

UNITY WIRELESS CORP
Form 10QSB
May 15, 2003

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 **March 31, 2003**

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

91-1940650

(State or other jurisdiction of incorporation or organization)

(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)

Number of shares of common stock outstanding at May 15, 2003: 35,570,109

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

2

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court.

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:

35,570,109 common shares outstanding as at May 15, 2003

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

3

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Financial Statements
(Expressed in United States dollars)

UNITY WIRELESS CORPORATION

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

Three months ended March 31, 2003 and 2002 (unaudited)
Year ended December 31, 2002

1

UNITY WIRELESS CORPORATION

Consolidated Balance Sheets

(Expressed in United States dollars)

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

	March 31, 2003	December 31, 2002
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$439	\$335,818
Restricted cash	89,458	88,160
Accounts receivable (less allowance for doubtful accounts of \$10,288 (2002 - \$33,059))	111,700	231,505
Government grant receivable	11,669	29,197
Inventory (note 3)	643,434	461,385
Prepaid expenses and deposits	44,269	39,040
	900,969	1,185,105
Deferred financing cost	38,994	38,994
Equipment, net	195,176	211,700
Patents	6,382	8,507
Goodwill	741,596	741,596
	\$1,883,117	\$2,185,902
Liabilities and Stockholders' Equity		
Current liabilities:		
Bank indebtedness	\$124,854	\$101,411
Accounts payable and accrued liabilities (note 4)	1,316,983	1,244,377
Loans payable (note 5)	153,046	202,514
Product warranty (note 9(c))	34,065	31,720
	1,628,948	1,580,022
Convertible debenture	166,308	137,247
	1,795,256	1,717,269
Stockholders' equity:		
Common stock, \$0.001 par value 100,000,000 authorized,		

Edgar Filing: UNITY WIRELESS CORP - Form 10QSB

35,570,109 (2002 - 35,016,894) issued and outstanding	35,570	35,017
Additional paid-in capital	15,803,798	15,811,919
Accumulated deficit	(15,916,484)	(15,495,130)
Accumulated other comprehensive income:		
Cumulative translation adjustments	164,977	116,827
	87,861	468,633
	\$1,883,117	\$2,185,902

Commitments (note 8)

Contingent liabilities (note 9)

See accompanying notes to consolidated financial statements.

2

UNITY WIRELESS CORPORATION

Consolidated Statements of Operations and Deficit

(Unaudited)

(Expressed in United States dollars)

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

Three months ended March 31, 2003 and 2002

	2003	2002
Net sales	\$346,867	\$1,482,494
Cost of goods sold (includes stock-based compensation of nil in 2003 and \$(19,741) in 2002 and excludes depreciation and amortization shown separately below)	381,319	1,057,570
	(34,452)	424,924
Expenses:		
Research and development (includes stock-based compensation of \$(17,237) in 2003 and \$(65,338) in 2002)	199,924	272,493
Government grant (note 9(b)(ii))	(73,373)	-
Sales and marketing (includes stock-based compensation of \$(19,806) in 2003 and \$(60,726) in 2002)	91,419	138,786
Depreciation and amortization	18,139	23,428
Exchange loss (gain)	(10,931)	8,752
Interest expense	44,081	1,433
General and administrative (includes stock-based compensation \$(29,040) in 2003 and \$(114,739) in 2002)	151,699	259,130
	420,958	704,022

Operating loss for the period	(455,410)	(279,098)
Interest income	-	1,382
Other income	34,056	74,729
Loss for the period	(421,354)	(202,987)
Deficit, beginning of period	(15,495,130)	(12,830,289)
Deficit, end of period	\$(15,916,484)	\$(13,033,276)
Basic and diluted loss per common share (note 6(b))	\$(0.01)	\$(0.01)

See accompanying notes to consolidated financial statements.

3

UNITY WIRELESS CORPORATION

Consolidated Statements of Cash Flows

(Unaudited)

(Expressed in United States dollars)

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

Three months ended March 31, 2003 and 2002

	2003	2002
Operations:		
Loss for the year	\$(421,354)	\$(202,987)
Adjustments to reconcile net loss to net cash used in operating activities:		
Accretion of discount on convertible loan	29,061	-
Depreciation and amortization	18,139	23,428
Stock-based compensation	(66,083)	(260,544)
Gain on settlement of debt	-	(74,451)
Changes in non-cash working capital relating to operations:		
Accounts receivable	131,032	(78,742)
Government grant receivable	19,137	26,457
Inventory	(143,814)	(292,218)
	(2,278)	(22,528)

Prepaid expenses		
Accounts payable and accrued liabilities	41,531	689,731
	(394,629)	(191,854)
Investments:		
Acquisition of equipment	-	(13,029)
Disposition of equipment	2,582	-
	2,582	(13,029)
Financing:		
Restricted cash	5,073	1,613
Bank indebtedness	15,501	(159,420)
Repayment of loan payable	(62,642)	-
Share issue costs	(1,864)	(1,448)
Obligations under capital lease	-	(14,337)
	(43,932)	(173,592)
Effect of foreign exchange rate changes on cash and cash equivalents	100,600	5,077
Decrease in cash	(335,379)	(373,398)
Cash, beginning of period	335,818	1,012,430
Cash, end of period	\$439	\$639,032

Supplementary information (note 10)

See accompanying notes to consolidated financial statements.

1. Basis of presentation:

The accompanying interim unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles 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 generally accepted accounting principles for a complete set of annual consolidated financial statements. In the opinion of management, all adjustments (consisting solely of normally recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ending March 31, 2003 are not necessarily indicative of the results that may be expected for the year ended December 31, 2003 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, 2002. 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 long-term debt and equity transactions. At March 31, 2003, the Corporation will require additional financing to continue to operate at current levels throughout the year. Accordingly, the Corporation's future operations are dependent upon the identification and successful completion of additional long-term or permanent equity financing, the continued support of creditors and stockholders, and, ultimately, the achievement of profitable operations. There can be no assurances that the Corporation will be successful. If it is not, the Corporation will be required to reduce operations or liquidate assets. The Corporation will continue to evaluate its projected expenditures relative to its available cash and to seek additional means of financing in order to satisfy its working capital and other cash requirements. The consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should the Corporation be unable to continue as a going concern.

2. Significant accounting policies:

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America using the same accounting policies and methods of application as those disclosed in the Corporation's financial statements for the year ended December 31, 2002, except for note 2(c).

5

2. Significant accounting policies (continued):

(a) Stock-based compensation:

The Corporation accounts for employee options using the intrinsic value method. Had compensation cost been determined based on the fair value at the grant dates for those options issued to employees, consistent with the method described in SFAS No. 123, the Corporation's loss and loss per common share would have been increased to the pro forma amounts indicated below.

	Three months ended	
	March 31, 2003 (Unaudited)	March 31, 2002 (Unaudited)
Loss for the period, as reported	\$(421,354)	\$(202,987)
Add: employee stock-based compensation recognized	-	-
Less: additional stock-based employee compensation expense determined under fair value based method for all awards	(39,124)	(387,303)
Pro forma loss	\$(460,478)	\$(590,290)

	Three months ended	
	March 31, 2003 (Unaudited)	March 31, 2002 (Unaudited)
Basic and diluted loss per common shares:		
As reported	\$(0.01)	\$(0.01)
Pro forma	(0.01)	(0.02)

The fair value of each option granted in 2003 and 2002 was estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: no dividend yield; volatility of 144% (2002 - 148%); risk-free interest rate of 3.25% (2002 - 3.25%) and an expected life of four years. No options were granted during the three months ended March 31, 2003.

