

## Wi2Wi Corporation

---

Condensed Consolidated Interim Financial Statements  
(Unaudited, expressed in U.S. Dollars)

Three Months Ended March 31, 2013 and March 31, 2012

# Wi2Wi Corporation

---

## Table of Contents

### Condensed Consolidated Interim Financial Statements (Unaudited)

Consolidated Statements of Financial Position	3
Consolidated Statements of Loss and Comprehensive Loss	4
Consolidated Statements of Changes in Shareholders' Deficit	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Interim Financial Statements	7 - 20

# Wi2Wi Corporation

## Unaudited Condensed Consolidated Interim Statements of Financial Position (In thousands of U.S. dollars)

	March 31,	December 31,
	2013	2012
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 29	\$ 32
Trade accounts receivable, net of allowance for doubtful debt of \$25 and \$25 as of March 31, 2012 and December 31, 2012 (Note 6)	637	453
Escrow funds receivable (Note 11)	500	-
Inventories (Note 7)	486	158
Deferred inventory costs	63	117
Prepaid expenses and other current assets	408	197
Investment in Legend Oil and Gas (Note 9)	1,225	-
<b>Total current assets</b>	<b>3,348</b>	<b>957</b>
Property and equipment, net (Note 8)	121	90
<b>Total Assets</b>	<b>\$ 3,469</b>	<b>\$ 1,047</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Senior bridge loans (Note 10)	\$ -	630
Loan payable to International Sovereign Energy Corp. (Note 10)	-	300
Accounts payable	809	725
Accounts payable to related parties (Note 11)	1,053	1,240
Accrued liabilities (Note 12)	617	514
Loans payable to Related Parties (Note 11)	500	-
Payable to preferred shareholders (Note 9)	1,225	-
Deferred revenue	97	182
<b>Total current liabilities</b>	<b>4,301</b>	<b>3,591</b>
Warrant Liability (note 16)	-	67
<b>Total Liabilities</b>	<b>4,301</b>	<b>3,658</b>
<b>Commitments and Contingencies (Note 13)</b>		
<b>Equity</b>		
Common shares - no par value (Note 2)	23,403	17,528
Preferred shares - no par value (Note 2)	-	-
Contributed surplus	2,783	2,569
Accumulated deficit	(27,018)	(22,708)
<b>Total shareholders' equity (deficit)</b>	<b>(832)</b>	<b>(2,611)</b>
<b>Total Liabilities and Shareholders' Equity (Deficit)</b>	<b>\$ 3,469</b>	<b>\$ 1,047</b>

See accompanying notes to condensed consolidated interim financial statements.

Approved on behalf of the Board of Directors

/s/ Mr. Hans Black, Director

/s/ Mr. Jim Wyant, Director

# Wi2Wi Corporation

## Unaudited Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(In thousands of U.S. dollars)

	Three Months Ended March 31,	
	2013	2012
Revenues	\$ 1,253	\$ 801
Cost of Revenues	759	514
Gross Profit	494	287
Operating Expenses (Note 18)		
Research and development	253	273
Selling, general and administrative	1,537	695
Total Operating Expenses	1,790	968
Loss from Operations	(1,296)	(681)
Share listing expense (Note 2)	(2,987)	-
Interest expense	(27)	(10)
Loss before Income Taxes	(4,310)	(691)
Provision for income tax	-	-
Net Loss and Total Comprehensive Loss	\$ (4,310)	\$ (691)
Loss per share - basic and diluted	(\$0.05)	(\$0.01)

See accompanying notes to condensed consolidated interim financial statements.

# Wi2Wi Corporation

## Unaudited Condensed Consolidated Interim Statements of Changes in Equity (In thousands of U.S. dollars, except share data)

	Common		Preferred				Retained earnings/ (Accumulated Deficit)	Total Shareholders' Equity /(Deficit)
	Number	Amount	Shares	Amount	Contributed Surplus			
<b>Total Consolidated Balances, December 31, 2012</b>	293,756,229	\$ 17,528	2,500,000	\$ -	\$ 2,569	\$	(22,708)	\$ (2,611)
Cancellation of Wi2Wi Preferred Shares	(293,756,229)	-	(2,500,000)	-	-	-	-	-
Conversion of Wi2Wi common shares into common shares of International Sovereign Energy								
Conversion of 293,756,229 Wi2Wi Common Shares for 64,384,296 shares of International Sovereign Energy Corp. (ISE) in connection with Plan of Arrangement between W12Wi Corporation (Wi2Wi) and ISE on January 28, 2013 (note 2)	64,384,296	5,875	-	-	-	-	-	5,875
Common Shares of International Sovereign Energy Corp.	16,096,084	-	-	-	-	-	-	-
Issue of Preferred shares to ISE shareholders	-	-	16,096,084	-	-	-	-	-
Stock-based compensation expense	-	-	-	-	16	-	-	16
Reversal of warranty liability due to change in terms of warrants(note 16)	-	-	-	-	67	-	-	67
Issuance of warrants for services in connection with Plan of Arrangements between Wi2Wi AND ISE (Note 16)	-	-	-	-	131	-	-	131
Net Loss and Comprehensive Loss	-	-	-	-	-	(4,310)	-	(4,310)
<b>Total Consolidated Balances, March 31, 2013</b>	<b>80,480,380</b>	<b>\$ 23,403</b>	<b>16,096,084</b>	<b>\$ -</b>	<b>\$2,783</b>	<b>\$</b>	<b>(27,018)</b>	<b>\$ (832)</b>

See accompanying notes to condensed consolidated interim financial statements.

