$0.09 per common share instead of the contractual rate of \$0.18 per share. The fair value of the additional shares issued on conversion of these debentures, amounting to \$31,611, has been included in the statement of operations as a debt conversion inducement cost classified as accretion of interest and loss on debt settlement.

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11. Employee s rights upon retirement:

Under Israeli law and labor agreements, the Corporation s Israel subsidiaries are required to pay severance benefits to its dismissed employees and employees leaving its employment under certain circumstances. The liability for severance benefits is covered mainly by deposits with insurance companies in the name of the employee and / or by purchase of insurance policies. The liability is calculated on the basis of the latest salary of the employee multiplied by the number of years of employment as of the balance sheet date. The provision for employee severance benefits included in the balance sheet represents the total liabilities for such severance benefits, while the amounts funded for severance benefits included as an asset in the balance sheet represents the Corporation s Israeli subsidiaries contributions to severance pay funds and to insurance policies.

Severance expense for the year ended December 31, 2007 was \$127,000 (2006 - \$125,000).

12. Preferred shares:

(a)

Series A convertible non-redeemable preferred shares

The Series A convertible non-redeemable preferred shares have a par value of \$0.001 and a preference on liquidation of \$0.16 per share on an as converted basis. As at December 31, 2007 no (2006 - 20,000) Series A convertible non-redeemable preferred shares were outstanding. On May 7, 2007, all outstanding Series A convertible non-redeemable preferred shares were converted into 20,000,000 common shares.

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12. Preferred shares (continued):

(b)

Series B convertible non-redeemable preferred shares

The Series B convertible non-redeemable preferred shares were issued for the acquisition of Celletra. 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 shares of common stock on the later of the approval date or thirty days after the Corporation's second annual general meeting. On November 24, 2006, the required approval of an increase in the authorized share capital was obtained.

The Series B preferred stock has a par value of \$0.001. As at December 31, 2006, 90,000 Series B convertible non-redeemable preferred shares were outstanding. During the year ended December 31, 2007, 712,201 Series B convertible non-redeemable preferred shares were converted into 712,201 common shares.

In the event of any voluntary or involuntary liquidation, dissolution, or winding up of the Corporation, the holders then outstanding shall be entitled to be paid out of the assets of the Corporation available for distribution to its shareholders, after and subject to the payment in full of all amounts required to be distributed to the holders of any class or series of stock of the Corporation ranking on liquidation prior and in preference to the Series B Preferred Stock, but before any payment shall be made to the holders of common stock or any other junior shares, an amount equal to US\$0.16 per share of Series B Preferred Stock, on a converted basis i.e., an amount equal to US\$0.16 per share per each share of common stock issuable upon conversion of the share of series B Preferred Stock (subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization affecting such shares).

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13.

Common stock:

(a)

Issued and outstanding

During August 2007, the Corporation increased its authorized common shares available for issuance to 520,000,000 from 400,000,000.

During the year ended December 31, 2007, the Corporation issued 14,303,651 common shares in settlement of \$1,332,165 of accounts payable.

During the year ended December 31, 2007, the Corporation completed the sale of 27,839,558 and 5,545,454 units at a price of \$0.09 and \$0.11, respectively, per unit for total gross proceeds of \$3,115,260. Each unit consists of one share of common stock and one and a half common stock share purchase warrants, each whole warrants being exercisable for a period of 5 years from closing to acquire an additional share of common stock at an exercise price \$0.10 per share. Pursuant to the terms of the subscription agreement, the Corporation is required to register the shares issued related to investments of \$1,955,560 and \$610,000 by June 30, 2007 and December 31, 2007, respectively, which has not occurred to date. As such, the Corporation may be subject to pay partial liquidated damages equal to 1.0% per month of the aggregate purchase price paid by such subscriber pursuant to the subscription agreement for any shares then held by such subscriber, for each month the registration of the shares is outstanding, subject to an overall limit of up to 24 months of partial liquidated damages. The Corporation believes that it is remote that any amount will be paid under the registration statement.

In connection with the equity financing, the Corporation also issued, as investment banking fees, warrants to purchase 1,413,330 shares of common stock at an exercise price of \$0.10 per share and an expiry date of five years from the date of issuance, valued at \$125,877, and paid cash fees of \$140,825. In accordance with the terms of the Warrant Agreement, the Corporation is required to register the shares issuable upon the exercise of warrants. The registration right agreement does not provide for any penalties if the shares are not registered.

During the year ended December 31, 2007, the Corporation issued 7,360,145 common shares for the conversion related to \$662,413 of the convertible notes.

During the year ended December 31, 2007, the Corporation issued 20,000,000 common shares for the conversion of 20,000 Series A preferred shares.

During the year ended December 31, 2007, the Corporation issued 712,201 common shares for the conversion of 712 Series B preferred shares.

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13.

Common stock (continued):

During the year of 2006, the Corporation issued 4,573,668 common shares in settlement of \$496,393 of accounts payable, 555,555 common shares upon exercise of warrants for cash proceeds of \$72,221, 200,000 common shares upon exercise of options for cash proceeds of \$34,000, and 10,944,400 shares for cash proceeds of \$984,996.

(b)

Loss per share:

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

| | 2007 | 2006 |
|---|-----------------|-----------------|
| Numerator: | | |
| Loss for the period | \$ (27,939,215) | \$ (14,834,901) |
| Denominator: | | |
| Weighted average number of: | | |
| Common shares outstanding | 156,120,440 | 93,751,550 |
| Basic and diluted loss per common share | \$ (0.18) | \$ (0.16) |

For the years ended December 31, 2007 and 2006, 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.

(c)

Stock option plan:

The fair value of stock options is determined using the Black-Scholes option-pricing model. The Corporation has recorded \$399,552 and \$559,338 of stock-based compensation expense during the year ended December 31, 2007 and 2006, respectively.

The Corporation grants options to employees and non-employees. There were no options granted during the year ended December 31, 2007. The fair value of employee and non-employee grants in the year ended December 31, 2006 was calculated using the Black-Scholes option-pricing model with the following weighted-average assumptions: no dividend yield; volatility of 143% based on daily stock price; risk-free interest rate of 3.25% and expected lives between 1 to 5 years.

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13.

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 | Outstanding Options | |
|-----------------------------------|---|--|------------------------------------|
| | | Number of common shares issuable | Weighted average exercise price |
| Balance, December 31, 2005 | 11,401,662 | 6,775,417 | \$ 0.25 |
| Options granted | (1,260,000) | 1,260,000 | 0.14 |
| Options expired | 1,036,250 | (1,036,250) | 0.19 |
| Options exercised | - | (200,000) | 0.17 |
| Increase in reserved for issuance | 3,454,725 | - | - |
| Balance, December 31, 2006 | 14,632,637 | 6,799,167 | 0.24 |
| Options granted | - | - | - |
| Options expired | 1,779,167 | (1,779,167) | 0.19 |

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| | | | |
|-----------------------------------|------------|-----------|---------|
| Options exercised | - | - | - |
| Increase in reserved for issuance | 15,152,202 | - | - |
| Balance, December 31, 2007 | 31,564,006 | 5,020,000 | \$ 0.26 |

The intrinsic value of a stock option is calculated as the quoted market price of the stock at the balance sheet date less the amount an employee must pay to acquire the stock. As at December 31, 2006 and 2007, the intrinsic value of exercisable options was nil.

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13.

Common stock (continued):

(c)

Stock option plan (continued):

The weighted-average grant-date fair value of stock options granted during the year ended December 31 2007 was \$nil (December 31, 2006 - \$0.12).

As of December 31, 2007, total unrecognized compensation cost related to unvested stock options was \$12,788 and is expected to be recognized over a weighted-average period of 0.7 years.

