

UNITY WIRELESS CORP
Form 10KSB
March 31, 2006
- # -

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

FORM 10-KSB

(Mark One)

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

For the fiscal year ended December 31, 2005

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

For the transition period from [] to []

Commission file number 0-30620

Unity Wireless Corporation

(name of small business issuer in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

7438 Fraser Park Drive

Burnaby, British Columbia, Canada

(Address of principal executive offices)

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

91-1940650

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

V5J 5B9

(Zip Code)

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

Title of each class

Nil

Name of each exchange on which registered

Nil

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

Common Stock, par value \$0.001

(Title of class)

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

Yes No

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

Yes No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B 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.

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

Yes No

State Issuer's revenues for its most recent fiscal year: \$4,905,579

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:

91,144,132 common shares at \$0.17⁽¹⁾ = \$15,494,502

(1) Closing price on March 27, 2006

(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.

92,457,873 common shares issued and outstanding as of March 27, 2006

DOCUMENTS INCORPORATED BY REFERENCE

See index to exhibits

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

#

PART I**Item 1. Description of Business**

In this annual report and in our financial statements all dollar amounts refer to United States dollars unless otherwise specified.

Business Development

Unity Wireless Corporation was incorporated in the State of Delaware on October 1, 1998 under the name Sonic Systems Corporation. Sonic Systems Corporation changed its name to Unity Wireless Corporation on July 17, 2000.

During the period from December 1998 until June 2001 we were engaged in the traffic control business. In November 2000 we entered the business of designing, developing and manufacturing RF (Radio Frequency) power amplifiers for the wireless network infrastructure industry. During 2001, we focused on developing new products and expanding our marketing, sales and global distribution network. Since 2003, we have focused on securing development projects and supply agreements with customers and prospective customers, and on developing new RF power amplifiers and related products.

In February 2006, the Company entered into an agreement for the merger of Avantry Ltd., an Israeli corporation ("Avantry"), into a wholly owned subsidiary of the Company. At the closing the Company will issue to the shareholders of Avantry convertible promissory notes in the aggregate principal amount of USD \$1,750,000, that are convertible into common shares of the Company at \$0.25, and warrants to purchase an aggregate of 600,000 shares of common stock at an exercise price of USD \$0.40 a share. The Company will also guaranty certain liabilities of Avantry at the closing. The closing of the transaction is subject to standard closing conditions, including regulatory approvals.

*Our Current Business**Principal Products*

Most of our products are high power amplifiers and related integrated RF front end hardware and software subsystems that are used in base transmitter stations (BTS or base stations) to amplify signals sent from the network to a terminal such as a cell phone. We also make coverage enhancement products that extend and enhance wireless network coverage in signal repeaters and tower-top antenna systems. Almost all of our products are custom made or are adapted for each customer's particular requirements.

Substantially all of our assets and principal business operations are located in British Columbia, Canada. Revenues from operations were approximately \$4,905,579 in the year ended December 31, 2005 and \$5,020,560 in the year ended December 31, 2004. A summary of sales by geographic region for the years ended December 31, 2005 and 2004 is as follows:

<u>Place</u>	<u>2005 Sales</u>	<u>% of Total 2005 Sales</u>	<u>2004 Sales</u>	<u>% of Total 2004 Sales</u>
Israel	\$69,000	1.4%	\$101,000	2.0%
United States	1,903,000	38.8%	1,981,000	39.5%
China	2,346,000	47.8%	2,477,000	49.3%
Canada	588,000	12.0%	462,000	9.2%

Product Research and Development

Edgar Filing: UNITY WIRELESS CORP - Form 10KSB

During the years ended December 31, 2005 and 2004, we spent \$2,631,598 and \$1,230,409, respectively, on research and development activities, including stock-based compensation expenses of \$57,059 and \$38,385, respectively.

In the most recent two years, we have augmented our research and development capabilities by adding experienced hardware and software engineers to our product development team. We devote a large portion of our research and development resources towards next generation products and towards developing products for customers that we consider to have long-term revenue and growth potential.

Sales and Marketing of Our Products

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

We sell our products through independent sales agents who are paid on a commission basis and through sales individuals who are employed on a full time basis. We seek to identify and engage sales representatives who will sell our products in additional markets.

Our sales to date have been by way of purchase orders that typically cover periods ranging from several months to one year. We have no sales agreements that extend beyond one year.

Manufacturing and Suppliers

We subcontract a portion of our manufacturing processes to qualified companies with a history of quality assurance. This reduces the need for capital expenditures for manufacturing facilities and staff, and allows us to utilize specialists in each stage of manufacturing. Alternate contract manufacturers are available should any of our existing contract manufacturers cease to provide services to us.

The process to assemble, test and tune many of our current products is labor intensive. We assemble, configure, tune and test our products and radio frequency circuitry in our facility located in Burnaby, British Columbia, for low volume production orders. We rely on contract manufacturers in Canada and China for our high volume production orders.

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

Our arrangements with suppliers are on a short-term basis. To date we have not entered into any long-term arrangements.

Competition and Competitive Advantage

Within the market for RF power amplifiers, there are two dominant companies and a number of smaller ones. The dominant companies -- Powerwave and Andrew -- collectively represent a significant proportion of sales in the RF power amplifier market. These companies are vertically integrated suppliers of RF power amplifiers, components, antenna systems, primarily to customers in the telecom and defense industries, and supply the largest OEM vendors in our industry.

To compete, we focus on specific niches within the wireless network infrastructure, seek to enter into partnerships with leading edge technology vendors, and maintain a low overhead / outsourced manufacturing model. We believe our size, infrastructure technology and location allow us to provide our customers with economically attractive and

timely responses to their individual requests.

Intellectual Property

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

Trade-Marks

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

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, and on occasion offer a warranty period of up to two years. We repair units under warranty at our cost and return the units freight prepaid back to the customer. We generally warranty a repaired unit for the remainder of the original warranty period or for one year from the repair date, whichever is longer.

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

Government Regulation

Our 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 \$4,905,579 for the year ended December 31, 2005. One customer accounted for 34.5% of sales and another accounted for 30.7% of sales. No other customer accounted for more than 10% of our sales.

Employees

We currently employ 46 people.

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 \$8,816 (CDN\$10,261) excluding property taxes, maintenance and utilities.

We have a customer support office in China located at Room 1401, Zhuoyue Building, Fuhua Road 1, Central Zone, Futian District, Shenzhen, 518026, China. We rent this office on a month-to-month basis for \$500 plus operating expenses per month.

We have a customer support office in the US located at 1313 E. Maple St. Suite# 415, Bellingham, WA, 98225, US. We rent this office on a month-to-month basis for \$100 plus operating expenses per month.

Item 3. Legal Proceedings.

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.

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

The Company held its Annual Meeting on June 30, 2005. The results of matters voted at that Meeting were reported in Part II, Item 4 of the Company's Form 10-QSB filed August 11, 2005.

PART II

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

In the United States, our common stock is traded on the National Association of Securities Dealers OTC Bulletin Board under the symbol "UTYW." The following quotations obtained from Yahoo Finance reflect the highs and low bids for our common stock based on inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

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

	OTC Bulletin Board ⁽¹⁾	
Quarter Ended	High	Low
December 31, 2005	\$0.20	\$0.12
September 30, 2005	\$0.21	\$0.17
June 30, 2005	\$0.29	\$0.22
March 31, 2005	\$0.34	\$0.23
December 31, 2004	\$0.25	\$0.19
September 30, 2004	\$0.26	\$0.17
June 30, 2004	\$0.40	\$0.30
March 31, 2004	\$0.54	\$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.

Our common shares are issued in registered form. Computershare Trust Company of Canada, 4th Floor, 510 Burrard

Edgar Filing: UNITY WIRELESS CORP - Form 10KSB

Street, Vancouver, British Columbia, V6C 3B9 (Telephone: (604) 661-9400; Facsimile: (604) 661-9401) is the registrar and transfer agent for our common shares.

On March 27, 2006, the shareholders' list of our common shares showed 166 registered shareholders and 92,457,873 shares outstanding.

We have not declared any dividends since incorporation and do not anticipate that we will do so in the foreseeable future. We are restricted from declaring dividends on our common shares under agreements with certain holders of our notes.

Equity Compensation Plan Information

Our current stock option plan, entitled the 1999 Stock Option Plan, was adopted by our directors on December 6, 1999 and approved by our shareholders on July 5, 2000. The following table provides a summary of the number of options granted under our stock option plan, the weighted average exercise price and the number of options remaining available for issuance all as at December 31, 2005.

Number of Common Shares to be issued upon exercise of outstanding options	Weighted-Average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
(a)	(b)	(c)
6,775,417	\$0.25	11,401,662 (1)

(1)

On July 5, 2000, our shareholders approved a change in the maximum number of options issuable under the plan to 20% of the number of common shares outstanding. As at December 31, 2005, the maximum number was 18,177,079. 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

No sales of unregistered securities were made during the three month period ended December 31, 2005.

Subsequent to December 31, 2005 we issued:

1.

