

UNITY WIRELESS CORP  
Form 10QSB  
November 19, 2007

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

**FORM 10-QSB**

(Mark One)

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

For the quarterly period ended September 30, 2007

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number **0-30620**

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

**DELAWARE**

(State or other jurisdiction of incorporation or organization)

**91-1940650**

(I.R.S. Employer Identification  
Number)

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

**(800) 337-6642**

(Issuer's Telephone Number)

**not applicable**

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

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

Yes  No

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

Yes  No



**APPLICABLE ONLY TO CORPORATE ISSUERS**

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

180,707,827 common shares outstanding as of November 01, 2007

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

**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements**

Consolidated Financial Statements

(Expressed in United States dollars)

**UNITY WIRELESS CORPORATION**

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

Three and nine months ended September 30, 2007 and 2006 (unaudited)



**UNITY WIRELESS CORPORATION**

## Consolidated Balance Sheets

(Expressed in United States dollars)

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

|  | September 30,<br>2007<br>(unaudited) | December 31,<br>2006 |
|--|--------------------------------------|----------------------|
| <b>Assets</b>  |                                      |                      |
| <b>Current assets:</b>   |                                      |                      |
| Cash and cash equivalents  | \$ 353,977                           | \$ 1,217,792         |
| Restricted cash  | 193,000                              | 497,000              |
| Accounts receivable (less allowance for doubtful accounts of \$494,319 (2006 - \$139,160)) | 2,816,739                            | 3,824,447            |
| Inventory (note 4)   | 730,720                              | 1,657,138            |
| Prepaid expenses and deposits  | 131,201                              | 150,673              |
|  | 4,225,637                            | 7,347,050            |
| Long-term deposits   | 19,000                               | 104,000              |
| Amounts funded for employees' right upon retirement (note 10)                              | 323,000                              | 676,000              |
| Equipment, net   | 829,026                              | 1,314,291            |
| Goodwill (note 3)  | 7,608,243                            | 7,608,243            |
| Intangibles, net (note 3(d))   | 5,494,666                            | 7,711,396            |
|  | \$ 18,499,572                        | \$ 24,760,980        |
| <b>Liabilities and Stockholders' Equity (Deficiency)</b>                                   |                                      |                      |
| <b>Current liabilities:</b>  |                                      |                      |
| Bank Loan (note 5)   | \$ 2,481,000                         | \$ 1,458,000         |
| Accounts payable and accrued liabilities (note 6)  | 8,868,334                            | 9,601,918            |
| Obligations under capital leases (note 7)  | 51,909                               | 215,710              |
| Loans payable (note 8)   | 460,000                              | 1,500,000            |
| Convertible debentures (note 9)  | 1,980,193                            | 1,947,552            |
| Product warranty (note 14 (c))   | 211,261                              | 314,904              |
|  | 14,052,697                           | 15,038,084           |
| Obligations under capital leases (note 7)  | -                                    | 39,921               |
| Convertible debentures (note 9)  | 4,727,009                            | 5,248,108            |

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|  |               |               |
|--|---------------|---------------|
| Employees' rights upon retirement (note 10)                                | 338,000       | 672,000       |
|  | 19,117,706    | 20,998,113    |
| Stockholders' equity(deficiency):  |               |               |
| Common stock, \$0.001 par value<br>520,000,000                             |               |               |
| authorized, 179,893,537 (2006<br>107,159,019) issued                       |               |               |
| and outstanding  | 179,893       | 107,159       |
| Series A convertible non-redeemable preferred shares,<br>\$0.001 par value | -             | 20            |
| Series B convertible non-redeemable preferred shares,<br>\$0.001 par value | 90            | 90            |
| Additional paid-in capital   | 51,056,963    | 45,831,809    |
| Accumulated deficit  | (51,786,256)  | (42,107,387)  |
| Accumulated other comprehensive income:                                    |               |               |
| Cumulative translation adjustments   | (68,824)      | (68,824)      |
|  | (618,134)     | 3,762,867     |
|  | \$ 18,499,572 | \$ 24,760,980 |



Future operations (note 1)

Commitments (note13)

Contingent liabilities (note 14)

Subsequent event (note 5 and 11(d))

See accompanying notes to consolidated financial statements.

**UNITY WIRELESS CORPORATION**

## Consolidated Statements of Operations and Comprehensive Loss

(Expressed in United States dollars)

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

|   | Three months ended                |                                   | Nine months ended                 |                                   |
|---|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
|   | September 30,<br>2007 (unaudited) | September 30,<br>2006 (unaudited) | September 30,<br>2007 (unaudited) | September 30,<br>2006 (unaudited) |
| Sales   | \$ 1,074,690                      | \$ 1,517,857                      | \$ 5,868,115                      | \$ 4,657,884                      |
| Cost of goods sold                                | 886,358                           | 1,098,499                         | 4,506,244                         | 3,577,474                         |
|   | 188,332                           | 419,358                           | 1,361,871                         | 1,080,410                         |
| Expenses:   |                                   |                                   |                                   |                                   |
| Research and development                          | 1,455,765                         | 723,935                           | 3,537,491                         | 1,615,568                         |
| Royalty payments for government grant             |                                   |                                   |                                   |                                   |
| (note 14 (b))                                     | 30,389                            | 31,174                            | 315,082                           | 77,387                            |
| Sales and marketing                               | 277,600                           | 544,031                           | 1,047,153                         | 999,098                           |
| Depreciation and amortization                     | 836,426                           | 419,444                           | 2,552,126                         | 573,045                           |
| Foreign exchange loss                             | 89,476                            | 5,520                             | 121,658                           | 55,046                            |
| Interest expense, excluding accretion of interest |                                   |                                   |                                   |                                   |
| and loss on debt settlement                       | 377,124                           | 184,172                           | 804,567                           | 385,285                           |
| General and administrative                        | 818,552                           | 749,708                           | 2,136,983                         | 1,639,916                         |
| Share compensation expenses (note 3 (c))          | 56,250                            | -                                 | 281,250                           | -                                 |
|   | 3,941,582                         | 2,657,984                         | 10,796,310                        | 5,345,345                         |
| Operating loss for the period                     | (3,753,250)                       | (2,238,626)                       | (9,434,439)                       | (4,264,935)                       |
| Other income (loss)                               | (44,851)                          | 6,650                             | (7,381)                           | 6,650                             |
| Fair value adjustment on warrants and conversion  |                                   |                                   |                                   |                                   |
| feature liability                                 | -                                 | (54,290)                          | -                                 | 591,424                           |
| Accretion of interest and loss on debt settlement |                                   |                                   |                                   |                                   |
| (note 9)  | (48,031)                          | (62,839)                          | (237,049)                         | (1,681,178)                       |

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|  |                 |                 |                 |                 |
|--|-----------------|-----------------|-----------------|-----------------|
| Loss for the period                                  | (3,846,132)     | (2,349,095)     | (9,678,869)     | (5,348,039)     |
| Deficit, beginning of period                         | (47,940,124)    | (30,271,430)    | (42,107,387)    | (27,272,486)    |
| Deficit, end of period                               | \$ (51,786,256) | \$ (32,650,525) | \$ (51,786,256) | \$ (32,620,525) |
| Basic and diluted loss per common share (note 11(b)) | \$ (0.02)       | \$ (0.03)       | \$ (0.07)       | \$ (0.06)       |

See accompanying notes to consolidated financial statements.