# Wi2Wi Corporation

## Unaudited Condensed Consolidated Interim Statements of Cash Flows (In thousands of U.S. dollars)

Three months ended March 31

	2013	2012
<b>Operating Activities</b>		
Net loss	\$ (4,310)	\$ (691)
Adjustments for non-cash items:		
Depreciation and amortization	13	13
Stock based compensation	16	59
Interest expense related to issuance of warrants	-	(1)
Share listing expenses	2,987	-
Changes in assets and liabilities:		
Accounts receivable	(184)	541
Inventories	(328)	117
Deferred inventory costs	54	143
Prepaid expenses and other current assets	(211)	(222)
Accounts payable	84	(690)
Accounts payable to related parties	(202)	67
Accrued liabilities	117	230
Deferred revenue	(85)	(312)
<b>Net Cash Used in Operating Activities</b>	<b>(2,049)</b>	<b>(746)</b>
<b>Cash Flows from Investing Activities</b>		
Additions to property and equipment	(44)	(9)
<b>Net Cash Used in Investing Activities</b>	<b>(44)</b>	<b>(9)</b>
<b>Cash Flows from Financing Activities</b>		
Bank overdraft	-	75
Repayment of bank borrowings	-	(253)
Receipt of investor funds in advance of share issuance	-	695
Exercise of employee stock options	-	93
Receipt of cash upon completion of Plan of Arrangement with ISE	2,720	-
Repayment of Bridge Loans	(630)	-
Receivable, Escrow funds	(500)	-
Loan payable to related party (Note 12)	500	-
Issuance of common shares	-	120
<b>Net Cash Provided by Financing Activities</b>	<b>2,090</b>	<b>730</b>
<b>Net Increase (Decrease) in Cash</b>	<b>(3)</b>	<b>(25)</b>
<b>Cash, beginning of period</b>	<b>32</b>	<b>25</b>
<b>Cash, at end of period</b>	<b>\$ 29</b>	<b>\$ -</b>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Interest paid	\$ 27	\$ 38
Conversion of senior bridge loans into common shares	525	-

See accompanying notes to condensed consolidated interim financial statements.

# Wi2Wi Corporation

## Notes to Unaudited Condensed Consolidated Interim Financial Statements (All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

---

### 1. **Basis of Presentation**

Wi2Wi Corporation (the Company or Wi2Wi) designs, manufactures and markets system in package and modular products for wireless applications worldwide.

These consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in Note 5. These statements have been prepared based on the accounting policies and practices consistent with those used in the preparation of Wi2Wi's audited annual financial statements. It is management's opinion that these consolidated financial statements include all adjustments necessary for the fair presentation, in all material respects, of the Transaction in accordance with IFRS. Certain significant estimates have been made by management in the preparation of these financial statements.

These consolidated financial statements were prepared under the historical cost convention. All amounts herein are in US dollars, unless otherwise stated.

The consolidated financial statements include the financial statements of Wi2Wi Corporation and of International Sovereign Energy Corp which were Amalgamated in terms of the Plan of Arrangement and which received Final Court Approval on January 28, 2013. It also includes the financial statements of its wholly owned subsidiary, Wi2Wi Inc. All intercompany balances and transactions have been eliminated on consolidation.

### **Statement of Compliance and Authorization**

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) under IAS 34, *Interim Financial Reporting* (IAS 34) as issued by the International Accounting Standards Board (IASB). These unaudited condensed consolidated interim financial statements do not include all the information and notes required by IFRS for annual financial statements and, therefore, should be read in conjunction with the audited consolidated financial statements and notes for the Company's year ended December 31, 2012, which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

These financial statements have been authorized for issue by the Board of Directors on May 28, 2013

### 2. **Reverse Takeover of International Sovereign Energy Corp.**

On July 6, 2012 the Company entered into an Arrangement Agreement pursuant to which International Sovereign Energy Corp. (ISE) acquired all of the issued and outstanding shares of the Company by way of a plan of arrangement under the Canada Business Corporations Act (the Transaction). Shareholders of Wi2Wi and ISE approved the Transaction in December 2012. The Transaction is considered a reverse takeover (RTO) under the policies of the TSX Venture Exchange (the TSXV) as the shareholders of Wi2Wi obtained control over ISE. It was subject to the approval of the Ontario Superior Court of Justice which was granted on January 28, 2013. It was also subject to approval by the TSXV and shareholders of both companies. The TSXV approval was granted on February 4, 2013 with trading commencing on February 5, 2013 under the symbol YTY.

The RTO Transaction effectively resulted in shares being issued and Wi2Wi taking control of the consolidated entity with Wi2Wi identified as the accounting acquirer. ISE is the surviving entity, however Wi2Wi is considered to be the accounting acquirer as the Wi2Wi shareholders acquired a controlling 80% of the outstanding and issued common shares of ISE upon the completion of RTO. The surviving entity changed its name to Wi2Wi Corporation.