223,333 shares of common stock as \$33,500 in compensation to certain directors for board and committee meetings attendance in 2005.

2.

250,000 shares of common stock as settlement of \$37,500 services provided by an officer of the company.

3.

14,493 shares of common stock upon settlement of \$2,174 in trade accounts payable.

4.

Secured convertible notes with a principal value of \$2,200,000 and convertible into shares of common stock at a purchase price of \$0.16 per share to Bushido Capital Master Fund, L.P, Centrecourt Asset Management, LLC, and Gamma Opportunity Capital Partners, L.P on February 28, 2006 (the February 2006 Financing). In connection with issuance of these secured convertible notes, we issued to these investors warrants to purchase 8,250,000 shares of common stock at an exercise price of \$0.16. Subject to certain conditions, the conversion price of the secured convertible notes and the exercise price of the warrants will be reduced on an unweighted basis if the Company issues equity securities at an effective price of less than \$0.16 per share. The February 2006 Financing is more fully described in the Company's Form 8-K filed with the Securities and Exchange Commission on March 6, 2006.

5.

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

We issued these securities in a private placement under the exemption set forth in Section 4(2) of the Securities Act of 1933 Act (the Act) and Rule 506 thereunder from the registration requirements under the Act.

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

Results of Operations

Years Ended December 31, 2005 and 2004

Sales

Net sales in 2005 were \$4,905,579, a decrease of \$114,981 or 2.29%, from net sales of \$5,020,560 in 2004. This decrease was primarily due to fluctuations in the delivery of our production volume projects.

Cost of Goods Sold and Operating Expenses

Cost of goods sold during 2005 was \$3,792,999, a decrease of \$411,336 or 9.78%, from \$4,204,335 in 2004. Cost of goods sold includes stock-based compensation expenses of \$27,265 in 2005 versus \$18,835 in 2004.

The gross margin for the year ended December 31, 2005 of \$1,112,580 or 22.68% of net sales represented an increase from a gross margin of \$816,225 or 16.26% of net sales for the year ended December 31, 2004. This primarily reflects lower per unit purchase costs of product components because of increased purchase volumes, as well as more efficient production processes.

Research and development expenses for the year ended December 31, 2005 were \$2,631,598, an increase of \$1,401,189 or 113.88%, from \$1,230,409 for the year ended December 31, 2004. This increase was primarily due to a substantial increase in the number of research and development projects in 2005. The Stock-based compensation expense for research and development was \$57,059 in 2005 versus \$38,385 in 2004.

Edgar Filing: UNITY WIRELESS CORP - Form 10KSB

Sales and marketing expenses for the year ended December 31, 2005 were \$615,953, an increase of \$56,768 or 10.15%, from \$559,185 for the year ended December 31, 2004. The increase primarily reflects the engagement of additional sales personnel, increased travel expenses to visit new customers and additional trade show exhibition expenses. Sales and marketing expenses include stock-based compensation recovery of \$16,520 in 2005 versus an expense at \$63,430 in 2004.

Depreciation and amortization expenses for the year ended December 31, 2005 were \$266,267, an increase of \$193,671 or 266.78% from \$72,596 in 2004. The increase is primarily due to an increase in depreciable assets leased under capital leases.

Exchange loss for 2005 was \$103,681, a decrease \$78,869 or 43.2%, from \$182,550 for the year ended 2004. The increase was due to the fluctuations in the currency exchange rate between the U.S. and Canada.

Interest expenses for 2005 were \$276,993, an increase of 197,288 or 247.52%, from \$79,705 in 2004. The increase was primarily due to the increase in interest payable on convertible debenture issued in August of 2004 and the first quarter of 2005.

General and administrative expenses for 2005 were \$1,805,067, an increase of \$124,627 or 7.42%, from \$1,680,440 in 2004. General and administrative expenses include stock-based compensation expense of \$590,014 in 2005 versus \$685,552 for 2004.

Other Income and Expenses

Accretions of interest and debt settlement expenses for 2005 were \$888,467, an increase of \$619,304 or 230.09% from \$269,163 in 2004. This increase reflects the issuance of convertible debentures in August of 2004 and the first quarter of 2005.

Other earnings in 2005 were \$nil, a decrease of \$14,133 from 2004.

Liquidity and Capital Resources

During 2005, our cash position decreased by \$52,500. The primary use of cash was for our continued operations. We had no material investing activities in 2005.

Since our inception, we have been dependent on sales of debt and equity securities as our primary source of liquidity.

We had an accumulated deficit at December 31, 2005 of \$27,272,486. During 2005, we incurred a net loss, inclusive of stock-based compensation expense and other non cash charges, of \$5,450,408 (2004 - loss of \$3,318,998). At December 31, 2005, we had a working capital deficit of \$1,985,375. Our operations presently generate negative cash flow, and we do not expect positive cash flow from operations in the near term.

We may not be able to obtain additional equity or debt financing on acceptable terms when we need it. We have pledged all of our assets to secure existing borrowings.

Our ability to continue as a going concern is dependent upon obtaining further financing, successful and sufficient market acceptance of our current products and any new product offerings that we may introduce, the continuing successful development of our products and related technologies, and, finally, achieving a profitable level of operations. The issuance of additional equity securities by us could result in a significant dilution in the equity interests of our current stockholders.

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 2005, 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.

Inflation/Seasonal Aspects

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

NEW ACCOUNTING PRONOUNCEMENTS

In November 2005, the FASB issued FSP FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* (FSP 115-1), which provides guidance on determining when investments in certain debt and equity securities are considered impaired, whether that impairment is other-than-temporary, and on measuring such impairment loss. FSP 115-1 also includes accounting considerations subsequent to the recognition of an other-than temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. FSP 115-1 is required to be applied to reporting periods beginning after December 15, 2005 and is required to be adopted in the first quarter of fiscal 2006. The impact of the adoption of FSP 115-1 will have on the Corporation's consolidated financial statements is not yet determinable.

In June 2005, the Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 05-6, *Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination* (EITF 05-6). EITF 05-6 requires that leasehold improvements that are placed in service significantly after and not contemplated at or near the beginning of the lease term be amortized over the shorter of the useful life of the assets or a term that includes required lease periods and renewals that are deemed to be reasonably assured at the date the leasehold improvements are purchased. EITF 05-6 was effective for the fourth quarter of 2005. EITF 05-6 did not have a significant impact on the Corporation's consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections* a replacement of APB Opinion No. 20 and FASB Statement No. 3 (SFAS No. 154). SFAS No. 154 requires retrospective application as the required method for reporting a change in accounting principle, unless impracticable or a pronouncement includes specific transition provisions. SFAS No. 154 also requires that a change in depreciation, amortization or depletion method for long-lived, nonfinancial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. This statement carries forward the guidance in APB Opinion No. 20, *Accounting Changes*, for the reporting of the correction of an error and a change in accounting estimate. SFAS No. 154 is effective beginning January 1, 2006. SFAS No. 154 is not expected to have a significant impact on the Corporation's consolidated financial statements.

In March 2005, the FASB issued Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations* an interpretation of FASB Statement No. 143. FIN 47 clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. The FIN also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 was effective in the fourth quarter of 2005. FIN 47 did not have a significant impact on the Corporation's consolidated financial statements.

In December 2004, the Financial Accounting Standards Board (FASB) issued revised Statement of Financial Accounting Standards No. 123 entitled Share-Based Payment (FAS No. 123R). This revised statement addresses accounting for stock-based compensation and results in the fair value of all stock-based compensation arrangements, including options, being recognized as an expense in a company's financial statements as opposed to supplemental disclosure in the notes to financial statements. The revised Statement eliminates the ability to account for stock-based compensation transactions using APB Opinion No. 25. FAS No. 123R is effective for public entities that do not file as small business issuers as of the beginning of the first interim or annual reporting period that begins after December 15, 2005. FAS No. 123R will be effective for the Corporation commencing January 1, 2006. The Corporation does not expect the adoption of FAS No. 123R to have a material effect on its consolidated financial statements as the Corporation presently expenses stock-based compensation to employees by the fair value method.

In November 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 151 entitled Inventory Costs an amendment of ARB No. 43, Chapter 4 (FAS No. 151). This statement amends the guidance in ARB No. 43 to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and spoilage. FAS No. 151 requires that these items be recognized as current period charges. The Corporation has adopted FAS No. 151, 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, 2005, 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 labour, and an appropriate allocation of related overhead. We provide an allowance that we consider to be reasonable for its non-moving or slow moving inventory items and for items with expected future realizable value lower than cost. 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 collectability is reasonably assured, which is upon the later of shipment or when title passes to the customer depending on the contractual terms. We do not enter into sales arrangements having post contract customer support or rights of return. We record deferred revenue when cash is received in advance of the revenue recognition criteria (discussed above) being met. Although we have no current intention of doing so, changes in our business model could impact the timing of recognition in our consolidated financial statements.

Item 7. Financial Statements.

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

The Report of Independent Registered Public Accounting Firm for the audited consolidated financial statements for the years ended December 31, 2005 and 2004 dated March 17, 2006.