**UNITY WIRELESS CORPORATION**

## Consolidated Statements of Cash Flows

(Expressed in United States dollars)

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

|   | Three months ended<br>September 30,<br>2007<br><br>(unaudited) | months ended<br>September 30,<br>2006<br><br>(unaudited) | Nine months ended<br>September 30<br>2007<br><br>(unaudited) | September 30<br>2006<br><br>(unaudited) |
|---|--|--|--|---|
| Operations:   |  |  |  |   |
| Loss for the period                                   | \$ (3,846,132)   | \$ (2,349,095)   | \$ (9,678,869)   | \$ (5,348,039)                          |
| Adjustments to reconcile net loss to net cash used in |  |  |  |   |
| operating activities:                                 |  |  |  |   |
| Accretion of interest and loss on debt settlement     | 48,031   | 62,829   | 237,049  | 1,681,178                               |
| Fair value adjustment on warrants and conversion      |  |  |  |   |
| feature liability                                     | -  | 54,290   | -  | (591,424)                               |
| Change in employees liability upon retirement         | 6,000  | (29,000)   | 19,000   | (31,000)                                |
| Change in allowance for doubtful debts                | 30,000   | -  | 355,159  | -                                       |
| Inventory write-down (note 4)                         | 235,293  | -  | 423,293  | -                                       |
| Loss / (gain) on disposal                             | 44,851   | (81,650)   | 7,381  | (81,650)                                |
| Depreciation and amortization                         | 836,426  | 419,444  | 2,552,126  | 573,045                                 |
| Stock-based compensation                              | 100,983  | 93,222   | 399,552  | 342,074                                 |
| Changes in non-cash working capital relating to       |  |  |  |   |
| operations:   |  |  |  |   |
| Accounts receivables                                  | 1,305,583  | 1,651,383  | 972,646  | 476,941                                 |
| Inventory   | (33,436)   | (502,235)  | 607,450  | (281,553)                               |
| Prepaid expenses and deposits                         | 333,587  | 25,026   | 63,755   | (49,013)                                |
| Accounts payable and accrued liabilities              | (141,529)  | 696,995  | (343,379)  | 1,351,427                               |
|   | (1,080,343)  | 41,209   | (4,384,837)  | (1,958,014)                             |

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Investments:

Cash assumed on acquisition less  
acquisition costs

|  |            |            |             |            |
|--|------------|------------|-------------|------------|
| (note 3)   | -          | 618,738    | -           | 1,066,093  |
| Change in deposit                                      | 7,000      | 16,750     | 85,000      | 17,744     |
| Restricted cash  | 378,000    | (48,000)   | 304,000     | (48,000)   |
| Disposition of equipment                               | 11,000     | 101,686    | 45,482      | 101,686    |
| Acquisition of equipment                               | (2,000)    | (5,488)    | (10,000)    | (8,574)    |
|  | 394,000    | 683,686    | 424,482     | 1,129,759  |
| Financing:   |            |            |             |            |
| Bank loan  | (25,000)   | (411,000)  | 1,023,000   | (411,000)  |
| Loans payable  | 5,000      | -          | (1,035,000) | -          |
| Capital lease obligation                               | (39,611)   | (79,817)   | (203,722)   | (242,743)  |
| Convertible debentures (note 9)                        | -          | -          | -           | 2,200,000  |
| Cash proceeds on issuance of common<br>shares          | 610,000    | -          | 3,115,560   | 106,222    |
| Share issue costs                                      | -          | -          | (141,334)   | (218,861)  |
|  | 550,389    | (490,817)  | 2,758,504   | 1,433,618  |
| Effect of foreign exchange rate changes on<br>cash and |            |            |             |            |
| cash equivalents                                       | 207,662    | 16,254     | 338,036     | 46,873     |
| Increase (decrease) in cash and cash<br>equivalents    | 71,708     | 250,332    | (863,815)   | 652,236    |
| Cash and cash equivalents, beginning of<br>period      | 282,269    | 558,950    | 1,217,792   | 157,046    |
| Cash and cash equivalents, end of period               | \$ 353,977 | \$ 809,282 | \$ 353,977  | \$ 809,282 |
| Supplementary information (note 15)                    |            |            |             |            |

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)

Three and nine months ended September 30, 2007 and 2006 (unaudited)

### 1.

#### **Basis of presentation:**

The accompanying interim unaudited consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by the United States generally accepted accounting principles for a complete set of annual consolidated financial statements.

In the opinion of management, all adjustments (consisting solely of normally recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month period ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ended December 31, 2007 or for any other period.

For further information, refer to the consolidated financial statements and footnotes thereto included in Unity Wireless Corporation's (the Corporation) annual report on Form 10-KSB for the year ended December 31, 2006. Except as indicated in note 2(c), the accounting policies applied in the preparation of these interim consolidated financial statements are consistent with those applied in the consolidated financial statements filed with the Corporation's annual report.

These financial statements have been prepared on the going concern basis under which an entity is considered to be able to realize its assets and satisfy its liabilities in the ordinary course of business. Operations to date have been significantly financed by short-term and long-term debt and equity transactions. At September 30, 2007, the Corporation requires additional financing to continue to operate at current levels through the next year. Accordingly, the Corporation's future operations are dependent upon the identification and successful completion of additional long-term or permanent debt and equity financing, the continued support of creditors and stockholders, and, ultimately, the achievement of profitable operations. There can be no assurances that the Corporation will be successful. If it is not, the Corporation will be required to reduce operations or liquidate assets. The Corporation will continue to evaluate its projected expenditures relative to its available cash and to seek additional means of financing in order to satisfy its working capital and other cash requirements. The consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should the Corporation be unable to continue as a going concern.



**UNITY WIRELESS CORPORATION**

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

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

Three and nine months ended September 30, 2007 and 2006 (unaudited)

**2.**

**Significant accounting policies:**

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America using the same accounting policies and methods of application as those disclosed in the Corporation's financial statements for the year ended December 31, 2006.