The following table summarizes information about stock options under the plan outstanding at December 31, 2007:

| Range of exercise prices | Options Outstanding | | | Options Exercisable | |
|--------------------------|---|---|---------------------------------|---|---------------------------------|
| | Number outstanding at December 31, 2007 | Weighted average remaining contractual life (yrs) | Weighted average exercise price | Number outstanding at December 31, 2007 | Weighted average exercise price |
| \$0.11 - 0.20 | 2,315,833 | 2.13 | \$ 0.15 | 1,841,666 | \$ 0.15 |
| \$0.23 - 0.29 | 1,704,167 | 2.25 | 0.27 | 1,563,750 | 0.27 |
| \$0.30 - 0.35 | 600,000 | 1.50 | 0.35 | 600,000 | 0.35 |
| \$0.70 | 400,000 | 1.50 | 0.70 | 400,000 | 0.70 |

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| | | | | | | |
|-----------|------|----|------|-----------|----|------|
| 5,020,000 | 2.05 | \$ | 0.26 | 4,405,417 | \$ | 0.27 |
|-----------|------|----|------|-----------|----|------|

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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13.

Common stock (continued):

(d)

Warrants:

The following transferable share purchase warrants were outstanding as at December 31, 2007:

| Expiry date | Exercise price per share | Number of shares |
|-------------------|--------------------------|------------------|
| 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 |
| June 08, 2009 | 0.40 | 600,000 |
| August 17, 2009 | 0.20 | 648,386 |
| August 17, 2009 | 0.22 | 648,386 |
| August 17, 2009 | 0.27 | 648,387 |
| August 17, 2009 | 0.30 | 648,387 |
| August 31, 2009 | 0.10 | 500,000 |
| August 31, 2009 | 0.16 | 1,250,000 |
| October 13, 2009 | 0.20 | 150,000 |
| February 11, 2010 | 0.10 | 2,500,000 |
| February 11, 2010 | 0.16 | 2,000,000 |

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| | | |
|--------------------|------|------------|
| March 24, 2010 | 0.20 | 625,000 |
| July 01, 2010 | 0.40 | 75,000 |
| July 01, 2010 | 0.50 | 75,000 |
| February 28, 2011 | 0.10 | 6,875,000 |
| February 28, 2011 | 0.16 | 1,375,000 |
| October 31, 2011 | 0.10 | 1,500,000 |
| October 31, 2011 | 0.15 | 1,500,000 |
| December 13, 2011 | 0.10 | 46,087,017 |
| December 21, 2011 | 0.10 | 17,007,598 |
| January 05, 2012 | 0.10 | 9,496,667 |
| February 28, 2012 | 0.10 | 19,089,336 |
| March 05, 2012 | 0.10 | 12,086,669 |
| May 26, 2012 | 0.10 | 1,666,667 |
| June 07, 2012 | 0.10 | 833,334 |
| September 17, 2012 | 0.10 | 8,318,181 |
| October 17, 2012 | 0.09 | 5,555,555 |

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13.

Common stock (continued):

(d)

Warrants (continued):

In connection with the establishment of a revolving line of credit (note 7), the Corporation issued 5,555,555 warrants at a price of \$0.09 and an expiry date of five years from the date of issuance. These warrants are convertible into either preferred shares or common shares at the election of holder. The fair value of these warrants was determined to be \$133,133 (as calculated using the Black-Scholes model with the following weighted-average assumptions: no dividend yield; volatility of 134% based on daily stock price; risk-free interest rate of 4.22%; and a term of five years) resulting in a financing charge being amortized on a straight line basis over one year, the initial term of the credit facility. During the year ended December 31, 2007, \$27,356 has been recorded as financing charges in general and administrative expenses. The remaining portion of \$105,777 recorded as deferred financing cost will be amortized over the remaining term of the credit facility. In accordance with the terms of the Warrant Agreement, the Corporation is required to register the shares issuable upon the exercise of warrants. The registration right agreement does not provide for any penalties if the shares issuable are not registered.

The warrants that relate to the purchase of Celletra Ltd. were initially classified as a liability and recorded at their fair value of \$2,026,533 (note 4(c)) as the Corporation did not have sufficient authorized common share capital to allow for conversion. From the acquisition date on August 17, 2006 to the date when the Corporation received approval to increase its authorized share capital, November 24, 2006, an increase in fair value of \$68,408 has been recorded as a charge in the statement of operations. On November 24, 2006, with the increase in share capital the warrants were reclassified to equity.

On December 13, 2006, the Corporation agreed to reduce the exercise price of 37,406,452 warrants, previously issued as part of the consideration for the Celletra acquisition, to \$0.10 for parties that participated in the \$1,350,000 convertible debenture financing in December 2006. As the reduction in the warrants has been treated as part of the consideration for the debt extinguishments in note 10(a) and 10(b), the increase in the fair value of the warrants of

\$1,534,639 (as calculated using the Black-Scholes Method with the following weighted-average assumptions: no dividend yield; volatility of 139% based on daily stock price; risk-free interest rate of 3.87%) has been included as part of the loss on extinguishment of debt in the statement of operations.

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14.

Income taxes:

At December 31, 2007, the Corporation has US tax net operating loss carryforwards approximating \$10,191,000 which will begin to expire in 2018 and Israel tax net loss carryforwards approximating \$66,183,000 which can be used to offset taxable income in the future for an indefinite period. The utilization of the US losses are subject to annual limitations under US tax law.

The Corporation has Canadian tax net operating losses of approximately \$22,841,000 which expire as follows:

| | | |
|------|----|-----------|
| 2008 | \$ | 1,512,000 |
| 2009 | | 3,511,000 |
| 2010 | | 1,495,000 |
| 2014 | | 2,179,000 |
| 2015 | | 3,792,000 |
| 2026 | | 3,813,000 |
| 2027 | | 6,539,000 |

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Corporation has recognized a valuation allowance equal to the deferred tax assets due to the uncertainty of realizing the benefits of the assets.

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14.

Income taxes (continued):

Expected tax recovery of \$9,527,272 (2006 - \$5,058,701), which amount has been calculated by applying the statutory tax rate of 34.1% (2006 - 34.1%) to the loss before income taxes of \$27,939,215 (2006 - \$14,834,901), differs from income tax expense of \$nil (2006 - \$nil) due primarily to the existence of tax loss carryforwards created in the year, the tax benefit of which has been offset by an increase in the valuation allowance.

Significant components of the Corporation's deferred tax assets as of December 31 are as follows:

| | 2007 | 2006 |
|-----------------------------------|----------------|----------------|
| Deferred tax assets: | | |
| Net operating loss carry forwards | \$ 26,093,754 | \$ 25,289,319 |
| Depreciation/amortization | 383,396 | 360,952 |
| Intangible assets | - | (1,927,849) |
| Other | (99,622) | 810,430 |
| Total deferred tax assets | 26,377,528 | 24,532,852 |
| Valuation allowance | (26,377,528) | (24,532,852) |
| Net deferred taxes | \$ - | \$ - |

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The Corporation's tax filings remain subject to examination by the relevant local tax authorities for the following taxation periods:

| | | |
|--------------|---------------|--------------|
| Canada | United States | Israel |
| 2003 to 2007 | 2004 to 2007 | 2004 to 2007 |

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15.

Segmented information:

(a)

Segment information:

During the periods ended December 31, 2007 and 2006, the Corporation was operating in the telecommunication segment which includes RF power amplifier and coverage enhancement solutions. A summary of sales by product line is as follows (\$000):

| | 2007 | | 2006 |
|--------------------------------|----------|----|-------|
| RF Power Amplifiers | \$ 1,616 | \$ | 5,393 |
| Coverage Enhancement Solutions | 5,406 | | 1,950 |
| Total sales | \$ 7,022 | \$ | 7,343 |

(b)

Geographic information:

In 2007, 100% of our goodwill is located in Canada and 44% and 56% of our equipment assets and principal business operations are located in Canada and Israel, respectively. In 2008, the Corporation expects 100% of its assets and principal business operations to be located in Israel once the Corporation has completed the sale of the net assets and operations of its amplifier business to Moventis Wireless Inc (note 21(a)). 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 region of customer location is as follows (\$000):

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| | 2007 | | 2006 |
|---------------|----------|----|-------|
| China | \$ 47 | \$ | 1,068 |
| United States | 619 | | 1,242 |
| Israel | 397 | | 275 |
| Canada | 188 | | 1,008 |
| Hungary | 406 | | 2,200 |
| India | 3,922 | | 146 |
| Peru | - | | 110 |
| Turkey | 164 | | 234 |
| Russia | 292 | | 81 |
| Indonesia | - | | 660 |
| Cameroon | 73 | | - |
| Vietnam | 483 | | - |
| South Africa | 110 | | - |
| Other | 321 | | 319 |
| Total sales | \$ 7,022 | \$ | 7,343 |

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15.

