UNITY WIRELESS CORP
Form 10KSB
March 30, 2004
- # -

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

FORM 10-KSB

(Mark One)

[X]

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003

[ ]

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

For the transition period from [ ]to[ ]

Commission file number 0-30620

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

Delaware	**91-1940650**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
7438 Fraser Park Drive **Burnaby, British Columbia, Canada**	**V5J 5B9**
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number **(800) 337-6642**

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

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

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

Common Stock, par value $0.001

(Title of class)

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

Yes [X] No [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [X]

State Issuer's revenues for its most recent fiscal year: $2,375,128

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

65,108,608 common shares at $0. 37 (1) = $ 24,090,184

(1) Average of bid and ask closing prices on March 1, 2004

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

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

69,731,354 common shares issued and outstanding as of March 1, 2004

DOCUMENTS INCORPORATED BY REFERENCE

See index to exhibits

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

- # -

PART I

Item 1. Description of Business.

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

In this annual 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.

Business Development During Last Three Years

Our company was incorporated in the State of Delaware on October 1, 1998 under the name Sonic Systems Corporation. During the period from December 1998 until June 2001 we were engaged in the traffic control business. In November 2000 we entered the business of designing, developing and manufacturing linear power amplifiers for the w ireless network infrastructure industry. During 2001, we focused on developing new products and expanding our marketing, sales and global distribution network. In 2002, our business strategy evolved and focused on securing long-term supply agreements with strategic key customers. In 2003, we continued to focus on securing long-term supply agreements with key customers and developing new RF power amplifiers and technology. We completed the initial development of our efficiency enhanced product and made samples available to a select group of interested potential customers.

Our Current Business

Principal Products

We make high power radio frequency amplifiers. We have developed over 30 models of our products which are used in cellular, personal communication services (PCS), paging, wireless local loop (WLL) and third generation (3G) networks. Each one of our high power amplifiers is custom made to satisfy each customer's particular requirements. Most of our products are high power amplifiers, defined as single channel power amplifiers used for sending signals from a network to a terminal such as a cell phone .

Most of our amplifiers are used in signal repeaters that are used to extend coverage in cellular telephone networks. Some of our products are also used in base station equipment and some are multi-channel power amplifiers. We have developed power amplifiers for use in digital television broadcasting in Korea and for base station applications for both the mobile phone and wireless local loop network. Wireless local loop networks are sometimes referred to as "the last mile" solution because unlike cellular phone systems which are mobile wireless networks, wireless local loop networks are designed to deliver voice and high speed data (e.g., Internet) services to fixed locations such as homes and small offices via wireless communication devices without the need for special wiring.

Our family of amplifiers covers a range of average output power levels (from 2 watts to 80 watts) and a number of different operating frequency bands . Substantially all of our assets and operations are located in British Columbia, Canada.

Revenues from operations were approximately $2,375,000 in the year ended December 31, 2003 and $2,992,000 in the year ended December 31, 2002. A summary of sales by geographic region for the years ended December 31, 2003 and 2002 is as follows:

Place	2003 Sales	% of Total 2003 Sales	2002 Sales	% of Total 2002 Sales
Israel	$113,000	4.8%	$34,000	1.1%
Korea	$93,000	3.9%	$1,340,000	44.8%
Sweden	$164,000	6.9%	$88,000	2.9%
United States	$1,263,000	53.2%	$774,000	25.9%
China	$518,000	21.8%	$756,000	25.3%
Canada	$217,000	9.1%	$nil	-
Other	$7,000	0.3%	$nil	-

Product Research and Development

We mainly work with our own proprietary technology and certain technology developers to increase the performance and efficiency of our amplifiers. In November 2002, we entered into a licensing agreement with Paragon Communications, an Israeli company, for the development of a new generation of amplifiers. The first prototypes using this technology have been demonstrated, and show significant improvement to the efficiency of the amplifiers for the same output power and improved linearity. We have recently manufactured samples for potential customer s testing and product qualification practices and expect to begin presenting to interested parties early in 2004.

We have also augmented our research and development capabilities by adding experienced hardware and software engineers to our product development team. We have devoted and will continue to devote a large portion of our research and development resources towards next generation products and developing products for customers who exhibit long-term revenue and growth potential.

We have also received funding from the Canadian Israel Research and Development F oundation .. Under this agreement the Corporation is eligible to receive conditionally repayable government assistance amounting to $2 66,595 (CDN$350,000) to support the development *of a multi-carrier linear power amplifier*. During 2003 we claimed gross proceeds of $163,456 (CDN$233,333) which have been recorded as government grant income and appears as a reduction of operating expenses in the Consolidated Statement of Operations and Comprehensive Loss .. Under the terms of the agreement, commencing with the first commercial transaction, 2.5% of yearly gross sales shall be paid until 100% of the grant has been repaid. As of December 31, 2003, no sales have occurred which would cause repayment.

During the years ended December 31, 2003 and 2002, we spent, net of stock-based compensation (recovery), 30,932 and (116,747) respectively , $8 60,898 and $1,544,090 respectively on research and development activities.

Sales and Marketing of Our Products

Our principal customers are the original equipment manufacturers of repeaters and base stations. The original equipment manufacturers sell their products, which include our radio frequency power amplifiers, to the operators of wireless networks.

We also sell our products through independent sales agents who are paid on commission basis and through sales individuals who are engaged on a full time basis as employees of the Corporation. We will continue to develop this sales channel by focusing on identifying and engaging sales representatives who will sell our products in other markets.