(a) Use of estimates:

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, particularly the recoverability of inventory, equipment, 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.

(b) Comparative figures:

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

(c) Shipping and handling costs:

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.

(d)

Recent accounting pronouncement:

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 nine months ended September 30, 2007.

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**UNITY WIRELESS CORPORATION**

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

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

Three and nine months ended September 30, 2007 and 2006 (unaudited)

(d)

Recent accounting pronouncement (continued):

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 2002 to 2006. 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.



**UNITY WIRELESS CORPORATION**

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

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

Three and nine months ended September 30, 2007 and 2006 (unaudited)

**3. Business combinations:**

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 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 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.

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 and comprehensive loss 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 9(e)) 1,755,147

Acquisition costs 93,781

\$

1,848,928

The goodwill allocated on the acquisition will not be deductible for tax purposes.

The Company finalized the purchase price allocation in the second quarter of 2007 resulting in no change from the preliminary allocation.

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## UNITY WIRELESS CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

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

Three and nine months ended September 30, 2007 and 2006 (unaudited)

### 3. Business combinations (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 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 April 25, 2007, the Series A convertible non-redeemable preferred shares were converted into 20,000,000 common shares.

The transaction has been accounted for as a business combination by the purchase method, with Unity Wireless Corporation identified as the acquirer. The Corporation's consolidated statements of operations and comprehensive loss 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)  |
| <br>                                  |    |           |
| Total net assets acquired             | \$ | 2,018,483 |
| <br>                                  |    |           |
| Consideration:                        |    |           |
| Fair value of preferred shares issued | \$ | 2,000,000 |
| Acquisition costs                     |    | 18,483    |
|                                       | \$ | 2,018,483 |

The goodwill allocated on the acquisition will not be deductible for tax purposes.

**11**

**UNITY WIRELESS CORPORATION**

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

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

Three and nine months ended September 30, 2007 and 2006 (unaudited)

**3. Business combinations (continued):**

The Company finalized the purchase price allocation in the third quarter of 2007 resulting in no change from the preliminary allocation.

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 the net assets of Celletra in exchange for 70,000 shares of Series B convertible non-redeemable preferred shares 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 3 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 and comprehensive loss include the operating results of Celletra Ltd. from August 17, 2006, the date of acquisition.

**UNITY WIRELESS CORPORATION**

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

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

Three and nine months ended September 30, 2007 and 2006 (unaudited)

**3. Business combinations (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)      |
| <br>Total net assets acquired         | <br>\$ | <br>11,055,262 |
| <br>Consideration:                    |        |                |
| Fair value of preferred shares issued | \$     | 9,000,000      |
| Fair value of warrants issued         |        | 2,026,533      |
| Acquisition costs                     |        | 28,729         |
|                                       | \$     | 11,055,262     |

The goodwill allocated on the acquisition will not be deductible for tax purposes.

The Company finalized the purchase price allocation in the third quarter of 2007 resulting in no change from the preliminary allocation.

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 is 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 is equal to or exceeds \$0.20 for a period of seven consecutive days. If the target share price is met, the shares would be distributed. If this milestone is not achieved the shares will be 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.



**UNITY WIRELESS CORPORATION**

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

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

Three and nine months ended September 30, 2007 and 2006 (unaudited)

**3. Business combinations (continued):**

The amortization for the nine months ended September 30, 2007 was \$281,250. The full amount has been amortized as of September 30, 2007.

(d) For all of the acquisitions described in note 3(a) to note 3(c), the Corporation has recorded \$8,956,486 as identifiable intangible assets. Intangibles amortization for the period ended September 30, 2007, has been recognized at a rate of 33.3% per annum.

|                                    |    |           |
|------------------------------------|----|-----------|
| Intangible assets acquired         | \$ | 8,956,486 |
| Amortization to December 31, 2006  |    | 1,245,090 |
| Balance, December 31, 2006         | \$ | 7,711,396 |
| Amortization to September 30, 2007 |    | 2,216,730 |
| Balance, September 30, 2007        | \$ | 5,494,666 |



**UNITY WIRELESS CORPORATION**

## Notes to Consolidated Financial Statements

(Expressed in United States dollars)

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

Three and nine months ended September 30, 2007 and 2006 (unaudited)

**4. Inventory:**

|                | September 30,<br>2007 | December 31,<br>2006 |
|----------------|-----------------------|----------------------|
| Raw materials  | \$ 696,030            | \$ 1,560,681         |
| Finished goods | 34,690                | 96,457               |
|                | \$ 730,720            | \$ 1,657,138         |

During the nine-month period ended September 30, 2007, the Corporation recorded \$423,293 (2006 nil), as a write-down of raw materials, due to obsolete inventory, as a charge to research and development. The Company's raw materials are used in its research and development processes; as a result, the write-down has been charged to research and development expenses.

**5. Bank loan:**

As part of the acquisition of Avantry Ltd., the Corporation assumed a bank loan which bears interest at LIBOR + 2% (September 30, 2007 7.5%). The balance of \$771,000 as at September 30, 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% (September 30, 2007 8%) and is secured by a general floating lien on all of Celletra's assets. As at September 30, 2007, the outstanding balance of the line of credit was \$1,710,000. Subsequent to September 30, 2007, the Corporation obtained an additional revolving line of credit of a maximum of \$2,000,000, which bears interest at LIBOR + 3.0% and is secured by a general floating lien on all of Celletra's assets.



**UNITY WIRELESS CORPORATION**

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(Expressed in United States dollars)

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

Three and nine months ended September 30, 2007 and 2006 (unaudited)

**6. Accounts payable and accrued liabilities:**

|                        | September 30,<br>2007 | December 31,<br>2006 |
|------------------------|-----------------------|----------------------|
| Trade accounts payable | \$ 3,925,136          | \$ 5,302,979         |
| Accrued liabilities    | 4,943,198             | 4,298,939            |
|                        | \$ 8,868,334          | \$ 9,601,918         |

Included in trade accounts payable is a loan of \$274,000, bearing interest at 8% and due July 3, 2007, payable to former shareholders of Celerica Ltd. The loan was not repaid on July 3, 2007 and the Company is currently negotiating new terms with the creditors.

**7.****Obligations under capital leases:**

The Corporation leases research and development and production equipment under capital leases expiring at various dates to 2008. As at September 30, 2007, future minimum lease payments under capital leases are as follows:

|      |           |
|------|-----------|
| 2007 | \$ 36,208 |
| 2008 | 16,222    |
|      | \$ 52,429 |

|                              |           |
|------------------------------|-----------|
| Amount representing interest | (502)     |
|                              | \$ 51,909 |

|                 |        |
|-----------------|--------|
| Current portion | 51,909 |
|-----------------|--------|

\$ -

Interest rates on the capital leases average approximately 5.07%. Interest expense for the nine-month period ended September 30, 2007 and 2006 was \$8,866, and \$59,295, respectively.