Segmented information (continued):

(c)

Major customers:

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

| | 2007 | | 2006 |
|------------|-------|----|-------|
| Customer A | \$ - | \$ | 958 |
| Customer B | 406 | | 2,200 |
| Customer C | 1,685 | | - |
| Customer D | 2,223 | | - |

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

| | 2007 | | 2006 |
|------------|-------|----|------|
| Customer A | \$ - | \$ | 278 |
| Customer B | - | | 750 |
| Customer C | 1,926 | | 948 |

Customer D 461 -

16.

Commitments:

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

| | | |
|------|----|---------|
| 2008 | \$ | 287,000 |
| 2009 | | 195,000 |
| 2010 | | 22,000 |
| | \$ | 504,000 |

Subsequent to December 31, 2007, the Corporation was released from their lease at the Burnaby, British Columbia premises which will result in a reduction in lease commitment for 2008 and 2009 in the amounts of \$47,000 and \$34,000, respectively.

In 2007, rent expense was \$340,000 (2006 - \$360,000).

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

17.

Contingent liabilities:

(a)

The Corporation is currently a party to six actions in the Supreme Court of British Columbia, Vancouver Registry, brought by six different suppliers of the Corporation for approximately \$970,000 in total.

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 make royalty payments based on the sales of products using certain technologies. Royalties are calculated based on 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 December 31, 2007.

(ii)

Under an agreement with the Government's National Research Council Canada IRAP (IRAP) program, the Corporation received conditionally repayable government assistance amounting to \$480,990 (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 \$721,485 (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 year ended December 31, 2007, the Corporation recorded \$55,903 (CDN\$59,749) as royalties expense and \$80,888 (CDN\$92,552) in 2006.

(iii)

Under an agreement with the Canada Israel Industrial Research & Development Foundation, the Corporation is eligible to receive conditionally repayable government assistance amounting to \$348,189 (CDN\$350,000) to support the development of a multi-carrier linear power amplifier. As at December 31, 2005, the Corporation had received the entire assistance which had been recorded as government grant income as 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 December 31, 2007, the Corporation has not yet commenced the commercialization of such product, and thus no repayment is required.

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

17.

Contingent liabilities (continued):

(b)

Contingent liability on sale of products (continued):

(iv)

The Corporate Israeli s subsidiaries were granted by Canada Israel Industrial Research & Development Foundation (CIIRDF) and by the Office of the Chief Scientist of the Israeli Ministry of Industry and Trade (the OCS) approval for CIIRDF grants and OCS participation in the cost of several research programs. In return, the Corporate Israeli s subsidiaries are committed to pay royalties at a rate of 3% to 5% of the sales of the approved products, up to 100% of the amount of the grants received, with the addition of interest at LIBOR. Under certain conditions, the Corporate Israeli s subsidiaries commitment to pay royalties at the rates mentioned above and the total obligation for royalties shall increase. The Corporate Israeli s subsidiaries are committed to pay increased royalties for income derived from the above mentioned sale of rights.

The grants are deducted from research and development expenses. The Corporate Israeli s subsidiaries are entitled to the grants only upon incurring research and development expenditures. The Corporate Israeli s subsidiaries are not obliged to repay any amount received from the OCS if the research effort is unsuccessful or if no products are sold. However, under certain limited circumstances, the OCS may withdraw its approval of a research program or amend the terms of its approval. Upon withdrawal of approval, the Corporate Israeli s subsidiaries may be required to refund the grants, in whole or in part, with or without interest, as the OCS determines.

The maximum amount that could be repaid under this program for royalties, based on royalty-bearing government participation, totaled approximately \$17,300,000 as of December 31, 2007. For the year ended December 31, 2007, the Corporation recorded \$323,000 (2006 \$19,001) as royalty expense in its statement of operations.

Such amount excludes potential increase resulting from the above mentioned sale of rights

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

17.

Contingent liabilities (continued):

(b)

Contingent liability on sale of products (continued):

(v) Avantry received government grants from the Fund for the Encouragement of Marketing Activities Abroad (The Fund) as participation in the funding of an approved marketing plan for 2002. Avantry is committed to pay royalties to the Israeli Government at a rate of 4% of the increase in sales per year up to 100% of the amount of the grants received, with the addition of interest at LIBOR, computed on the increase in export sales beginning with the end of the first year after the year of the approved plan. These payments will continue until the grants are fully repaid.

Under certain limited circumstances, the Fund may withdraw its approval of the marketing plan. Upon withdrawal of approval, Avantry may be required to refund the grants, in whole or in part, with or without interest, as the Fund determines.

The aggregate potential liability in respect of the said grants on December 31, 2007 amounts to \$72,000.

(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:

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| | 2007 | 2006 |
|-------------------------------|------------|------------|
| Balance, beginning of year | \$ 314,904 | \$ 42,961 |
| Acquisition of Avantry | - | 102,000 |
| Acquisition of Celerica | - | 59,000 |
| Acquisition of Celletra | - | 189,000 |
| Provision increase/(decrease) | 78,197 | (35,801) |
| Expenditures | (155,499) | (42,257) |
| Balance, end of year | \$ 237,602 | \$ 314,904 |

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

18.

Supplementary information:

(a) Cash flow information:

| | 2007 | 2006 |
|--|------------|------------|
| Cash paid for: | | |
| Interest | \$ 167,092 | \$ 136,382 |
| Non-cash financing and investing activities: | | |
| Issuance of convertible debentures for acquisition | - | 1,755,147 |
| Issuance of Series A preferred for acquisition | - | 2,000,000 |
| Issuance of Series B preferred shares and warrants for acquisition | - | 11,026,533 |
| Issuance of warrants in | 125,877 | |

| | | |
|-----------------------------------|-----------|---------|
| settlement of investment | | |
| banking fees | | |
| Issuance of common shares in | | |
| settlement of accounts payable | 1,332,165 | 496,393 |
| Issuance of common shares on | | |
| conversion of convertible | | |
| debenture | 662,413 | - |
| Issuance of common shares on | | |
| conversion of series A | | |
| preferred shares | 2,000,000 | - |
| Issuance of common shares on | | |
| conversion of series B | | |
| preferred shares | 71,201 | - |
| Warrants issued as financing cost | | |
| on credit facility | 133,133 | - |
| Warrants issued as financing cost | | |
| on private placement | - | 156,682 |

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

18.

Supplementary information (continued):

(b)

Allowance for doubtful accounts:

| | 2007 | 2006 |
|---------------------------------|------------|------------|
| Balance, beginning of year | \$ 139,160 | \$ - |
| Provision for doubtful accounts | 767,429 | 139,160 |
| Balance, end of year | \$ 906,589 | \$ 139,160 |

19.

Related party transactions:

During the year ended December 31, 2007, the Corporation incurred professional fees of approximately \$27,000 (2006 - \$40,000) from a company owned by a director of the Corporation. These amounts are included in general and administrative expenses. As at December 31, 2007, the outstanding balance to this company was \$58,000 (December 31, 2006 - \$31,000). A number of debentures are held by related parties (see note 10).

20.

Restructuring:

In the fourth quarter of 2006, the Corporation initiated an operational restructuring which resulted in the termination of 40 employees, a re-alignment of research and development activities in the Corporation and a reduction of facilities occupied.

