



Wi2Wi

Management Discussion and Analysis

The following management discussion and analysis (“MD&A”) is a review of operations, current financial position and outlook for Wi2Wi Corporation (“Wi2Wi” or the “Company”). It is dated May 30, 2013 and should be read in conjunction with the unaudited interim consolidated financial statements for the three months ended March 31, 2013 and 2012 and the audited consolidated financial statements as at and for the years ended December 31, 2012 and December 31, 2011 all of which are available on SEDAR at www.sedar.com.

It should also be read in conjunction with the Joint Management Information Circular (“JMIC”) of Wi2Wi and International Sovereign Energy Corp (“ISE”), describing the plan of arrangement under the *Canada Business Corporations Act* (the “Arrangement or RTO”) pursuant to which Wi2Wi completed the reverse takeover of ISE and received final court approval on January 28, 2013.

The Arrangement resulted in the amalgamation of ISE and Wi2Wi to form a new public issuer under the name “Wi2Wi Corporation” that is carrying on Wi2Wi’s current business and operations. The Company received final regulatory approval of the Arrangement from the TSX Venture Exchange (the “TSXV”) on February 4, 2013 and commenced trading under the symbol “YTY” on February 5, 2013.

These financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and are derived from and should be read in conjunction with:

- 1) Wi2Wi’s audited consolidated financial statements as at and for the year ended December 31, 2012;
- 2) ISE’s audited annual financial statements as at December 31, 2012 and December 31, 2011, and for the year ended December 31, 2012 and December 31, 2011.
- 3) The Management Information Circular detailing the transactions.

All the above are available on Sedar at www.sedar.com

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 unaudited consolidated interim 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.

All amounts herein are in US dollars, unless otherwise stated.

As a result of the Arrangement Wi2Wi is now in a position to take advantage of the benefits of the amalgamation by accelerating its program of development, manufacture and sale of its products that is or will be used in the fast growing connected device marketplace, the machine to machine (M2M) market, in the industrial, medical, automotive, government and other market segments.

The unaudited interim statement of financial position and statements of loss incorporate the following assumptions and adjustments:

The RTO

Wi2Wi is considered to be the accounting acquirer for accounting purposes in connection with the Transaction as the former shareholders of Wi2Wi control the consolidated group subsequent to the Transaction. For accounting purposes, the acquisition does not meet the definition of a business and is thus considered to be outside the scope of IFRS 3 as ISE had discontinued all of

its prior business operations and its activities which, prior to the RTO, were limited to the management of cash resources, investment and the maintenance of its listing.

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. 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 most 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 2,700,000 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 preferred shares are not convertible. The 1,500,000 (Series B) shares have also been cancelled. The 200,000 (Series C) shares were converted into 139,600 common shares of Wi2Wi prior to completion of the Transaction.

The conversion ratio is 4.56 Wi2Wi common shares for each ISE common share (the Conversion Ratio). The Conversion Ratio results 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	80,449,783
Preferred Shares	2,700,000	30,597	-	30,597
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, being 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 vest immediately upon grant and expire in three years.

The Arrangement is expected to allow the Company to increase sales of its product in 2013 and beyond; improve the gross margins on its product through larger manufacturing runs and lower the logistics costs through larger order deliveries.

The preparation of financial statements in compliance with IFRS requires management to make estimates and assumptions that have an impact on the assets and liabilities reported in the financial statements, on the disclosure of future assets and liabilities at the date of the financial statements, as well as on reported earnings and expenses during the period in question. These estimates and assumptions are based on management experience and on other assumptions and judgments that management deems to be reasonable under the circumstances. Readers are invited to refer to Note 10 of the unaudited interim financial statements for a summary of critical accounting estimates and judgments made by the Company.

The financial statements of the Company have been reviewed and approved by the Audit Committee and approved by the Board of Directors. The information that follows has taken into account all significant events that have occurred up to May 16, 2013.

Forward-Looking Statements

This MD&A includes information that is forward-looking in nature. Such statements concern the future earnings of the Company, its operations, its financial results and its financial condition. These forward-looking statements can be identified through use of expressions such as “believe”, “foresee”, “anticipate”, “estimate”, “expect” and other similar types of terms and are based on the information available at the time that they were made and on the good faith of management according to information available at this time. We wish to advise the reader that by their very nature, forward-looking statements include an element of uncertainty and the actual results may be significantly different from the assumptions and estimations described in the forward-looking statements. The actual results will be affected by numerous factors over which the Company has no influence. Such factors are not limited to those more fully described in the JMIC referred to above. Consequently, we recommend against placing undue trust in such forward-looking statements since future events and actual results may differ significantly from any forecasts. Unless otherwise stipulated under current law, the Company does not intend to update these statements to take into account new facts or future events and it makes no undertaking to do so.