**UNITY WIRELESS CORPORATION**

## Notes to Consolidated Financial Statements

(Expressed in United States dollars)

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Three and nine months ended September 30, 2007 and 2006 (unaudited)

**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 have not demanded repayment of the note and the note remains outstanding. In accordance with the terms of the note, the rate of interest will increase to 22% after the initial due date unless waived by the holders.

During the nine-month period ended September 30, 2007, the Corporation repaid \$1,040,000 of the promissory note. As at September 30, 2007, the outstanding principal of the promissory notes was \$460,000.

**9.****Convertible debentures:**

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

| Issue Date       | Interest | Conversion Price | Maturity Date     | As at September 30, | 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          | February 28, 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)    | 8%       | \$ 0.20          | March 24, 2007    | 228,594             | 266,964            |
| February 2006(d) | 8%       | \$ 0.09          | December 13, 2009 | 2,200,000           | 2,200,000          |

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|                   |    |    |      |                      |              |              |
|-------------------|----|----|------|----------------------|--------------|--------------|
| 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 | (541,919)    | (715,904)    |
|                   |    |    |      |                      | 6,707,202    | 7,195,660    |
|                   |    |    |      | Current portion      | (1,980,193)  | (1,947,552)  |
|                   |    |    |      | Long-term            | \$ 4,727,009 | \$ 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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Notes to Consolidated Financial Statements

(Expressed in United States dollars)

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

Three and nine months ended September 30, 2007 and 2006 (unaudited)

**9.**

**Convertible debentures (continued):**

(a) Issue date: August 31, 2004

During the nine-month period ended September 30, 2007, \$26,942 amortization of premium has been recorded as a reduction to accretion of interest in the statement of operations. During the nine-month period ended September 30, 2007, \$250,000 of the debentures were converted to common shares.

(b) Issue date: February 11, 2005

During the nine-month period ended September 30, 2007, \$47,002 amortization of premium has been recorded as a reduction to accretion of interest in the statement of operations. The remaining premium of \$55,376 will be amortized over the term to maturity of the convertible note. During the nine-month period ended September 30, 2007, \$250,000 of the debentures were converted to common shares.

(c) Issue date: March 24, 2005

During the nine-month period ended September 30, 2007, accretion of \$86,237 (2006 - \$85,210) 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 nine-month period ended September 30, 2007, \$38,370 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 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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Notes to Consolidated Financial Statements

(Expressed in United States dollars)

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Three and nine months ended September 30, 2007 and 2006 (unaudited)

**9.**

**Convertible debentures (continued):**

(d)

Issue date: February 28, 2006

During the nine-month period ended September 30, 2007, \$63,047 amortization of premium has been recorded as a reduction to accretion of interest in the statement of operations. The remaining premium of \$174,037 will be amortized over the term to maturity of the convertible note. During the nine-month period ended September 30, 2007, no debentures were converted.

(e)

Issued date: June 12, 2006

During the nine-month period ended September 30, 2007, accretion of \$27,774 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 nine-month period ended September 30, 2007. 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

During the nine-month period ended September 30, 2007, accretion of \$196,935 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 nine-month period ended September 30, 2007, \$81,043 of the debentures were converted to common shares.

(g) Issue date: September 30, 2004

During the nine-month period ended September 30, 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 classified as accretion of interest and loss on debt settlement.

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Notes to Consolidated Financial Statements

(Expressed in United States dollars)

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Three and nine months ended September 30, 2007 and 2006 (unaudited)

**10. 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 nine-month period ended September 30, 2007 was \$19,000 (2006 - \$31,000).

**UNITY WIRELESS CORPORATION**

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

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

Three and nine months ended September 30, 2007 and 2006 (unaudited)

**11.**

**Common stock:**

(a)

Issued and outstanding

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

During the nine-month period ended September 30, 2007, the Corporation issued 7,630,704 common shares in settlement of \$778,164 of accounts payable.

During the nine-month period ended September 30, 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 \$3,115,560. 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, valued at \$125,877, and paid cash fees of \$141,334. In accordance with the terms of the Warrant Agreement, the Corporation is required to register the shares issuable upon the exercise of warrants.

During the nine-month period ended September 30, 2007, the Corporation issued 7,360,145 common shares for the conversion related to \$662,413 of the convertible notes.



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(Expressed in United States dollars)

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Three and nine months ended September 30, 2007 and 2006 (unaudited)

**11.**

**Common stock (continued):**

During the nine-month period ended September 30, 2007, the Corporation issued 20,000,000 common shares for the conversion of \$2,000,000 Series A preferred shares.

(b)

Loss per share:

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

|                     | Three months ended |                | Nine months ended |                |
|---------------------|--------------------|----------------|-------------------|----------------|
|                     | September 30,      | September 30,  | September 30,     | September 30,  |
|                     | 2007               | 2006           | 2007              | 2006           |
|                     | (unaudited)        | (unaudited)    | (unaudited)       | (unaudited)    |
| Loss for the period | \$ (3,846,132)     | \$ (2,349,095) | \$ (9,678,869)    | \$ (5,348,039) |

Weighted average

number of  
common

|             |            |             |            |
|-------------|------------|-------------|------------|
| 169,615,711 | 93,834,958 | 147,560,221 | 92,778,137 |
|-------------|------------|-------------|------------|

shares

outstanding



|                        |    |        |    |        |    |        |    |        |
|------------------------|----|--------|----|--------|----|--------|----|--------|
| Basic and diluted loss | \$ | (0.02) | \$ | (0.03) | \$ | (0.07) | \$ | (0.06) |
|------------------------|----|--------|----|--------|----|--------|----|--------|

per common share

For the nine-month period ended September 30, 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 \$342,074 of stock-based compensation expense during the nine-month period ended September 30, 2007 and 2006, respectively.

The Corporation grants options to employees and non-employees. There were no options granted to employees during the nine-month period ended September 30, 2007. The fair value of employee and non-employee grants in the nine-month period ended September 30, 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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Notes to Consolidated Financial Statements

(Expressed in United States dollars)

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Three and nine months ended September 30, 2007 and 2006 (unaudited)

**11.****Common stock (continued):**

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

|                                   | Shares available<br>to be granted<br>under option | Outstanding Options                    |                                    |
|-----------------------------------|---|--|------------------------------------|
|                                   |   | Number of<br>common shares<br>issuable | Weighted average<br>exercise price |
| Balance, December 31, 2006        | 14,632,637  | 6,799,167                              | \$ 0.24                            |
| Options granted                   | -   | -                                      | -                                  |
| Options expired                   | 1,257,501   | (1,257,501)                            | 0.19                               |
| Options exercised                 | -   | -                                      | -                                  |
| Increase in reserved for issuance | 14,546,904  | -                                      |                                    |
| Balance, September 30, 2007       | 30,437,041  | 5,541,666                              | \$ 0.25                            |

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 September 30, 2007, the intrinsic value of total outstanding options and exercisable options was \$ nil. The aggregate intrinsic value of stock options exercised during the nine-month period ended September 30, 2007 was nil.



