



## Wi2Wi Management Discussion and Analysis

### Forward-Looking Statements:

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*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.*

### Management Discussion

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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 28, 2015 and should be read in conjunction with the unaudited condensed consolidated interim financial statements as at and for the periods ended March 31, 2015, and 2014 and audited consolidated financial statements for years ended December 31, 2014 and 2013 all of which are available on SEDAR at [www.sedar.com](http://www.sedar.com). This MD&A has been authorized for issue by the Board of Directors on May 28, 2015.

### Corporate Strategy

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Wi2Wi is a vertically integrated manufacturer provide connectivity solutions, Precision Timing Devices, Frequency Control Products and Microwave Filters to the global market. Wi2Wi’s miniaturized Wireless System-in-Package (SIP) connectivity Solutions are well accepted in the global market for Machine-to-Machine (M2M) and Internet of Things (IOT) and portable device embedded applications worldwide. Acquisition of net operating assets of Precision Devices Inc., in November 2014 enabled Wi2Wi to expand its product lines by adding Precision Timing Devices and Frequency Controllers to its existing product offering. Precision Device’s, rugged, robust and reliable High end Crystals and Oscillators, Crystal Filters, RF and Microwave Filters are widely used and well recognised in the premium markets; Industrial, Avionics, Space, Medical and Defense.

Headquartered in San Jose, California, the heart of the Silicon Valley with manufacturing operations in Middleton, Wisconsin, the industrial belt of North America, Wi2Wi provides leading-edge wireless solutions, customized Precision Timing Devices, Frequency Control Products and Microwave Filters for customer applications worldwide with substantial savings on time-to-market, cost and system-integration. Wi2Wi also leverages its technology along with tier-1 global partnerships with industry leading silicon and supply chain companies, serving a large number of Fortune-500 customers.

Wi2Wi focuses on industrial and automotive, medical, Avionics and Space, infrastructure (including smart-home/smart building) and government markets worldwide. Wi2Wi's products and value-added services provide highly integrated, rugged, robust and reliable, multifunctional wireless integration solutions, customised frequency control devices and microwave filters for customer applications globally. Wi2Wi distinguishes itself from commodity grade products, having developed products with broader temperature ranges, longer useful lives and greater robustness.

Wi2Wi’s strategic objective is to service the unique needs of each customer by providing integration solutions, thereby speeding up the customer’s design, development and manufacturing cycle.

### Overview

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These financial statements have been prepared by management, based on the accounting policies and practices consistent with those used in the preparation of Wi2Wi’s unaudited condensed consolidated interim financial statements. It is management’s opinion that these unaudited condensed consolidated interim financial statements include all adjustments necessary for the fair presentation, in all material respects, 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.

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 27, 2015.

#### Highlights of 2015:

- The Company announced on February 17, 2015 that integration of the acquired assets of Precision Devices Inc., announced on November 14, 2014 has been completed. The administrative, manufacturing and operations function for Wi2Wi has now been relocated and integrated with the Middleton location.
- The Company announced on March 2, 2015 the creation of the Microwave Business Unit. This business unit has been created to address and service the growing demand for Radio frequency (RF) and Microwave filters over many different applications in premium markets such as Avionics, Space, Medical and Defense
- The Company on March 30, 2015 announced a new line of CLC Series of Filters. The CLC Filter Series are Lumped Element (LC) Filters and offered in standard and custom packaging, including surface mount, thru-hole mounting, and connectorized packaging. The CLC Filter Series is configurable per customer's requirements and available in frequency ranges from DC to 3.5 GHz. The CLC filter series address the unique demand in the market verticals; Military, Avionics, Space, and GPS.

#### Highlights of 2014:

- The Company announced on February 27, 2014 closing of first tranche of its non-brokered private placement Offering, issuing 2,175,000 units at a price of CDN\$0.20 per Unit. On April 30, 2014, the Company received acceptance for filing documentation, the final number of shares issued amounted to 2,961,452, along with 1,480,726 warrants attached to those shares, for gross proceeds of CDN\$592.
- Continued re-building the America's sales team and network of manufacturers' representatives, including five new sales partners;
- Launched the development of high performing but low cost WiFi solutions targeting the emerging IoT space
- Launched development of Low -Energy Bluetooth module
- Most of the design win's for the 3<sup>rd</sup> Generation GPS products are entered into volume production;
- Released W2SG0025 industrial grade miniaturized fully certified GNSS module supporting GPS and GLONASS with advanced technology
- Launched the development of GNSS products supporting China
- Continuing focus on new generation wireless solution development
- August 2014, reached an agreement with one of its customers to license technology and know-how for \$2.25million. The agreement is predicated on three milestones, of which the first and second milestones have been completed and the Company has received the first payment of USD\$1.687 million. The Company completed all the milestones, by December 31, 2014, and received the final payment in January 2015.
- Entered into an agreement with the company's key distribution partner to finance procuring raw materials to facilitate the product build. Conversion of preferred shares to common shares on November 28, 2014, eliminating the obligation to preferred shareholders on amounts realised on sale of Legend shares.
- Acquired certain assets and liabilities of Precision Devices, Inc., expanding the customer base and industry sectors services by the Company
- Announced End of Life notice to customers for two legacy products