6

2. Significant accounting policies (continued):

- Stock-based compensation (continued):

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

	Shares available under options	Outstanding options	
		Number of common shares issuable	Weighted average exercise price
Balance, December 31, 2002	3,292,638	5,111,417	\$0.20
Options expired	406,083	(406,083)	0.31
Balance, March 31, 2003	3,698,721	4,705,334	\$0.19

(b) Comparative figures:

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

(c) Recent accounting pronouncements:

In November 2002, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* ("FIN 45"). FIN 45 expands on previously issued accounting guidance and requires additional disclosure by a guarantor to recognize, at the inception of the guarantee, a liability for the fair value of an obligation assumed by issuing a guarantee. The provision for initial recognition and measurement of the liability is applied on a prospective basis to guarantees issued or modified after December 31, 2002. The Corporation has adopted FIN 45 in these consolidated financial statements.

3. Inventory:

	March 31, 2003 (Unaudited)	December 31, 2002
Raw materials	\$543,858	\$317,411
Finished goods	99,576	143,974
	\$643,434	\$461,385

7

4. Accounts payable and accrued liabilities:

	March 31, 2003 (Unaudited)	December 31, 2002
Trade accounts payable	\$1,053,716	\$1,016,759
Accrued liabilities	263,267	227,618
	\$1,316,983	\$1,244,377

5. Loans payable:

	March 31, 2003 (Unaudited)	December 31, 2002
Promissory notes	\$153,046	\$202,514
Current portion	153,046	202,514
	\$-	\$-

As at March 31, 2003, the Corporation was indebted to two parties for an aggregate of \$153,046 by way of promissory notes at interest rates ranging from 9.5% to 10.5% per annum. The promissory notes are repayable during 2003, except for one promissory note totaling \$100,000 which is repayable on demand.

6. Common stock:

(a) Common stock:

During the period, the Corporation issued 553,215 common shares in settlement of \$60,379 of accounts payable for services rendered.

(b) Loss per share:

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

	Three months ended	
	March 31, 2003	March 31, 2002
	(Unaudited)	(Unaudited)
Numerator:		
Loss for the period	\$(421,354)	\$(202,987)
Denominator:		
Weighted average number of common shares outstanding	35,383,632	30,915,704
Basic and diluted loss per common share	\$(0.01)	\$(0.01)

8

6. Common stock:

(b) Loss per share (continued):

For the three month periods ended March 31, 2003 and 2002, 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) Warrants:

As at March 31, 2003, the Corporation has outstanding warrants to purchase 13,177,821 common shares at exercise prices ranging from \$0.09 (CDN\$0.15) to \$0.35 per share.

On March 6, 2003, the Board of the Corporation approved to amend and extend the expiry date of 2,317,857 warrants, which were issued on May 15, 2002, in conjunction with a private placement and having an exercise price of \$0.35 each, from an expiry date of May 14, 2003 to May 14, 2004.

7. Segmented information:

(a) Segment information:

During the three month periods ended March 31, 2003 and 2002, the Corporation was operating only in the RF power amplifier segment.

(b) Geographic information:

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

Three months ended

Edgar Filing: UNITY WIRELESS CORP - Form 10QSB

	March 31, 2003 (Unaudited)	March 31, 2002 (Unaudited)
Korea	\$93	\$942
China	(2)	220
Sweden	31	-
United States	206	320
Other	19	-
Total sales	\$347	\$1,482

9

7. Segmented information (continued):

(c) Major customers:

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

	Three months ended	
	March 31, 2003 (Unaudited)	March 31, 2002 (Unaudited)
Customer A	93	nil
Customer B	123	less than 10%
Customer C	58	nil
Customer D	nil	327
Customer E	less than 10%	601
Customer F	nil	320

8. Commitments:

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

Period ending March 31, 2003:

2003	\$98,000
2004	126,000
2005	83,000
	\$307,000

9. Contingent liabilities:

(a) The Corporation is currently a party to an action in the Supreme Court of British Columbia, Vancouver Registry, brought by an optionholder seeking a declaration that 500,000 options to purchase shares in the common stock of the Corporation held by it have a term of unlimited duration.

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 this contingency, to the extent not previously provided for, will not have a material adverse effect on the financial condition of the Corporation.

10

9. Contingent liabilities (continued):

(b) Contingent liability on sale of products:

(i)

Under a certain license agreement, the Corporation is committed to royalty payments based on the sales of products using certain technologies. Royalties are paid between 6% to 7% 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. The Corporation recognizes royalty obligations as determinable in accordance with agreement terms.

(ii)

Under an agreement with the Government's National Research Council Canada IRAP ("IRAP") program, the Corporation is eligible to receive conditionally repayable government assistance amounting to \$308,130 (CDN\$483,491) to support the development of a multi-carrier linear power amplifier. During the three month period ended March 31, 2003, the Corporation claimed gross proceeds of \$73,373 (CDN\$110,779) which have been recorded as government grant income. Under the terms of the agreement, an amount up to a maximum of \$462,194 (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.

(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:

	March 31, 2003	December 31, 2002
	(Unaudited)	
Balance, beginning of period	\$31,720	\$31,500
Provision increase	4,390	20,276
Expenditures	(2,045)	(20,056)
Balance, end of period	\$34,065	\$31,720

11

12

10. Supplementary information:

	Three months ended	
	March 31, 2003 (Unaudited)	March 31, 2002 (Unaudited)
Cash paid for:		
Interest	\$1,650	\$1,434
Income taxes	-	-
Non-cash investing or financial activities:		
Issuance of common shares in settlement of accounts payable	\$60,379	\$-

12

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, 2002 filed on April 3, 2003.

The financial statements have been prepared on the going concern basis under which an entity is considered to be able to realize its assets and satisfy its liabilities in the ordinary course of business. Operations to date have been primarily financed by borrowing and equity transactions. Our future operations are dependent upon the identification and successful completion of additional long-term or permanent equity financing, the continued support of creditors and stockholders, and, ultimately, the achievement of profitable operations. There can be no assurances that we will be successful. If we are not, we will be required to reduce operations or liquidate assets. We will continue to evaluate our projected expenditures relative to our available cash and to seek additional means of financing in order to satisfy our working capital and other cash requirements. The auditors' report on the audited consolidated financial statements for the fiscal year ended December 31, 2002 contained in the 10-KSB filed on April 3, 2003, 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.

13

General

Our corporation was incorporated in the State of Delaware on October 1, 1998 under the name Sonic Systems Corporation. We are the successor to M&M International Realty, Inc., a Florida corporation, which effected a merger on December 1, 1998, with Unity Wireless Corporation as the surviving corporation. Before the merger, the Florida corporation had no material commercial activity. On December 11, 1998, we acquired all of the issued and outstanding stock of Unity Wireless Systems Corporation, a British Columbia corporation, in exchange for 11,089,368 shares of our common shares. As a result, the former stockholders of Unity Wireless Systems Corporation owned a majority of our outstanding stock. Therefore, for accounting purposes, Unity Wireless Systems Corporation was deemed to have acquired Unity Wireless Corporation. Unity Wireless Systems Corporation survived as a wholly-owned subsidiary.