Highlights of 2012

- Launched development of Dual-Band With advanced technology with target production release scheduled for the second half of 2013;
- Commenced shipment of samples of W2CBW0015, one of the world’s smallest extended-temperature WiFi & WiFi-Bluetooth SiP. Production release is scheduled for the end of the second quarter of 2013;
- Completed the development of W2CBW0016, again one of the world’s smallest industrial-temperature WiFi & WiFi-Bluetooth SiP. Production release is scheduled for the end of the third quarter of 2013
- Completed re-building the America’s sales team and network of manufacturers’ sales representatives, inclusive of eight new sales partners
- GPS Products (0008 & 0084) Production line transfer from a manufacturer in China to one in Malaysia to improve Quality & Reliability of the products.
- Major New Design Wins with Tier-1 & Key Customers, with customers’ production orders expected in late 2013 & 2014.
- Plan of Arrangement approved by shareholders of Wi2Wi and ISE. See the JMIC, which is available on Sedar at www.sedar.com for further description.
- During the First Quarter of 2012, the financing arrangements with Bridge Bank were discharged and later in 2012 were partially replaced by funds raised under a note and warrant program. A portion of these notes were converted into equity as more fully described the Financial Statements at December 31, 2012.

Highlights of 2013

- Completed the Plan of Arrangement and amalgamated Wi2Wi and ISE to form Wi2Wi Corporation on January 28, 2013.
- Listed with the TSXV under the symbol YTY, commencing trading on February 5, 2013.
- Discharged \$630 of the Bridge loans that were outstanding at December 31, 2012.
- Continued the W2CBW0019 development of Dual-Band (2.4 GHz & 5 GHz) With advanced technology and a target production release scheduled for the second half of 2013;
- Continued with the development of Serial WiFi With advanced Microcontroller technology together with Wi2Wi’s single-band (2.4GHz) 0015 WiFi with target production release scheduled for the second half of 2013.
- Continued the process for completion of regulatory certification and production-readiness of W2CBW0016.
- Continuation of Major New Design Wins with Tier-1 & Key Customers, with customers’ production orders expected in late 2013 & 2014.
- As of March 2013, The Company had 59 customers and 86 prospects for the 3rd Generation WiFi & WiFi-Bluetooth product (0015 & 0016).
- As of March 2013, The Company had 58 customers and 56 prospects for the 3rd Generation GPS product (0008 & 0084).
- As of March 2013, The Company had 259 customers & prospects for the above listed New 3rd Generation products compared to 78 in September 2012 for these new products, reflecting market traction and customer demand for these products

Description of the Business

Wi2Wi designs, manufactures and markets miniaturized embedded wireless connectivity solutions (incorporating both hardware and software) for premium industrial/medical, smart-home/smart building and government markets worldwide. These products and value added services provide highly integrated, multifunctional wireless sub systems for mobile applications of all forms for Machine-to Machine (M2M) portable device applications.

The company products include single and multifunctional products with 802.11, Bluetooth and GPS sub systems.

The Company does not have any manufacturing capabilities, with the manufacture and assembly outsourced to sub-contractors.

Incorporated in 2004, the Company was largely inactive until it acquired the original equipment manufacturing (OEM) products division of Actiontec Electronics in 2005.

Selected Quarterly Information

The following table presents selected quarterly financial data for the last nine quarters.

In thousands of Dollars	2013 Qrt 1 \$	2012 Qrt 4 \$	2012 Qrt 3 \$	2012 Qrt 2 \$	2012 Qrt 1 \$
Statement of results					
Revenue	1,253	665	858	938	801
Gross profit	494	246	281	295	287
Operating expenses					
Research and development	253	310	286	297	273
Selling, general and administrative	1,537	847	895	1,460	695
Net Loss before interest, income taxes and Share Listing Expense	(1,296)	(911)	(900)	(1,462)	(681)