Our sales to date have been by way of purchase orders that typically cover periods ranging from several months to one year. We have no sales agreements that extend beyond one year. A third, longer-term component of our marketing strategy for the radio frequency amplifier products is to develop an integrated RF(Radio Frequenc) front end hardware and software subsystem. We will also develop stronger software capabilities integrated into microprocessors and analog pre-distortion technology.

Manufacturing and Suppliers

We subcontract a portion of our manufacturing of our electronics components to qualified companies with a history of quality assurance. This minimizes the need for capital expenditures related to electronics manufacturing facilities, minimizes staff and allows us to utilize specialists in each stage of manufacturing. Alternate contract manufacturers are available, should any of our existing contract manufacturers cease providing services to us. We currently assemble, configure, tune and test our products and radio frequency circuitry in our facility located in Burnaby, British Columbia, Canada. We have limited capacity, and the process to assemble, test and tune our current products is labor intensive.

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

Our arrangements with suppliers are on a short term basis and to date we have not entered into any long term arrangements

Competition and Competitive Advantage

Within the merchant market for amplifiers, there are three dominant companies and a number of smaller ones. The dominant companies are Powerwave, Remec and Andrew. Collectively, they represent a significant proportion of the sales in the merchant market for amplifiers. These companies supply a much more integrated product line than just power amplifiers to telecom and defence customers. These companies are very large and supply the biggest OEM vendors in our industry and are able to manufacture products in large volume. The smaller amplifier companies compete for the repeater business, and it is this business that we expect will grow most quickly and be the most likely to grow if activity increases in the wireless infrastructure markets in the near future.

We compete with the smaller amplifier companies in niche and specialty markets, and seek to win sales based on superior technology and customer service. We will seek to make inroads into the larger market segments building on the technology and track record that we have developed in the niche and speciality markets which we have initially been serving.

Our products compete on the basis of price, technology, performance, quality, reliability, customer service and on-time delivery. We believe our size, infrastructure and location allow us to provide our customers with timely responses to their individual requests.

Our technology differentiation is based on these development programs:

- early introduction of third generation network single channel power amplifiers;

- products which have been tested and accepted by several customers and which are currently being tested in field trials;

- development of high efficiency power amplifiers (up to 50% better than competitors); and

- development of digitally pre-distorted amplifiers for better linearity at reduced cost by working closely with a leading supplier of digital pre-distortion chip set technology.

Intellectual Property

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

Trade-Marks

We use the trade-mark "Unity Wireless", which is registered in Canada. We intend to register the "Unity Wireless" trade-mark in the U.S. and possibly, other countries.

Service and Product Warranty

We offer a standard warranty of one year on parts and labor from date of shipment on our radio frequency amplifiers. In some cases, a warranty period of up to two years may be negotiated. We will repair units under warranty at our cost and return the units freight prepaid back to the customer. A repaired unit will be warranted for the remainder of the original warranty period or for one year from the repair date, whichever is longer.

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

Government Regulation

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

Significant Customers

We had sales of approximately $2,375,000 for the year ended December 31, 2003. One customer accounted for 19% of sales and another customer accounted for 43% of sales. No other customer accounted for more that 2.8% of our sales.

Employees

We currently employ 34 employees, of which 32 are employed on a full time basis.

RISK FACTORS

Much of the information included in this annual 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 annual 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 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 December 31, 2003, we had a working capital deficiency of $375,479. We do not expect positive cash flow from operations in the near term. We may not be able to obtain additional equity or debt financing on acceptable terms when we need it.

Substantial doubt about our ability to continue as a going concern.

W e 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. These circumstances raise substantial doubt about our ability to continue as a going concern, as described in our independent auditors' report on the December 31, 2003 consolidated financial statements, which are included with this annual report. The consolidated 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 any natural person whose individual net worth, or joint net worth with that person's spouse, at the time of his purchase exceeds $1,000,000, or any natural person who had an individual income in excess of $200,000 in each of the two most recent years or joint income with that person's spouse in excess of $300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year. 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.

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 five customers comprised 77% of our revenue in the year ended December 31, 2003 and sales to five customers comprised 80% in the year ended December 31, 2002. During fiscal 2003, two of the five customers accounted for more than ten percent (10%) of our revenues.

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.

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.

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.

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 December 31, 200 3 , we had accounts payable and accrued liabilities of $957,221, of which approximately $788,000 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 2. Description of Property.

Our executive and head offices are located at 7438 Fraser Park Drive, Burnaby, British Columbia, V5J 5B9. The offices are approximately 11,000 square feet in size and are leased on a six (6) year basis, expiring June 30, 2009, at a monthly rent of approximately $6,500 (CDN$8,500) excluding property taxes, maintenance and utilities. Our current premises are adequate for our current operations and we do not anticipate that we will require any additional premises in the foreseeable future.

In March, 2003, we opened a customer support office in China located at Room 1005 - 2103 Shen Nan Dong Road, Shen Zhen, China 518001. We rent this office on a month to month basis for $415 (CDN$600) plus operating expenses per month. This office houses one of our sales and engineering representatives.

Item 3. Legal Proceedings.

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

We, 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 December 31, 200 3 ..

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

None.

PART II

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

In the United States, our common stock is traded on the National Association of Securities Dealers OTC Bulletin Board under the symbol "UTYW." Between February 6, 1999 and August 17, 2000, our common stock traded under the symbol "ZSON." Before February 6, 1999, our common stock traded under the symbol "MMIM." The following quotations obtained from Canada Stockwatch reflect the highs and low bids for our common stock based on inter-dealer prices, without retail mark-up, mark-down or commission an d may not represent actual transactions.