We are in the business of designing, developing and manufacturing high power linear RF (radio frequency) amplifiers and specialized communications products targeting both the cellular and fixed wireless markets. Most of our products are high power amplifiers, defined as single and multi-channel power amplifiers used for sending signals from a network to a terminal such as a cell phone. Most are used in repeaters that are used to extend coverage in cellular telephone networks. Some products are also used in base station equipment. One product has been tested for digital television broadcasting in Korea, and one product is for base stations used in wireless local loop applications. Wireless local loop networks are sometimes referred to as "the last mile" solution - unlike cellular phone systems which are mobile wireless networks, wireless local loop is designed to deliver voice and high speed data (*e.g.*, Internet) services to fixed locations such as homes and small offices without the need for special wiring via wireless communication devices.

Results of Operations

Three months Ended March 31, 2003 and March 31, 2002

Sales

Net sales in the period ended March 31, 2003 decreased by 77% or \$1,135,627, to \$346,867 from \$1,482,494 in the period ended March 31, 2002. In general, we anticipate that revenues will increase in the remaining quarters in 2003 as we make progress with our refocused sales strategy, which transitioned our focus from one of short term relationships resulting in immediate sales to a focus on building long term relationships resulting in sales over several years. The decrease in sales in the first quarter of 2003 versus the first quarter of 2002 was due largely to the longer sales cycle required from the newly initiated sales strategy which focuses on achieving sales from long-term customer supply agreements. Additional factors contributing to the lower sales in the first quarter of 2003 was the general worldwide softening and changing of the market conditions in the wireless sectors during the first quarter of fiscal 2003.

Cost of Goods Sold and Operating Expenses

Cost of goods sold during the period ended March 31, 2003 decreased by 64%, or \$676,251, to \$381,319 from \$1,057,570 in the period ended March 31, 2002. We anticipate that our cost of goods sold, as a percentage of sales, will be reduced during the remainder of 2003 as a result of further increased sales, better pricing and outsourced manufacturing efficiencies. The decrease in cost of goods sold for the first quarter of 2003 versus the first quarter of 2002 was primarily a factor of reduced revenues which resulted in a decrease in material costs, wages and benefits, sub-contract labour and testing equipment. In addition, we have completed the refinancing and reduction of some of our test equipment, created more efficiency in our staffing requirements and started working with an outsource manufacturing company. As well, we have started producing larger runs for customers. These factors allow us to take advantage of better purchasing power, reduce our inventory levels and ensure that a consistent quality product is delivered on time. Cost of goods includes stock-based compensation (recovery) expense of nil in 2003 versus \$(19,741) in 2002.

14

The negative gross margin of \$(34,452) or (10%) of net sales for the first quarter of 2003 represented a decrease from a positive gross margin of 424,924 or 29% of net sales for the first quarter of 2002 due to the initiation during the second quarter of 2003 of our refocused sales strategy which transitioned our focus from one of short-term relationships resulting in immediate sales, but no commitment for additional purchases, to a focus on building long-term relationships with customers who would commit to purchase a specified percentage of their amplifier requirement from us over a term of three or more years. The associated long sales cycle to potential long-term supply customers results in costs of goods sold exceeding revenue generated by sales due to low initial volume of sales as the long-term customer begins to deploy their applications using our products and the higher production cost initially associated with designing a custom solution for each long-term customer's installation needs. If we are successful in establishing additional favorable relationships with long-term customers, we anticipate that these trends will reverse themselves over the course of the supply relationships as sales volumes increase and we are able to standardize production and realize economies of scale in production. In addition, we had a lower gross margin because we sold some components to several customers in Korea at lower margins than we used to sell our amplifiers. We anticipate that we will increase our gross margin during the remainder of 2003 with increased sales and reduced overhead as a result of increased volumes and lower per unit costs associated with more standardized production of our amplifiers and increased sales volumes.

Research and development expenses in the period ended March 31, 2003 decreased by 27%, or \$72,569, to \$199,924 from \$272,493 in the period ended March 31, 2002. This decrease was primarily due to decreased research and development activities and related expenditures as a result of a fewer number of engineering personnel on staff during the first quarter of 2003 versus the first quarter of 2002, due to a number of the 2002 research and development initiatives progressing to the production stage in the first quarter of 2003. Research and development expenses include stock-based compensation (recovery) expense of \$(17,237) in 2003 versus \$(65,338) in 2002.

Sales and marketing expenses in the first quarter of 2003 decreased by 34%, or \$47,367, to \$91,419 from \$138,786 in the period ended March 31, 2002. The decrease was a net effect of decreased advertising, promotional activities, tradeshow and travel expenses to visit new customers and distributors. In fiscal 2003, we anticipate maintaining tight control of our sales and marketing expenses as we focus our marketing and sales personnel on the goal of securing additional short and long-term supply agreements in order to execute our business plan. Sales and marketing expenses include stock-based compensation (recovery) expense of \$(19,806) in 2003 versus \$(60,726) in 2002.

Depreciation and amortization in the period ended March 31, 2003 decreased by 23%, or \$5,289, to \$18,139 from \$23,428 in 2002. The decrease was attributable to the return of a number of leased equipment resulting in a lower asset balance to be depreciated.

Exchange loss in the period ended March 31, 2003 decreased by \$19,683, to an exchange gain of \$10,931 from an exchange loss of \$8,752 in the period ended March 31, 2002 due to fluctuations in the currency exchange rate between the U.S. and Canada. Our company's revenues are received in U.S. dollars, while the majority of expenses are incurred in Canadian dollars.

Interest expense in the period ended March 31, 2003 increased by \$42,648, to \$44,081 from \$1,433 in 2002. The increase was the result of interest relating to the outstanding loans payable and convertible debenture.

General and administrative expenses in the period ended March 31, 2003 decreased by 41%, or \$107,431, to \$151,699 from \$259,130 in 2002. The reduction was a result of a decrease in the number of employees, better control of overhead expenses and reduced professional service fees due to fewer public company filings and associated expenses in comparison to the first quarter of 2002. We expect general and administrative expenses to decrease further in fiscal 2003 as a result of further cost control measures that we have implemented. General and administrative expenses include stock-based compensation (recovery) expense of \$(29,040) in 2003 versus an expense of \$(114,739) for 2002.

15

Other Income and Expenses

Other income in the period ended March 31, 2003 decreased by 54%, or \$40,673, to \$34,056 from \$74,729 in the period ended March 31, 2002. This 2002 balance results primarily from a \$74,451 settlement of a government debt while the 2003 balance is due to a settlement with the leasing company that the Corporation had returned certain leased equipment.

Liquidity and Capital Resources

Since our inception, we have been dependent on investment capital as our primary source of liquidity. Prior to December 31, 2000, sales of the our Sonem traffic signal priority product, and sales of our UniLinx product, provided insufficient cash flow to sustain operations. We had an accumulated deficit at March 31, 2003 of \$15,916,484. During the three months ended March 31, 2003, we focused entirely on the wireless amplifier product segment and incurred a net loss, after stock-based compensation recovery, of \$421,354(2002 - loss of \$202,987).

During the first three months of 2003, our cash position decreased significantly. The primary use of cash was for our continued operations which also included non-cash charges in depreciation expense, and stock-based compensation recovery. Other significant non-cash working capital changes included a decrease in accounts receivable and an increase in inventory. We currently have good on-going communications with our suppliers and are in various stages of discussion with them regarding extended payment terms for their respective outstanding March 31, 2003 accounts payable balances.

During the first quarter of 2003, we had no investing activities

During the first quarter of 2003, we issued 553,215 shares for settlement of \$60,379 of accounts payable. We also extended the expiry date of 2,317,857 warrants, which were issued on May 15, 2002, with an exercise price of \$0.35 each and an expiry date of May 14, 2003 to May 14, 2004.