Consolidated Balance Sheets at December 31, 2005 and 2004.

Consolidated Statements of Operations and Comprehensive Loss for the years ended December 31, 2005 and 2004.

Consolidated Statement of Stockholders' Equity for the years ended December 31, 2005 and 2004.

Consolidated Statements of Cash Flows for the years ended December 31, 2005 and 2004.

Notes to the Consolidated Financial Statements.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Unity Wireless Corporation

We have audited the accompanying consolidated balance sheets of Unity Wireless Corporation as of December 31, 2005 and 2004, and the related consolidated statements of operations and comprehensive loss, stockholders equity(deficit), and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Unity Wireless Corporation as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

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

KPMG LLP (signed)

Chartered Accountants

Vancouver, Canada

March 17, 2006

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, 2005 and 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, 2005 and 2004

	2005	2004
Assets		
Current assets:		
Cash and cash equivalents	\$ 157,046	\$ 209,546
Accounts receivable (less allowance for doubtful accounts of \$nil (2004 - \$nil))	708,828	794,467
Inventory (note 4)	1,124,485	833,390
Prepaid expenses and deposits	74,466	50,618
	2,064,825	1,888,021
Capital assets, net (note 5)	1,160,539	547,698
Patents	-	1,418
Goodwill	741,596	741,596
	\$ 3,966,960	\$ 3,178,733
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable and accrued liabilities (note 6)	\$ 2,895,507	\$ 1,505,012
Obligations under capital leases (note 7)	345,622	97,208
Loans payable (note 8)	-	47,583
Convertible debenture (note 9)	766,109	85,600
Product warranty (note 14(c))	42,961	40,667
	4,050,199	1,776,070
Obligations under capital lease (note 7)	452,567	215,338
Convertible debenture (note 9)	224,194	576,504
	4,726,960	2,567,912
Stockholders' equity (Deficit):	90,885	80,214

Edgar Filing: UNITY WIRELESS CORP - Form 10KSB

Common stock (note 10), 90,885,396
(2004 80,213,945) issued and
outstanding

Additional paid-in capital	26,490,425	22,315,576
Accumulated deficit	(27,272,486)	(21,822,078)
Accumulated other comprehensive income:		
Cumulative translation adjustments	(68,824)	37,109
	(760,000)	610,821

	\$	3,966,960	\$	3,178,733
--	----	-----------	----	-----------

Future operations (note 2)

Commitments (note 11)

Contingent liabilities (note 14)

Related party transactions (note 16)

Subsequent event (note 17)

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, 2005 and 2004

	2005	2004
Net sales	\$ 4,905,579	\$ 5,020,560
Cost of goods sold (includes stock-based compensation expense of \$27,265 in 2005 and \$18,835 in 2004 and excludes depreciation and amortization shown separately below)	3,792,999	4,204,335
	1,112,580	816,225
Expenses:		
Research and development (includes stock-based compensation expense of \$57,059 in 2005 and \$38,385 in 2004)	2,631,598	1,230,409
Government grant (note 14)	(98,622)	-
Royalty payments for government grant (note 14(a))	73,584	75,308
Sales and marketing (includes stock-based compensation expense (recovery) of \$(16,520) in 2005 and \$63,430 in 2004)	615,953	559,185
Depreciation and amortization	266,267	72,596
Exchange loss	103,681	182,550
Interest expense, excluding accretion of interest and loss on	276,993	79,705

Edgar Filing: UNITY WIRELESS CORP - Form 10KSB

debt settlement		
General and administrative (includes stock-based		
compensation expense of \$590,014 in 2005 and		
\$685,552		
in 2004)	1,805,067	1,680,440
	5,674,521	3,880,193
Operating loss for the period	(4,561,941)	(3,063,968)
Accretion of interest and loss on debt settlement	(888,467)	(269,163)
Other income	-	14,133
Loss for the year	(5,450,408)	(3,318,998)
Basic and diluted loss per common share (note 10(a))	\$ (0.06)	\$ (0.04)

See accompanying notes to consolidated financial statements.

UNITY WIRELESS CORPORATION

Consolidated Statements of Stockholders Equity(Deficit)

(Expressed in United States dollars)

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

	Number of Common Stock	Common Stock Issued and Outstanding	Additional Paid-in Capital	Accumulated Deficit	Accumulated other comprehensive income (loss)	Tot E
Balance as at December 31, 2003	63,578,953	63,579	18,831,807	(18,503,080)	133,429	
Issued on exercise of options and warrants	14,601,060	14,601	1,739,641			
Issued pursuant to private placement	1,016,105	1,016	188,793			
Issued upon settlement of accounts payable	437,827	438	90,057			
Issued upon conversion of convertible debt	580,000	580	113,820			
Compensation expense of options and warrants		-	806,202			
Share issue costs		-	(260,010)			
Beneficial conversion option on convertible debenture (note 9)			805,266			
Loss for the year		-		(3,318,998)		
Currency translation adjustment		-			(96,320)	

Edgar Filing: UNITY WIRELESS CORP - Form 10KSB

Comprehensive loss		-			
Balance as at December 31, 2004	80,213,945	80,214	22,315,576	(21,822,078)	37,109
Issued on exercise of options and warrants	6,071,631	6,071	914,674		
Issued upon settlement of accounts payable	1,456,863	1,457	283,926		
Issued upon conversion of convertible debt	3,142,957	3,143	620,893		
Compensation expense of options and warrants		-	657,818		
Share issue costs		-	(238,695)		
Beneficial conversion option on convertible debenture (note 9)			1,936,233		
Loss for the year		-		(5,450,408)	
Currency translation adjustment		-			(105,933)
Comprehensive loss		-			
Balance as at December 31, 2005	90,885,396	90,885	26,490,425	(27,272,486)	(68,824)

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)

Year Ended December 31, 2005 and 2004

	2005	2004
Operations:		
Loss for the period	\$ (5,450,408)	\$ (3,318,998)
Adjustments to reconcile net loss to net cash used in operating activities:		
Accretion of interest and loss on debt settlement	888,467	269,163
Depreciation and amortization	266,267	72,596
Stock-based compensation	657,818	806,202
Changes in non-cash working capital relating to operations:		
Accounts receivable and government grant receivables	125,280	(554,242)
Inventory	(234,506)	(424,760)
Prepaid expenses	(20,168)	2,755
Accounts payable and accrued liabilities	1,539,617	546,726
	(2,227,633)	(2,600,558)
Investments:		
Acquisition of equipment	(132,424)	(139,231)
Restricted cash	-	96,057
	(132,424)	(43,174)
Financing:		
Bank indebtedness	-	(113,563)
Loans payable	-	119,616
Capital lease obligation	(259,623)	(10,317)
Convertible debentures	2,000,000	1,250,000
Cash proceeds on issuance of common shares	873,163	1,906,659
Share issue costs	(238,695)	(260,010)
	2,374,845	2,892,385
Effect of foreign exchange rate changes on cash and cash equivalents	(67,288)	(97,164)

Edgar Filing: UNITY WIRELESS CORP - Form 10KSB

Increase (decrease) in cash and cash equivalents	(52,500)	151,489
Cash and cash equivalents, beginning of period	209,546	58,057
Cash and cash equivalents, end of period	\$ 157,046	\$ 209,546

Supplementary information (note 15)

See accompanying notes to consolidated financial statements.

UNITY WIRELESS CORPORATION

Notes to Consolidated Financial Statements

(Expressed in United States dollars)

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

Years ended December 31, 2005 and 2004

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 \$5,450,408 (2004 - \$3,318,998) and used cash in operations of \$2,227,633 (2004 - \$2,600,558).

These financial statements have been prepared on the going concern basis under which an entity is considered to be able to realize its assets and satisfy its liabilities in the ordinary course of business. Operations to date have been primarily financed by both current and long-term debt and equity transactions. At December 31, 2005, the Corporation will require additional financing to continue to operate at current levels throughout 2006. 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 accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, particularly the recoverability of inventory, equipment and goodwill, and liabilities (particularly product warranty) and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(c)

Financial instruments:

(i)

Fair values:

At December 31, 2005, the Corporation has the following financial instruments: cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, loans payable, and convertible debentures. The carrying values of these financial instruments are considered to approximate fair value based on their short-term nature. Based on borrowing rates currently available to the Corporation, the carrying values of the obligations under capital lease approximate their fair values.

The 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, 2005 or 2004.

(ii)

Concentrations of credit risk:

Financial instruments that potentially subject the Corporation to concentrations of credit risk are primarily accounts receivable. The Corporation maintains a reserve for potential credit losses based on a risk assessment of its

customers.

3.

Significant accounting policies (continued):

(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 labor, and an appropriate allocation of related overhead.

(f)

Capital assets:

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

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

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

(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.

3.

Significant accounting policies (continued):

(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. No impairment has been recognized to December 31, 2005.

(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.

3.

Significant accounting policies (continued):

(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.