A summary of the activity affecting the Corporation's accrued restructuring liability, included in accounts payable and accrued liabilities, for the period ended December 31, 2007 is as follows:

| | Workforce reduction | Facilities restructuring | Total |
|------------------------------|------------------------|-----------------------------|------------|
| Balance at December 31, 2006 | \$ 364,000 | \$ 140,000 | \$ 504,000 |
| Amount paid | (364,000) | (140,000) | (504,000) |
| Balance at December 31, 2007 | - | - | - |

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

21.

Subsequent Events:

(a)

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 accordance with the Asset Purchase Agreement, the purchase price is \$3,000,000 plus a royalty equal to 5% of annual gross sales over \$5,000,000 generated by the assets of the acquired business for a period of three years. The Purchase Price will be paid and satisfied by way of an offset against outstanding debt owed from the Corporation and its subsidiaries to PTL Electronics Ltd. (PTL), which is a company related to Moventis. In connection with the Asset Purchase Agreement, Unity and its subsidiaries also entered into a manufacturing services agreement with 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.

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.

(b)

On March 26, 2008 the Corporation raised \$335,136 for working capital purposes through the issuance of promissory notes payable to certain existing shareholders of the company. The promissory notes bear interest at a rate of 12% per annum and are repayable within 60 days from the date of issuance. In the event that the promissory notes are not repaid within the 60 days, the interest rate will increase to 18% per annum until the notes are repaid. The notes may be repaid either through cash or through the issuance of convertible debentures to the note holders.

Item 8. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

None

Item 8A: Controls and Procedures:

Evaluation of disclosure Controls and Procedures

An evaluation has been carried out under the supervision and with the participation of our management, including our Chief Executive 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 December 31, 2007 (Evaluation Date). Based on such evaluation, our principal executive officer has concluded that, as of the Evaluation Date, the disclosure controls and procedures are not adequately 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 Principal Executive Officer, as appropriate to allow timely decisions regarding required disclosure. Specifically, we have identified the fact that a shortage of accounting staff with adequate SEC reporting expertise may impact our ability to prepare and file financial reports within the time period specified in the SEC's rules and forms. We are presently addressing this weakness by recruiting financial staff or contractors who possess the required expertise in SEC financial reporting.

Management's Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act, as amended. Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2007. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

Our internal control process has been designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America. Our management, including our principal executive officer, does not expect that our internal controls will prevent all error or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

Based on our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2007, we have identified the following internal control deficiencies that we considered to be material weaknesses:

1. Lack of segregation of duties. Due to our small employee base, it is difficult to effectively segregate accounting duties. While we strive to segregate duties as much as practicable, budgetary considerations have not allowed the addition of more full time staff. As a result, this significant internal control deficiency has not been remediated as of the end of the year covered by this annual report, nor do we know if we will be able to remediate this weakness during the upcoming quarter or year. As a remedy to this deficiency, our Chief Executive Officer performs frequent reviews of financial information to ensure that transactions are properly recorded.

2. Lack of a permanent senior financial officer. In March 2007, our Chief Financial Officer resigned from the company. Since this time, we have obtained senior finance assistance on a contract basis to assist in preparing and filing our financial reports with the Securities and Exchange Commission and with other corporate finance matters as required on a project basis. While the absence of a permanent Chief Financial Officer is a material weakness, this weakness is partially mitigated by our Chief Executive Officer fulfilling many of the duties of the former Chief Financial Officer. Our intention is to recruit a permanent Chief Financial Officer as soon as our operations generate sufficient cash flows to fund the position.

3. Lack of qualified staff and sufficient accounting records. In connection with the restructuring of the company in 2007, we reduced the number of accounting staff in Canada and moved the physical location of our main accounting function from Canada to Israel. This transition required the utilization of external contractors and our Israel-based accounting staff to perform accounting functions that were previously performed by internal staff based in Canada. The transition led to a disruption of our internal processes and procedures during 2007 which resulted in poor accounting records for certain company transactions and also resulted in a current lack of accounting staff who are adequately experienced with United States GAAP, taxation issues, and more complex accounting topics. While the impact of the disruption in internal processes has now subsided, we continue to experience challenges in recruiting accounting staff in Israel who possess adequate US GAAP experience. We are addressing this material weakness by actively recruiting for Israel-based accounting staff with the necessary skills, and we are temporarily obtaining the necessary skills from independent contractors based in Canada.

4. Code of conduct and whistleblower line not communicated. A code of conduct and whistleblower policy has been approved by the board of directors but has not been formerly communicated to employees. The Corporation intends to do this as part of there overall review, update and communication of internal controls and processes after taking into consideration the recent closure of its Canadian and China facilities and centralization of the Corporation s main operational functions in Israel.

As a result of the material weaknesses described above, management has concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2007 based on criteria established in Internal Control Integrated Framework issued by COSO.

If we are unable to remediate the identified material weaknesses, there is a reasonable possibility that a material misstatement to our SEC reports will not be prevented or detected, in which case investors could lose confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our ability to raise additional capital and could also have an adverse effect on our stock price.

Notwithstanding the material weaknesses identified by management, we believe that the financial statements, and other financial information included in this report, fairly present in all material respects, the financial condition, results of operation and cash flows of the company as of, and for, the periods represented in this report.

We did not change our internal control over financial reporting during our last fiscal quarter of 2007 in connection with the results of management's report, nor have we made any changes to our internal control over financial reporting as of April 30, 2008.

This annual report does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management's report in this annual report.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 16(a) of the Exchange Act.

All directors of our company hold office until the next annual general meeting of the shareholders or until their successors are elected and qualified. The officers of our company are appointed by our board of directors and hold office until their earlier death, retirement, resignation or removal.

Our directors, executive officers and other significant employees, their ages, positions held and duration each person has held that position, are as follows:

| Name | Position Held with the Company | Age | Date First Elected or Appointed |
|---------------------------------|--|------------|---|
| <i>Ilan Kenig</i> | <i>President, Chief Executive Officer and Director</i> | <i>46</i> | <i>President on April 1, 2002 and Chief Executive Officer on October 31, 2002</i> |
| <i>Andrew James Chamberlain</i> | <i>Corporate Secretary, Director</i> | <i>45</i> | <i>October 28, 2002</i> |
| <i>Ken Maddison</i> | <i>Director</i> | <i>67</i> | <i>October 29, 1998</i> |
| <i>Doron Nevo</i> | <i>Director</i> | <i>52</i> | <i>July 11, 2002</i> |
| <i>David Goldschmidt</i> | <i>Director</i> | <i>41</i> | <i>August 17, 2006</i> |

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Elie Barr

Director

60

May 15, 2007

Ariel Poppel

Director

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August 22, 2007

Business Experience

The following is a brief account of the education and business experience of each director, executive officer and key employees during at least the past five years, indicating each person's principal occupation during the period, and the name and principal business of the organization by which he or she was employed.

Ilan Kenig - President, Chief Executive Officer and Director

Mr. Kenig has over 18 years of legal, venture capital and investment banking experience with specific emphasis in the technology and telecommunications arena. Mr. Kenig, with his experience in international business activities, corporate mergers and acquisitions, joined the company as Vice President of Business Development in December 2001 before assuming the position of President in April 2002. Prior to pursuing international finance activities in New York, Mr. Kenig was a founder of a law firm in Tel-Aviv representing mostly technology and telecommunications interests. Mr. Kenig holds a law degree from Bar-Ilan University. Mr. Kenig also serves on the board of Euroweb International Corp, a NASDAQ listed Technology Company.

Andrew James Chamberlain - Director, Corporate Secretary

Mr. Chamberlain is an attorney practicing law in Edmonton, Alberta, and a partner with the law firm of Chamberlain Hutchison since 1997. Mr. Chamberlain is a sessional instructor in corporate securities at the University of Alberta law school. Mr. Chamberlain is corporate secretary of Loma Oil & Gas Ltd., a company listed on the TSX Venture Exchange.