As a result of the RTO Transaction, the consolidated interim financial statements have been prepared as a continuation of the Company and as such:

- (a) the assets and liabilities of the Company are recognized and measured at their RTO Transaction carrying amounts;
- (b) the assets and liabilities of ISE are recognized and measured in accordance their fair values on the date of acquisition;
- (c) the opening retained earnings and other equity balances reflect the Company's balances prior to the RTO Transaction
- (d) comparative figures reflect the assets, liabilities and equity accounts of the Company prior to the RTO Transaction.

# Wi2Wi Corporation

## Notes to Unaudited Condensed Consolidated Interim Financial Statements (All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

ISE was historically engaged in the acquisition, exploration and production of petroleum and natural gas reserves but had ceased operating activities on the sale of its assets in 2011 and 2012.

For accounting purposes, the acquisition does not meet the definition of a business in accordance with the IFRS 3 “Business Combinations” as ISE had discontinued all of its prior business operations and its activities, prior to the RTO, were limited to the management of cash resources, investment and the maintenance of its listing. Accordingly, the Transaction has been accounted for as the issuance of shares by Wi2Wi for the net monetary assets of ISE in accordance with IFRS 2 “Share-Based Payment”. Consideration, net of transaction costs, has been added to shareholders’ equity.

The fair value of the consideration, calculated as \$5,875, is determined based on the percentage of ownership of the merged entity after the transaction that was transferred to shareholders of ISE upon completion of the Transaction. This value represents the fair value of the shares that Wi2Wi would have had to issue for the ratio of ownership interest in the combined entity to be the same as if the transaction had taken the legal form of Wi2Wi acquiring 100% of the shares of ISE. The percentage of ownership ISE shareholders has in the combined entity is 20% after the consolidation of its existing 16,096,084 issued and outstanding common shares with the 64,384,296 newly issued shares of Wi2Wi held by shareholders as of January 28, 2013. The fair value of the consideration in the Transaction represents 20% of the estimated fair value of Wi2Wi shares of \$29.4 million based on the transaction price of the recent private placement sales of Wi2Wi common stock of \$0.10 per share before the amalgamation and conversion.

All securities convertible into common shares of Wi2Wi were exchanged or converted into an equivalent number of ISE securities in accordance with the conversion ratio. Of the 2,500,000 preferred shares of Wi2Wi indicated below, the conversion of 1,000,000 (Series A) shares is under dispute between members of the Wi2Wi Board of Directors and the holder of these shares, who was a former officer of Wi2Wi. The financial statements have been prepared assuming that the Series A preferred shares are not convertible and therefore are deemed cancelled. The 1,500,000 (Series B) shares have also been cancelled.

The conversion ratio was 4.56 Wi2Wi common shares for each ISE common share (the Conversion Ratio). The Conversion Ratio resulted in the following securities as at March 31, 2013:

As at March 31, 2013	Wi2Wi Before Conversion	New ISE After Conversion	Existing ISE	Total After Conversion
Common Shares	293,756,229	64,353,699	16,096,084	80,449,227
Preferred Shares	2,500,000	30,597	-	31,153
Total Shares	296,316,629	64,384,296	16,096,084	80,480,380
Warrants	11,225,000	2,460,249	-	2,460,249
Stock Options	47,891,666	10,496,698	1,535,000	12,031,698

In addition, there are 16,096,084 Preferred Shares that were issued to holders of common shares of ISE upon the closing of the Transaction. Each Preferred share will automatically convert into common shares on the date that is five years and one day after the date such preferred shares were issued, based on an exchange ratio of one-millionth (0.000001) of a common share for each Preferred Share converted, a total of 16 common shares.

Upon the closing of the Transaction the Company issued 876,704 warrants (4,000,000 warrants pre-conversion) to its investment banker. The warrants have an exercise price of \$0.57 per the agreement (\$0.125 per share pre-conversion). The warrants vested immediately upon grant and expire in three years. Fair value of warrants was determined to be \$131 and is included in share listing expense.

Since the estimated fair value of the ownership interests in the combined company to be held by ISE shareholders exceeded the fair value of net assets being acquired by Wi2Wi and in accordance with IFRS 2, such excess of \$2,856 is recorded as share listing expense as of January 28, 2013, and then transferred to deficit.



# Wi2Wi Corporation

## Notes to Unaudited Condensed Consolidated Interim Financial Statements (All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

The computation of share listing expense is as follows:

Fair value of consideration for ISE ownership interest	\$	5,875
Fair value of ISE net assets:		
Cash		3,279
Prepaid expense and deposits		64
Accounts payable		(324)
Investments		1,977
Payable to ISE shareholders		(1,977)
Total fair value of ISE net assets		3,019
Share listing expense		2,856
Fair value of warrants issued to investment banker		131
Total share listing expense		\$2,987

### 2. *Going Concern*

The accompanying condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities in the normal course of business. The Company has experienced recurring losses and has a working capital deficit at March 31, 2013 and December 31, 2012 of \$953 and \$2,634, respectively. This, among other factors, raises substantial doubt about the ability of the Company to continue in existence as a going concern and the appropriateness of the use of the going concern assumption. Management's plans with regard to these matters are discussed below.