(l)

Foreign currency translation:

As of April 1, 2005, the Corporation adopted the U.S. dollar as its functional currency. The Corporation has done this because the U.S. dollar is the currency in which it incurs all of its revenues, all of its financing and a significant portion of its costs. The Corporation's subsidiary, Unity Wireless Systems Corp., also uses the U.S. dollar as its functional currency. Under this method, monetary assets and liabilities denominated in a foreign currency are remeasured into U.S. dollars at the rate of exchange in effect at the balance sheet date. Other assets and revenue and expense items are remeasured using the rate of exchange prevailing at their respective transaction dates. Exchange gains and losses resulting from the remeasurement of foreign denominated monetary assets and liabilities into U.S. dollars are reflected in earnings (loss) for the period.

(m) Revenue recognition:

Revenue from products is recognized once a sale arrangement exists, delivery has occurred, the revenue is 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.

3.

Significant accounting policies (continued):

(n)

Product warranty:

A liability for estimated warranty expense is established by a charge against cost of goods sold at the time revenue is recognized as products are sold. The subsequent costs incurred for warranty claims serve to reduce the product warranty liability. The actual warranty costs the Corporation will ultimately pay could differ materially from this estimate (note 14(c)).

(o)

Research and development:

Research and development costs are expensed as incurred.

(p)

Stock option plan:

Effective January 1, 2004, the Corporation adopted FASB Statement No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*, using the modified prospective method. Under the modified prospective method of adoption selected by the Corporation, the employee and non-employee stock-based compensation expense recognized in the year ended December 31, 2005 is the same as that which would have been recognized for the same period had the recognition provision of SFAS No. 123, *Accounting for Stock-based Compensation*, been applied from its original effective date. Results for prior periods have not been restated.

The fair value of each option granted in 2005 and 2004 was calculated using the Black-Scholes option-pricing model with the following weighted-average assumptions: no dividend yield; volatility of 154% (2004 175%) based on weekly stock price; risk-free interest rate of 3.25% (2004 3.25%) and expected lives between 1 to 5 years.

The weighted-average fair value of options granted during 2005 and 2004 was \$0.21 and \$0.45 respectively.

(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.

3.

Significant accounting policies (continued):

(r)

Government assistance:

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

(s)

Comprehensive loss:

Comprehensive loss measures all changes in stockholders' equity from transactions and other events and circumstances from non-owner sources. For the periods presented, other comprehensive loss comprises only foreign currency translation.

(t)

Comparative figures:

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

(u)

Related party transactions:

Related party transactions in the normal course of operations are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

(v)

Recent pronouncements:

In November 2005, the FASB issued FSP FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" (FSP 115-1), which provides guidance on determining when investments in certain debt and equity securities are considered impaired, whether that impairment is other-than-temporary, and on measuring such impairment loss. FSP 115-1 also includes accounting considerations subsequent to the recognition of an other-than temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. FSP 115-1 is required to be applied to reporting periods beginning after December 15, 2005 and is required to be adopted in the first quarter of fiscal 2006. The impact of the adoption of FSP 115-1 will have on the Corporation's consolidated financial statements is not yet determinable.

In June 2005, the Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 05-6, Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination (EITF 05-6). EITF 05-6 requires that leasehold improvements that are placed in service significantly after and not contemplated at or near the beginning of the lease term be amortized over the shorter of the useful life of the assets or a term that includes required lease periods and renewals that are deemed to be reasonably assured at the date the leasehold improvements are purchased. EITF 05-6 was effective for the fourth quarter of 2005. EITF 05-6 did not have a significant impact on the Corporation s consolidated financial statements.

3.

Significant accounting policies (continued):

(v)

Recent pronouncements (continued):

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections* a replacement of APB Opinion No. 20 and FASB Statement No. 3 (SFAS No. 154). SFAS No. 154 requires retrospective application as the required method for reporting a change in accounting principle, unless impracticable or a pronouncement includes specific transition provisions. SFAS No. 154 also requires that a change in depreciation, amortization or depletion method for long-lived, nonfinancial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. This statement carries forward the guidance in APB Opinion No. 20, *Accounting Changes*, for the reporting of the correction of an error and a change in accounting estimate. SFAS No. 154 is effective beginning January 1, 2006. SFAS No. 154 is not expected to have a significant impact on the Corporation's consolidated financial statements.

In March 2005, the FASB issued Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations* an interpretation of FASB Statement No. 143. FIN 47 clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. The FIN also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 was effective in the fourth quarter of 2005. FIN 47 did not have a significant impact on the Corporation's consolidated financial statements.

In December 2004, the Financial Accounting Standards Board (FASB) issued revised Statement of Financial Accounting Standards No. 123 entitled *Share-Based Payment* (FAS No. 123R). This revised statement addresses accounting for stock-based compensation and results in the fair value of all stock-based compensation arrangements, including options, being recognized as an expense in a company's financial statements as opposed to supplemental disclosure in the notes to financial statements. The revised Statement eliminates the ability to account for stock-based compensation transactions using APB Opinion No. 25. FAS No. 123R is effective for public entities that file as small business issuers as of the beginning of the first interim or annual reporting period that begins after December 15, 2005. Although, the Corporation does not expect the adoption of FAS No. 123R to have a material effect on its consolidated financial statements as the Corporation presently expenses stock-based compensation to employees by the fair value method (note 3(p)), it has not completed its analysis of the implications of this standard.

In November 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 151 entitled *Inventory Costs* an amendment of ARB No. 43, Chapter 4 (FAS No. 151). This statement amends the guidance in ARB No. 43 to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and spoilage. FAS No. 151 requires that these items be recognized as current period charges. The Corporation has adopted FAS No. 151, which had no effect on the consolidated financial statements.

4.

Inventory:

Edgar Filing: UNITY WIRELESS CORP - Form 10KSB

	2005	2004
Raw materials	\$ 940,265	\$ 828,162
Finished goods	184,220	5,228
	\$ 1,124,485	\$ 833,390

5.**Capital assets:**

Capital assets consist of the following:

	2005		2004	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Computer equipment	\$ 189,738	\$ 143,605	\$ 170,898	\$ 121,634
Computer software	99,153	70,490	80,515	62,568
Computer software under capital lease	229,997	50,623	-	-
Furniture and fixtures	62,910	34,978	53,442	28,387
Leasehold improvements	71,117	42,258	48,606	28,593
Production and R&D equipment	258,696	179,210	195,172	77,914
Production and R&D equipment under capital lease	837,574	67,482	322,862	4,701
	\$ 1,749,185	\$ 588,646	\$ 871,495	\$ 323,797
Net book value	\$ 1,160,539		\$ 547,698	

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

	2005	2004
Trade accounts payable	\$ 2,053,363	\$ 1,167,551
Accrued liabilities	842,144	337,461
	\$ 2,895,507	\$ 1,505,012

7.**Obligations under capital leases:**

Edgar Filing: UNITY WIRELESS CORP - Form 10KSB

The Corporation leases R&D and Production equipment under capital leases expiring at various dates to 2008. As at December 31, 2005, future minimum lease payments under capital leases are as follows:

		2005
2006	\$	415,137
2007		398,432
2008		78,096
	\$	891,665
Amount representing interest		(93,476)
	\$	798,189
Current portion		345,622
	\$	452,567

Interest rates on the capital leases average approximately 9.77%. Interest expense for the year ended December 31, 2005 is \$68,189 (\$nil 2004).

8.

Loans payable:

	2005	2004
Promissory notes	\$ -	\$ 47,583

As at December 31, 2004, the Corporation was indebted to a former director for an aggregate of \$47,583 by way of a non-interest bearing promissory note. The promissory note was repaid as at September 30, 2005.

9.

Convertible debenture:

(a) During August 2004, the Corporation received gross cash proceeds of \$1,250,000 from the issuance of 8% redeemable convertible debentures of the Corporation plus 3,750,000 share purchase warrants on the completion of a private placement effected pursuant to Regulation D under the Securities Act of 1933. The agreement was signed on August 31, 2004 and the debentures mature on August 31, 2006. The debentures are convertible at the option of the holder at any time or automatically convert into common stock, subject to volume limitations, if the closing price of the common stock during a designated period is not less than \$0.30. The conversion price of the debentures is \$0.20 per share of common stock. Interest on these debentures is payable quarterly. At the option of the Corporation, and subject to certain conditions being met, the Corporation may make quarterly interest payments in cash or in common stock of the Corporation. If the Corporation elects to settle with shares, the number of shares issuable is calculated by reference to the market price at that time.

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

For accounting purposes, the Corporation calculated the fair value of warrants issued with the convertible debenture, using the Black-Scholes option pricing model and the intrinsic value of the beneficial conversion feature, which totaled \$705,266, and initially recorded these values as additional paid-in capital. The intrinsic value of the beneficial conversion feature is the amount by which the fair value of the underlying common shares at the date of the agreement exceeded the value of shares issuable based on the carrying value of the debenture, after reducing such carrying value for the fair value of the warrants. These assigned values were recorded as a reduction to the amount initially assigned to the debentures and as additional paid-in capital. The remaining balance of \$544,734 was recorded as a long-term liability. The carrying value of the liability is being accreted to the redemption value of the debentures over the period from August 31, 2004 to the initial maturity date of August 31, 2006.