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## Notes to Consolidated Financial Statements

(Expressed in United States dollars)

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

Three and nine months ended September 30, 2007 and 2006 (unaudited)

**11.****Common stock (continued):**

(c)

Stock option plan (continued):

The weighted-average grant-date fair value of stock options granted during the three month ended September 30, 2007 and 2006 was nil and \$0.09, respectively, and the nine month ended September 30, 2007 and 2006 was nil and \$0.12, respectively.

As of September 30, 2007, total unrecognized compensation cost related to unvested stock options was \$28,898 and is expected to be recognized over a weighted-average period of 1.14 years.

The following table summarizes information about stock options under the plan outstanding at September 30, 2007:

| Range of exercise prices | Number outstanding at September 30, 2007 | Options Outstanding                               |                                 | Options Exercisable                      |                                 |
|--------------------------|--|---|---------------------------------|--|---------------------------------|
|                          |  | Weighted average remaining contractual life (yrs) | Weighted average exercise price | Number outstanding at September 30, 2007 | Weighted average exercise price |
| \$0.11 - 0.20            | 2,656,666                                | 2.37  | \$ 0.15                         | 1,973,541                                | \$ 0.15                         |
| \$0.24 - 0.27            | 1,860,000                                | 2.50  | \$ 0.27                         | 1,552,500                                | \$ 0.27                         |
| \$0.35                   | 625,000                                  | 1.75  | \$ 0.35                         | 625,000                                  | \$ 0.35                         |
| \$0.70                   | 400,000                                  | 1.75  | \$ 0.70                         | 400,000                                  | \$ 0.70                         |
|                          | 5,541,666                                | 2.30  | \$ 0.24                         | 4,551,041                                | \$ 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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**11.****Common stock (continued):**

(d)

Warrants:

The following transferable share purchase warrants were outstanding as at September 30, 2007.

| Expiry date       | Exercise price per share | Number of shares |
|-------------------|--------------------------|------------------|
| October 01, 2007  | \$ 0.20                  | 100,000          |
| January 30, 2008  | \$ 0.25                  | 100,000          |
| January 30, 2008  | \$ 0.35                  | 100,000          |
| February 13, 2008 | \$ 0.20                  | 555,555          |
| March 31, 2008    | \$ 0.50                  | 2,059,492        |
| October 01, 2008  | \$ 0.25                  | 150,000          |
| 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        |
| March 24, 2010    | \$ 0.20                  | 625,000          |
| July 01, 2010     | \$ 0.40                  | 75,000           |

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|                    |    |      |            |
|--------------------|----|------|------------|
| 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 | 46,087,030 |
| 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  |





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**11.**

**Common stock (continued):**

Subsequent to September 30, 2007, in connection with the establishment of a revolving line of credit (note 5), 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. The Corporation is required to register the warrants on its next registration statement and in no case more than one year from date of issuance.

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Notes to Consolidated Financial Statements

(Expressed in United States dollars)

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Three and nine months ended September 30, 2007 and 2006 (unaudited)

**12. Segmented information:**

(a)

Segment information:

During the nine-month period ended September 30, 2007 and 2006, the Corporation was operating only in the RF power amplifier segment and coverage enhancement solutions.

(b)

Geographic information

For the nine-month period ended September 30, 2007, ten percent and ninety percent of

our assets are located in British Columbia, Canada and Israel, respectively. A

summary of sales by region of customer location is as follows (\$000):

|               | Three months ended |               | Nine months ended |               |
|---------------|--------------------|---------------|-------------------|---------------|
|               | September 30,      | September 30, | September 30,     | September 30, |
|               | 2007               | 2006          | 2007              | 2006          |
| China         | \$ -               | \$ 38         | \$ 47             | \$ 1,015      |
| United States | -                  | 258           | 596               | 632           |
| Israel        | 29                 | 226           | 392               | 262           |
| Canada        | -                  | 317           | 188               | 825           |
| Hungary       | 60                 | 290           | 381               | 1,490         |
| India         | 839                | -             | 3,019             | -             |

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|              |       |           |       |       |
|--------------|-------|-----------|-------|-------|
| Cameroon     | -     | -         | 73    | -     |
| Germany      | -     | -         | -     | 40    |
| Turkey       | -     | -         | 164   | -     |
| Russia       | 63    | -         | 114   | -     |
| Vietnam      | -     | -         | 483   | -     |
| South Africa | -     | -         | 110   | -     |
| Other        | 84    | 389       | 301   | 394   |
| Total sales  | 1,075 | 1,518     | 5,868 | 4,658 |
|              |       | <b>27</b> |       |       |

**UNITY WIRELESS CORPORATION**

Notes to Consolidated Financial Statements

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Three and nine months ended September 30, 2007 and 2006 (unaudited)

**12. Segmented information (continued):**

(c)

Major customers:

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

|            | Nine months ended<br>September 30 , 2007 | Nine months ended<br>September 30, 2006 |
|------------|--|---|
| Customer A | \$ -                                     | \$ 958                                  |
| Customer B | 110                                      | 495                                     |
| Customer C | 381                                      | 1,450                                   |
| Customer D | 1,442                                    | -                                       |
| Customer E | 1,578                                    | -                                       |

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

|            | Nine months ended<br>September 30 , 2007 | Nine months ended<br>September 30, 2006 |
|------------|--|---|
| Customer A | \$ 1,956                                 | \$ -                                    |

**13.**

**Commitments:**

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

|      |    |         |
|------|----|---------|
| 2007 | \$ | 78,970  |
| 2008 |    | 273,881 |
| 2009 |    | 179,940 |
|      | \$ | 532,792 |

For the nine-month period ended September 30, 2007, rent expense was \$154,058 (2006 - \$195,000).