Other than operating loan commitments and a commitment under existing leases for an aggregate of \$307,000 through 2005, we have no material commitments, including capital commitments, outstanding at March 31, 2003.

Our capital requirements are difficult to plan in light of our current strategy to expand our customer base and to develop new products and technologies. Since our inception, we have been dependent on investment capital as our primary source of liquidity. Our operations to date have been primarily financed by sales of our equity securities. As of March 31, 2003, we had a working capital deficiency of \$727,979. Our operations presently are generating negative cash flow, and we do not expect positive cash flow from operations in the near term. We need to secure additional working capital in the short-term in order to sustain our operations and execute our business plan. It is our intention to raise funds necessary to carry our company through to positive cash flow and profitability.

We anticipate that we will require a greater amount of additional working capital for inventory, components and work in process or to expand our manufacturing capacity if we enter into contracts for large quantities of our amplifiers. We are incurring expenses in anticipation of future sales that may not materialize. If future sales fall significantly below our expectations or if we incur unanticipated costs or expenses, our financing needs could be increased. Any inability to obtain sufficient capital to sustain our existing operations, to meet commitments or to fund our obligations under our existing sales orders may require us to delay delivery of products, to default on one or more agreements or to significantly reduce or eliminate sales and marketing, research and development or administrative functions. The occurrence of any of these, or other adverse affects of inability to raise adequate capital may have a material adverse effect on our business, financial condition and results of operations.

Inflation

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

Future Operations

Presently, our revenues are not sufficient to meet operating and capital expenses. We have incurred operating losses since inception, and this is likely to continue into fiscal 2003. Management projects that we may require an additional \$3.0 to \$3.5 million to fund our ongoing operating expenses, working capital requirements for the next twelve months, broken down as follows:

Estimated Funding Required During the Next Twelve Months

Sales and Marketing	\$250,000 - \$350,000
General and Administrative	\$350,000 - \$400,000
	\$650,000 - \$750,000

Edgar Filing: UNITY WIRELESS CORP - Form 10QSB

Engineering research and development	
	\$600,000 - \$1,000,000
Aged Payables	
	\$350,000 - \$400,000
Operations	
	<u>\$800,000 - \$1,000,000</u>
Working capital	
	<u>\$3,000,000 - \$3,500,000</u>
Total	
	<u>\$3,000,000 - \$3,500,000</u>

As at December 31, 2002, we had a working capital deficiency of \$394,917. In November and December, 2002, we effected a debt private placement of \$605,435 (CDN\$956,323). This financing and the cash flows which we receive from our ongoing sales will enable us to address a portion of our aged payables, continue with the support of existing clients and sales and marketing activity until June, 2003. We plan to raise the additional capital required to meet the balance of our estimated funding requirements for the balance of fiscal 2003, primarily through the private placement of our securities or through increasing our internally generated cash flows by increasing our sales. We do not anticipate that we will be able to completely satisfy any of these funding requirements internally unless we significantly increase our revenues.

Due to the uncertainty of our ability to meet our current operating and capital expenses, in their report on the annual consolidated financial statements for the year ended December 31, 2002, our independent auditors included an explanatory paragraph regarding concerns about our ability to continue as a going concern. Our consolidated financial statements contain additional note disclosures describing the circumstances that lead to this disclosure by our independent auditors.

There is substantial doubt about our ability to continue as a going concern as the continuation of our business is dependent upon obtaining further financing, successful and sufficient market acceptance of our current products and any new product offerings that we may introduce, the continuing successful development of our products and related technologies, and, finally, achieving a profitable level of operations. The issuance of additional equity securities by us could result in a significant dilution in the equity interests of our current stockholders. Obtaining commercial loans, assuming those loans would be available, will increase our liabilities and future cash commitments.

There are no assurances that we will be able to obtain further funds required for our continued operations. We are pursuing various financing alternatives to meet our immediate and long-term financial requirements. There can be no assurance that additional financing will be available to us when needed or, if available, that it can be obtained on commercially reasonable terms. If we are not able to obtain the

additional financing on a timely basis, we will not be able to meet our other obligations as they become due.

RISK FACTORS

Much of the information included in this quarterly report includes or is based upon estimates, projections or other "forward-looking statements". Such forward-looking statements include any projections or estimates made by us and our management in connection with our business operations. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the

direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions, or other future performance suggested herein. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of such statements.

Such estimates, projections or other "forward-looking statements" involve various risks and uncertainties as outlined below. We caution readers of this quarterly report that important factors in some cases have affected and, in the future, could materially affect actual results and cause actual results to differ materially from the results expressed in any such estimates, projections or other "forward-looking statements". In evaluating us, our business and any investment in our business, readers should carefully consider the following factors.

We have issued secured convertible notes and share purchase warrants and our obligations under these secured convertible notes and share purchase warrants pose risks to the price of our common stock and our continuing operations.

We issued secured convertible notes on November 20, 2002 and December 20, 2002. The secured convertible notes grant to the holders an option to convert the outstanding principal and accrued interest into shares of our common stock. Similarly, the share purchase warrants grant to the holders the right to exercise the warrants and obtain shares of our common stock. In addition, the secured convertible notes give the holders the right, in certain circumstances, to demand that we repay any outstanding amounts of principal and accrued interest with cash. The terms and conditions of the secured convertible notes and the share purchase warrants pose unique and special risks to our continuing operations and the price of our common stock. Some of those risks are outlined below.

The holders of the secured convertible notes have the option of converting all or any part of the principal and all accrued interest outstanding at the time of conversion into shares of our common stock. In addition, the holders of the share purchase warrants have the right to exercise the share purchase warrants and receive shares of our common stock. If the holder converts all or any part of these amounts due under the secured convertible notes, or if they exercise all or any number of their share purchase warrants, there will be dilution of your shares of our common stock.

The conversion of all or any part of the amounts due under the secured convertible notes or the exercise of any or all of the share purchase warrants will result in dilution to the interests of other holders of our common stock since the holders may ultimately convert the full amount of all of the secured convertible notes and they may exercise all of the warrants and they may sell some or all of these shares into the public market.

If the holders of all of the secured convertible notes converted all principal outstanding at the conversion price of \$0.09 (CDN\$0.15) and the holders of all of the share purchase warrants exercised their share purchase warrants at the exercise price of \$0.09 (CDN\$0.15), then we would be required to issue 12,700,966 shares of our common stock, which would represent approximately 26% of our issued and outstanding stock on May 15, 2003 (assuming that the conversion of the secured convertible notes and the exercise of the share purchase warrants occurred on May 15, 2003). This does not include any shares that may be issued as payment of interest on the secured convertible note.

18

The secured convertible notes provide for various events of default that would entitle the holder to require us to repay the entire amount in cash immediately or within a short period of time after notice. If an event of default occurs, we may be unable to immediately repay the amount owed, and any repayment may leave us with little or no working capital in our business.

We will be in default of the secured convertible notes if any of the following events, among others, occurs:

- (a) we or our subsidiary fail to make any payment of interest or principal when due;

- (b) we or our subsidiary breach or fail to comply with any other provision of any secured convertible note and our breach or failure continues for five days after written notice from the holder;
- (c) we fail at any time to meet the requirements for being a qualifying issuer under Canadian law, fail to provide adequate current public information as required by Rule 144(c) promulgated under the Securities Act of 1933, or we fail to maintain our status as a reporting company under British Columbia securities laws;
- (d) if any representation or warranty made by us in any of the agreements pursuant to which the secured convertible notes were sold turns out to be untrue or incorrect in any material respect;
- (e) we become bankrupt or insolvent.