During 2005, accretion of \$345,004 has been recorded as a charge to the statement of operations, and an increase in the carrying value of the liability. Also during 2005, \$200,000 of these debentures were converted into 1,000,000 common shares in accordance with their original terms. As at December 31, 2005, \$950,000 of these debentures remain outstanding.

9. Convertible debenture (continued):

(b) During February 2005, the Corporation received gross cash proceeds of \$1,500,000 from the issuance of 8% redeemable convertible debentures of the Corporation plus 4,500,000 share purchase warrants on the completion of a private placement effected pursuant to Regulation D under the Securities Act of 1933. The agreement was signed on February 11, 2005 and the debentures mature on February 11, 2007. The debentures are convertible at the option of the holder at any time or automatically convert into common stock, subject to volume limitations, if the closing price of the common stock during a designated period is not less than \$0.30. The conversion price of the debentures is \$0.20 per share of common stock. Interest on these debentures is payable quarterly. At the option of the Corporation, and subject to certain conditions being met, the Corporation may make quarterly interest payments in cash or in common stock of the Corporation. If the Corporation elects to settle with shares, the number of shares issuable is calculated by reference to the market price at that time.

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

For accounting purposes, the Corporation calculated the fair value of warrants issued with the convertible debenture, using the Black-Scholes option pricing model and the intrinsic value of the beneficial conversion feature, which totaled \$1,452,175, and initially recorded these values as additional paid-in capital. The intrinsic value of the beneficial conversion feature is the amount by which the fair value of the underlying common shares at the date of the agreement exceeded the value of shares issuable based on the carrying value of the debenture, after reducing such carrying value for the fair value of the warrants. These assigned values were recorded as a reduction to the amount initially assigned to the debentures and as additional paid-in capital. The remaining balance of \$47,825 was recorded as a long-term liability. The carrying value of the liability is being accreted to the redemption value of the debentures over the period from February 11, 2005 to the initial maturity date of February 11, 2007.

During 2005, accretion of \$294,098 has been recorded as a charge to the statement of operations, and an increase in the carrying value of the liability. Also during 2005, \$150,000 of these debentures were converted into 750,000 common shares in accordance with their original terms. As at December 31, 2005, \$1,350,000 of these debentures remain outstanding.

9.

Convertible debenture (continued):

(c)

During March 2005, the Corporation received gross cash proceeds of \$500,000 from the issuance of 8% redeemable convertible debentures of the Corporation plus 1,500,000 share purchase warrants on the completion of a private placement effected pursuant to Regulation D under the Securities Act of 1933. The agreement was signed on March 24, 2005 and the debentures mature on March 24, 2007. The debentures are convertible at the option of the holder at any time or automatically convert into common stock, subject to volume limitations, if the closing price of the common stock during a designated period is not less than \$0.30. The conversion price of the debentures is \$0.20 per share of common stock. Interest on these debentures is payable quarterly. At the option of the Corporation, and subject to certain conditions being met, the Corporation may make quarterly interest payments in cash or in common stock of the Corporation. If the Corporation elects to settle with shares, the number of shares issuable is calculated by reference to the market price at that time.

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

For accounting purposes, the Corporation calculated the fair value of warrants issued with the convertible debenture, using the Black-Scholes option pricing model and the intrinsic value of the beneficial conversion feature, which totaled \$484,058, and initially recorded these values as additional paid-in capital. The intrinsic value of the beneficial conversion feature is the amount by which the fair value of the underlying common shares at the date of the agreement exceeded the value of shares issuable based on the carrying value of the debenture, after reducing such carrying value for the fair value of the warrants. These assigned values were recorded as a reduction to the amount initially assigned to the debentures and as additional paid-in capital. The remaining balance of \$15,942 was recorded as a long-term liability. The carrying value of the liability is being accreted to the redemption value of the debentures over the period from March 24, 2005 to the initial maturity date of March 24, 2007.

During 2005, accretion of \$249,365 has been recorded as a charge to the statement of operations, and an increase in the carrying value of the liability. Also during 2005, \$233,036 of these debentures were converted into 1,165,180 common shares in accordance with their original terms. As at December 31, 2005, \$266,964 of these debentures remain outstanding.

10.**Common stock:**

Authorized share capital:

150,000,000 common stock at par value of \$0.001 per share

5,000,000 preferred stock at par value of \$0.001 per share

(a)

Loss per share:

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

	2005	2004
Loss for the period	\$ (5,450,408)	\$ (3,318,998)
Weighted average number of:		
Common shares outstanding	85,938,087	75,144,825
Basic and diluted loss per common share	\$ (0.06)	\$ (0.04)

For the years ended December 31, 2005 and 2004, all of the Corporation's common shares issuable upon the exercise of stock options, warrants and convertible debentures were excluded from the determination of diluted loss per share as their effect would be anti-dilutive.

During the year ended December 31, 1998, the Corporation established a stock option plan pursuant to which 3,000,000 common shares were reserved for issuance. This plan was replaced on December 6, 1999, by a new stock option plan (1999 Plan) pursuant to which 5,000,000 common shares were reserved for issuance. On July 5, 2000, the shareholders approved a change in the maximum number of options issuable under this plan to 20% of the number of common shares outstanding including shares of common stock previously issued under the plan.

10.**Common stock (continued):****(b)****Stock option plan:**

The Corporation grants options to employees and non-employees. For employee and non-employee options, compensation expense is recognized using the fair value-based method of accounting per SFAS No. 123. The fair value of employee and non-employee grants in 2005 and 2004 was calculated using the Black-Scholes option-pricing model with the following weighted-average assumptions: no dividend yield; volatility of 154% (2004 175%) based on weekly stock price; risk-free interest rate of 3.25% (2004 3.25%) and expected lives between 1 to 5 years.

Included in expenses for 2005 is total stock-based compensation of \$657,818 (2004 - \$806,202).

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

	Shares available to be granted under option	Outstanding Options	
		Number of common shares issuable	Weighted average exercise price
Balance, December 31, 2003	7,589,707	5,126,083	\$ 0.19
Options granted	(2,560,000)	2,560,000	0.41
Options expired/cancelled	628,666	(628,666)	0.32
Options exercised	-	(304,917)	0.15
Increase in reserved for issuance	3,631,916	-	-
Balance, December 31, 2004	9,290,289	6,752,500	\$ 0.26
Options granted	(2,952,500)	2,952,500	0.24
Options expired/cancelled	2,153,752	(2,153,752)	0.29
Options exercised	-	(775,831)	0.17
Increase in reserved for issuance	2,910,121	-	-
Balance, December 31, 2005	11,401,662	6,775,417	\$ 0.25

10.**Common stock (continued):****(b)****Stock option plan (continued):**

The following table summarizes information about stock options under the plan outstanding at December 31, 2005:

Range of exercise prices	Number outstanding at December 31, 2005	Options Outstanding		Options Exercisable	
		Weighted average remaining contractual life (years)	Weighted average exercise price	Number outstanding at December 31, 2005	Weighted average exercise price
\$0.11 - 0.20	3,330,417	3.28	\$0.16	1,984,236	\$0.15
\$0.23 - 0.29	2,105,000	4.05	\$0.27	639,167	\$0.27
\$0.30 - 0.38	940,000	2.94	\$0.34	607,500	\$0.33
\$0.70	400,000	3.50	\$0.70	200,000	\$0.70
	6,775,417	3.49	\$0.25	3,430,903	\$0.24

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

Stock options have initial terms of five years.

(c)**Warrants:**

The following non-transferable share purchase warrants were outstanding at December 31, 2005:

Expiry date	Exercise price per share	Number of shares
March 31, 2006	\$ 0.50	2,059,492
August 31, 2006	0.23	555,555
October 13, 2006	0.20	125,000
May 1, 2007	0.32	120,000
September 30, 2007	0.50	525,700
September 30, 2007	0.25	1,553,433
October 01, 2007	0.20	100,000

Edgar Filing: UNITY WIRELESS CORP - Form 10KSB

October 01, 2008	0.25	150,000
August 31, 2009	0.20	1,750,000
October 13, 2009	0.20	150,000
February 11, 2010	0.20	4,500,000
March 14, 2010	0.20	625,000
July 01, 2010	0.40	75,000
July 01, 2010	0.50	75,000

11.**Commitments:**

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

2006	\$	105,793
2007		105,793
2008		105,793
2009		52,896
	\$	370,275

In 2005, rent expense was \$93,100 (2004 - \$77,231).

12.**Income taxes:**

At December 31, 2005, the Corporation has US tax net operating loss carryforwards approximating \$2,842,025 which will begin to expire in 2019.