In thousands of Dollars	2011 Qrt 4 \$	2011 Qrt 3 \$	2011 Qrt 2 \$	2011 Qrt 1 \$
Statement of results				
Revenue	1,518	1,245	907	1,260
Gross profit	565	648	271	462
Operating expenses				
Research and development	340	216	254	237
Selling, general and administrative	821	727	669	658
Net Loss before interest, income taxes and Share Issue Expense	(596)	(295)	(652)	(433)

Selected Quarterly Information – Quarter Ended March 31, 2013 and March 31, 2012

In thousands of Dollars	March 31, 2013 3 months \$	March 31, 2012 3 months \$
Statement of results		
Revenue	1,253	801
Gross Profit	494	287
Operating expenses		
Research and development	283	273
Selling, general and administrative	1,537	695
Share Listing Expenses and Interest expense	3,014	10
Net loss	(4,310)	(691)
Financial position		
Cash	29	-
Working Capital Deficit	(953)	(1,120)
Total Assets	3,469	1,231
Debt	-	151
Total Liabilities	4,301	2,306
Shareholders' Equity (Deficit)	(832)	(1,075)

Results of Operations

The unaudited condensed consolidated interim financial statements for the ended March 31, 2013 and March 31, 2012 form an integral part of this MD&A. All amounts are expressed in thousands of U.S. dollars.

Quarter ended March 31, 2013 as compared with the Quarter Ended March 31, 2012**Revenue**

Revenues for the quarter ended March 31, 2013 and March 31, 2012 were \$1,253 and \$801, respectively. Revenues increased 56% for the quarter ended March 31, 2013, compared to the same period in 2012. This is a direct result of the funds introduced from ISE, following the completion of the RTO. Funds were allocated to source product and to complete deliveries to customers.

The Company relies on its distribution network to sell its products, supported by the Wi2Wi Sales Managers and the sales representative network that has been established in North America.

The Company has not entered the low revenue, low margin market which is well supported by the large SiP manufacturers. Instead it has built its reputation on creating effective solutions geared towards the lower volume, higher revenue and higher margin markets. The Company intends to continue with this program, while exploring those potential customers that can utilize the Company's products but who, in the past have, not been approached.

As the Company introduces its software content and services it will increasingly become more of a solution provider more than it currently provides, it will aggressively review opportunities that add value to its product range, increasing its involvement in addressing customer needs by providing products, software applications and services beyond the range of the products currently being provided.

Revenue is booked and collected in the functional currency of its self-sustaining foreign subsidiary, Wi2Wi Inc., in its local currency being US dollars.

Gross Profit

Cost of revenues consists of the costs of parts; costs incurred with contract manufacturers to assemble and test the Company's products, as well as the direct and indirect costs incurred to control and test the outsourced manufacturing and supply chain.

Gross profits for the quarter ended March 31, 2013 and March 31, 2012 were \$494 and \$287, respectively.

Gross profits increased by 72% for the quarter ended March 31, 2013, compared to the same period in 2012, the result of the increase in revenue levels.

Gross margins for the quarter ended March 31, 2013 and March 31, 2012 were 39% and 36%, respectively. This is indicative of the current revenue and margin profile of the Company although short production runs and small deliveries impact product costs, assembly costs and logistics costs to get product to the manufacturing and assembly facility and then for delivery to customers.

Gross margins are expected to increase as larger production runs are contracted, with a consequent reduction in the cost of materials used in the manufacturing and assembly process.

Despite the small size of the Company's products, logistics costs are high as much of that cost relates to air shipments into and out of the Far East. Larger shipment size will reduce the per unit cost.

Research and Development Expenses

Research and development expenses consist primarily of expenses related to the design of the Company's products and development of prototypes.

Research and development expenses for the quarter ended March 31, 2013 and March 31, 2012 were \$253 and \$273, respectively. Research and development expenses are essentially the same in both periods.

The company has a forward looking program not only for upgrading its current product range, but in utilizing these, where possible, in developing further applications for key market segments, shortening the cycle from inception to delivery.

In addition, R&D efforts are directed to the ever changing world of SiP applications, including a new product embedding a micro-controller as a fully integrated system supported by appropriate software for each application to create a plug and play solution. This is another key element that will move the company ahead with its efforts and for it to build on its reputation as a solution provider to the market place.

Selling, General and Administrative Expenses (SG&A)

Selling expenses consist of sales and marketing expenses associated with efforts to market and sell the Company's products. General and administrative expenses consist of expenses for administrative personnel, professional fees, insurance and other corporate expenses.