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

OTC Bulletin Board (1)			TSX Venture Exchange (2) (CDN$)		
Quarter Ended	**High**	**Low**	**Quarter Ended**	**High**	**Low**
December 31, 2003	$ 0.30	$ 0.16	December 31, 2003	-	-
September 30, 2003	$ 0.23	$ 0.10	September 30, 2003	-	-
June 30, 2003	$ 0.14	$ 0.05	June 30, 2003	$ 0.17	$ 0.06
March 31, 2003	$ 0.19	$ 0.09	March 31, 2003	$ 0.26	$ 0.11
December 31, 2002	$0.17	$0.07	December 31, 2002	$0.28	$0.11
September 30, 2002	$0.29	$0.14	September 30, 2002	$0.40	$0.21
June 30, 2002	$0.48	$0.20	June 30, 2002	$0.73	$0.35
March 31, 2002	$0.38	$0.16	March 31, 2002	$0.60	$0.27

(1)

Over-the-counter market quotations reflect inter-dealer prices without retail mark-up, mark-down or commission, and may not represent actual transactions.

(2)

Our common stock began trading on the TSX Venture Exchange (formerly the Canadian Venture Exchange) on December 24, 2001 and stopped trading on June 6, 2003 when the Co rporation voluntarily de-listed from the exchange.

Our common shares are issued in registered form. Computershare Trust Company of Canada, 4th Floor, 510 Burrard Street, Vancouver, British Columbia, V6C 3B9 (Telephone: (604) 661- 9400 ; Facsimile: (604) 6 61 - 9401) is the registrar and transfer agent for our common shares.

On March 1, 200 4 , the shareholders' list of our common shares showed 181 registered shareholders and 69,731,354 shares outstanding.

We have not declared any dividends since incorporation and do not anticipate that we will do so in the foreseeable future. Although there are no restrictions that limit the ability to pay dividends on our common shares, our intention is to retain future earnings for use in our operations and the expansion of our business.

Equity Compensation Plan Information

We adopted our current stock option plan, entitled the 1999 Stock Option Plan, on December 6, 1999. Our current stock option plan was adopted by our directors on December 6, 1999 and was approved by our shareholders on July 5, 2000. The following table provides a summary of the number of options granted under our stock option plan, the weighted average exercise price and the number of options remaining available for issuance all as at December 31, 2003.

Number of Common Shares to be issued upon exercise of outstanding options	Weighted-Average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
5 , 1 26,083	$0.19	7,589,707(1)

(1)

On July 5, 2000, our stockholders approved a change in the maximum number of options issuable under the plan to 20% of the number of common shares outstanding including shares of common stock issuable under the plan. As at December 31, 200 3 , the maximum number was 12,715,790 ... For further information on our stock option plan, refer to footnote 10 of the audited consolidated financial statements included with this annual report.

Recent Sales of Unregistered Securities

During the year ended December 3 1 , 2003, the Corporation issued 2,347,672 common shares in settlement of $ 345,413 of trade accounts payable, and 1,806,666 common shares upon settlement of a promissory note with a value of $ 875,331 to Beth Medrash Govoha of Lakewood .. In addition, the Corporation issued in a private placement to Myer Bentob, a director of the Company, 833,333 common shares for cash proceeds of $108,333. Non-registered warrants were also issued, in conjunction with the private placement to Myer Bentob , to purchase 416,667, at US$0.26 (CDN$0.36) per share. The Company issued non-registered warrants to purchase 6,865,484 shares, at US$0.10 per share, to holders of Secured Convertible Notes who exercised previous warrants to purchase the same number of shares at an exercise price that was reduced to US$0.05 per share from CDN$0.15 per share. The Company also issued non-registered warrants to purchase 1,666,666 shares at US$0.10 per share to Beth Medrash Govoha of Lakewood, 100,000 shares at US$0.20 per share to Michael Mulshine, and 150,000 shares at US$0.25 per share to Michael Mulshine. The Company also issued an additional 3,997,190 shares to holders of Secured Convertible Notes as a result of the reduction in conversion price from CDN$0.15 per share to US$0.06 per share.

Subsequent to December 31, 2003, we issued 6,032,150 warrants exercisable at US$0.15 to former holders of Secured Convertible Notes who exercised their $0.10 warrant previously issued.

All of the investors were accredited investors and therefore we issued the shares and warrants relying on Rule 506 of Regulation D, Section 4(6) and/or Section 4(2) under the Securities Act of 1933.

Item 6. Management's Discussion and Analysis or Plan of Operation.

Results of Operations

Years Ended December 31, 2003 and 2002

Sales

Net sales in 2003 decreased by 21% or $616,843, to $2,375,128 from $2,991,971 in 2002. The decrease was largely due to postponements in customer purchase decisions in the third and fourth quarters of 2003 .

Cost of Goods Sold and Operating Expenses

Cost of goods sold during 2003 decreased by 19%, or $462,162, to $2,035,334 from $2,497,496 in 2002. Cost of goods sold for 2003 included a $382,039 write-down of inventory. Net of the write-down of inventory , of 382,030, cost of goods sold for 2003 decreased by 34 %, or $ 844,192 , primarily as a result of various efficiencies we introduced . Also, larger production runs gave us better purchasing power . Cost of goods sold includes stock-based compensation expense (recovery) of $682 in 2003 versus $(30,898) in 2002.

The gross margin of $339,794 or 14% of net sales for the year ended December 31, 2003 represented a decrease from a gross margin of $494,475 or 17% of net sales for the year ended December 31, 2002. Net of the write-down of inventory, the gross margin for 2003 was $721,824 or 30% of net sales. The increase was due to our cost cutting measures since the third quarter of 2002. Over the long terms, we anticipate that we will increase our gross margin 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 for the year ended December 31, 2003 decreased by 38%, or $535,513, to $891,830 from $1,427,343 for the year ended December 31, 2002. Net of stock-based compensation, research and development expenses decreased by $683,192. This decrease primarily reflects a reduction in the number of engineering personnel on staff during the year in 2003, as a number of the 2002 research and development initiatives progressed to production stage . Research and development expenses include stock-based compensation (recovery) expense of $30,932 in 2003 versus $(116,747) in 2002.