The Corporation has Canadian tax net operating losses of approximately \$15,754,000 which expire as follows:

2006	\$	1,653,000
2007	\$	3,450,000
2008	\$	1,287,000
2009	\$	2,990,000
2010	\$	1,274,000
2011	\$	1,856,000
2015	\$	3,244,000

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

Expected tax recovery of \$1,891,292, which amount has been calculated by applying the statutory tax rate of 34.7% to the loss before income taxes of \$5,450,408, differs from income tax expense of \$nil due primarily to the existence of loss carryforwards created in the year, the tax benefit of which has been offset by an increase in the valuation allowance.

12.**Income taxes (continued):**

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

	2005	2004
Deferred tax assets:		
Net operating loss carry forwards	\$ 6,165,300	\$ 5,262,696
Depreciation/amortization	51,542	256,113
Other	1,141,021	1,071,549
Total deferred tax assets	7,357,863	6,590,358
Valuation allowance	(7,357,863)	(6,590,358)
Net deferred taxes	\$ -	\$ -

13.**Segmented information:**

(a)

Segment information:

During 2005 and 2004, 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):

	2005	2004
China	\$ 2,346	\$ 2,477
United States	1,903	1,981
Israel	69	101
Canada	588	462

Total sales	\$	4,906	\$	5,021
-------------	----	-------	----	-------

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

(c)

Major customers:

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

	2005		2004
Customer A	\$ 1,506	\$	2,477
Customer B	442		416
Customer C	-		977
Customer D	486		174
Customer E	1,693		-

Accounts receivable representing greater than 10% of total outstanding accounts receivable are as follows (\$000):

	2005		2004
Customer A	\$ 174	\$	132
Customer B	19		89
Customer D	395		124
Customer E	54		167

14.**Contingent liabilities:**

(a)

Contingent liability on sale of products:

(i)

Under a license agreement, the Corporation is committed to royalty payments based on the sales of products using certain technologies. Royalties are paid between 5% to 6% of sales of licensed products sold integrating the XNN Technology into various products to a minimum of \$150,000 within twelve months subsequent to the first commercial sales of the integrated product. No such sales have occurred to December 31, 2005.

(ii)

Under an agreement with the Government's National Research Council Canada IRAP (IRAP) program, the Corporation received conditionally repayable government assistance amounting to \$368,275 (CDN\$483,491) to

support the development of a multi-carrier linear power amplifier. Under the terms of the agreement, an amount up to a maximum of \$534,000 (CDN\$725,236) is to be repaid at a rate of 1.5% of quarterly gross revenue commencing on September 1, 2003, on a quarterly basis. For December 31, 2005, the Corporation recorded \$73,584 (CDN\$89,781) as royalties expense and \$75,308 (CDN \$98,006) in 2004.

(iii)

Under an agreement with the Canada Israel Industrial Research & Development Foundation, the Corporation is eligible to receive conditionally repayable government assistance amounting to \$262,078 (CDN\$350,000) to support the development of *a multi-carrier linear power amplifier*. To date, the Corporation claimed gross proceeds of \$98,622 (CDN\$ 116,667) in 2005, nil in 2004 and \$163,456 (CDN\$ 233,333) in 2003, which have been recorded as government grant income, a reduction of expenses incurred. Under the terms of the agreement, commencing with the first commercial transaction, the assistance is repayable to the extent of 2.5% of yearly gross sales until 100% of the grant has been repaid. As at December 31, 2005, the Corporation has not yet commenced the commercialization of such product, and thus no repayment is required.

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

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

(c)

Product warranty:

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:

	2005	2004
Balance, beginning of year	\$ 40,667	\$ 38,084
Provision increase	32,530	41,775
Expenditures	(30,236)	(39,192)
Balance, end of year	\$ 42,961	\$ 40,667

15.**Supplementary information:**

(a)

Cash flow information:

	2005	2004
Cash paid for:		
Interest	\$ 77,405	\$ 20,690
Non-cash financing and investing activities:		
Issuance of common shares in settlement of		
accounts payable	285,383	90,495
Issuance of common shares upon exercise of		
options in settlement of	47,583	-

Edgar Filing: UNITY WIRELESS CORP - Form 10KSB

promissory notes payable		
Issuance of common shares on conversion of		
convertible debenture (note 9)	624,036	114,400
Purchase of equipment funded by obligation		
under capital lease	745,266	322,862
Amendment of note payable to convertible		
note payable	-	99,999

(b)

Allowance for doubtful accounts:

	2005	2004
Balance, beginning of year	\$ -	\$ 11,503
Recoveries and other adjustments	-	(11,503)
Balance, end of year	\$ -	\$ -

16.

Related party transactions:

During the year ended December 31, 2005, the Corporation incurred professional fees of \$9,428(2004 - \$8,974) from a company owned by a director of the Corporation and incurred nil (2004 - \$32,275) consulting fees from a company owned by a former director of the Corporation. These amounts are included in general and administrative expenses.

17.

Subsequent events:

(i) Subsequent to December 31, 2005, the Corporation realized gross cash proceeds of \$2,200,000 from the issuance of 8% redeemable convertible notes(Notes) of the Corporation plus 6,875,000 share purchase warrants on the completion of a private placement effected pursuant to Regulation D under the Securities Act of 1933. The agreement was signed on February 28, 2006 and the Notes are to mature on February 28, 2009. The Notes are convertible into common stock at the option of the holders at \$0.16 per share, provided that until July 1, 2006 the Notes are convertible into a maximum aggregate of 10,000,000 shares of common stock. Also, subject to certain conditions, the Corporation can force conversion of the Notes if the volume weighted average price of the common stock is at least \$0.32 for 20 consecutive trading days. Interest on these notes is payable quarterly. At the option of the Corporation, and subject to certain conditions being met, the Corporation may make quarterly interest payments in cash or in common stock of the Corporation. If the Corporation elects to settle with shares, the number of shares issuable is calculated by reference to the market price at that time. Each warrant issued entitles the holder to purchase one of the Corporation's common shares and is exercisable at a price of \$0.16 on or before February 28, 2011, on which date the warrants will expire.

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

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

The closing of the transaction is subject to standard closing conditions, including regulatory approvals.

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

None

Item 8A: Controls and Procedures:

An evaluation has been carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and the operation of our "disclosure controls and procedures" (as such term is defined in Rules 13a-15(e) under the Securities Exchange Act of 1934) as of December 31, 2005 (Evaluation Date). Based on such evaluation, our Principal Executive Officer and Principal Financial Officer have concluded that, as of the Evaluation Date, the disclosure controls and procedures are reasonably designed and effective to ensure that (i) information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

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

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

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

Name	Position Held with the Company	Age	Date First Elected or Appointed
<i>Ilan Kenig</i>	<i>President, Chief Executive Officer and Director</i>	<i>45</i>	<i>President on April 1, 2002 and Chief Executive Officer on October 31, 2002</i>
<i>Andrew James Chamberlain</i>	<i>Corporate Secretary, Director</i>	<i>44</i>	<i>October 28, 2002</i>
<i>Dallas Pretty</i>	<i>Chief Financial Officer</i>	<i>36</i>	<i>April 1, 2004</i>
<i>Ken Maddison</i>	<i>Director</i>	<i>65</i>	<i>October 29, 1998</i>

Ilan Kenig - President, Chief Executive Officer and Director

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

Dallas Pretty Chief Financial Officer

Mr. Pretty has been employed by the Company since April 1, 2004 as its Chief Financial Officer. He worked in senior management roles with British Columbia technology companies from April 2000 to March 2004. Mr. Pretty is a Chartered Accountant.

Ken Maddison - Director

Mr. Maddison, a Chartered Accountant since 1966 and elected a Fellow of the Institute of Chartered Accountants of British Columbia in 1975, retired in August 1997 after a lengthy career as a partner with the accounting firm KPMG between 1977 and 1997. In public practice for over 30 years, Mr. Maddison provided auditing, accounting and business advisory services to a wide range of clients in the private and public sectors. Since September 1997, Mr. Maddison has been self-employed as a consultant providing various financial advisory services. Mr. Maddison currently serves as CFO and director of three public companies: International Wayside Gold Mines Ltd., Island Mountain Gold Mines Ltd., and Golden Cariboo Resources Ltd. He is also a director and audit committee chairman for Northern Continental Resources Inc, Northern Hemisphere Development Inc, Datec Group Ltd. (formerly Brouker Technology Group Ltd), and Helijet International.

Andrew James Chamberlain Director, Corporate Secretary

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

Victor Halpert - Director

Victor Halpert brings nearly 15 years of financial and accounting experience to the Company's board of directors. From June, 1999 until January 2003, he has served as an equity research analyst with Salomon Smith Barney, Robertson Stephens, Salomon Brothers and Israel Equity Research & Management Ltd. and previously as an accountant with Arthur Anderson LLC. As a highly regarded equity research analyst, Mr. Halpert primarily covered Israeli technology and telecommunications companies. Since leaving his position as Director - Equity Research, Israel Technology Analyst for Salomon Smith Barney in New York, Mr. Halpert has been managing a small hedge fund that specializes in global growth companies. He holds a Master of Business Administration degree from the University of Chicago and a Master of Science in Accounting degree from the University of Illinois at Chicago.