If any one of the above defaults occurs and is not cured within any applicable cure period, then the holder can elect to:

- (a) declare the principal of the secured convertible notes, plus any accrued interest, to be immediately due and payable;
- (b) may protect and enforce its rights or remedies either by suit in equity or by action at law, or both, whether for the specific performance of any covenant, agreement or other provision contained in the secured convertible notes, in the private placement agreement or the general security agreements in connection with the secured convertible notes or in any document or instrument delivered in connection with or pursuant to the secured convertible notes, or to enforce the payment of the outstanding secured convertible notes or any other legal or equitable right or remedy.

Some of the events of default include matters over which we may have some, little or no control.

If an event of default occurs, we may be unable to repay any part or all of the entire amount in cash and the holder could exercise its rights and make a claim against all of our assets, subject to any prior security held by third parties. Any such action would have an adverse effect on our continuing operations.

Sales of a substantial number of shares of our common stock into the public market by the selling stockholders may result in significant downward pressure on the price of our common stock and could affect the ability of our stockholders to realize the current trading price of our common stock.

Sales of a substantial number of shares of our common stock in the public market could cause a reduction in the market price of our common stock. We had 35,570,109 shares of common stock issued and outstanding as of May 5, 2003. We filed a registration statement on May 2, 2003 which allows the selling stockholders to resell up to 14,185,585 shares of our common stock, only 553,215 of which are included in the number of our issued and outstanding common shares as of May 15, 2003. As a result of such registration statement, a substantial number of our shares of common stock may be issued and may be available for immediate resale, which could have an adverse effect on the price of our common stock.

To the extent any of the selling stockholders converts any of the principal or interest due under any of the secured convertible note(s), or they exercise any of their share purchase warrants, and then resell the shares of common stock issued to them upon such conversion or exercise, the price of our common stock may decrease due to the additional shares of common stock in the market.

Any significant downward pressure on the price of our common stock as the selling stockholders convert any secured convertible notes or exercise their share purchase warrants and sell the resulting shares of our common stock could encourage short sales by the selling stockholders or others. Any such short sales could place further downward pressure on the price of our common stock.

All of our assets are pledged as security and consequently, if we default on the secured convertible notes, we could lose our assets, which would adversely affect our continued operation.

The sale of the secured convertible notes has been secured by a pledge of all of our assets in two general security agreements, which is subject to certain prior security interests granted to third party creditors with a prior claim. If we default on any of the secured convertible notes and the holder chooses to realize upon and take possession of our assets and business, we may be unable to continue to operate our current business, and as a result you may lose some or all of your investment in our common stock.

We have had negative cash flows from operations and if we are not able to obtain further financing our business operations may fail.

To date we have had negative cash flows from operations and we have been dependent on sales of our equity securities and debt financing to meet our cost requirements. As of March 31, 2003, we had working capital deficiency of \$727,979. We do not expect positive cash flow from operations in the near term. We have estimated that we will require between \$3.0 and \$3.5 million to carry out our business plan in the next twelve months. We may need to raise additional funds to:

- support our planned rapid growth and carry out our business plan,
- develop new or enhanced services and technologies,
- increase our marketing efforts,
- acquire complementary businesses or technologies,
- respond to regulatory requirements,
- respond to competitive pressures or unanticipated requirements, and
- pay our aged payables.

We anticipate that we will require a greater amount of additional working capital for inventory, components and work in process and to expand our manufacturing capacity if we enter into contracts for large quantities of our amplifiers. We are incurring expenses in anticipation of future sales that may not materialize. If future sales fall significantly below our expectations or if we incur unanticipated costs or expenses our financing needs could be increased. Any inability to obtain sufficient capital to sustain our existing operations, to meet commitments or to fund our obligations under our existing sales orders may require us to delay delivery of products, to default on one or more agreements or to significantly reduce or eliminate sales and marketing, research and development or administrative functions. The occurrence of any of these, or other adverse affects of inability to raise adequate capital may have a material adverse effect on our business, financial condition and results of operations.

We may not be able to obtain additional equity or debt financing on acceptable terms when we need it. We may be less likely to raise future financing since the completion of the convertible debenture

financing in November and December 2002 because, as part of that financing transaction, we have given security over all of our assets to the holders of these debentures. Potential financiers may be reluctant to provide us with further debt or equity financing as they will not be able to obtain a first charge over our assets or be able to realize on our assets should our business fail. Even if financing is available it may not be available on terms that are favourable to us or in sufficient amounts to satisfy our requirements. If we require, but are unable to obtain, additional financing in the future, we may be unable to implement our business plan and our growth strategies, respond to changing business or economic conditions, withstand adverse operating results, consummate desired acquisitions and compete effectively. More importantly, if we are unable to raise further financing when required, our continued operations may have to be scaled down or even ceased.

We have a history of losses and fluctuating operating results which raise substantial doubt about our ability to continue as a going concern.

Since inception through March 31, 2003, we have incurred aggregate losses of \$15,916,484. Our loss from operations for the three month period ended March 31, 2003 was \$421,354. During fiscal 2002, we took steps to reduce our cash expenditures by reducing the number of employees by approximately 50% and by reducing employee salaries. There is no assurance that we will operate profitably or will generate positive cash flow in the future. In addition, our operating results in the future may be subject to significant fluctuations due to many factors not within our control, such as the unpredictability of when customers will order products, the size of customers' orders, the demand for our products, and the level of competition and general economic conditions. If we cannot generate positive cash flows in the future, or raise sufficient financing to continue our normal operations, then we may be forced to scale down or even close our operations.

Although we anticipate that revenues will increase, we expect an increase in development costs and operating costs. Consequently, we expect to incur operating losses and negative cash flow until our products gain market acceptance sufficient to generate a commercially viable and sustainable level of sales, and/or additional products are developed and commercially released and sales of such products made so that we are operating in a profitable manner. These circumstances raise substantial doubt about our ability to continue as a going concern, as described in an explanatory paragraph to our independent auditors' report on the December 31, 2002 financial statements, which are included in the Annual Report on Form 10-KSB. The financial statements do not include any adjustments that might result from the outcome of that uncertainty.

Trading of our stock may be restricted by the SEC's penny stock regulations which may limit a stockholder's ability to buy and sell our stock.

The Securities and Exchange Commission has adopted regulations which generally define "penny stock" to be any equity security that has a market price (as defined) less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. Our securities are covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and "accredited investors". The term "accredited investor" refers generally to institutions with assets in excess of \$5,000,000 or individuals with a net worth in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 jointly with their spouse. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the SEC which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the

penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investor interest in and limit the marketability of our common stock.

NASD sales practice requirements may also limit a stockholder's ability to buy and sell our stock.

In addition to the "penny stock" rules described above, the NASD has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives and other information. Under interpretations of these rules, the NASD believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. The NASD requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our stock and have an adverse effect on the market for our shares.

If plans to phase-out the OTC Bulletin Board are implemented, we may not qualify for listing on the proposed Bulletin Board Exchange or any other marketplace, in which event investors may have difficulty buying and selling our securities

We understand that in 2003, subject to approval of the Securities and Exchange Commission, the NASDAQ Stock Market intends to phase-out the OTC Bulletin Board, and replace it with the "Bulletin Board Exchange" or "BBX". As proposed, the BBX will include an electronic trading system to allow order negotiation and automatic execution. The NASDAQ Stock Market has indicated its belief that the BBX will bring increased speed and reliability to trade execution, as well as improve the overall transparency of the marketplace. Specific criteria for listing on the BBX have not yet been finalized, and the BBX may provide for listing criteria which we do not meet. If the OTC Bulletin Board is phased-out and we do not meet the criteria established by the BBX, there may be no market on which our securities may be included. In that event, shareholders may have difficulty reselling any of the shares they own.