The application of the going concern basis is dependent on a number of factors, but ultimately on the Company's ability to generate future profitable operations. Management is of the opinion that sufficient working capital will be obtained from a combination of future cash flows from operations, bank borrowings and future equity raises to meet the Company's liabilities and commitments as they become payable. The Company will continue to be dependent on additional financing in the future until such time as the Company becomes profitable. There can be no assurances that such additional financing will be available or that the Company will ultimately achieve profitability.

These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary to the carrying value of assets, the reported revenues and expenses, and the balance sheet classification used.

### 3. *Significant Accounting Policies*

#### *Inventories*

Inventories are recorded at the lower of average cost or net realizable value. As a supplier of system-in-package and modular products, inventory cost consists of amounts paid to the Company's contract manufacturers for product that is drop shipped to customers or shipped to the Company's location in San Jose, California. Charges for excess and obsolete inventory are recorded based on inventory age, shipment history and forecasted demand. The markets that the Company serves can be volatile and actual results may vary from the Company's forecast or other assumptions, potentially impacting the Company's inventory valuation and resulting in material effect on its gross margin.

The Company sells product directly to end customers as well as through distributors. Inventory at distributor locations is reported as deferred inventory costs and is recognized as cost of goods sold once the distributors have sold the product to a third party and revenue had been recognized.

# Wi2Wi Corporation

## Notes to Unaudited Condensed Consolidated Interim Financial Statements (All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

---

### **Property and Equipment**

Property, plant and equipment are stated at cost. Depreciation and amortization are computed using the straight line method over estimated useful lives of three years for computer equipment, software, and leased furniture and fixtures, and five years for machinery and equipment and non-leased office furniture and fixtures. Useful lives and amortization methods are reviewed annually.

### **Impairment of Non-Financial Assets**

In accordance with IAS 36, *Impairment of Assets*, non-financial assets to be held and used by the Company are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, the Company must estimate the difference between the carrying amount of the asset and the recoverable amount. That difference is the impairment loss. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Impairment charges can be subsequently reversed if they no longer exist but cannot exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized in the prior years. No impairment charges have been recorded for any of the periods presented.

### **Financial Instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. All financial instruments are initially measured at fair value. Subsequent measurement is then based on the financial instruments being classified into one of five categories: fair value through profit and loss (FVTPL), held to maturity, loans and receivables, available for sale and other liabilities. The Company has designated its financial instruments into the following categories applying the indicated measurement methods:

Financial Instrument	Category	Measurement Method
Cash	Loans and receivables	Fair value
Investments	Investments	Fair value
Accounts receivable	Loans and receivables	Fair value
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Bank borrowings	Other liabilities	Amortized cost
Senior bridge loans	Other liabilities	Amortized cost
Warrant liability	FVTPL	Fair value

Investments are initially recognized at fair value. As the investment that the Company holds is related to the Preferred Shares, it is revalued each quarter with any adjustment increasing or decreasing the value attributable to the Preferred Shares (Note 4)

Loans and receivables are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method, less provision for impairment. The Company will assess at each reporting period whether a financial asset is impaired. An impairment loss, if any, is included in income or loss. Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable. The amount of such a provision is calculated as the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported on a net basis, such provisions are recorded in a separate allowance account with the loss being recognized within selling, general and administrative expenses in the Consolidated Statements of Loss and Comprehensive Loss. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated allowance.

Other liabilities are measured at fair value on initial recognition, net of transaction costs and subsequently at amortized cost using the effective interest rate method.

# Wi2Wi Corporation

## Notes to Unaudited Condensed Consolidated Interim Financial Statements (All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

---

Financial instruments classified as FVTPL are measured at fair value on initial recognition and are subject to remeasurement at each balance sheet date with any changes in fair value being recognized in the Consolidated Statements of Loss and Comprehensive Loss.

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments except for the potential change in the market value of the investment in Legend. That change cannot be determined until the dates on which the revaluation is measured.

### **Income Taxes**

The Company accounts for income taxes under IAS 12, *Income Taxes*, which requires an asset and liability approach to recording deferred taxes. Deferred tax assets and liabilities are recognized for the deferred 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 carry forwards. Deferred tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are recognized to the extent that the realization of the related tax benefit through future taxable income is probable. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the substantive enactment date.

Management periodically reviews the Company's provision for income taxes and deferred tax assets and liabilities to determine whether the overall tax estimates are reasonable. When management performs its assessments, it may be determined that an adjustment is required. These adjustments, if required, may have a material impact on the Company's consolidated financial position and results of operations.

### **Foreign Currency Translation**

The Company's presentation and functional currency is the US dollar. The functional currency of the Company's self-sustaining foreign subsidiary, Wi2Wi Inc., is its local currency of US dollars.

There were no gains or losses arising from transactions denominated in currencies other than the functional currency for the periods ended March 31, 2013 and 2012.

### **Revenue Recognition**

The Company generates revenue through direct sales to its customers as well as through distributors. In accordance with IAS 18, *Revenue*, the Company recognizes revenue when the following fundamental criteria are met: (i) the significant risks and rewards of ownership of the goods have transferred to the buyer; (ii) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (iii) the amount of revenue can be measured reliably; (iv) it is probable that the economic benefits associated with the transaction will flow to the entity; and (v) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Company also sells product to distributors. The Company does not recognize revenue until its distributors have sold the product to a third party, and the right of return or price protection has lapsed.