Doron Nevo - Director

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

and CEO of D.FourD., Ltd., a venture capital investment company. From March 1996 to June 1999, Mr. Nevo was President and CEO of NKO, Inc. a company he founded that designed and developed a carrier grade IP Telephony system platform and established its own IP network. From February 1992 to February 1996, Mr. Nevo was also President and CEO of Clalcom Ltd., an international telecommunications service provider in Israel which he founded in 1992. Prior to Clalcom, he held various positions with Sprint International Inc. He also serves on the board of a number of companies including Audiocodes, Ltd. (a telecommunication technology company), Elcom Technologies (a manufacturer of Satcom and Digital Radio synthesizers), and Notox, Ltd. (a biotech company). Mr. Nevo received a B.Sc. in Electrical Engineering from the Technion and an M.Sc. in Telecommunications Management from Brooklyn Polytechnic.

Family Relationships

There are no family relationships among our directors or officers.

Audit Committee

The Company has a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. Serving on the Committee are Ken Maddison and Victor Halpert and there is one vacancy. The Board of Directors has determined that it has an audit committee financial expert serving on the audit committee, Ken Maddison.

Code of Ethics

The Company has adopted a Code of Ethics that applies to its Chief Executive Officer and Chief Financial Officer.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our executive officers and directors and persons who own more than 10% of a registered class of our equity securities to file with the Securities and Exchange Commission initial statements of beneficial ownership, reports of changes in ownership and annual reports concerning their ownership of our common stock and other equity securities, on Forms 3, 4 and 5 respectively.

Based solely on our review of the copies of such reports received by us, and on written representations by our officers and directors regarding their compliance with the applicable reporting requirements under Section 16(a) of the Exchange Act, we believe that, with respect to the fiscal year ended December 31, 2005, our officers and directors, and all of the persons known to us to own more than 10% of our common stock, other than identified below, filed all required reports on a timely basis.

The following officers, directors and greater than ten-percent beneficial owners were late in complying with Section 16(a) filing requirements: Dallas Pretty, Ilan Kenig, Ken Maddison, Doron Nevo, Victor Halpert and William N. Weidman were late in filing Form 4 Statement of Changes in Beneficial Ownership of Securities on one occasion that was not an open market purchase or sale.

Item 10. Executive Compensation.

The following table sets forth information with respect to compensation paid by the Company for services to it during the three fiscal years ended December 31, 2005 to the Company's Chief Executive Officer. No other executive officer received an aggregate annual salary and bonus that exceeded \$100,000

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation			Long Term Compensation ⁽¹⁾			
		Salary (US\$)	Bonus (US\$)	Other Annual Compensation (US\$) ⁽¹⁾	Awards Securities Underlying Options/ SARs Granted	Restricted Shares or Restricted Share Units	Payouts LTIP Payouts (US\$)	All Other Compensation
Ilan Kenig Chief Executive Officer ⁽²⁾	2005	\$140,000 ⁽²⁾	Nil	Nil	1,250,000 ⁽²⁾	Nil	Nil	Nil
	2004	\$84,530 ⁽²⁾	Nil	Nil	350,000 ⁽²⁾	Nil	Nil	Nil
	2003	\$72,000 ⁽²⁾	Nil	Nil	800,000 ⁽²⁾	Nil	Nil	Nil

⁽¹⁾ The value of perquisites and other personal benefits, securities and property for the Named Executive Officers that do not exceed the lesser of \$50,000 or 10% of the total of the annual salary and bonus is not reported herein.

⁽²⁾ Compensation in 2005 consisted of \$140,000 for serving a full year as our Chief Executive Officer and President of which \$30,000 was paid in shares. Compensation in 2004 consisted of \$84,530 for serving a full year as our Chief Executive Officer and President. Compensation in 2003 consisted of \$72,000 for serving a full year as our Chief Executive Officer and President. On March 18, 2005, Mr. Kenig received options to acquire 1,250,000 shares of common stock. On March 22, 2004, Mr. Kenig received options to acquire 100,000 shares of common stock and on April 2, 2004 Mr. Kenig received options to acquire a further 250,000 shares of common stock. On September 15, 2003 Mr. Kenig received 800,000 options as partial compensation for serving as our Chief Executive Officer and President.

The following table sets forth for each of the Named Executive Officers certain information concerning stock options granted to them during the year ended December 31, 2005. We have never issued stock appreciation rights. We grant options that generally vest quarterly over three years at an exercise price equal to the fair market value of a share of common stock as determined by its closing price on the OTC Bulletin Board on the date of grant. The term of each option granted is generally five years from the date of grant. Options may terminate before their expiration dates if the optionee's status as an employee is terminated or upon the optionee's death or disability.

OPTION/SAR GRANTS IN THE LAST FISCAL YEAR

Name	Number of Securities	% of Total Options/	Exercise Price	Expiration Date
------	-------------------------	------------------------	-------------------	-----------------

Edgar Filing: UNITY WIRELESS CORP - Form 10KSB

	Underlying Options/ SARs Granted (#)	SARs Granted to Employees in Fiscal Year ⁽¹⁾	(\$/Share)	
Ilan Kenig Chief Executive Officer ⁽²⁾	1,250,000 ⁽³⁾	42.3%	\$0.27	March 18, 2010
Dallas Pretty Chief Financial Officer ⁽⁴⁾	25,000 ⁽⁵⁾	0.8%	\$0.27	March 18, 2010

(1) The denominator (2,952,500) is the total numbers of options awarded during the year.

(2) Mr. Kenig was appointed as our Chief Executive Officer on October 31, 2002 and as our President on April 1, 2002.

(3) Ilan Kenig received 1,250,000 options on March 18, 2005 that are exercisable at \$0.27 per share and vest over three years.

(4) Mr. Pretty was appointed as our Chief Financial Officer on April 1, 2004.

(5) Dallas Pretty received 25,000 options on March 18, 2005 that are exercisable at \$0.27 per share and vest over three years.

The following table sets forth for each Named Executive Officer certain information concerning the number of shares subject to both exercisable and unexercisable stock options as of December 31, 2005. The values for "in-the-money" options are calculated by determining the difference between the fair market value of the securities underlying the options as of December 31, 2005 (\$0.16 per share) and the exercise price of the individual's options.

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FY-END OPTION/SAR VALUES

Name	Shares Acquired on Exercise (#)	Aggregate Value Realized	Number of Securities Underlying Unexercised Options/SARs at FY-End (#)		Value of Unexercised In-the- Money Options/SARs at FY- end (\$)	
			Exercisable / Unexercisable	Exercisable / Unexercisable	Exercisable	Unexercisable
Ilan Kenig ⁽²⁾	Nil	Nil	1,737,500	1,087,500	\$18,000	-
Dallas Pretty ⁽³⁾	Nil	Nil	254,167	270,833	-	-

(1) The values for "in-the-money" options are calculated by determining the difference between the fair market value of the securities underlying the options as of December 31, 2005 (\$0.16 per share on OTC Bulletin Board) and the exercise price of the individual's options.

(2) Mr. Kenig was appointed as our Chief Executive Officer on October 31, 2002 and as our President on April 1, 2002.

(3) Mr. Pretty was appointed as our Chief Financial Officer on April 1, 2004.

EMPLOYMENT CONTRACTS AND TERMINATION OF EMPLOYMENT AND CHANGE IN CONTROL ARRANGEMENTS

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

Our company has no plans or arrangements in respect of remuneration received or that may be received by any Named Executive Officers of our company to compensate such officers in the event of termination of employment (as a result of resignation, retirement, change of control) or a change of responsibilities following a change of control, where the value of such compensation exceeds \$100,000 per Named Executive Officer.

COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

Our directors receive \$1,000 per board meeting and \$500 per committee meeting. Our Audit Committee Chairman receives \$12,000 per year. Directors are entitled to reimbursement of expenses incurred in attending meetings. In addition, our directors are entitled to participate in our stock option plan. Members of our board of directors receive annual grants of options as follows:

Director	25,000 options
Audit Committee Chairman	25,000 options
Audit Committee Member	5,000 options

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

During the year ended December 31, 1998, we established a stock option plan pursuant to which 3,000,000 common shares were reserved for issuance. This plan was replaced when, on December 6, 1999, we adopted a new stock option plan (the 1999 Stock Option Plan) pursuant to which 5,000,000 common shares were reserved for issuance. On July 5, 2000, the stockholders approved this plan including a change in the maximum number of options issuable under this plan to 20% of the number of common shares outstanding including shares of common stock issuable under the plan. As of December 31, 2005, this maximum number was 18,177,079. All outstanding options will be subject to the provisions of the new plan.

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

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

The fair value of each option granted in the years ended December 31, 2005 and 2004 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 154% (2004 - 175%) based on weekly stock price; risk-free interest rate of 3.25% (2004 - 3.25%) and expected lives between one to five years. The weighted-average fair value of options granted during the years ended December 31, 2005 and 2004 was \$0.21 and \$0.45 respectively.

Item 11. Security Ownership of Certain Beneficial Owners and Management.