Ken Maddison - Director

Mr. Maddison, a Chartered Accountant since 1966 and elected a Fellow of the Institute of Chartered Accountants of British Columbia in 1975, retired in August 1997 after a lengthy career as a partner with the accounting firm KPMG between 1977 and 1997. In public practice for over 30 years, Mr. Maddison provided auditing, accounting and business advisory services to a wide range of clients in the private and public sectors. Since September 1997, Mr. Maddison has been self-employed as a consultant providing various financial advisory services. He is also a director and audit committee chairman for Northern Continental Resources Corp. and Northern Hemisphere Development Corp.

Doron Nevo - Director

Mr. Nevo brings more than 20 years of business experience in high technology and telecommunications companies to the Company's board of directors. Currently, Mr. Nevo is President and CEO of KiloLambda Technologies, Ltd. an optical subsystems company he founded in early 2001. From July 1999 to January 2001, Mr. Nevo was the President and CEO of D.FourD., Ltd., a venture capital investment company. From March 1996 to June 1999, Mr. Nevo was President and

CEO of NKO, Inc. a company he founded that designed and developed a carrier grade IP Telephony system platform and established its own IP network. From February 1992 to February 1996, Mr. Nevo was also President and CEO of Clalcom Ltd., an international telecommunications service provider in Israel which he founded in 1992. Prior to Clalcom, he held various positions with Sprint International Inc. He also serves on the board of a number of companies including Audiocodes, Ltd. (a telecommunication technology company), Elcom Technologies (a manufacturer of Satcom and Digital Radio synthesizers), and Notox, Ltd. (a biotech company). Mr. Nevo received a B.Sc. in Electrical Engineering from the Technion and an M.Sc. in Telecommunications Management from Brooklyn Polytechnic.

David Goldschmidt - Director

Mr. Goldschmidt is General Partner for Valley Venture Capital, LP. Valley was created in 2006 by the Spin Off of the venture capital portfolio of Mofet Israel Technology Fund. Mr. Goldschmidt served as Managing Partner for Mofet since 2001, and was promoted to Chief Executive Officer of the firm in 2003. Prior to joining Mofet, Mr. Goldschmidt served as Vice President for ADC Telecommunications (Israel), a global supplier of broadband equipment and solutions for communications providers. In his previous position, Mr. Goldschmidt managed the Business Development group for Teledata Communications Ltd. (which was acquired by ADC). Mr. Goldschmidt holds a B.Sc. in Physics & Mathematics, and a M.Sc in Solid State Physics from the Tel Aviv University, Israel.

Elie Barr - Director

Mr. Barr is currently the President & CEO at Expand Networks, a technology company that helped pioneer the Wide Area Network (WAN) Optimization market. Before joining Expand, Mr. Barr was President and Chief Operating Officer of Paradigm Geotechnology, a transnational software company supplying software to the Oil and Gas industry through 23 subsidiaries worldwide. Prior to Paradigm, Mr. Barr was CEO and Senior Managing Director of Mofet, a publicly traded Venture Capital firm in Israel. He also held several positions in marketing, sales, and business development in a NASDAQ company, which provided solutions to telecom operators worldwide. Mr. Barr received his Bachelor degree in Economics, Philosophy, and Political Science from Bar-Ilan University, and is a graduate of the INSEAD Finance for Executives Management Program.

Ariel Poppel - Director

Mr. Poppel, Infinity's Managing Director - Finance, previously served as CFO and Interim CEO for Shellcase Ltd. For seven years, he was a senior executive at Nexus Telocation Systems, where he held positions including president and COO, Vice President of Operations, and director on the board of EDEN. Mr. Poppel also served as the Chief Financial Officer of OTM Technologies, where he was in charge of the Japanese market.

Family Relationships

There are no family relationships among our directors or officers.

The Company has a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. Serving on the Committee are Ken Maddison, David Goldschmidt, and Elie Barr. The Board of Directors had determined that Mr. Maddison serves on the audit committee as a financial expert. Mr. Maddison, David Goldschmidt, and Elie Barr are independent directors as defined in Item 7(d)(3)(iv) of Schedule 14A.

Item 10. Executive Compensation.

The following table sets forth information with respect to compensation paid by the Company for services to it during the three fiscal years ended December 31, 2007 to the Company's Chief Executive Officer, President and Chief Financial Officer

SUMMARY COMPENSATION TABLE

| Name and Principal Position | Year | Salary (\$) | Bonus (\$) | Stock Awards (\$) | Option Awards (\$) | Non-Equity Incentive Plan Compensation (\$) | Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) | All Other Compensation (\$) | Total (\$) |
|---|------|------------------------|------------|-------------------|--------------------|---|--|-----------------------------|------------|
| Ilan Kenig Chief Executive Officer | 2007 | 150,000 ⁽²⁾ | Nil | Nil | 36,508 | Nil | Nil | Nil | 186,508 |
| | 2006 | 151,666 ⁽²⁾ | Nil | Nil | 109,427 | Nil | Nil | Nil | 261,093 |
| | 2005 | 140,000 | Nil | Nil | 220,569 | Nil | Nil | Nil | 260,569 |
| Nissim Atias | 2007 | 153,000 | Nil | Nil | Nil | Nil | Nil | Nil | 153,000 |
| President and Chief Operating Officer ⁽⁵⁾ | | | | | | | | | |
| Dallas Pretty Chief Financial Officer ⁽⁴⁾ | 2007 | 40,000 | Nil | Nil | 25,728 | Nil | Nil | Nil | 65,728 |
| | 2006 | 147,000 ⁽³⁾ | Nil | Nil | 66,048 | Nil | Nil | Nil | 213,048 |
| | 2005 | 86,500 | Nil | Nil | 86,026 | Nil | Nil | Nil | 172,526 |

⁽¹⁾ Represents the dollar amount recognized for financial statement purposes in accordance with FAS 123R as described in the notes to the audited financial statements included in this prospectus.

(2) In 2007 \$30,000 of the salary remains unpaid as at December 31, 2007. In 2006 \$31,250 of the salary was paid with 208,333 common shares

(3) \$37,500 of the salary was paid with 250,000 common shares

(4) On March 31, 2007 Dallas Pretty resigned as Chief Financial Officer

(5) Nissim Atias was appointed to President in 2007.

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OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

The following table sets forth for each Named Executive Officer certain information concerning the number of shares subject to both exercisable and unexercisable stock options as of December 31, 2007. We have never issued stock appreciation rights. We grant options that generally vest quarterly over three years at an exercise price equal to the fair market value of a share of common stock as determined by its closing price on the OTC Bulletin Board on the date of grant. The term of each option granted is generally five years from the date of grant. Options may terminate before their expiration dates if the optionee's status as an employee is terminated or upon the optionee's death or disability.

| Name | Number of Securities Underlying Unexercised Options | | Exercise Price (\$/Share) | Expiration Date |
|----------------------------|--|---------------|---------------------------------|-----------------|
| | Exercisable | Unexercisable | | |
| Ilan Kenig | 800,000 | - | 0.15 | 15/09/2008 |
| Chief Executive Officer | 100,000 | - | 0.70 | 22/03/2009 |
| | 1,145,833 | 104,167 | 0.27 | 18/03/2010 |
| | 14,583 | 10,417 | 0.15 | 26/01/2011 |

EMPLOYMENT CONTRACTS AND TERMINATION OF EMPLOYMENT AND CHANGE IN CONTROL ARRANGEMENTS

There are no employment agreements between us or any of our subsidiaries and any of our Named Executive Officers.

Our company has no plans or arrangements in respect of remuneration received or that may be received by any Named Executive Officers of our company to compensate such officers in the event of termination of employment (as a result of resignation, retirement, change of control) or a change of responsibilities following a change of control per Named Executive Officer.

COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth, for each of our directors who are not named executive officers, information concerning compensation earned for services in all capacities during the fiscal year ended December 31, 2007.

| Name | Year | Fees Earned or Paid in Cash (\$) | Bonus (\$) | Stock Awards (\$) | Option Awards (\$) | Non-Equity Incentive Plan Compen- sation (\$) | Nonqualified Deferred Compensation Earnings (\$) | All Other Compe-nsation (\$) | Total (\$) |
|--------------------------------|------|--|---------------|-------------------------|--------------------------|--|---|------------------------------------|---------------|
| Andrew James Chamberlain | 2007 | 27,000 | Nil | Nil | 2,428 | Nil | Nil | Nil | 29,428 |
| Ken Maddison | 2007 | 20,000 | Nil | Nil | 11,460 | Nil | Nil | Nil | 31,460 |
| Doron Nevo | 2007 | 8,000 | Nil | Nil | 2,428 | Nil | Nil | Nil | 10,428 |
| David Goldschmidt | 2007 | 8,500 | Nil | Nil | Nil | Nil | Nil | Nil | 8,500 |
| Amir Gal-Or (3) | 2007 | 4,000 | Nil | Nil | Nil | Nil | Nil | Nil | 4,000 |
| Ran Shahor (4) | 2007 | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil |
| Victor Halpert (5) | 2007 | 6,000 | Nil | Nil | 4,078 | Nil | Nil | Nil | 6,000 |
| Elie Barr (6) | 2007 | 7,500 | Nil | Nil | Nil | Nil | Nil | Nil | 7,500 |
| Ariel Poppel (7) | 2007 | 2,000 | Nil | Nil | Nil | Nil | Nil | Nil | 2,000 |

(1) Represents the dollar amount recognized in accordance with FAS 123R.

(2) This amount represents legal services provided by Andrew Chamberlain to the Company through Chamberlain Hutchinson Law Office. Mr. Chamberlain does not receive the per meeting fee identified below.

- (3) Amir Gal-Or resigned as a Director of the company on August 22, 2007.
- (4) Ran Shahor resigned as a Director of the company on February 21, 2007.
- (5) Victor Halpert resigned as a Director of the company on October 19, 2007
- (6) Elie Barr was appointed a Director of the company on May 15, 2007.
- (7) Ariel Poppel was appointed a Director of the company on August 22, 2007.

During 2007 our directors received \$1,000 per board meeting and \$500 per committee meeting. Beginning 2008 our directors receive \$8,000 per annum for board meetings and \$1,000 per annum for each committee they are a member of. Our Audit Committee Chairman receives \$12,000 per year. Directors are entitled to reimbursement of expenses incurred in attending meetings. In addition, our directors are entitled to participate in our stock option plan. Members of our board of directors receive annual grants of options as follows:

| | |
|--------------------------|----------------|
| Director | 25,000 options |
| Audit Committee Chairman | 25,000 options |

There are no arrangements or plans in which we provide pension, retirement or similar benefits for directors or executive officers. We have no material bonus or profit sharing plans pursuant to which cash or non-cash compensation is or may be paid to our directors or executive officers, except that stock options may be granted under the plan.

As of December 31, 2007, this maximum number was 36,584,006. All outstanding options will be subject to the provisions of the new plan.

Where options issued after January 18, 2001 have an exercise price in a currency that is not either the (a) functional currency of our company or (b) the currency in which the employee is paid, the options are to be accounted for as variable plan options and compensation expense will be recorded equal to changes in the market value of the underlying shares at each reporting period.

Stock options become exercisable at dates determined by our board of directors at the time of granting the option and generally have initial terms of five years.

The Company did not grant any options in fiscal 2007. The fair value of each option granted in the year ended December 31, 2006 was estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: no dividend yield; volatility of 143% based on weekly stock price; risk-free interest rate of 3.25% and expected lives between one to five years. The weighted-average fair value of options granted during the year ended December 31, 2006 was \$0.12.

Item 11. Security Ownership of Certain Beneficial Owners and Management.**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth, as of March 31, 2008, certain information with respect to the beneficial ownership of our shares of Common Stock by each shareholder known to us to be the beneficial owner of 5% of our shares of Common Stock, and by each of our officers and directors. Each person has sole voting and investment power with respect to the shares of Common Stock, except as otherwise indicated. Beneficial ownership consists of a direct interest in the shares of Common Stock, except as otherwise indicated.

| Name and Address of Beneficial Owner | Amount and Nature of Beneficial Ownership | Percent of Class (1) |
|--|--|-----------------------------|
| Ilan Kenig 177 Telegraph Rd #248 Bellingham, WA 98226 | 2,917,889 (2) | 1.57% |
| Andrew Chamberlain 7222 - 183B Street Edmonton, AB T5T 3Z7 | 199,305 (5) | Less than 1% |
| Ken Maddison 2591 Lund Avenue Coquitlam, BC V3K 6J8 | 602,827 (4) | Less than 1% |
| Doron Nevo 15 Yakov Hazan Raanana, Israel 43563 | 314,286 (3) | Less than 1% |
| David Goldschmidt (13) 11 Galgaley Haplada St. Herziliya Pituach 46733 Israel | Nil | Less than 1% |
| Elie Barr 11 Galgaley Haplada St. Herziliya Pituach 46733 Israel | Nil | Less than 1% |
| Areil Poppel 11 Galgaley Haplada St. Herziliya Pituach 46733 Israel | Nil | Less than 1% |
| William Weidman 136 Shorewood Drive Great Neck, NY 11021 | 22,631,836 (6) | 11.01% |

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| | | |
|--|-----------------|--------|
| IDB Infinity Venture Capital Group 3 Azrieli Center, Triangle Tower 42nd floor, Tel Aviv 67023 Israel | 30,910,314 (8) | 14.46% |
| Gemini Venture Capital Group 9 Hamenofim Street Herzliya Pituach 46725 Israel | 13,909,655 (9) | 7.07% |
| SVM Star Venture Capital Group 11 Galgaley Haplada St. Herziliya Pituach 46733 Israel | 63,310,601 (10) | 25.71% |
| Valley Venture Capital L.P 11 Galgaley Haplada St. Herziliya Pituach 46733 Israel | 24,306,242 (11) | 11.73% |
| Directors and Executive Officers as a Group | 4,034,307 (7) | 2.16% |

Nil* - less than 1%

- (1) Based on 182,920,028 shares of common stock issued and outstanding as of December 31, 2007. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Except as otherwise indicated, we believe that the beneficial owners of the common stock listed above, based on information furnished by such owners, have sole investment and voting power with respect to such shares, subject to community property laws where applicable.
- (2) Includes options to acquire an aggregate of 2,166,667 shares of common stock exercisable within sixty days.
- (3) Includes options to acquire an aggregate of 166,667 shares of common stock exercisable within sixty days.
- (4) Includes options to acquire an aggregate of 322,708 shares of common stock exercisable within sixty days.
- (5) Includes options to acquire an aggregate of 166,667 shares of common stock exercisable within sixty days.
- (6) Includes warrants to acquire an aggregate of 2,210,300 shares of common stock exercisable within sixty days and 1,562,500 shares of common stock underlying a secured convertible note.
- (7) Includes options to acquire an aggregate of 2,822,709 shares of common stock exercisable within sixty days.
- (8) Includes 1,309,156 shares of common stock underlying convertible notes, warrants to acquire 9,753,307 shares of common stock exercisable within sixty days and Series B preferred shares convertible into 19,847,851 common shares. The natural persons who share voting control and investment power on behalf of the general partner, Infinity Venture Capital Group are Nochi Dankner, Shelley Bergman, Ruth Manor, and Avraham Livnat.
- (9) Includes 582,156 shares of common stock underlying convertible notes, warrants to acquire 4,209,978 shares of common stock exercisable within sixty days and Series B preferred shares convertible into 9,117,521 common shares. The natural persons who share voting control and investment power on behalf of the general partner, Gemini Venture Capital Group, are Yossi Sela, Ed Mlavsky and David Cohen.
- (10) Includes 2,530,111 shares of common stock underlying convertible notes, warrants to acquire 18,296,846 shares of common stock exercisable within sixty days and Series B preferred shares convertible into 38,321,531 common shares. The natural person who has voting control and investment power on behalf of the general partner of SVM Star Venture Capital Management is Barel Meir.
- (11) Includes 1,041,422 shares of common stock underlying convertible notes, warrants to acquire 7,531,206 shares of common stock exercisable within sixty days and Series B preferred shares convertible into 15,733,614 common shares. David Goldschmidt, a director of the Company, is the General Partner of Valley Venture Capital L.P. and in this capacity exercises voting rights on behalf of the fund.