### **Research and Development**

Pursuant to IAS 38, *Intangible Assets*, research costs are expensed and development costs are capitalized as an asset if certain criteria are satisfied. The development costs incurred in the periods ended March 31, 2013 and 2012 did not satisfy the criteria and therefore were expensed.

### **Share-Based Payments**

The Company has a stock option plan and issues stock options to directors, employees and other service providers. This fair value of options granted is measured at the grant date, using the Black-Scholes option pricing model, and is recognized over the

# Wi2Wi Corporation

## Notes to Unaudited Condensed Consolidated Interim Financial Statements (All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

---

vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. All share-based remuneration is ultimately recognized as an expense in the Consolidated Statement of Loss and Comprehensive Loss with a corresponding credit to contributed surplus. Upon exercise of share options, the proceeds received, net of any directly attributable transaction costs, and the amount originally credited to contributed surplus are allocated to share capital. Where equity instruments are granted to persons other than employees, the consolidated statement of comprehensive loss is charged with the fair value of goods and services received.

Compensation costs attributable to stock options granted are measured at fair value at the date of grant and are expensed over the vesting period, using a graded vesting schedule, with a corresponding increase in contributed surplus.

### **4. New Accounting Policies**

None of the new standards, interpretations and amendments, effective for the first time from January 1, 2012, have had a material effect on the consolidated financial statements. The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following pronouncements may have an impact on the Company:

As of January 1, 2015, the Company will be required to adopt IFRS 9, *Financial Instruments*, which is the result of the first phase of the IASB project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. Portions of the standard remain in development and the full impact of the standard on the Company's Consolidated Financial Statements will not be known until the project is complete.

In May 2011, the IASB released the following new standards: IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangements*, IFRS 12, *Disclosures of Interests in Other Entities* and IFRS 13, *Fair Value Measurement*. Each of these standards is to be adopted for fiscal years beginning January 1, 2013 with earlier adoption permitted. A brief description of each new standard follows below:

- i. IFRS 10, *Consolidated Financial Statements*, supersedes IAS 27, *Consolidation and Separate Financial Statements*, and SIC-12, *Consolidation – Special Purpose Entities*. This standard provides a single model to be applied in control analysis for all investees including special purpose entities.
- ii. IFRS 11, *Joint Arrangements*, divides joint arrangements into two types, joint operations and joint ventures, each with their own accounting model. All joint arrangements are required to be reassessed on transition to IFRS 11 to determine their type to apply the appropriate accounting.
- iii. IFRS 12, *Disclosure of Interests in Other Entities*, combines in a single standard the disclosure requirements for subsidiaries, associates and joint arrangements as well as unconsolidated structured entities.
- iv. IFRS 13, *Fair Value Measurement*, defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company adopted these standards on January 1, 2013 as required. The adoption of each of these standards did not have a material impact on the consolidated financial statements.

### **5. Critical Accounting Estimates and Judgments**

The Company makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The

# Wi2Wi Corporation

## Notes to Unaudited Condensed Consolidated Interim Financial Statements (All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### Product Warranty

The Company offers a standard one-year product replacement warranty. The Company assesses the level and materiality of return material authorizations and determines the estimated returns for defective products at the time revenue is recognized. On occasions, management may determine to accept product returns beyond the standard one-year warranty period. In those instances, the Company accrues for the estimated cost at the time the decision to accept the return is made. As a consequence of the Company's standardized manufacturing processes and product testing procedures, returns of defective product are infrequent and the quantities have not been significant. Accordingly, historical warranty costs have not been material. Actual claim costs may differ from management's estimates.

### Inventories

Inventories are recorded at the lower of average cost or net realizable value. Charges for excess and obsolete inventory are recorded based on inventory age, shipment history and forecasted demand. The Company's business is subject to technology changes which may cause selling prices to change rapidly. Moreover, the markets that the Company serves can be volatile and actual results may vary from the Company's forecast or other assumptions, potentially impacting the Company's inventory valuation and resulting in material effect on its gross margin.

### Useful Lives of Depreciable Assets

Management reviews the useful lives of depreciable assets including property, plant and equipment at each reporting date based on the expected utility of the assets to the Company. Actual results, however, may vary due to technical obsolescence. Details of the property and equipment useful lives are provided in Note 3.

### 6. Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The Company has a bad debt reserve of \$25 at March 31, 2013 and December 31, 2012, to cover potential doubtful accounts.