Our common stock is illiquid and subject to price volatility unrelated to our operations

Our common stock currently trades on a limited basis on the OTC Bulletin Board and the TSX Venture Exchange. The market price of our common stock could fluctuate substantially due to a variety of factors, including market perception of our ability to achieve our planned growth, quarterly operating results of other telephony companies, trading volume in our common stock, changes in general conditions in the economy and the financial markets or other developments affecting our competitors or us. In addition, the stock market is subject to extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons unrelated to their operating performance and could have the same effect on our common stock.

A decline in the price of our common stock could affect our ability to raise further working capital and adversely impact our operations

A prolonged decline in the price of our common stock could result in a reduction in the liquidity of our common stock and a reduction in our ability to raise capital. Because our operations have been primarily financed through the sale of equity securities, a decline in the price of our common stock could be especially detrimental to our liquidity and our operations. Such reductions would force us to reallocate funds from other planned uses and would have a significant negative effect on our business plans and operations, including our ability to develop new products and continue our current operations. If our stock price declines, there can be no assurance that we can raise additional capital or generate funds from operations sufficient to meet our obligations.

22

If we issue additional shares in the future which would result in dilution to our existing stockholders.

Our Certificate of Incorporation authorizes the issuance of 100,000,000 shares of common stock and 5,000,000 shares of preferred stock. Our board of directors have the authority to issue additional shares up to the authorized capital stated in the certificate of incorporation, subject to the regulatory requirements of the TSX Venture Exchange. Our board of directors may choose to issue some or all of such shares to acquire one or more businesses or other types of property, or to provide additional financing in the future. The issuance of any such shares may result in a reduction of the book value or market price of the outstanding shares of our common stock. If we do issue any such additional shares, such issuance also will cause a reduction in the proportionate ownership and voting power of all other stockholders. Further, any such issuance may result in a change of control of our corporation. Our board of directors has the authority to issue shares of preferred stock with such liquidation preferences, voting rights, dividend rights, conversion rights and other terms as the board of directors may determine, without approval of our shareholders. The rights and preferences of holders of any preferred stock we issue could make acquisition of our company by a third party more difficult or costly and could operate to discourage or frustrate acquisition proposals.

We have a limited operating history and if we are not successful in continuing to grow our business, then we may have to scale back or even cease our ongoing business operations.

We have a limited history of revenues from operations and have no significant tangible assets. We have yet to generate positive earnings and there can be no assurance that we will ever operate profitably. Our business involves the development, manufacture and marketing of products, novel and otherwise, in the wireless communications industry. Future development and operating results will depend on many factors, including the completion of developed products, levels of demand for our products, levels of product and price competition, success in setting up and expanding distribution channels, whether we can develop and market new products and control costs and the general economic condition of the telecommunications industry. In addition, our future prospects must be considered in light of the risks, expenses and difficulties frequently encountered in establishing a new business in the technology industry, which is characterized by intense competition, rapid technological change, and significant regulation. There can be no assurance that our actual financial results will be consistent with our financial forecasts or that any positive trends will continue and if we are unable to continue to grow our revenues from operations, then we may have to scale back or even cease the ongoing operations of our business.

We are currently dependent on a limited number of customers and if we are unable to diversify our customer base and we lose one or more of these customers, then our revenues may decrease significantly.

Sales to three customers comprised 79% of our revenue in the three month period ended March 31, 2003 and sales to three customers comprised 84% in the three month period ended March 31, 2002. During three months periods ended March 31, 2003 and 2002, each of the three customers accounted for more than ten percent (10%) of our revenues. Sales to the Korean market have decreased significantly because of a slowdown in the telecommunications industry and increased competition in the Korean market. We predict that our sales to these customers in Korea and in the Korean market will decrease significantly in fiscal 2003. In addition, one of our significant customers in the United States went bankrupt during fiscal 2002. As a result of the decrease in sales to the Korean market and the loss of one

large customer in the United States in the first quarter of 2002, we took positive steps in the second quarter of fiscal 2002 to diversify our customer base to ensure that reliance on significant customers will be reduced in the future. If our business strategy to diversify our customer base is successful, we expect that we will become less dependent on such significant customers in the future as sales increase. However, if we are unable to successfully diversify our customer base and if we lost one or more of these limited number of customers, our revenues would decrease significantly and our business, financial condition and results of operations would be materially and adversely affected.

23

We depend on experienced management and key technical employees and if we are unable to retain or hire such management and key technical employees in the future, then our ability to produce innovative and competitive products could be adversely affected.

We are a growing company dependent upon the services of our senior management team. The loss of the services of any one of these persons, or an inability to recruit and retain additional qualified personnel, could have a material adverse effect on our business. We have no plans at present to obtain key person life insurance for any of our officers and directors. We are also dependent on highly qualified technical and engineering personnel. Although we have had success in recruiting these employees in today's competitive marketplace, there can be no assurance that this will continue which may put us at risk of being able to sustain and grow our business. If we are unable to retain or hire such management and key technical employees, then we would be unable to develop innovative and competitive products. If this happens our ability to generate revenues could be adversely affected, as would our continued business operations.

Substantially all of our assets and a majority of our directors and officers are outside the United States, with the result that it may be difficult for investors to enforce within the United States any judgments obtained against us or any of our directors or officers.

Substantially all of our assets are located outside the United States and we do not currently maintain a permanent place of business within the United States. In addition, a majority of our directors and officers are nationals and/or residents of countries other than the United States, and all or a substantial portion of such persons' assets are located outside the United States. As a result, it may be difficult for investors to enforce within the United States any judgments obtained against us or our officers or directors, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof. Consequently, you may be effectively prevented from pursuing remedies under U.S. federal securities laws against them.

We operate in a highly competitive industry and our failure to compete effectively may adversely affect our ability to generate revenue.

The wireless communications industry is characterized by rapidly evolving technology and intense competition. We may be at a disadvantage to other companies having larger technical staff, established market share and greater financial and operational resources. Some of our competitors have achieved greater brand recognition and technologies than we currently enjoy. We may not be able to successfully compete. Our competitors may succeed in developing products or competing technologies that are more effective or more effectively marketed than products marketed by us, or that render our technology obsolete. Earlier and larger entrants into the market often obtain and maintain significant market share relative to later entrants. We believe that an increasing number of products in the market and the desire of other companies to obtain market share will result in increased price competition. Price reductions by us in response to competitive pressure or our desire to also successfully increase market penetration or market share could have a material, adverse effect on our business, financial condition, and results of operations.

We could lose our competitive advantages if we are not able to protect any proprietary technology and intellectual property rights against infringement, and any related litigation could be time-consuming and costly

Our success and ability to compete depend to a significant degree on the proprietary technology. If any of our competitors copies or otherwise gains access to the proprietary technology or develops similar technology independently, we would not be able to compete as effectively. The measures we take to protect the proprietary technology and other intellectual property rights, which presently are based upon a combination of copyright, trade secret, trademark and patent laws, may not be adequate to prevent their unauthorized use. Further, the laws of foreign countries may provide inadequate protection of such intellectual property rights. We may need to bring legal claims to enforce or protect such intellectual

24

property rights. Any litigation, whether successful or unsuccessful, could result in substantial costs and diversions of resources. In addition, notwithstanding the rights we have secured in our intellectual property, other persons may bring claims against us that we have infringed on their intellectual property rights, including claims based upon the content we license from third parties or claims that our intellectual property right interests are not valid. Any claims against us, with or without merit, could be time consuming and costly to defend or litigate, divert our attention and resources, result in the loss of goodwill associated with our service marks or require us to make changes to our websites or other of our technologies.