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**14.**

**Contingent liabilities:**

(a)

The Corporation is currently a party to three actions in the Supreme Court of British Columbia, Vancouver Registry, brought by three different suppliers of the Corporation for approximately \$620,000 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 September 30, 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 nine-month period ended September 30, 2007, the Corporation recorded \$31,082 (CDN\$33,966) as royalties expense and \$58,386 (CDN\$66,545) 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 September 30, 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)

Three and nine months ended September 30, 2007 and 2006 (unaudited)

**14.**

**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 September 30, 2007. For the nine-month period ended September 30, 2007, the Corporation recorded \$284,000 (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)

Three and nine months ended September 30, 2007 and 2006 (unaudited)

**14.**

**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 September 30, 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:

|                            |    |           |
|----------------------------|----|-----------|
| Balance, December 31, 2006 | \$ | 314,904   |
| Provision decrease, net    |    | (1,000)   |
| Expenditures               |    | (102,643) |

|                             |    |         |
|-----------------------------|----|---------|
| Balance, September 30, 2007 | \$ | 211,261 |
|-----------------------------|----|---------|

**UNITY WIRELESS CORPORATION**

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

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

Three and nine months ended September 30, 2007 and 2006 (unaudited)

**15.****Supplementary information:**

(a) Cash flow information:

|  | Three months ended    |                       | Nine months ended     |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2007 | September 30,<br>2006 | September 30,<br>2007 | September 30,<br>2006 |
| Cash paid for:   |                       |                       |                       |                       |
| Interest   | \$ 53,391             | \$ 37,752             | \$ 121,150            | \$ 77,095             |
| Non-cash financing and<br>investing activities:              |                       |                       |                       |                       |
| Issuance of convertible<br><br>debentures for acquisition    |                       |                       |                       | 1,755,147             |
| Issuance of Series A preferred<br><br>shares for acquisition |                       | 2,000,000             |                       | 2,000,000             |
| Issuance of Series B preferred                               |                       | 11,026,533            |                       | 11,026,533            |

|  |         |         |           |         |
|--|---------|---------|-----------|---------|
| shares and warrants for<br>acquisition                                     |         |         |           |         |
| Issuance of warrants in<br>settlement of investment<br>banking fees        | -       | -       | 125,877   | 211,234 |
| Issuance of common shares<br>in settlement of accounts<br>payable          | 221,377 | 124,306 | 778,164   | 342,642 |
| Issuance of common shares<br>on conversion of<br>convertible<br>debentures | 37,900  | -       | 662,413   | -       |
| Issuance of common shares<br>on conversion of preferred<br>shares          | -       | -       | 2,000,000 | -       |

(b)

Allowance for doubtful accounts:

|                                 |    |         |
|---------------------------------|----|---------|
| Balance, December 31, 2006      | \$ | 139,160 |
| Provision for doubtful accounts |    | 355,159 |
| Balance, September 30, 2007     | \$ | 494,319 |

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**UNITY WIRELESS CORPORATION**

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

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

Three and nine months ended September 30, 2007 and 2006 (unaudited)

**16. 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 September 30, 2007 is as follows:

|                               | Workforce<br>reduction | Facilities<br>restructuring | Total      |
|-------------------------------|------------------------|-----------------------------|------------|
| Balance at December 31, 2006  | \$ 364,000             | \$ 140,000                  | \$ 504,000 |
| Amount paid                   | (364,000)              | (140,000)                   | (504,000)  |
| Balance at September 30, 2007 | -                      | -                           | -          |





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

The following discussion of the financial condition, changes in financial condition, and results of operations of Unity Wireless Corporation should be read in conjunction with our most recent financial statements and notes appearing: (1) in this Form 10-QSB; and (2) the Form 10-KSB for the year ended December 31, 2006 filed on April 17, 2007.

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 or permanent equity financing, the continued support of creditors and stockholders, and, ultimately, the achievement of profitable operations. There can be no assurances that we will be successful. If we are not, we will be required to reduce operations or liquidate assets. We will continue to evaluate our projected expenditures relative to our available cash and to seek additional means of financing in order to satisfy our working capital and other cash requirements. The auditors' report on the audited consolidated financial statements for the fiscal year ended December 31, 2006 contained in the 10-KSB filed on April 17, 2007, includes an explanatory paragraph that states that as we have suffered recurring losses from operations, substantial doubt exists about our ability to continue as a going concern. The audited consolidated financial statements or the interim quarterly unaudited consolidated financial statements included with this quarterly report do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should we be unable to continue as a going concern.

### ***Forward-Looking Statements***

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

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

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

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

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



## *Results of Operations*

### **Three-month period ended September 30, 2007 and 2006:**

#### **Sales and Cost of Goods Sold**

Sales for the three-month period ended September 30, 2007 were \$1,074,690, a decrease of 29% or \$443,167, from \$1,517,857 for the three-month period ended September 30, 2006. In both our historical product lines and new product lines obtained through acquisitions, we have seen a greater diversification in our customer base and geographical areas where the company is now selling its expanded product offerings. However, in this specific quarter, the decrease was primarily due to fluctuations in the delivery of our production volume projects to our customers.

Cost of goods sold during the three-month period ended September 30, 2007 was \$886,358 resulting in a gross margin of \$188,332 or 18% of sales, compared to \$1,098,499 for the three-month period ended September 30, 2006 resulting in a gross margin of \$419,358 or 28% of sales.

The decrease in gross margin is largely attributed to lower revenue levels resulting in less bill of material margin generated and available to cover fixed production related costs.

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.

#### **Operating Expenses**

##### ***Research and Development***

Research and development expenses for the three-month period ended September 30, 2007 were \$1,455,765, an increase of \$731,830 or 101%, from \$723,935 for the three-month period ended September 30, 2006. This increase was primarily the result of:

-

Additional research and development expenses from the three acquired companies (Avantry, Celerica, & Celletra) which had only become part of the group as of the comparative prior period:

-

Product material costs, of approximately \$625,000, 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 equipments in both India and Russia. It is anticipated that there will be an ongoing order stream from these new, large, key accounts, including Motorola, Nokia and Ericsson.

-

Recording \$235,293 as a write-down of raw materials to be used in research and development due to obsolete inventory during the three-month period ended September 30, 2007.



***Sales and Marketing***

Sales and marketing expenses for the three-month period ended September 30, 2007 were \$277,600, a decrease of \$266,431, or 49%, from \$544,031 for the three-month period ended September 30, 2006. This decrease was primarily the result of the completion of restructuring in 2006 which reduced the number of employees in the sales and marketing department.

***Royalty payments for government grants***

Royalty payments for government grants for the three-month period ended September 30, 2007 were \$30,389, a decrease of \$785, from \$31,174 for the three-month period ended September 30, 2006. This decrease was primarily the result of the decrease in the sales volume.

***Depreciation and Amortization***

Depreciation and amortization expenses for the three-month period ended September 30, 2007 were \$836,426, an increase of \$416,982, from \$419,444 for the three-month period ended September 30, 2006. This increase was primarily the result of the amortization of the intangible assets recorded relating to the acquired companies in 2006. During the three-month period ended September 30, 2007, the Corporation recorded \$738,910 as the amortization of the intangibles.