Sales and marketing expenses for the year ended December 31, 2003 decreased by 46%, or $251,949, to $301,222 from $553,171 for the year ended December 31, 2002. N et of stock-based compensation, sales and marketing expenses decreased by $348,442. The decrease primarily reflects reduce advertising, promotional activities, tradeshow and travel expenses to visit new customers and distributors. Sales and marketing expenses include stock-based compensation (recovery) expense of $7,172 in 2003 versus $(89,321) in 2002.

Depreciation and amortization for the year ended December 31, 2003 decreased by 3 3%, or $29,274, to $60,306 from $89,580 in 2002. The return to lessors of certain leased equipment result ed in a lower asset balance to be depreciated.

Exchange (gain)loss for 2003 decreased by $26,1 5 9, to an exchange loss of $25,1 5 2 from an exchange loss of $51,311 for the year ended 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 for 2003 increased by $95,391, to $111,037 from $15,646 in 2002. The increase was the result of interest on outstanding loans payable and convertible debenture issued in quarter 4 of Fiscal 2002.

General and administrative expenses for 2003 decreased by 15%, or $181,237, to $1,065,273 from $1,246,510 in 2002 . N et of stock-based compensation, general and administrative expenses decreased by $385,667. The change was the net result of :

- A n increase of $21,958 in corporate expenses due to additional investor relation services of approximately $65,000 offset by a reduction in professional service fees of approx. $43,000;

- a n increase of $24,047 in facility expenses, and

- a decrease in other general and administrative expenses of ---- 61% or $431,672 to $360,536 from $792,208 that largely re sulted from a decline in the number of employees and a result ing decline in salaries and related expenses.

General and administrative expenses include stock-based compensation (recovery) expense of $98,393 in 2003 versus $(106,037) in 2002.

Other Income and Expenses

Accretion of interest and debt settlement for 2003 increased by $1,243,129, to $1,254,199 from $11,070 in 2002. The balance relates to interest accreted on convertible debentures issued and expense related to the settlement of promissory notes. In both cases shares and warrants were a part of the transaction and were recognized at their estimated fair value. This results in the debentures and notes being initially recorded at discounted amounts and then amortized to their original face value over the year.

Other earnings in 2003 increased by 169%, or $67,125, to $106,837 from $39,712 in 2002. This 2002 balance result ed primarily from a $74,451 settlement of a government debt offset by a loss on disposal of fixed assets of approximately $35,000. T he 2003 balance is due to a settlement with the leasing company resulting from the return of certain leased equipment and a gain on the sale of securities held by the Company that had been written off to a value of $nil in previous years.

Liquidity and Capital Resources

Since our inception, we have been dependent on investment capital as our primary source of liquidity. We had an accumulated deficit at December 31, 2003 of $1 8,503,080 .. During 2003, we incurred a net loss, inclusive of stock-based compensation expense, of $ 3,007,950 (2002 - loss of $2,664,841).

During 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, stock-based compensation and accretion of interest on convertible loan s .. Other significant non-cash working capital changes included a de crease in inventory and a decrease in accounts payable and accrued liabilities. We have on-going communications with our suppliers and are in various stages of discussion with them regarding extended payment terms for their respective outstanding December 31, 2003 accounts payable balances.

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. Our operations to date have been primarily financed by sales of our equity securities. As of December 31, 2003, we had a working capital deficiency of $375,479. 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. 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 our inability to raise adequate capital, may have a material adverse effect on our business, financial condition and results of operations.

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 2003, 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.

The issuance of additional equity securities by us could result in a significant dilution in the equity interests of our current stockholders.

During 2003, the Company issued 3,681,605 common shares in settlement of $442,338 of accounts payable, 11,794,782 common shares upon exercise of warrants for cash proceeds of $889,869, 73,000 common shares upon exercise of options for cash proceeds of $11,760, 1 0,372,673 common shares upon conversion of convertible debentures for a value of $ 624,514 and 1,806,666 common shares upon conversion of a promissory note for a value of $875,331 to Beth Medrash Govoha of Lakewood. In addition, the Company issued in a private placement to Myer Bentob, a director of the Company, 833,333 common shares for cash proceeds of $108,333. Non-registered warrants were also issued, in conjunction with the private placement to Myer Bentob , to purchase 416,667, at US$0.26 per share. The Company issued non-registered warrants to purchase 6,865,484 shares, at US$0.10 per share, to holders of Secured Convertible Notes who exercised previous warrants to purchase the same number of shares at an exercise price that was reduced to US$0.05 per share from CDN$0.15 per share. The Company also issued non-registered warrants to purchase 1,666,666 shares at US$0.10 per share to Beth Medrash Govoha of Lakewood , 100,000 shares at US$0.20 per share to Michael Mulshine , and 150,000 shares at US$0. 25 per share to Michael Mulshine .. We also extended the expiry date of 2,317,857 warrants, which were issued on May 15, 2002, with an exercise price of CDN

$0.35, from an expiry date of May 14, 2003 to May 14, 2004 . During the period, the Company agreed to amend the conversion price of all US $ 605,435 principal amount of convertible debentures from CDN$0.15 to US $0.06

Subsequent to December 31, 2003, 6,032,150 warrants were exercised for total cash proceeds of $603 , 2 15 , and the Company issued to the holders of these warrants 6,032,150 additional warrants exercisable at $0.15 per share.