SG&A expenses for the quarter ended March 31, 2013 and March 31, 2012 were \$1,537 and \$695, respectively. The increase for the quarter as compared to 2012 is due principally to the legal, accounting fees and other related costs associated with the RTO. In future reporting periods, these expenses will no longer be incurred. Legal expenses related to the Transaction in the quarter to March 31, 2013 were \$308. There were no corresponding expenses in the Quarter ended March 31, 2012.

Stock compensation expenses increased \$16 for the quarter ended September 30, 2012 compared to \$59 in the comparable period of 2011.

The increase in SG&A expenses in both periods was also due to higher personnel and consulting expenses. With the completion of the RTO, consultation expenses will be substantially reduced.

As mentioned, the majority of revenue is generated through the Distributor network. These Partners will hold inventory and ship to customers when orders are received through the Wi2Wi sales network or through their own infrastructure.

The Wi2Wi sales network is managed through two Sales Directors in North America, who are supported by a network of specialized representatives.

Europe and Asia is managed by a well-qualified Sales Director.

As Asia is a specialized market area, a sale representative stationed in Singapore is employed to support the programs established by the entire sales team, regardless of the originating source country of each program.

RTO accounting

Wi2Wi is considered to be the accounting acquirer for accounting purposes in connection with the Transaction as the former shareholders of Wi2Wi control the consolidated group subsequent to the Transaction. For accounting purposes, the acquisition does not meet the definition of a business and is thus considered to be outside the scope of IFRS 3 as ISE had discontinued all of its prior business operations and its activities which, prior to the RTO, were limited to the management of cash resources, investment and the maintenance of its listing.

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. 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 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.

Share Listing Expense for the quarter ended March 31, 2013 is a cost of \$2,987. There is no comparable amount in the quarter ended March 31, 2012. This amount is the difference between the net assets introduced by ISE and the value of the 20% of Wi2Wi attributable to ISE, being \$5,875.

Interest Expenses

Interest expenses for the quarter ended March 31, 2013 and 2012 were \$27 and \$10, respectively.

The increase in interest expenses for the quarter ended March 31, 2013 was due to payments on the Norton Rose loan as well as payments on the Escrow loans.

The Warrant Liability at December 31, 2012 of \$67 was reversed as the top up conditions related to warrants issued to a commercial bank was eliminated prior to completion of the Arrangement.

Liquidity and Capital Resources

As of March 31, 2013, the Company had cash of \$29 compared to \$32 as of December 31, 2012. The Company had a net working capital deficit of \$953 as of March 31, 2013 and \$2,634, as of December 31, 2012 respectively and shareholders' deficit of \$832 and \$2,611 at March 31, 2013 and December 31, 2012 respectively.

Since the Company is not generating positive cash flow from operations, it manages capital by budgeting for its working capital needs, and securing debt and equity financing in order to fund its operations.

Through December 31, 2012, \$1,155 had been received under a senior bridge loan offering which commenced in May 2012. Although the senior bridge loans were not originally convertible into common shares, as a condition of closing the Arrangement, \$500 of promissory notes issued pursuant to the senior bridge note offering had to be converted into common shares of the Company at a price of \$0.10 per common share. Holders of \$525 of the senior bridge loans converted their notes into 5,250,000 common shares of the Company on December 19, 2012. At December 31, 2012 \$630 in Senior bridge loans were outstanding, all of which were repaid subsequent to that date. At March 31, 2013 there were no Senior bridge loans outstanding.

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 closing of the Arrangement increased the capital of the Company by \$5,875, before transaction fees and other expenses, and reduced the company's working capital and shareholders' equity deficits at the time of closing. In order to satisfy certain working capital requirements prescribed by the TSXV, two directors of the Company provided secured interest bearing loans of \$500 (Canadian dollars) by way of promissory notes.

The application of the going concern basis is dependent on the continued support of the shareholders and ultimately on the Company's ability to generate future profitable operations. The Company will continue to be dependent on additional financing in the future until such time as the Company becomes profitable. See Risk Factors that the Company could face in the JMIC available on SEDAR at www.sedar.com.

Operating Activities

In the three months ended March 31, 2013, operating activities used cash of \$2,049 compared to cash used of \$746 in the same period in 2012. This is largely due to an increase in professional and consulting fee of \$633 in the period ended March 31, 2013 as compared with the same period in 2012, due to the costs related to the RTO transaction.