***Foreign exchange Loss***

Foreign exchange loss for the three-month period ended September 30, 2007 was \$89,476, an increase of \$83,956, from \$5,520 for the three-month period ended September 30, 2006 due to fluctuations in the currency exchange rate between the U.S. and Canada.

***Interest Expense***

Interest expense for the three-month period ended September 30, 2007 increased by \$192,952 to \$377,124 from \$184,172 for the three-month period ended September 30, 2006. This increase was primarily the result of the increase in interest expense from the issuance of convertible debentures in February and December of 2006.

***General and Administrative***

General and administrative expenses for the three-month period ended September 30, 2007 increased by 4% to \$818,552, an increase of \$68,844, from \$749,708 for the three-month period ended September 30, 2006. The change was primarily the result of a reduced headcount due to the restructuring completed in December 2006 offset by an increase in the investors relations activities during the three-month period ended September 30, 2007.



### ***Share compensation expense***

Celletra's share compensation expenses were \$56,250 for the three-month period ended September 30, 2007. At the request of the Celletra shareholders 5% of the total consideration, or 4,500 Preferred Shares, were issued to a trust controlled by the selling shareholders of Celletra which is 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 is equal to or exceeds \$0.20 for a period of seven consecutive days. If this target share price is met, the shares are to be distributed. If this milestone is not achieved the shares will be 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 amortization for the three months ended September 30, 2007 was \$56,250. The full amount has been amortized as of September 30, 2007.

### **Other Expenses**

#### ***Accretion of Interest and Loss on Debt Settlement***

Accretion of interest and loss on debt settlement for the three-month period ended September 30, 2007 was \$48,031, a decrease of \$14,798, compared to \$62,829 for the three-month period ended September 30, 2006. This decrease was primarily the result of the debt modifications of the convertible notes issued in August 2004, February 2005 and February 2006 which resulted in losses on debt settlements recorded in 2006. The Corporation recorded an amortization of the premium on the convertible notes for \$27,696 against the accretion of interest in the three-month period ended September 30, 2007.

#### **Loss for the Quarter Ended September 30, 2007**

Loss for the three-month period ended September 30, 2007 increased by 64%, or \$1,497,037, to \$3,846,132, from \$2,349,095 for the three-month period ended September 30, 2006. This increase was primarily the result of the increase in amortization of intangible assets and the additional research and development expenses relating to the acquired companies.

#### **Nine-month period ended September 30, 2007 and 2006:**

#### **Sales and Cost of Goods Sold**

Sales for the nine-month period ended September 30, 2007 were \$5,868,115, an increase of 26% or \$1,210,231, from \$4,657,884 for the nine-month period ended September 30, 2006. In both our historical product lines and new product lines obtained through acquisitions we have seen a greater diversification in our customer base and geographical areas where the company is now selling its expanded product offerings.

Cost of goods sold during the nine-month period ended September 30, 2007 was \$4,506,244 resulting in a gross margin of \$1,361,871 or 23% of sales, compared to \$3,577,474 for the nine-month period ended September 30, 2006 resulting in a gross margin of \$1,080,410 or 23% of sales.

The Corporation has been experiencing improved gross margins on mature product lines largely attributed to:

-

Increase in sales, resulting in increased component requirements and the company has been able to negotiate better pricing from its outsourced manufacturer due to the higher purchased volumes;

-

Efficiencies and cost savings have been obtained by centralizing our manufacturing and procurement largely with one outsourced manufacturer;

-

Efficiencies and cost savings have been obtained by centralizing our final testing of products in our China facility where the Company has also been able to benefit from lower payroll costs.

However, on recently introduced product lines the manufacturing efficiencies have not been achieved yet 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 has been charged to research and development.

As a result, on average, between the effects of the mature and recently introduced product lines the gross margins have remained constant.

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.

### **Operating Expenses**

#### ***Research and Development***

Research and development expenses for the nine-month period ended September 30, 2007 were \$3,537,491, an increase of \$1,921,923 or 119%, from \$1,615,568 for the nine-month period ended September 30, 2006. This increase was primarily the result of:

-

Additional research and development expenses from the three acquired companies (Avantry, Celerica, & Celletra) which had only become part of the group as of the last year comparative period:



-

Product material costs, of approximately \$1,100,000, 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, including Motorola, Nokia and Ericsson. Such additional costs incurred in manufacturing products due to engineering issues have been charged to research and development.

-

Recording \$423,293 as a write-down of raw materials to be used in research and development due to obsolete inventory during the nine-month period ended September 30, 2007.

### ***Sales and Marketing***

With the additional two new major product lines, and entering into new major markets such as India, Russia, and South East Asia, through the 2006 acquisition processes, our sales and marketing expenses for the nine-month period ended September 30, 2007 were \$1,047,153, an increase of \$48,055, or 5%, from \$999,098 for the nine-month period ended September 30, 2006. This increase was primarily the result of the additional sales initiatives that include additional sales personnel on staff, and additional expenses relating to the acquired businesses also caused the increase in sales and marketing expenses.

### ***Royalty payments for government grants***

Royalty payments for government grants for the nine-month period ended September 30, 2007 were \$315,082, an increase of \$237,695, from \$77,387 for the nine-month period ended September 30, 2006. This increase was primarily the result of the increase in sales during the nine-month period ended September 30, 2007.

### ***Depreciation and Amortization***

Depreciation and amortization expenses for the nine-month period ended September 30, 2007 were \$2,552,126, an increase of \$1,979,081, from \$573,045 for the nine-month period ended September 30, 2006. This increase was primarily the result of the amortization of the intangible assets recorded relating to the acquired companies in 2006. During the nine-month period ended September 30, 2007, the Corporation recorded \$2,216,730 as the amortization of the intangibles.

### ***Foreign exchange Loss***

Foreign exchange loss for the nine-month period ended September 30, 2007 was \$121,658, an increase of \$66,612, from \$55,046 for the nine-month period ended September 30, 2006 due to fluctuations in the currency exchange rate between the U.S. and Canada.

### ***Interest Expense***

Interest expense for the nine-month period ended September 30, 2007 increased by \$419,282 to \$804,567 from \$385,285 for the nine-month period ended September 30, 2006. This increase was primarily the result of the increase in interest expense from the issuance of the convertible debentures in February of 2006 and December of 2006.

### ***General and Administrative***

General and administrative expenses for the nine-month period ended September 30, 2007 rose 30% to \$2,136,983, an increase of \$497,067, from \$1,639,916 for the nine-month period ended September 30, 2006. The change was primarily the result of reduced headcount costs due to the restructuring completed in December 2006 offset by an increase in the investors relations activities during the nine-month period ended September 30, 2007.