Other than operating loan commitments and a commitment under existing leases for an aggregate of $435,000 through 2009, we have no material commitments, including capital commitments, outstanding at December 31, 2003.

We had no material investing activities in 2003.

Inflation /Seasonal Aspects

We do not believe that inflation , had a significant impact on our consolidated results of operations or financial condition. The are no seasonal aspects to the Company s business.

NEW ACCOUNTING PRONOUNCEMENTS

In May 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (FAS) No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (FAS No. 150), which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. FAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003. The Corporation has adopted FAS No. 150, which had no effect on the consolidated financial statements.

In April 2003, the FASB issued FAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities (FAS No. 149), which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under FAS No. 133. FAS No.149 is to be applied prospectively for certain contracts entered into or modified after June 30, 2003. The Corporation has adopted FAS No. 149, which had no effect on the consolidated financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46), which requires the consolidation of a variable interest entity by the primary beneficiary. FIN 46 also requires additional disclosure by both the primary beneficiary and enterprises that hold a significant variable interest in a variable interest entity. FIN 46 is applicable to variable interest entities created after January 31, 2003. Entities created prior to February 1, 2003 must be consolidated effective December 31, 2003. However, because the Corporation does not have any variable interest entities, there is no impact on the consolidated financial statements.

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards 148, "Accounting for Stock-Based Compensation-Transition and Disclosure", which provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, Financial Accounting Standard 148 amends the disclosure requirements of Financial Accounting Standard 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Financial Accounting Standard 148 is effective for fiscal years ending after December 15, 2002 with earlier application permitted. The Corporation has adopted the disclosure provisions of Financial Accounting Standard 148 in our consolidated audited financial statements, as disclosed in note 3(p) to the consolidated audited financial statements.

In November 2002, the Emerging Issues Task Force (EITF) reached a consensus regarding EITF Issue 00-21. The consensus addresses not only when and how an arrangement involving multiple deliverables should be divided into separate elements of accounting, but also how the arrangement s consideration should be allocated among separate units. The pronouncement is effective for revenue arrangements entered into on or after July 1, 2003. The Corporation has adopted EITF Issue 00-21, which had no effect on the consolidated financial statements.

In November 2002, the 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 a 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, which had no effect on the consolidated financial statements.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

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

Our consolidated financial statements have been prepared on the going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of operations. The continuation as a going concern for the foreseeable future is dependent upon the identification and successful completion of additional debt or equity financing or the generation of positive cash flows from operating activities. Our ability to raise financing is, in part, based on market conditions that are outside of our control. If we are not able to continue as a going concern, we would likely not be able to realize on our assets at values comparable to the carrying value or the fair value estimates reflected in the balances set out in the preparation of the consolidated financial statements. Based on the carrying value of assets at December 31, 200 3 , the inability to continue as a going concern would require liquidation of assets not in the normal course that would primarily impact inventory, equipment and goodwill's recoverable amounts.

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

Equipment is recorded at cost less accumulated depreciation. We review these assets for impairments when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. As actual future net cash flows are uncertain, the estimation process requires us to make reasonable assumptions about future economic trends and events. These trends and events are substantially outside of our control. To the extent that the expected future cash flows generated by the asset are reduced, we may be required to record an impairment charge against the carrying value of the equipment.

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

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

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

Item 7. Financial Statements.

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

The Independent Auditor's Report of KPMG, LLP. for the audited consolidated financial statements for the years ended December 31, 2003 and 2002.

Independent Auditor's Report of KPMG, LLP, dated February 25, 2004.

Consolidated Balance Sheets at December 31, 2003 and 2002.

Consolidated Statements of Operations and Comprehensive Loss for the years ended December 31, 2003 and 2002.

Consolidated Statement of Stockholders' Equity for the years ended December 31, 2003 and 2002.

Consolidated Statements of Cash Flows for the years ended December 31, 2003 and 2002.

Notes to the Consolidated Financial Statements.

- # -

Consolidated Financial Statements

(Expressed in United States dollars)

UNITY WIRELESS CORPORATION

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

Years ended December 31, 2003 and 2002

- # -

AUDITORS' REPORT

To the Stockholders
Unity Wireless Corporation

We have audited the accompanying consolidated balance sheets of Unity Wireless Corporation as at December 31, 2003 and 2002 and the related consolidated statements of operations and comprehensive loss, stockholders equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Unity Wireless Corporation as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

KPMG LLP (signed)

Chartered Accountants

Vancouver, Canada

February 25, 2004

- # -

#

DRAFT - March 29, 2004

UNITY WIRELESS CORPORATION

Consolidated Balance Sheets

(Expressed in United States dollars)

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

Years ended December 31, 2003 and 2002

		2003		2002
Assets				
Current assets:				
Cash and cash equivalents	$	58,057	$	335,818
Restricted cash (note 6)		95,210		88,160
Accounts receivable (less allowance for doubtful accounts of $11,503 in 2003 and $33,059 in 2002)		194,657		231,505
Government grant receivable		-		29,197
Inventory (note 4)		359,448		461,385
Prepaid expenses and deposits		50,134		39,040
		757,506		1,185,105
Deferred financing cost		-		38,994
Equipment, net (note 5)		155,364		211,700
Patents		4,254		8,507
Goodwill		741,596		741,596
	$	1,658,720	$	2,185,902
Liabilities and Stockholders' Equity				
Current liabilities:				
Bank indebtedness (note 6)	$	112,561	$	101,411
Accounts payable and accrued liabilities (note 7)		957,221		1,244,377
Loans payable (note 9)		25,119		202,514
Product warranty (note 14(c))		38,084		31,720
		1,132,985		1,580,022
Convertible debenture (note 8)		-		137,247
		1,132,985		1,717,269