### 7. Inventories

		March 31, 2013	December 31, 2012
Inventories consists of:			
Raw materials and work in progress (gross)	\$	486	\$ 153
Inventory write-down		-	(3)
Raw materials and work in progress (net)		486	150
Finished goods (gross)		0	8
Inventory write-down		-	-
Finished goods (net)		-	8
Total	\$	486	\$ 158

### 8. Property and Equipment, Net

	Machinery and Equipment	Computer Equipment and Software	Furniture and Fixtures	Total
Cost				
Balance as of December 31, 2012	\$ 383	\$ 88	\$ 75	546
Additions	44	-	-	44

# Wi2Wi Corporation

## Notes to Unaudited Condensed Consolidated Interim Financial Statements (All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

<b>Balance as of March 31, 2013</b>	<b>\$</b>	<b>427</b>	<b>\$</b>	<b>88</b>	<b>\$</b>	<b>75</b>	<b>590</b>
<b>Accumulated Depreciation</b>							
Balance as of December 31, 2012	\$	308	\$	76	\$	72	456
Additions		10		2		1	13
<b>Balance as of March 31, 2013</b>	<b>\$</b>	<b>318</b>	<b>\$</b>	<b>78</b>	<b>\$</b>	<b>73</b>	<b>469</b>
<b>Net Book Value</b>							
At December 31, 2012	\$	75	\$	12		3	90
At March 31, 2013	\$	109	\$	10		2	121

Depreciation expense for the three-months ended March 31, 2013 and 2012 was \$13, and \$13, respectively, and is classified as selling, general and administrative expense in each period.

### 9. Investment in Legend Oil and Gas

In September 2011, ISE entered into an agreement to sell certain assets to Legend Energy Canada Ltd., a subsidiary of US based Legend Oil and Gas Ltd. (Legend). ISE assets upon completion of the Transaction with Wi2Wi included an investment in Legend representing partial consideration for the assets sold to Legend. ISE received 3,552,516 Legend shares, which are traded on the "Over the Counter Bulletin Board", and which were registered under the US Securities Act effective March 17, 2012. The number of shares were to be adjusted if the volume weighted average trading price of Legend shares were to fall below certain price thresholds at the end of certain periods, primarily within two months of the registration becoming effective. The agreement also granted ISE a PUT option at the original issue price of \$2.00 per share. As the trading price of Legend has fallen, the PUT has not been exercised.

At the end of the restriction period, May 17, 2012, ISE had received 21,350,247 additional shares under the trading price provision due to a sharp drop in the share price of Legend, (\$2.20 in November 2011, to \$0.28 on May 17, 2012) bringing the total number of shares owned by ISE of Legend to 24,902,763 or 32.5% of the outstanding shares. During 2012 1,527,516 shares were sold for net proceeds of \$150. At December 31, 2012, ISE had 23,375,247 shares. There were no further sales subsequent to December 31, 2012. As of January 28, 2013, the date of the RTO transaction close, the 23,375,247 shares were revalued at \$0.078 per share resulting in a carrying value of \$1,977 inclusive of the proceeds of sale of shares. The additional shares received are subject to sales restrictions. At March 31, 2013 the trading price had fallen to \$0.046 with a resultant value of \$1,075, plus the cash generated on the sale of shares for a total value of \$1,225.

Under the terms of the Arrangement Agreement between Wi2Wi and ISE, the proceeds from the Legend shares are solely for the benefit of the existing shareholders of ISE. This was achieved as part of the RTO by issuing to the shareholders of ISE, one common share of the post-merger entity, and one preferred share. All proceeds from the sale of Legend shares will be for the benefit of the preference shareholders by way of dividend and accordingly the Company has recorded a corresponding liability for the equivalent amounts owing to ISE preferred stock holders.

The investment is accounted for under the fair value method since the combined company will not have significant influence over Legend.

Subsequent to March 31, 2013, the Company and Legend Oil and Gas Ltd. (Legend), reached an agreement to terminate the PUT right the Company had over the shares held by it in Legend. As a condition of the above, Legend is obligated to file a Form S-1 that will release the trading restriction on the 21,350,247 shares that were issued under the value adjustment conditions. Once such filing has been approved, all the Legend shares will become freely tradable.

# Wi2Wi Corporation

## Notes to Unaudited Condensed Consolidated Interim Financial Statements (All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

---

### 10. Debt

#### **Senior Bridge Loan Offering**

In May 2012 the Company commenced an offering of Senior Bridge Loans of up to \$2.0 million to qualified investors. Borrowings under the offering bore interest at 10% - 12% per annum, payable at the end of the six month term. In connection with the offering, the Company issued detachable warrants to purchase shares of the Company's common stock (see Note 15).

The Senior Bridge Loans were not originally convertible into common stock. However, as a condition of closing the Transaction which is discussed in Note 15, \$500 of promissory notes issued pursuant to the Senior Bridge Loan Facility were required to be converted into Wi2Wi Common Shares at a price of \$0.10 per share. Holders of \$525 of the Senior Bridge Loan Notes had their notes converted into 5,250,000 Wi2Wi common shares on December 19, 2012. During the three month period ended March 31, 2013, the remaining \$630 of the loans outstanding at December 31, 2012 were repaid. At March 31, 2013 there were no notes outstanding.

#### **Note Payable - International Sovereign Energy Corp**

In connection with the RTO transaction (see Note 2), ISE advanced to the Company \$300 (Canadian dollars) in the form of a secured bridge loan on December 12, 2012. The loan bore interest at 12% per annum and was payable on the earlier of demand by ISE or January 30, 2013. The loan was secured by the assets of Wi2Wi, Inc. and a pledge of the common shares of Wi2Wi, Inc. held by Wi2Wi.

During the period ended March 31, 2013 a further sum of \$2,000 (Canadian dollars) was advanced by ISE to Wi2Wi.

The entire loan was eliminated on consolidation following completion of the Plan of Arrangement.