The following table sets forth, as of March 27, 2005, certain information with respect to the beneficial ownership of our common shares by each shareholder known to us to be the beneficial owner of 5% of our common shares, and by each of our officers and directors. Each person has sole voting and investment power with respect to the common shares, except as otherwise indicated. Beneficial ownership consists of a direct interest in the common shares, except as otherwise indicated.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percentage of Class⁽¹⁾
Ilan Kenig 177 Telegraph Rd #248 Bellingham, WA 98226	2,401,222 ⁽²⁾	2.43%
Dallas Pretty 462 E17th Vancouver, BC V5V 1B1	591,664 ⁽³⁾	Nil*
Doron Nevo 15 Yakov Hazan Raana, Israel 43563	310,952 ⁽⁴⁾	Nil*
Ken Maddison 2591 Lund Avenue Coquitlam, BC V3K 6J8	439,285 ⁽⁵⁾	Nil*
Victor Halpert 79 Madison Avenue, 6 TH Floor New York, NY 10016	116,309 ⁽⁶⁾	Nil*
Andrew Chamberlain 9222 - 183B Street Edmonton, AB T5J 3Z7	190,971 ⁽⁷⁾	Nil*

Edgar Filing: UNITY WIRELESS CORP - Form 10KSB

William Weidman 136 Shorewood Drive Great Neck, NY 11021	20,645,408 ⁽⁸⁾	20.93%
Directors and Executive Officers as a Group	4,050,403 ⁽⁹⁾	4.11%
Nil* - less than 1%		

(1)

Based on 92,457,873 shares of common stock issued and outstanding as of March 27, 2006. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Except as otherwise indicated, we believe that the beneficial owners of the common stock listed above, based on information furnished by such owners, have sole investment and voting power with respect to such shares, subject to community property laws where applicable.

(2)

Includes options to acquire an aggregate of 1,858,333 shares of common stock exercisable within sixty days.

(3)

Includes options to acquire an aggregate of 341,664 shares of common stock exercisable within sixty days.

(4)

Includes options to acquire an aggregate of 163,333 shares of common stock exercisable within sixty days.

(5)

Includes options to acquire an aggregate of 159,166 shares of common stock exercisable within sixty days.

(6)

Includes options to acquire an aggregate of 55,833 shares of common stock exercisable within sixty days.

(7)

Includes options to acquire an aggregate of 158,333 shares of common stock exercisable within sixty days.

(8)

Includes warrants to acquire an aggregate of 2,210,300 shares of common stock exercisable within sixty days and 1,250,000 shares of common stock underlying a secured convertible note.

(9)

Includes options to acquire an aggregate of 2,736,662 shares of common stock exercisable within sixty days

Changes in Control

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

Item 12. Certain Relationships and Related Transactions.

In August 2003 we entered into a consulting agreement with Myer Bentob. Under the agreement, Mr. Bentob agreed, among other things, to assist the Company's sales and marketing efforts. The Company agreed to nominate him to be a director and Executive Vice Chairman, and to pay a fee to an entity controlled by Mr. Bentob equal to CDN \$84,000 per year, plus commission at a maximum rate of 1.8% of amounts collected by the Company from specified clients. The agreement also contains a non-compete provision that continues for six months after termination, and confidentiality requirements. This agreement was terminated January 14, 2005 upon Mr. Bentob's resignation as a director and Executive Chairman of the Company.

In August 2003, the Company in a private placement issued to Mr. Bentob 833,333 shares of common stock for US \$108,333, together with warrants to purchase 416,667 shares at US \$0.26 per share. In March 2004, Mr. Bentob further subscribed for 1,016,105 shares of common stock for US\$152,415.75 together with warrants to purchase 508,053 shares at US\$0.30.

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

Exhibits Required by Item 601 of Regulation S-B

Exhibit
Number

Description

1.

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

2.1*

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

Edgar Filing: UNITY WIRELESS CORP - Form 10KSB

- 2.2*
- Form of Avantry Ltd. Shareholder Letter dated February 7, 2006 (17)
- 3.1*
- Amended and Restated Certificate of Incorporation of Unity Wireless Corporation (1)
- 3.2*
- Amended and Restated Bylaws of Unity Wireless Corporation (2)
- 3.3*
- Certificate of Amendment dated August 5, 2004 to the Amended and Restated Certificate of Incorporation (2.5)
- 4.1*
- Consulting agreement among Mueller & Company, Inc., Ideas, Inc., Mark Mueller, Aaron Fertig and Unity Wireless Corporation dated January 1, 2001 (3)
- 4.2*
- Consulting agreement amendment among Mueller & company, Inc. and Unity Wireless Corporation dated November 15, 2001 (3)
- 4.3*
- 1999 Stock Option Plan, as amended (3)
- 4.4*
- Recommended Stock Option Grant Policy for our company (3)
- 4.5*
- Consulting agreement among Myer Bentob and Unity Wireless Corporation dated August 7, 2003 (12)
- 4.6*
- Form of Secured Convertible Note issued by Unity Wireless Corporation and Unity Wireless Systems Corporation in the aggregate principle amount of \$956,322.50 (8)
- 4.7*
- Form of Addendum to Secured Convertible Note between Unity Wireless Corporation, Unity Wireless Systems Corporation and each of the following: (9)
- S. Heiman
Casey J. O'Byrne Professional Corporation
Moshe Rosner

Jeffrey Rubin
William N. Weidman
Chancellor Apartments LLC
Gabrielle Chaput
Desmonde Farruga
Shalom Torah Centers
Sid M. Tarrabain Professional Corporation
Mokhlis Y. Zaki

4.8*

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

4.9*

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

4.10*

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

4.11*

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

4.12*

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

4.13*

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

4.14*

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

4.15*

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

4.16*

Form of Convertible Note and Purchase Agreement (13)

4.17*

Form of Secured Convertible Promissory Note (13)

4.18*

Form of Warrant (13)

4.19*

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

4.20*

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

4.21*

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

4.22*

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

4.23*

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

4.24*

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

4.25*

Form of Warrant issued February 11, 2005 (15)

4.26*

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

4.27*

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

4.28*

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

4.29*

Form of Warrant issued March 24, 2005 (16)

4.30*

Edgar Filing: UNITY WIRELESS CORP - Form 10KSB

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

4.31*

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

4.32*

Form of Warrant issued February 28, 2006 (18)

10.1*

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

10.2*

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

10.3*

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

10.4*

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

10.5*

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

10.6*

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

10.7*

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

10.8*

Edgar Filing: UNITY WIRELESS CORP - Form 10KSB

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

10.9*

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

10.10*

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

10.11*

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

10.12*

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

10.13*

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

10.14*

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

10.15*

Form of Security Agreement (13)

10.16*

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

10.17*

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

10.18*

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

10.19*

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

10.20*

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

14* Code of Ethics.(12)

21.1

Subsidiaries of our company:

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

23.1**

Consent of KPMG LLP

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

31.2** Certification of Dallas Pretty pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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

32.2** Certification of Dallas Pretty pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

*

Previously filed

**

Filed herewith

(1)

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

(2)

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

(2.5)

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

(3)

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

(4)

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

(5)

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

(6)

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

(7)

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

(8)

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

(9)

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

(10)

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

(11)

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

(12)

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

(13)

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

(14)

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

(15)

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

(16)

Incorporated by reference to our Form SB-2 filed with the Securities and Exchange Commission on April 20, 2005.

(17)

Incorporated by reference to the company's Form 8-K filed with the Securities and Exchange Commission on February 16, 2006.

(18)

Incorporated by reference to the company's Form 8-K filed with the Securities and Exchange Commission on March 6, 2006.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees.

The audit fees for 2005 and 2004 were Cdn \$90,469 and Cdn \$119,908, respectively. All services provided by independent accountants were approved by the audit committee

Tax Fees.

Tax fees consisted of consulting and preparation of tax returns. The fees were Cdn \$15,143 and Cdn \$12,003 in 2005 and 2004, respectively.

Audit Committee Pre-Approval Policies and Procedures.

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

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

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

Obtains periodically from the independent auditor a formal written statement of the matters required to be discussed by Statement of Auditing Standards No. 61, as amended, and, in particular, describing all relationships between the auditor and the Company, and discusses with the auditor any disclosed relationships or services that may impact auditor objectivity and independence.

SIGNATURES

Edgar Filing: UNITY WIRELESS CORP - Form 10KSB

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)

/s/ Dallas Pretty

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

Dated: March 31, 2006

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

/s/ Ilan Kenig

Ilan Kenig, President, Chief Executive Officer and Director
(Principal Executive Officer)
March 31, 2006

/s/ Dallas Pretty

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

March 31, 2006

/s/ Ken Maddison

Ken Maddison, Director
March 31, 2006

/s/ Doron Nevo

Doron Nevo, Director
March 31, 2006

/s/ Victor Halpert

Victor Halpert, Director
March 31, 2006

/s/ Andrew Chamberlain

Andrew Chamberlain, Corporate Secretary and Director
March 31, 2006