Stockholders' equity:				
Common stock, $0.001 par value 100,000,000 authorized, 63,578,953 (2002 - 35,016,894) issued and outstanding		63,579		35,017
Additional paid-in capital		18,831,807		15,811,919
Accumulated deficit		(18,503,080)		(15,495,130)
Accumulated other comprehensive income:				
Cumulative translation adjustments		133,429		116,827
		525,735		468,633
	$	1,658,720	$	2,185,902

Future operations (note 2)

Commitments (note 11)

Contingent liabilities (note 14)

Subsequent event (note 16)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

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

UNITY WIRELESS CORPORATION

Consolidated Statements of Operations and Comprehensive Loss

(Expressed in United States dollars)

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

Years ended December 31, 2003 and 2002

		2003		2002
Net sales	$	2,373,128	$	2,991,971
Cost of goods sold (includes stock-based compensation of $682 in 2003 and ($30,898) in 2002 and excludes depreciation shown separately below)		2,035,334		2,497,496
		339,794		494,475
Expenses:				
Research and development (includes stock-based compensation of $30,392 in 2003 and ($116,747) in 2002		891,830		1,427,343
Government grant (note 14)		(254,438)		(192,986)
Sales and marketing (includes stock-based compensation of $7,172 in 2003 and ($89,321) in 2002		301,222		553,171
Depreciation and amortization		60,306		89,580
Exchange loss		25,152		51,311
Interest expense		111,037		15,646
General and administrative (includes stock-based compensation of $98,393 in 2003 and ($106,037) in 2002		1,065,273		1,246,510
		2,200,382		3,190,575
Operating loss for the year		(1,860,588)		(2,696,100)
Interest earnings		-		2,617
Accretion of interest and debt settlement (notes 8 and 9)		(1,254,199)		(11,070)
Other earnings		106,837		39,712
Loss for the year	$	(3,007,950)	$	(2,664,841)

Comprehensive loss:				
Loss for the year	$	(3,007,950)	$	(2,664,841)
Currency translation adjustment		16,602		(401)
Comprehensive loss	$	(2,991,348)	$	(2,665,242)
Basic and diluted loss per common share (note 10(a)):	$	(0.07)	$	(0.08)

See accompanying notes to consolidated financial statements.

UNITY WIRELESS CORPORATION

Consolidated Statements of Stockholders   Equity

(Expressed in United States dollars)

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

	Common Stock	Common stock issues and outstanding	Additional paid-in capital	Subscription receivable	Deferred stock compensation	Accumulated deficit	Accumulated other comprehensive (loss) income	stockho e
Balance December 31, 2001	30,915,704	30,916	14,896,893	(90,600)	(199,198)	(12,830,289)	117,228	1,92
Issued on exercise of options and warrants	1,783,333	1,783	448,884	-	-	-	-	45
Issued pursuant to private placement	2,317,857	2,318	646,682	-	-	-	-	64
Share issue costs	-	-	(156,591)	-	-	-	-	(156
Warrants issued as financing cost on private placement	-	-	38,994	-	-	-	-	3
Compensation expense of options and warrants	-	-	(343,003)	-	-	-	-	(343
Beneficial conversion option on convertible debenture	-	-	479,258	-	-	-	-	47
Deferred stock compensation	-	-	(199,198)	-	199,198	-	-	
Loss for the year	-	-	-	-	-	(2,664,841)	-	(2,664
Currency translation	-	-	-	-	-	-	(401)	

adjustment								
Comprehensive loss								(2,665
Repayment of share subscription receivable	-	-	-	90,600	-	-	-	9
Balance December 31, 2002	35,016,894	$ 35,017	$ 15,811,919	$ -	$ -	$ (15,495,130)	$ 116,827	$ 46
Issued on exercise of options and warrants	11,867,782	11,868	889,761	-	-	-	-	90
Issued pursuant to private placement	833,333	833	107,500	-	-	-	-	10
Issued on settlement of accounts payable	3,681,605	3,682	438,656	-	-	-	-	44
Issued on conversion of convertible debenture	10,372,673	10,373	614,141	-	-	-	-	62
Issued on conversion of promissory note (note 9)	1,806,666	1,806	873,525	-	-	-	-	87
Compensation expense of options and warrants	-	-	137,179	-	-	-	-	13
Share issue costs	-	-	(40,874)	-	-		-	(40
Loss for the year	-	-	-	-	-	(3,007,950)	-	(3,007
Currency translation adjustment	-	-	-	-	-	-	16,602	1
Comprehensive loss	-	-	-	-	-	-		(2,991
Balance December 31,	63,578,953	$ 63,579	$ 18,831,807	$ -	$ -	$ (18,503,080)	$ 133,429	$ 52

2003

See accompanying notes to consolidated financial statements.