#### **Note Payable – Norton Rose**

As a condition of closing of the Plan of Arrangement the Company converted \$500 of the amount owing to Norton Rose into an unsecured promissory note bearing interest at 10% per annum and due in January 2014.

### 11. Related Parties

A former Company director is a senior partner of Norton Rose Canada LLP (formerly Ogilvy Renault LLP). The Company has used Norton Rose for legal services and advice and continues that firm for such services. The Company incurred expenses of \$160 and \$37 in the periods ended March 31, 2013 and 2012, respectively. The Company owed Norton Rose \$1,036 and \$1,124 as of March 31, 2013 and December 31 2012, respectively. On the closing of the RTO transaction, \$500 of the Norton Rose payable was deferred under a promissory note arrangement (see Note 15).

As a condition of approval of the Plan of Arrangement, an amount of \$500 was placed in Escrow, which will be released on the Company obtaining a Line of Credit exceeding \$2 million with a Commercial Bank. This amount was placed in Escrow by two Directors as loans bearing interest at the rate of 10% per annum. Funds raised by the Company as a result of an equity issue will replace the Escrow funds and the amounts owing to the Directors will then be repaid. Interest has been paid currently as of March 31, 2013.

The Company incurred expenses related to travel by directors of \$16 and \$0 in the periods ended March 31, 2013 and March 31, 2012, respectively. The Company owed directors \$26 and \$115 as of March 31, 2013 and December 31, 2012, respectively.

On March 7, 2013 a director of the company was appointed Interim Chief Financial Officer of the Company. He is to receive an honorarium of \$15 per month commencing March 2013 until such time that a full time Chief Financial Officer is appointed. \$15 of such honorarium is recorded in these financial statements for the period ended March 31, 2013 and is unpaid at that date.

# Wi2Wi Corporation

## Notes to Unaudited Condensed Consolidated Interim Financial Statements (All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

### 12. Accrued Liabilities

Accrued liabilities consist of:

	March 31, 2013	December 31, 2012
Accrued compensation	\$ 288	\$ 330
Accrued interest	45	90
Other accrued expenses	190	-
Advances from shareholders	94	94
	\$ 617	\$ 514

### 13. Commitments and Contingencies

#### Leases

In 2005, the Company entered into a noncancelable building lease with an initial term of 27 months, and one two-year renewal option. The lease requires the Company to pay its pro-rata share of all executory costs such as building maintenance and insurance. In September 2011, the Company extended the lease and re-negotiated the lease terms. The current lease continues through November 2013.

Rental expense for operating leases during the three-months ended March 31, 2013 and 2012 were \$31 and \$31, respectively.

The future minimum lease payments under the noncancelable operating lease which expires in November 2013 is \$83.

#### Legal Proceedings

A former company executive has asserted a claim of \$3,950 against certain Directors of the Company for damages incurred as a result of the claimed lost value of Plaintiff's investment, including Class B Convertible Preferred Shares. The defendants have filed a Defense and examinations on discovery have taken place. The Company is not a party to this matter and has not taken a position as to the Claim. The defendants have vigorously contested the Claim. At this time it is not possible to evaluate the likelihood of an unfavorable outcome. On completion of the Plan of Arrangement, the Class B Preferred shares were cancelled.

From time to time, third parties have asserted, and may in the future assert claims against the company related to disputes in the normal course of business. At this time there are no such claims against the company which are expected to be material to the company's results of operations or financial condition.

### 14. Share Capital

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Company considers the items included in the interim consolidated statements of changes in equity as capital. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, sell assets to reduce debt or return capital to shareholders. The Company is not subject to externally imposed capital requirements. There have been no changes in the Company's definition of capital or capital management objectives during the periods ended March 31, 2013 and December 31, 2012.



# Wi2Wi Corporation

## Notes to Unaudited Condensed Consolidated Interim Financial Statements (All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

After the closing of the Transaction, the Company is authorized to issue an unlimited number of common shares without par value.

### 15. Share Based Payments

#### Stock Option Plan

At March 31, 2013 the Company had only one stock option plan, the Wi2Wi Corporation Stock Option Plan (the Plan).

Options are granted at an exercise price not less than the fair value of the Company's shares. Options granted to employees generally vest over periods of up to 48 months as determined by the board of directors and vest either under a 12 month cliff vest followed by a 36-month vesting schedule or vest on the third anniversary of the date of issue. Options granted to the Company's directors and certain consultants vest fully upon issuance or vest over 1-2 years. Options generally expire seven years from grant date.

The following table summarizes the stock option activity as of March 31, 2013:

	Shares	Weighted Average Exercise Price
Options outstanding at December 31, 2012	47,891,666	\$0.06
Converted at date of the Plan of Arrangement	10,496,698	0.30
ISE options at date of the Plan of Arrangement	1,535,000	0.68
Options outstanding at March 31, 2013	12,031,698	\$0.35

The following table summarizes stock options outstanding and exercisable as of March 31, 2013:

Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Number Exercisable
\$0.228	5,998,116	5.2	5,998,116
0.342	2,284,909	7.0	2,284,909
0.430	520,000	3.6	173,333
0.456	2,213,673	7.8	1,593,845
0.570	520,000	2.5	346,667
0.600	100,000	1.8	100,000
0.700	50,000	0.4	16,667
\$1.250	345,000	0.5	345,000
	12,031,698		10,858,537

The fair value of each employee option is estimated on the date of grant using the Black-Scholes option valuation model and expensed using a graded-method over the related service period. The Company estimates its expected stock price volatility using an average historical volatility of a group of similar publicly traded companies over a period equal to the expected term of options granted. The Company estimates the expected term of options granted as being the time from grant to vest plus the midpoint of the time from vest to option expiration. The risk-free interest rate for periods within the contractual life of the option is based on U.S Treasury zero-coupon rates for the estimated holding period.