We hold no patents on our technology and may not be able to protect our proprietary technology

Other than the provisional patent application that we recently filed in the United States for our multi-carrier linear amplifier, we do not have any patents on our technology or products. We rely on a combination of copyright, trade secret, trademark and patent laws to protect our proprietary intellectual property. Management believes that the patent application process in many countries in which we intend to sell products would be time-consuming and expensive and any patent protection might be out of date by the time the patent were to be granted.

The departure of any of our management or significant technical personnel, the breach of their confidentiality and non-disclosure obligations, or the failure to achieve our intellectual property objectives may have a material adverse effect on our business, financial condition and results of operations. We believe our success depends upon the knowledge and experience of our management and technical personnel and our ability to market our existing products and to develop new products. Employees may and have left us to go to work for competitors. While we believe that we have adequately protected our proprietary technology, and we will take all appropriate and reasonable legal measures to protect it, the use of our processes by a competitor could have a material adverse effect on our business, financial condition and results of operations. Our ability to compete successfully and achieve future revenue growth will depend, in part, on our ability to protect our proprietary technology and operate without infringing upon the rights of others. We may not be able to successfully protect our proprietary technology, and our proprietary technology may otherwise become known or be independently developed by competitors and if that happens our ability to generate revenues from the sale of our products may be negatively affected.

We have limited manufacturing capacity and if we are unable to deliver in a timely manner, products to fill orders, then we may lose some customers and their orders.

We currently assemble, tune and test our products in our manufacturing facility located in Burnaby, British Columbia. Current models of our products are required to be individually assembled, tuned and tested to meet the specifications

of the end-user. This process is time-consuming and labor intensive and our ability to increase manufacturing output is limited by the size of our facilities and our ability to hire, train and retain qualified personnel. On August 1, 2002, we announced that we had selected Burnaby, British Columbia based contract electronics manufacturer Creation Technologies Inc. for volume production of our power amplifiers. We started outsourcing our larger orders during the third quarter of 2002. This will allow us to take advantage of better purchasing power, reduce our inventory levels and ensure that a consistent quality product is delivered on time. The loss of such an outsourcing relationship could have a material adverse effect on our business, financial condition and results of operations and there can be no assurances that we will be able to find another manufacturer on a timely basis necessary to fill orders or at all. If we are unable to deliver our products in a timely manner, then we may lose customers to our competitors and may become subject to late delivery penalties which would affect our ability to generate revenue.

In the future, we may be required to outsource additional manufacturing or expand our facility, hire additional personnel and automate the assembly, tuning and/or testing process to increase our manufacturing capacity in order to meet future demand for our products. Such expansion will require additional capital investments and allocation of resources, which may affect our results of operations and

25

our ability to operate profitably. We cannot assure that adequate resources will be available or that we will be able to increase our manufacturing capacity in a timely manner, if at all. Our inability to meet the demand for our products may result in some of our customers purchasing their products from other suppliers, which would affect our ability to generate revenues.

We depend on outside suppliers and other third parties for the components we use in our products and for sales of our products in some international markets, and if we cannot maintain these relationships then our ability to generate revenues would be adversely impacted.

We are a small enterprise and have yet to establish substantial internal management, personnel and other resources. We depend substantially upon third parties for several critical elements of our business including, among other things, promotion and marketing, technology and infrastructure development and distribution activities. We also depend substantially upon third party sales agents. A substantial portion of our high power radio frequency amplifier revenues to date have been derived through a single South Korean sales agent. Historically, we have generated over 90% of our revenues from the Korean market. We anticipate that this trend will continue. If we are unable to maintain our relationships with these sales agents or these sales agents begin selling our competitors products, then our ability to generate revenues through the sale of our products would be negatively impacted.

We rely on outside suppliers for some components and the assembly of some portions of our products. There can be no assurance that component parts, materials or services obtained from outside suppliers will continue to be available in adequate quantities or on adequate terms. The inability to obtain sufficient quantities of such materials, parts or services at reasonable cost would have a material adverse effect on our ability to produce products to satisfy customer demand and therefore would have a negative impact on our ability to generate revenues.

If we fail to effectively manage our growth our future business results could be harmed and our managerial and operational resources may be strained.

As we proceed with the development of our technology, we expect to experience significant and rapid growth in the scope and complexity of our business. We will need to add staff to market our services, manage operations, handle sales and marketing efforts and perform finance and accounting functions. We will be required to hire a broad range of additional personnel in order to successfully advance our operations. This growth is likely to place a strain on our management and operational resources. The failure to develop and implement effective systems, or to hire and retain sufficient personnel for the performance of all of the functions necessary to effectively service and manage our

potential business, or the failure to manage growth effectively, could have a materially adverse effect on our business and financial condition.

We may be materially and adversely affected by continued reductions in spending on telecommunications infrastructure by our customers.

A continued slowdown in capital spending by telecommunication service providers may affect our revenues more than we currently expect. Moreover, the significant slowdown in capital spending by telecommunication service providers has created uncertainty as to market demand for the type of products we produce. As a result, revenues and operating results for a particular period can be difficult to predict. In addition, there can be no certainty as to the severity or duration of the current industry adjustment. As a result of the recent changes in industry and market conditions, many of our customers have reduced their capital spending on telecommunications infrastructure. Our revenues and operating results are expected to continue to be affected by the continued reductions in capital spending on telecommunications infrastructure by our customers.

26

We depend on telecommunication system providers to accept our technology and products, and if the market for our products fails to develop or develops slower than expected, then our ongoing operations and ability to generate revenues will be negatively impacted.

The markets for our technologies and products have only recently begun to develop. As is typical in the case of a new and rapidly evolving industry, demand and market acceptance for recently introduced products and services are subject to a high level of uncertainty and risk. Because the markets for our technologies and products are new and/or evolving, it is difficult to predict the future growth rate, if any, and size of these markets. There is no assurance that the markets for our technologies and products will emerge or become or remain sustainable. If the markets fail to develop, develop more slowly than expected or become saturated with competitors, or if our technologies and products do not achieve or sustain market acceptance, our ongoing business, our ability to generate revenues and our ongoing growth will be materially and adversely affected.

Since our products have been recently developed, the markets may not accept our products or purchase them in sufficient numbers for us to recover the costs of developing such products.

We have only recently released additional commercial versions of some of our technologies and products. Additional efforts and expenditures to enhance their capabilities are critical to commercial viability. We invest heavily in the research and development of new products and we cannot assure you that the new products we develop will be commercially viable or that a sufficient demand will develop for such products. If markets do not accept our products in sufficient numbers to offset the costs of developing and marketing such products, we would be unable to generate significant revenues and may never be able to operate profitably.

Unanticipated warranty costs could affect the ongoing demand for our products and our ability to operate profitably.

Our products are relatively new to their respective markets and lack extensive field operating experience. While we have tested our products for failure in certain circumstances, there can be no assurance that our products will continue to operate satisfactorily after sustained field use. If a substantial number of products are returned and accepted for warranty replacement, the cost to us could have a material adverse effect on our business, the continued or ongoing demand for our products and our ability to operate profitably.

If any of the products of our former Sonem division fail, we may be exposed to significant product liability claims which would negatively impact our financial condition.