Changes in Control

We are unaware of any contract or other arrangement the operation of which may at a subsequent date result in a change in control of our company.

Item 12. Certain Relationships and Related Transactions.

None

Item 13. Exhibits and Reports on Form 8-K.

Exhibits Required by Item 601 of Regulation S-B

Exhibit
Number

Description

1.

Financial Statements. See Item 7. Index to Financial Statements.

2.1*

Form of Acquisition Agreement with Avantry Ltd dated February 7, 2006 (17)

2.2*

Form of Avantry Ltd. Shareholder Letter dated February 7, 2006 (17)

3.1*

Amended and Restated Certificate of Incorporation of Unity Wireless Corporation (1)

3.2*

Amended and Restated Bylaws of Unity Wireless Corporation (2)

3.3*

Certificate of Amendment dated August 5, 2004 to the Amended and Restated Certificate of Incorporation (2.5)

4.1*

Consulting agreement among Mueller & Company, Inc., Ideas, Inc., Mark Mueller, Aaron Fertig and Unity Wireless Corporation dated January 1, 2001 (3)

4.2*

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Consulting agreement amendment among Mueller & company, Inc. and Unity Wireless Corporation dated November 15, 2001 (3)

4.3*

1999 Stock Option Plan, as amended (3)

4.4*

Recommended Stock Option Grant Policy for our company (3)

4.5*

Consulting agreement among Myer Bentob and Unity Wireless Corporation dated August 7, 2003 (12)

4.6*

Form of Secured Convertible Note issued by Unity Wireless Corporation and Unity Wireless Systems Corporation in the aggregate principle amount of \$956,322.50 (8)

4.7*

Form of Addendum to Secured Convertible Note between Unity Wireless Corporation, Unity Wireless Systems Corporation and each of the following: (9)

S. Heiman
Casey J. O'Byrne Professional Corporation
Moshe Rosner
Jeffrey Rubin
William N. Weidman
Chancellor Apartments LLC
Gabrielle Chaput
Desmonde Farruga
Shalom Torah Centers
Sid M. Tarrabain Professional Corporation
Mokhlis Y. Zaki

4.8*

Form of warrants issued in June and July 2003 to holders of Secured Convertible Notes for an aggregate of 6,865,484 shares. (10)

4.9*

Form of subscription agreement for shares of common stock and warrants issued to Myer Bentob, in a private placement, for an aggregate of 833,333 shares and 416,667 warrants.(11)

4.10*

Form of warrants issued to Myer Bentob, in a private placement, for an aggregate of 416,667 shares. (11)

4.11*

Form of warrants issued to Michael Mulshine for an aggregate of 100,000 shares (12)

4.12*

Form of warrants issued to Michael Mulshine for an aggregate of 150,000 shares (12)

4.13*

Form of agreement with Beth Medrash Govoha of Lakewood to convert promissory note into 1,806,666 shares and 1,666,666 warrants (12)

4.14*

Form of warrants issued in January 2004 to previous holders of warrants issued in conjunction with Secured Convertible Notes for an aggregate of 6,032,150 shares (12)

4.15*

Form of warrants issued in April 2004 to previous holders of warrants issued (12)

4.16*

Form of Convertible Note and Purchase Agreement (13)

4.17*

Form of Secured Convertible Promissory Note (13)

4.18*

Form of Warrant (13)

4.19*

Financial Advisory /Investment Banking Agreement with Duncan Capital LLC, as amended (13)

4.20*

Form of Note and Form of warrant issued to Keren MYCB Elias Foundation in August 2004 (14)

4.21*

Form of warrants issued in October 2004 to previous holders of warrants (14)

4.22*

Form of warrants issued in October 2004 to Osprey Partners (14)

4.23*

Form of Convertible Note and Purchase Agreement dated February 11, 2005 (15)

4.24*

Form of Secured Convertible Promissory Note issued February 11, 2005 (15)

4.25*

Form of Warrant issued February 11, 2005 (15)

4.26*

Form of Security Agreement dated February 11, 2005(15)

4.27*

Form of Convertible Note and Purchase Agreement dated March 24, 2005 (16)

4.28*

Form of Secured Convertible Promissory Note issued March 24, 2005 (16)

4.29*

Form of Warrant issued March 24, 2005 (16)

4.30*

Form of Security Agreement issued March 24, 2005 (16)

4.31*

Form of Security Convertible Note issued February 28, 2006 (18)

4.32*

Form of Warrant issued February 28, 2006 (18)

4.33*

Form of Loan and Security Agreement dated October 31, 2006 (19)

4.34*

Form of Promissory Note issued October 31, 2006 (19)

4.35*

Form of Consent, Waiver and Amendment Agreement dated November 27, 2006 (19)

4.36*

Form of Additional Issuance Agreement dated December 13, 2006 (19)

4.37*

Form of Security Convertible Note issued December 13, 2006 (19)

4.38*

Form of Warrant issued October 31, 2006 and December 13, 2006 (19)

4.39*

Form of Intercreditor Agreement Regarding Loan and Security Agreement and Additional Issuance Agreement dated December 13, 2006 (19)

4.40*

Form of Subscription Agreement dated December 21, 2006 (20)

4.41*

Form of Warrant issued December 21, 2006 (20)

10.1*

Asset Purchase Agreement dated October 6, 2000 among Unity Wireless Systems Corporation, a British Columbia, Canada, corporation, 568608 B.C. Ltd., a British Columbia, Canada corporation, Traffic Systems, L.L.C., an Arizona limited liability company, Traffic Safety Products, Inc., an Arizona corporation and James L. Hill (4)

10.2*

Intellectual Property License Agreement, dated October 6, 2000, between Unity Systems Corporation, as licensor, and Traffic Systems, LLC, as licensee (4)

10.3*

Share Purchase Agreement, dated November 16, 2000 among John Robertson, Mirza Kassam, Chris Neumann, Robert Fetherstonhaugh, Unity Wireless Corporation, Stirling Mercantile Corporation, Peter A. Scott Consulting Ltd., W. Hugh Notman (5)

10.4*

Asset Purchase Agreement, dated for reference December 30, 2000, among Unity Wireless Integration Corporation as vendor, Lyma Sales & Management Corp. as purchaser and Unity Wireless Corporation (6)

10.5*

Agreement to Redeem Membership Interest, Transfer Intellectual Property and Amend Asset Purchase Agreement, effective April 9, 2001, by and among Traffic Systems, L.L.C., Unity Wireless Systems Corporation, Traffic Safety Products, Inc. and Jim Hill (7)

10.6*

Form of Private Placement Purchase Agreement, dated November 20, 2002, among Unity Wireless Corporation, Unity Wireless Systems Corporation, and each person or entity listed in 10.11 below. (8)

10.7*

General Security Agreement, dated for reference November 20, 2002, between each of the Investors listed in Schedule 1 to the Agreement, Unity Wireless Systems Corporation and Jeffrey Rubin, as Agent. (8)

10.8*

General Security Agreement, dated for reference, November 20, 2002, between each of the Investors listed in Schedule 1 to the Agreement, Unity Wireless Corporation and Jeffrey Rubin, as Agent.