UNITY WIRELESS CORPORATION

Consolidated Statements of Cash Flows

(Expressed in United States dollars)

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

Years ended December 31, 2003 and 2002

	2003	2002
Operations:		
Loss for the year	$ (3,007,950)	$ (2,664,841)
Adjustments to reconcile net loss to net cash used in operating activities:		
Accretion of interest and debt settlement	1,254,199	11,070
Depreciation and amortization	60,306	89,580
Forgiveness of debt	-	(74,451)
Forgiveness of lease obligation	-	(135,005)
Loss on disposal of assets	-	209,296
Stock-based compensation	137,179	(343,003)
Changes in non-cash working capital relating to operations:		
Accounts receivable and government grant receivables	110,906	(29,502)
Inventory	182,272	58,131
Prepaid expenses	(3,056)	(397)
Accounts payable and accrued liabilities	(60,715)	585,794
Other receivable	-	18,241
	(1,326,859)	(2,275,087)
Investments:		
Acquisition of equipment	(2,298)	(61,527)
Disposition of equipment	2,581	-
Acquisition of patents	-	(8,507)
Restricted cash (note 6)	9,968	(8,160)
	10,251	(78,194)
Financing:		
Bank indebtedness	(8,618)	(137,256)
Loans payable	(95,913)	202,514

Repayment of capital lease obligation	-	(49,388)
Cash proceeds on issuance of convertible debenture	-	605,435
Repayment of share subscription receivable	-	90,600
Cash proceeds on issuance of common shares	108,333	1,099,667
Common shares issued upon warrants exercised	889,869	-
Common shares issued upon options exercised	11,760	-
Share issue costs	(1,880)	(156,591)
	903,551	1,654,981
Effect of foreign exchange rate changes on cash and cash equivalents	135,296	21,688
Decrease in cash and cash equivalents	(277,761)	(676,612)
Cash and cash equivalents, beginning of year	335,818	1,012,430
Cash and cash equivalents, end of year	$ 58,057	$ 335,818

Supplementary information (note 15)

See accompanying notes to consolidated financial statements.

- # -

1.

Nature of business:

Unity Wireless Corporation (the Corporation) was incorporated in Delaware on October 1, 1998 under the name Sonic Systems Corporation (Sonic Delaware). Sonic Delaware changed its name to Unity Wireless Corporation on July 17, 2000. The Corporation is a designer, developer and manufacturer of wireless technologies and produces high power linear radio frequency (RF) amplifiers. High power linear RF amplifiers are used in both mobile and fixed wireless voice, Internet and data base station and repeater networks and support Cellular, PCS (Personal Communications Services), Paging and WLL (Wireless Local Loop) frequencies.

2.

Future operations:

During the year, the Corporation incurred a loss, inclusive of stock-based compensation, of $3,007,950 (2002 - $2,664,841) and used cash in operations of $1,326,859 (2002 - $2,275,087). In addition, at December 31, 2003, the Corporation has a working capital deficiency of $375,479.

The Corporation is investing in new technologies for medium and long-term strategic positioning. A recent licensing agreement (note 14(b)(*i*)), and ongoing investigations of new technologies designed to increase the linearity and efficiency of RF amplifiers when designed into the Corporation s products, is expected to provide a competitive edge in both pricing and performance. The resulting products, planned for introduction starting in early 2004, will be sold to existing customers and are also expected to open new opportunities for the Corporation as it projects growth in the market for third generation digital wireless (3G) infill products (repeaters, micro-cells and smart antennas) in 2004. The Corporation s medium term strategy is to leverage this technology to increase sales and establish technical credibility in the 3G market over the next nine to eighteen months.

The Corporation s 3G feedforward LPA, is also expected to allow the Corporation to market to new markets, in particular with base station manufacturers, in the medium to longer term. The feedforward and other new technologies will target OEMs of cellular systems and will be design-in products.

These financial statements have been prepared on the going concern basis under which an entity is considered to be able to realize its assets and satisfy its liabilities in the ordinary course of business. Operations to date have been primarily financed by long-term debt and equity transactions. At December 31, 2003, the Corporation will require additional financing to continue to operate at current levels throughout 2004. Accordingly, the Corporation s future operations are dependent upon the identification and successful completion of additional long-term or permanent equity financing, the continued support of creditors and shareholders, and, ultimately, the achievement of profitable operations. 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.

- # -

3.

Significant accounting policies:

(a)

Principles of consolidation:

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, Unity Wireless Systems Corp. (Unity Systems). All significant intercompany accounts and transactions have been eliminated.

(b)

Use of estimates:

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

(c)

Financial instruments:

At December 31, 2003, the Corporation has the following financial instruments: cash and cash equivalents (including restricted cash), accounts receivable, bank indebtedness, accounts payable and accrued liabilities, and loans payable. The carrying value of these financial instruments is considered to approximate fair value based on their short-term nature.

The Corporation accounts for its derivative financial instruments in accordance with SFAS No. 133, Accounting for Derivative Instruments and for Hedging Activities . This statement requires the Corporation to recognize derivatives on its balance sheet at fair value. The gains or losses resulting from changes in the fair value of derivative instruments will either be recognized in current earnings or in other comprehensive income, depending on the use of the derivative and whether the hedging instrument is effective or ineffective when hedging changes in fair value. For a derivative not designated as a hedging instrument, the gain or loss is recognized in earnings in the period of change of value. The Corporation did not hold any derivative instruments and was not involved in any hedging activities at December 31, 2003.

(d)

Cash and cash equivalents:

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

(e)

Inventory:

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

- # -

3.

Significant accounting policies (continued):

(f)

Equipment:

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

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

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

(g)

Patents:

Consideration paid for acquiring patents is amortized on a straight-line basis over three years commencing with the date the patents are granted.

(h)

Goodwill:

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

Goodwill is not amortized, but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the goodwill might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit s goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of the reporting unit s goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of a reporting unit exceeds the implied fair value of its goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the statement of operations before extraordinary items and discontinued operations.

- # -

3.

Significant accounting policies (continued):

(i)

Impairment of long-lived assets:

Long-lived assets, such as equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(j)

Income taxes:

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. To the extent that it is not considered to be more likely than not that a deferred tax asset will be realized, a valuation allowance is provided.

(k)

Advertising costs:

Advertising costs are expensed as incurred. The Corporation incurred advertising expenses of $nil in 2003 and $24,870 in 2002.