### *Share compensation expense*

Celletra's share compensation expenses were \$281,250 for the nine-month period ended of September 30, 2007. At the request of the Celletra shareholders 5% of the total consideration, or 4,500 Preferred Shares, were issued to a trust controlled by the selling shareholders of Celletra which is 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 is equal to or exceeds \$0.20 for a period of seven consecutive days. If this target share price is met, the shares are to be distributed. If this milestone is not achieved the shares will be 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 have amortized the amount on a straight line basis over one year. The amortization for the nine months ended September 30, 2007 was \$281,250. The full amount has been amortized as of September 30, 2007.

### **Other Expenses**

#### *Accretion of Interest and Loss on Debt Settlement*

Accretion of interest and loss on debt settlement for the nine-month period ended September 30, 2007 was \$237,049, a decrease of \$1,444,129, compared to \$1,681,178 for the nine-month period ended September 30, 2006. During the three month period ended March 31, 2006, the Corporation entered to an agreement of the modification of the terms of the debentures which were issued in August 2004 and February 2005 which resulted in a total loss on debt settlement of \$1,452,722. No modification of debentures or warrants was made for the nine-month period ended September 30, 2007.

During the nine-month period ended September 30, 2007, the Corporation also recorded \$63,094 as debt conversion inducements related \$81,370 debentures converted to common shares at a conversion ratio of \$0.09 per common share instead of the contractual rate.

#### **Loss for the nine-month period ended September 30, 2007**

Loss for the nine-month period ended September 30, 2007 increased by 81%, or \$4,330,830, to \$9,678,869, from \$5,348,039 for the nine-month period ended September 30, 2006. This increase was primarily the result of the increase in amortization of intangible assets and the additional research and development expenses relating to the acquired companies.



***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 September 30, 2007 of \$51,786,256. During the nine-month period ended September 30, 2007, we incurred a net loss of \$9,678,869.

During the nine-month period ended September 30, 2007, our cash position was decreased to \$353,977. This decrease was primarily due to the payment of trade payables and the short-term loan.

During the nine-month period ended September 30, 2007, the Corporation issued common shares as follows:

i.

Issue of 7,630,704 common shares on settlement of \$778,164 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 \$3,115,560.

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 \$2,000,000 Series A preferred shares.

During the nine-month period ended September 30, 2007, we purchased \$10,000 in equipment and disposed of \$45,482 of equipment.

Other than leases for premises, leased vehicles and equipment commitments for an aggregate of \$585,221 through 2009, we have no material commitments outstanding at September 30, 2007.

During the nine months ended September 30, 2007 convertible notes amounting to \$1,978,594 and promissory notes amounting to \$274,000 came due. The notes have not been repaid and the Company is currently negotiating new terms with the note holders. The Company is also negotiating new terms with the note holders of promissory notes, amounting to \$460,000, which came due in December 2006. None of the note or debenture holders have demanded repayment at this time.

Subsequent to September 30, 2007, the Corporation obtained an additional revolving line of credit of a maximum of \$2,000,000, which bears interest at LIBOR + 3.0% and is secured by a general floating lien on all of Celletra's assets.

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 September 30, 2007, we had working capital deficit of \$9,827,060 our operations presently have net cash outflow of \$4,384,837 for the nine-month period ended September 30, 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.

Our Auditors' report on our 2006 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.

***Inflation***

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



### **Item 3. Controls and Procedures**

An evaluation has been carried out under the supervision and with the participation of our management, including our Chief Executive Officer, 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 September 30, 2007 ( Evaluation Date ). Based on such evaluation, our Principal Executive Officer and Principal Financial Officer have concluded that, as of the Evaluation Date, the disclosure controls and procedures are reasonably designed and effective to ensure that (i) information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure. We have identified conditions as of September 30, 2007 that we believe are material weaknesses in internal controls due to a lack of segregation of duties in accounting and financial reporting activities as a result of the limited number of Company employees engaged in the authorization, recording, processing and reporting of transactions. Due to these deficiencies, the Chief Executive Officer performs frequent reviews of financial information to ensure that transactions are properly recorded. There was no change in the Company's internal control over financial reporting during the period ended September 30, 2007, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II - OTHER INFORMATION**

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

### **Item 1. Legal Proceedings**

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

We have been sued in the Supreme Court of British Columbia, Canada, by Getec North America and Getec Industrial Limited ( Getec). The lawsuit was commenced on March 30, 2006. Getec alleges that services provided to Unity Wireless Systems Inc. have not 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 ). The lawsuit was commenced on October 27 2006. TRS alleges that equipment rentals provided to Unity Wireless Systems Inc. have not been paid and claim in total approximately \$450,000. We dispute the allegations and are defending the claim and are planning to file 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 Hency Transportation (Canada) Limited ( Hency ). The lawsuit was commenced on June 15, 2007. 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 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.

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

During the nine-month period ended September 30, 2007, the Corporation issued 7,630,704 common shares in settlement of \$778,164 of accounts payable.

During the nine-month period ended September 30, 2007, the Corporation issued 33,385,012 common shares to private investors, in the aggregate principal amount of \$3,115,560, and warrants to purchase 50,077,518 shares of common stock at \$0.10 per share.

In connection with the financing, the Company also issued, as investment banking fees, to Meitav Underwriting Ltd., warrants purchasing 1,413,336 shares of common stock at an exercise price of \$0.10 per share and in the form of the Warrants.

The securities were offered and sold pursuant to the provisions of Regulation S under the U.S. *Securities Act of 1933*.

Subsequent to September 30, 2007, in connection with the establishment of a revolving line of credit, the Company issued 5,555,555 warrants at a price of \$0.09 and an expiry date of five years from the date of issuance.

**Item 6. Exhibits**

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

Exhibit Number

Description

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.

Signatures

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

**UNITY WIRELESS CORPORATION**

/s/ Ilan Kenig

By: Ilan Kenig, President, Chief Executive Officer  
(Principal Executive Officer and Principal Financial Officer)  
November 19, 2007

**Exhibit 31.1**

**CERTIFICATION**

I, Ilan Kenig, certify that:

1.

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

2.

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

3.

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

4.

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

a)

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

b)

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

c)

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

5.

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

a)

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

b)

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

Date: November 19, 2007

/s/ Ilan Kenig

Ilan Kenig  
Chief Executive Officer

(Principal Executive Officer and Principal Financial Officer)





**Exhibit 32.1**

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

In connection with the Quarterly Report of Unity Wireless Corporation (the Company) on Form 10-QSB for the quarter ended September 30, 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, President, Chief Executive Officer

(Principal Executive Officer and Principal Financial Officer)

November 19, 2007