Investment Activities

Cash flow related to investment activities consisted of expenditures for property and equipment in the three months ended March 31, 2013 and 2012. The Company is not capital intensive as the capital expenditures were \$44 and \$9 for the three months ended March 31, 2013 and 2012 respectively.

Financing Activities

Cash proceeds from financing activities were \$2,090 in the three months ended March 31, 2013 and \$730 for the same period in 2012. The primary financing activities in the period under review were as follows:

- Net proceeds from ISE arising on consolidation of \$2,720
- offset by the reduction Senior bridge loans of \$630

Off Balance Sheet Arrangements

There were no off balance sheet transactions entered into during the period, nor are there any outstanding as of the date of this MD&A.

Related Party Transactions

One of the Company's directors is a senior partner of Norton Rose Canada LLP (formerly Ogilvy Renault LLP). The Company has used Norton Rose Canada for legal services and advice in the past and continues to use Norton Rose Canada LLP for such services. The Company incurred expenses of \$160 and \$37 in the three-months ended March 31, 2013 and 2012 respectively. The Company owed Norton Rose Canada LLP \$921 and \$1,036 as of March 31, 2013 and December 31, 2012, respectively.

As a condition of closing of the Arrangement, \$500 payable to Norton Rose will be deferred until the earlier of 14 months from the closing date or completion of a financing equal to or greater than \$2,000. Such deferred amounts will bear interest at 10% per annum. This amount is included in the \$1,036 reflected above.

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 has incurred expenses related to travel by directors of \$16 and zero in the three months ended March 31, 2013 and 2012 respectively. The Company has accrued payables of \$26 and \$115 due to the directors as of March 31, 2013 and December 31, 2012, respectively.

A Director of the Company has been appointed Interim Chief Financial Officer. He is to receive an Honorarium of \$15,000 per month, which sum was payable at March 31, 2013. There was no comparable amount in 2012.

Application of Critical Accounting Estimates

The Company's financial statements for the period ending December 31, 2011 were the first financial statements prepared in accordance with IFRS. Prior to transition to IFRS, the Company prepared its financial statements in accordance with GAAP. Details of how the transition from GAAP to IFRS affected the financial position, financial performance, and cash flows for the period ending December 31, 2011 are available on Sedar at www.sedar.com.

The significant accounting policies used by the Company and critical accounting estimates and judgements made by the Company are disclosed in Notes 3 and 5 to the unaudited consolidated interim financial statements for the quarter ended March 31, 2013 and March 31, 2012 and the in the audited financial statements for the years ended December 31, 2012 and 2011, which are available on Sedar at www.sedar.com.

Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The emergence of new information and changed circumstance may result in actual results or changes to estimate amounts that differ materially from current estimates. The following discussion identifies the critical accounting policies and practices of the Company and helps assess the likelihood of materially different results being reported.

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. 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 effects 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.

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 whether it is appropriate to accrue for estimated returns of 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.

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 and software and leased furniture and fixtures, and five years for machinery and equipment and non-leased office furniture and fixtures. Fixed assets under a capital lease are being amortized straight line over the estimated lower of the lease term or useful life of the asset. 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 fair value. If the discounted value of the future cash flows is less than the carrying amount of the asset, impairment is recognized. Impairment charges can be subsequently reversed if the value changes. 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:

<u>Financial Instrument</u>	<u>Category</u>	<u>Measurement Method</u>
Cash	Loans and receivables	Fair value
Accounts receivable	Loans and receivables	Fair value
Investment in Legend Shares	Available for sale	Fair Value
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Bank borrowings	Other liabilities	Amortized cost
Senior bridge loans	Other liabilities	Amortized cost
Convertible notes obligation	Other liabilities	Amortized cost
Warrant liability	FVTPL	Fair value

Loans and receivables are initially recognized at the 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 Statement of 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 Condensed Interim 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.

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.

The investment in Legend shares is measured at fair value and is subject to remeasurement at each balance sheet date with any changes in fair value being recognised as a reduction in the value of the amount owing to the Preferred Shareholders.

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.

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. A valuation allowance is recorded to reduce deferred tax assets when it is probable that a tax benefit will not be realized. 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 valuation allowance 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 financial position and results of operations.

Foreign Currency Translation

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

There were no gains or losses arising from transactions denominated in currencies other than the functional currency for the three month 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 Company 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 Company; 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 for 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 three and nine month periods ended September 30, 2012 and 2011, respectively, 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 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 credit 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.