In the past, we sold emergency traffic preemption devices of our Sonem division (which we sold in October 2000) which are installed at traffic intersections. Also, we sold some of our UniLinx(TM) devices (in June 2001) for use with traffic control equipment located at intersections. If any of these products fail to perform properly, significant personal injury, property damage or death could arise from traffic accidents resulting from such failure. Although we maintain product liability insurance, there is no assurance that the amount of coverage will be sufficient in the event of such a claim, that the actual claim would be covered by our insurance, or that coverage will continue to be available to us on reasonable terms and conditions or at all. If such claims are made and our insurance is inadequate or does not cover such claims, then our financial condition would be negatively impacted, maybe even significantly, if the amount of such claims are significant.

Rapid technological changes in our industry could render our products non-competitive or obsolete and consequently affect our ability to generate revenues.

The telecommunications industry is characterized by rapid technological change, frequent new product and service introductions, evolving industry standards and changes in customer demands. The introduction of products embodying new technologies and the emergence of new industry standards can,

27

in a relatively short period of time, render existing products obsolete and unmarketable, including ours. We believe that our success will depend upon our ability to continuously develop new products and to enhance our current products and introduce them promptly into the market. If we are not able to develop and introduce new products, our business, financial condition and results of operations could be adversely affected.

We have a significant amount of aged payables and if we are unable to pay such amounts or if a creditor decides to take legal action against us, we may have to scale down or cease the operation of our business.

As at March 31, 2003, we had accounts payable and accrued liabilities of \$1,316,983, of which approximately \$1,053,716 represented payables to trade creditors. To date, these creditors have been co-operating with us to accept a delayed payment of these outstanding payables. If one or more of these creditors is no longer willing to accept delayed payments and demands immediate payment of any such amounts, then our cash position and our need for further financing may become immediate. If we are unable to raise the funds to pay off such aged payables, then our continued operations may be negatively affected, and we may have to scale down our even cease the operation of our business.

Item 3. Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, within the 90 days prior to the filing date of this report, we have carried out an evaluation of the effectiveness of the design and operation of our company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of our company's management, including our company's president and chief executive officer. Based upon that evaluation, our company's president and chief executive officer concluded that our company's disclosure controls and procedures are effective. There have been no significant changes in our company's internal controls or in other factors, which could significantly affect internal controls subsequent to the date we carried out our evaluation.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our company's reports filed under the Exchange Act is accumulated and communicated to management, including our company's president and chief executive officer as appropriate, to allow

timely decisions regarding required disclosure.

PART II - OTHER INFORMATION

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, along with Sonic Systems Corporation and M&M Realty Incorporated, have been sued in the Supreme Court of British Columbia, Canada, by Integrated Global Financial Corporation. The lawsuit was commenced on January 5, 2001. Integrated Global alleges it has options to purchase 500,000 shares, with no expiry date, at an alleged exercise price of \$1.00 per share, plus unspecified damages. We dispute the allegations and are defending the claim. No trial date has been set. No Examinations for Discovery have been conducted or have been scheduled. The matter is at a very preliminary stage. It is our view that the claim has little, if any, merit and we do not expect the proceeding to have any material adverse effect on us. It is our position that these options have expired and we have not included such options in our outstanding options at March 31, 2003.

28

On October 24, 2001, we commenced a lawsuit against Cobratech Industries Inc. in the Supreme Court of British Columbia, Canada, to recover approximately \$88,000 owed to us by Cobratech. We made a bridge loan of \$200,000 to Cobratech in November 2000, secured by a security interest in all of the personal and real property of Cobratech. The obligation was evidenced by a promissory note bearing interest at the rate of 1% per month. Cobratech owed us approximately \$85,611, including principal and accrued, but unpaid interest, under the note. On August 12, 2002, we entered into a settlement arrangement with Cobratech whereby Cobratech would satisfy the obligation by converting the outstanding principal and interest in the amount of \$85,611 into shares of its parent, CTI Diversified Holdings Inc. On December 14, 2002, we received 428,053 shares of CTI Diversified Holdings Inc. at a deemed price of \$0.20 per share.

Item 2. Changes in Securities

On January 31, 2003, we paid a finders' fee to Mueller & Company of 553,215 shares at \$0.15 per share, representing a 10% commission on some of the subscriptions to the private placements that closed on November 20, 2002 and December 20, 2002. These shares were issued to an accredited investor relying on Rule 506 of Regulation D of the Securities Act of 1933.

Item 3. Defaults Upon Senior Securities.

None.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K

Exhibits Required by Item 601 of Regulation S-B

Exhibit

Number Description

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

3.2* Amended and Restated Bylaws of Unity Wireless Corporation (1)

3.3* First Amendment to Amended and Restated Bylaws of Unity Wireless Corporation (2)

3.4* Second Amendment to Amended and Restated Bylaws of Unity Wireless Corporation (2)

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

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

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

29

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

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

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

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

10.6*1999 Stock Option Plan, as amended (3)

10.7* Recommended Stock Option Grant Policy for our company (3)

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

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

Edgar Filing: UNITY WIRELESS CORP - Form 10QSB

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

10.11* Form of Secured Convertible Note issued by Unity Wireless Corporation and Unity Wireless Systems Corporation in favour of each of the following: (8)

S. Heiman	CDN\$118,897.50
Casey J. O'Byrne Professional Corporation	CDN\$100,000.00
Moshe Rosner	CDN\$39,632.50
Jeffrey Rubin	CDN\$79,265.00
William N. Weidman	CDN\$475,590.00
Chancellor Apartments LLC	CDN\$77,625.00
Gabrielle Chaput	CDN\$1,000.00
Desmonde Farruga	CDN\$500.00
Shalom Torah Centers	CDN\$38,812.50
Sid. M. Tarrabain Professional Corporation	CDN\$10,000.00
Mokhlis Y. Zaki	CDN\$15,000.00

30

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

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

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

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

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

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

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

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

21.1 Subsidiaries of our company:

Unity Wireless Systems Corporation (British Columbia)
321373 B.C. Ltd. (British Columbia)

99.1 Section 906 Certification under Sarbanes-Oxley Act of 2003 **

* Previously filed

** Filed herewith

(1) Incorporated by reference to our Form SB-2 filed with the Securities and Exchange Commission on October 4, 2000.

(2) Incorporated by reference to our Form 8-K filed with the Securities and Exchange Commission on August 30, 2002.

(3) Incorporated by reference to our Form 10-KSB filed with the Securities and Exchange Commission on April 2, 2001.

(4) Incorporated by reference to our Form 8-K filed with the Securities and Exchange Commission on October 23, 2000.

(5) Incorporated by reference to our Form 8-K filed with the Securities and Exchange Commission on December 4, 2000.

31

(6) Incorporated by reference to our Form 8-K filed with the Securities and Exchange Commission on January 16, 2001.

(7) Incorporated by references to our Form SB-2A filed with the Securities and Exchange Commission on May 3, 2001.

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

(9) Incorporated by reference to our SB-2 filed with the Securities and Exchange Commission on May 2, 2003

Reports on form 8-K

We did not file any reports on Form 8-K during the quarter ended March 31, 2003.

32

Signatures

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

UNITY WIRELESS CORPORATION

/s/ Ilan Kenig

By: Ilan Kenig, President, Chief Executive Officer

(Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer)

May 15, 2003

33

CERTIFICATION PURSUANT TO
18 U.S.C. ss.1350, AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

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 officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures 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 as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ Ilan Kening

Ilan Kenig

Chief Executive Officer and Principal Accounting Officer