(l)

Foreign currency translation:

The Corporation s functional or primary operating currency is the Canadian dollar while the reporting currency in the consolidated financial statements is the United States dollar. The Corporation s financial statements are prepared in Canadian dollars before translation to the US dollar reporting currency. The Corporation translates transactions in currencies other than the Canadian dollar into Canadian dollar amounts at the exchange rate in effect on the transaction date. Monetary assets and liabilities denominated in a currency other than the Canadian dollar are translated at the exchange rate in effect at the balance sheet date. The resulting exchange gains and losses are recognized in earnings.

- # -

3.

Significant accounting policies (continued):

(l)

Foreign currency translation (continued):

Amounts reported in Canadian dollars have been translated into US dollars as follows: assets and liabilities are translated into US dollars at the rate of exchange in effect at the balance sheet date and revenue and expense items are translated at the average rates for the period. Unrealized gains and losses resulting from the translation to the reporting currency are accumulated in cumulative translation adjustments, a separate component of stockholders equity.

(m)

Revenue recognition:

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

(n)

Product warranty:

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

(o)

Research and development:

Research and development costs are expensed as incurred.

(p)

Stock option plan:

The Corporation applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees , and related interpretations including FASB Interpretation No. 44, Accounting for Certain Transactions involving Stock Compensation an interpretation of APB Opinion No. 25 , to account for its employee plan stock option grants. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price.

SFAS No. 123, Accounting for Stock-Based Compensation, established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Corporation has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of SFAS No. 123. Stock compensation granted to non-employees is recognized at its fair value as the services are provided and the options are earned.

- # -

3.

Significant accounting policies (continued):

(p)

Stock option plan (continued):

If the exercise price of fixed employee stock option award is reduced or if the exercise price is not fixed in the functional currency of the Corporation or in the currency the employee is paid, the award is accounted for as a variable award until the award is exercised, forfeited, or expires unexercised. The Corporation measures variable plan stock compensation as the amount by which the quoted market value of the common shares of the Corporation s stock at the reporting dates covered by the grant, exceeds the option price with changes in the market price included in the measurement of loss.

Had compensation cost been determined based on the fair value at the grant dates for those options issued to employees and consultants, 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.

		2003		2002
Loss for the year, as reported	$	(3,007,950)	$	(2,664,841)
Employee stock-based compensation expense				
recognized		75,113		-
Total stock-based employee compensation expense determined under fair value based method for all awards		(405,013)		(17,475)
Pro forma loss	$	(3,337,850)	$	(2,682,316)
Basic and diluted loss per common shares, net as reported	$	(0.07)	$	(0.08)
Pro forma		(0.08)		(0.08)

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 159% (2002 - 148%) based on weekly stock price; risk-free interest rate of 3.25% (2002 3.25%) and an expected life of four years.

The weighted-average fair value of options granted during 2003 and 2002 was $0.15 and $0.16 respectively.

- # -

3.

Significant accounting policies (continued):

(q)

Loss per common share:

The basic loss per share is computed by dividing the loss attributable to common stockholders by the weighted average number of common shares outstanding for that period. Escrow shares with time-based vesting which are not contingently returnable are included in the basic loss per share computation. Diluted loss per share is computed using the treasury stock method, giving effect to all dilutive potential common shares that were outstanding during the period except to the extent where anti-dilutive.

(r)

Government assistance:

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

(s)

Comprehensive loss:

Comprehensive loss measures all changes in stockholders' equity excluding capital transactions. For the periods presented, other comprehensive loss comprises of only foreign currency translation.

(t)

Comparative figures:

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

(u)

Recent pronouncements:

In May 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (FAS) No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (FAS No. 150), which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. FAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003. The Corporation has adopted FAS No. 150, which had no effect on the consolidated financial statements.

- # -

3.

Significant accounting policies (continued):

(u)

Recent pronouncements (continued):

In April 2003, the FASB issued FAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities (FAS No. 149), which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under FAS No. 133. FAS No.149 is to be applied prospectively for certain contracts entered into or modified after June 30, 2003. The Corporation has adopted FAS No. 149, which had no effect on the consolidated financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46), which requires the consolidation of a variable interest entity by the primary beneficiary. FIN 46 also requires additional disclosure by both the primary beneficiary and enterprises that hold a significant variable interest in a variable interest entity. FIN 46 is applicable to variable interest entities created after January 31, 2003. Entities created prior to February 1, 2003 must be consolidated effective December 31, 2003. However, because the Corporation does not have any variable interest entities, there is no impact on the consolidated financial statements.

In November 2002, the Emerging Issues Task Force (EITF) reached a consensus regarding EITF Issue 00-21. The consensus addresses not only when and how an arrangement involving multiple deliverables should be divided into separate elements of accounting, but also how the arrangement s consideration should be allocated among separate units. The pronouncement is effective for revenue arrangements entered into on or after July 1, 2003. The Corporation has adopted EITF Issue 00-21, which had no effect on the consolidated financial statements.

In November 2002, the 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 a 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, which had no effect on the consolidated financial statements.

4.

Inventory:

		2003		2002
Raw materials	$	345,172	$	317,411
Finished goods		14,276		143,974
	$	359.448	$	461,385

During the year, the Corporation recorded a write-down of inventory of $382,030. The write-down of inventory was due to management s assessment of the net realizable value of current inventory balances. The write-down has been included in cost of goods sold.

5.

Equipment:

Equipment consists of the following:

				2003				2002
		Cost		Accumulated depreciation		Cost		Accumulated depreciation
Computer equipment	$	148,019	$	101,653	$	145,721	$	81,782
Computer software		80,515		53,679		84,290		49,159
Furniture and fixtures								