10.9*

Licence Agreement, dated April 23, 2002, between Unity Wireless Corporation and Paragon Communications. (8)

10.10*

Agreement, dated July 19, 2002, between Unity Wireless Corporation and Dekolink Wireless Ltd. (8)

10.11*

Manufacturing Agreement, dated July 10, 2002, between Unity Wireless Systems Corporation and Netro Corporation. (8)

10.12*

Strategic Supply Agreement, dated June 19, 2002, between Unity Wireless Systems Corporation and Avtec, AB. (8)

10.13*

Investor Relations Agreement, dated April 10, 2002, between Unity Wireless Corporation and Osprey Partners. (8)

10.14*

Amendment to Investor Relations Agreement, dated September 20, 2002, between Unity Wireless Corporation and Osprey Partners. (8)

10.15*

Form of Security Agreement (13)

10.16*

Form of Security Purchase Agreement dated February 28, 2006 (18)

10.17*

Form of Security Agreement dated February 28, 2006 (18)

10.18*

Form of Subsidiary Guarantee Agreement dated February 28, 2006 (18)

10.19*

Form of Registered Rights Agreement dated February 28, 2006 (18)

10.20*

Form of Agreement with Cambria Capital dated January 13, 2006 (18)

10.21*

Form of Agreement with Oceana Partners LLC dated December 1, 2006 (19)

10.22*

Form of Subsidiary Guarantee Regarding Additional Issuance Agreement dated December 13, 2006 (19)

10.23*

Form of Letter Provided to Investors dated December 13, 2006 (19)

10.24*

Form of Subsidiary Guarantee Regarding Loan and Security Agreement dated October 31, 2006 (19)

14* Code of Ethics.(12)

21.1

Subsidiaries of our company:

Unity Wireless Systems Corporation (British Columbia); 321373 B.C. Ltd. (British Columbia); Unity Wireless Microwave Systems Ltd.(Israel); Celletra Ltd.(Israel); Celerica Inc.(Israel); Celletra Inc.(State of Delaware, US); Celerica Ltd.(State of Delaware, US)

23.1**

Consent of KPMG LLP

31.1** Certification of Ilan Kenig pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1** Certification of Ilan Kenig pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

*

Previously filed

**

Filed herewith

(1)

Incorporated by reference to the company's Form SB-2 filed with the Securities and Exchange Commission on October 4, 2000.

(2)

Incorporated by reference to the company's Form SB-2 filed with the Securities and Exchange Commission on May 13, 2004.

(2.5)

Incorporated by reference to the company's Form 10-QSB filed with the Securities and Exchange Commission on August 6, 2004.

(3)

Incorporated by reference to the company's Form 10-KSB filed with the Securities and Exchange Commission on April 2, 2001.

(4)

Incorporated by reference to the company's Form 8-K filed with the Securities and Exchange Commission on October 23, 2000.

(5)

Incorporated by reference to the company's Form 8-K filed with the Securities and Exchange Commission on December 4, 2000.

(6)

Incorporated by reference to the company's Form 8-K filed with the Securities and Exchange Commission on January 16, 2001.

(7)

Incorporated by references to the company's Form SB-2A filed with the Securities and Exchange Commission on May 3, 2001.

(8)

Incorporated by reference to our Form 10-KSB filed with the Securities and Exchange Commission on April 3, 2003.

(9)

Incorporated by reference to our Form SB-2 filed with the Securities and Exchange Commission on May 2, 2003.

(10)

Incorporated by reference to our Form 10-QSB filed with the Securities and Exchange Commission on August 14, 2003.

(11)

Incorporated by reference to our Form 10-QSB filed with the Securities and Exchange Commission on Nov 14, 2003.

(12)

Incorporated by reference to our Form 10-KSB filed with the Securities and Exchange Commission on March 29, 2004.

(13)

Incorporated by reference to our Form 8-K filed with the Securities and Exchange Commission on September 7, 2004.

(14)

Incorporated by reference to our Form SB-2 filed with the Securities and Exchange Commission on October 27, 2004.

(15)

Incorporated by reference to our Form 8-K filed with the Securities and Exchange Commission on February 14, 2005.

- (16)
Incorporated by reference to our Form SB-2 filed with the Securities and Exchange Commission on April 20, 2005.
- (17)
Incorporated by reference to the company's Form 8-K filed with the Securities and Exchange Commission on February 16, 2006.
- (18)
Incorporated by reference to the company's Form 8-K filed with the Securities and Exchange Commission on March 6, 2006.
- (19)
Incorporated by reference to the company's Form 8-K filed with the Securities and Exchange Commission on December 20, 2006.
- (20)
Incorporated by reference to the company's Form 8-K filed with the Securities and Exchange Commission on December 29, 2006.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees.

The audit fees for 2007 and 2006 were Cdn \$441,200 and Cdn \$235,336, respectively. All services provided by independent accountants were approved by the audit committee

Tax Fees.

Tax fees consisted of consulting and preparation of tax returns. The fees were Cdn \$9,434 and Cdn \$12,135 in 2007 and 2006, respectively.

Audit Committee Pre-Approval Policies and Procedures.

The Audit Committee is directly and solely responsible for oversight, engagement and termination of any independent auditor employed by the Company for the purpose of preparing or issuing an audit report or related work.

The Committee meets with the independent auditor prior to the audit and discusses the planning and staffing of the audit;

Approves in advance the engagement of the independent auditor for all audit services and non-audit services and approve the fees and other terms of any such engagement; and

Obtains periodically from the independent auditor a formal written statement of the matters required to be discussed by Statement of Auditing Standards No. 114, and, in particular, describing all relationships between the auditor and the Company, and discusses with the auditor any disclosed relationships or services that may impact auditor objectivity and independence.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNITY WIRELESS CORPORATION

/s/ Ilan Kenig

By: Ilan Kenig, Chief Executive Officer
(Principal Executive Officer and Principal Financial Officer)

Dated: May 15, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Ilan Kenig

Ilan Kenig, Chief Executive Officer and Director
(Principal Executive Officer)
May 15, 2008

/s/ Ken Maddison

Ken Maddison, Director
May 15, 2008

/s/ Doron Nevo

Doron Nevo, Director
May 15, 2008

/s/ Elie Barr

Victor Halpert, Director
May 15, 2008

/s/ Andrew Chamberlain

Andrew Chamberlain, Corporate Secretary and Director
May 15, 2008

/s/ Ariel Poppel

Amir Gal-Or, Director
May 15, 2008

/s/ David Goldschmidt

David Goldschmidt, Director
May 15, 2008

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors

Unity Wireless Corporation

We consent to the incorporation by reference in the registration statements (No. 333-123623) on Form S-8 of Unity Wireless Corporation of our report dated May 1, 2008, with respect to the consolidated balance sheets of Unity Wireless Corporation as of December 31, 2007 and 2006, and the related consolidated statements of operations and comprehensive loss, stockholders' equity (deficiency) and cash flows for each of the years in the two-year period ended December 31, 2007, which report appears in the December 31, 2007, annual report on Form 10-KSB of Unity Wireless Corporation. Our report dated May 1, 2008 contains an explanatory paragraph that states that the Company has incurred recurring losses from operations that raise substantial doubt about its ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of that uncertainty.

/s/ KPMG LLP

Chartered Accountants

Vancouver, Canada

May 14, 2008

Exhibit 31.1

CERTIFICATION

I, Ilan Kenig, Chief Executive Officer of Unity Wireless Corporation (the Company), certify that:

- (1) I have reviewed this Annual Report on Form 10-KSB for the fiscal year ended December 31, 2007;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order 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 Report;
- (3) Based on my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods represented in this report.
- (4) I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and 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 Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the Report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this 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

(d) disclosed in this Report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

(5) The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and to the audit committee of the board of directors (or persons fulfilling the equivalent function):

(i) 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 Company's ability to record, process, summarize and report financial information; and

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

May 15, 2008

/s/ Ilan Kenig

Ilan Kenig
Chief Executive Officer

Principal Executive Officer and Principal Accounting Officer

Exhibit 32.1

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

In connection with the Annual Report of Unity Wireless Corporation (the Company) on Form 10-KSB for the year ended December 31, 2007 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, Chief Executive Officer

Principal Executive Officer and Principal Accounting Officer
May 15, 2008