No options were granted during the three-months ended March 31, 2013.

# Wi2Wi Corporation

## Notes to Unaudited Condensed Consolidated Interim Financial Statements (All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

Stock compensation expense is charged to research and development and selling, general and administrative, as follows:

	Three months ended March 31,	
	2013	2012
Research and development	\$ 3	\$ 9
Selling, general and administrative	13	50
	\$ 16	\$ 59

### 16. Warrants

As a condition of closing the merger, a holder of Wi2Wi warrants agreed to a modification to the terms of its 1,450,000 (pre amalgamation) warrants whereby it agreed to waive the down round protection feature. The warrants as originally issued contained a provision whereby the exercise price was the lower of \$0.10 (\$0.075 for one of the 2010 issuances) or the issuance price of the next equity financing round. Due to this down round protection feature, the warrants were classified as liabilities at December 31, 2012. Upon the modification of terms, the fair value of the 1,450,000 warrants, calculated as \$67, was reclassified from liabilities to shareholders' equity.

The following table summarizes the warrants issued by the Company as of March 31, 2013:

	Warrants	Weighted Average Exercise Price
Warrants outstanding at December 31, 2012	7,225,000	\$ 0.14
Conversion on Completion of Plan of Arrangement	1,583,545	0.63
Issuance of Broker Warrants	876,704	0.57
<b>Warrants outstanding at March 31, 2013</b>	<b>2,460,249</b>	<b>\$ 0.61</b>

Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Number Exercisable
\$0.34	87,670	5.00	87,670
0.46	65,752	5.00	65,752
0.46	164,382	6.00	164,382
0.57	876,704	3.00	876,704
0.68	328,764	0.66	328,764
0.68	197,258	0.70	197,258
0.68	109,588	0.80	109,588
0.68	54,794	0.90	54,794
0.68	383,558	1.00	383,558
0.68	191,779	1.20	191,779
	2,460,249	2.20	2,460,249

# Wi2Wi Corporation

## Notes to Unaudited Condensed Consolidated Interim Financial Statements (All dollar amounts in thousands of U.S. dollars, unless otherwise noted)

76,240,533

### 17. Loss Per Share

The basic and diluted loss per share has been calculated based on 80,480,380 and 76,240,533 weighted average number of common shares outstanding during the three month periods ending March 31, 2013 and March 31, 2012 were \$0.05 and \$0.01, respectively. 12,031,698 shares were not included in the calculation of diluted loss per share because they are anti-dilutive for the periods presented.

### 18. Expenses by Nature

	Three months ended March 31,	
	2013	2012
Compensation	\$ 636	\$ 518
Depreciation and amortization	13	13
Facility related expenses	42	35
Professional and consulting services	1,010	387
Other costs	89	15
	\$ 1,790	\$ 968

### 19. Business Risks and Concentrations

The main risks that could adversely affect the company's financial assets, liabilities or future cash flows are liquidity risk and credit risk.

#### Liquidity Risk

The Company has significant liquidity risk as it has experienced recurring losses and had working capital deficits at March 31, 2013 and December 31, 2012 of \$519 and \$2,634, respectively. These matters, among others, raise substantial doubt about the ability of the Company to continue in existence as a going concern. See Note 2 for further discussion.

#### Credit Risk

The Company had significant exposure to several customers as of March 31, 2013 and 2012, and December 31, 2012, as follows:

Customer	A/R %		Revenue %	
	March 31, 2013	December 31, 2012	March 31, 2013	March 31, 2012
A	37%	26%	27%	39%
B	14%	-	10%	20%
C	19%	46%	22%	11%
D	0%	-	22%	0%
E	11%	20%	-	10%

# Wi2Wi Corporation

## Notes to Unaudited Condensed Consolidated Interim Financial Statements *(All dollar amounts in thousands of U.S. dollars, unless otherwise noted)*

---

### **20. Fair Value of Financial Assets and Liabilities**

The Company's financial instruments as at March 31, 2013 include cash, accounts receivable, investments and accounts payable. The carrying values of these financial instruments approximate their fair value due to the relatively short periods to maturity of these items or because they are receivable or payable on demand. The fair value of amounts due to related parties cannot be determined due to the related party nature of the transactions. Investments are valued at the trading price as of March 31, 2013.

When applicable, the Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities,
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly, and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

### **21. Subsequent event**

Subsequent to March 31, 2013, the Company and Legend Oil and Gas Ltd. (Legend), reached an agreement to terminate the Put right the Company had over the shares held by it in Legend. As a condition of the above, Legend is obligated to file a Form S-1 that will release the trading restriction on the 21,350,247 shares that were issued under the value adjustment conditions. Once such filing has been approved, all the Legend shares will become freely tradable.