#### Selected Annual Information:

The following table sets forth selected annual information from the audited consolidated financial statements for the years ended December 31, 2014, 2013 and 2012:

Year ended In thousands of Dollars	2014 \$	2013 \$	2012 \$
Revenue	8,047	3,748	3,262
Net income (loss)	1,840	(7,391)	(4,106)
Net income (loss) per share	0.02	(0.09)	(0.07)
Total assets	9,783	2,187	1,047
Long-term debt	-	-	67

## Summary of Quarterly Results:

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

In thousands of Dollars	2015 Q1 \$	2014 Q4 \$	2014 Q3 \$	2014 Q2 \$
<b>Statement of results</b>				
Revenue	4,632	3,348	2,061	1,463
Gross profit	1,337	965	1,063	746
Operating expenses				
Research and development	221	172	202	219
Selling, general and administrative	581	1,052	661	479
Transfer of technology	-	562	1,688	-
Gain on bargain purchase	-	678	-	-
<b>Net income (loss) before interest, income taxes</b>	<b>535</b>	<b>1,008</b>	<b>1,860</b>	<b>49</b>

In thousands of Dollars	2014 Q1 \$	2013 Q4 \$	2013 Q3 \$	2013 Q2 \$
<b>Statement of results</b>				
Revenue	1,175	310	860	1,324
Gross profit	586	109	316	551
Operating expenses				
Research and development	253	260	225	262
Selling, general and administrative	732	760	713	958
<b>Net loss before interest, income taxes</b>	<b>(399)</b>	<b>(911)</b>	<b>(622)</b>	<b>(669)</b>

## Results of Operations:

The unaudited condensed consolidated interim financial statements for the periods ended March 31, 2015 and 2014 form integral part of this MD&A. All amounts are expressed in thousands of U.S. dollars.

### Quarter ended March 31, 2015 as compared with the Quarter Ended March 31, 2014:

#### Revenue

Revenues for the quarters ended March 31, 2015 and 2014 were \$4,632 and \$1,175 respectively. Revenue increase primarily due to contribution from acquisition of Precision Devices Inc.

The Company had shippable backlog of approximately \$5.9 million, for the first quarter of 2015 demonstrating a growing demand for its product.

The Company relies on direct sales as well as its global distribution network to sell its products, supported by the sales team in San Jose, Middleton, European Union and the sales representative network that has been established in North America, European Union and in Asia Pacific.

The Company has not entered the low revenue, low margin market which is well supported by the large 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 opportunities with potential customers that can utilize the Company's products. The Company products are designed to withstand larger temperature variances than the commodity market, and are built to a higher degree of robustness and for longer life cycles.

The company has a premium customer base in avionics, medical, space, infrastructure, IoT and defence. Acquisition of Precision helps the company cross selling connectivity solutions and GNSS into market segments currently not being serviced. Selling into an existing customer base will save the Company both time and money in entering new markets for connectivity solutions and GNSS.

The Company is implementing programs to increase its software solution content and services along with highly customizable hardware and other components to increasingly become more of a complete and differentiating solution provider than it has in the past. 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. The Company feels that being a full service solution provider will increase its involvement with current and future customers. By doing so, this will decrease the development cycle with the Company providing the interfaces required to connect its products more effectively with customer applications.

Shrinking the design cycle allows customers to complete their development, testing and manufacturing processes and thereby introducing their products sooner into the market place. Not only will this increase the Company's involvement with customers to a greater degree than historically, but it will enhance its reputation as a proactive solution provider with an advanced product line. These programs are being designed based on customer expectations and on the technical knowledge to be able to satisfy these expectations. Although the Company is confident that it will have the necessary resources to satisfactorily address these needs, the timing and success is dependent on various factors that could delay implementation or affect the success of any program.

The Company is experiencing growing demand for its products across multiple business segments and as of the date of this release has record backlogs. 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, 2015 and March 31, 2014 were \$1,337 and \$586, respectively. Gross profits increased by 18% for the quarter ended March 31, 2015, compared to the same period in 2014. Gross margins for the quarters ended March 31, 2015 and 2014 were 28% and 49.8%, respectively. The decrease in margin is due primarily to the precision devices historically yielding a lower margin. The Company is in process of improving manufacturing yield, increasing efficiencies, optimising manufacturing batch sizes, successful efforts in manufacturing cost reductions and retaining the ASP of the products. The process will take some time to implement and initial results are very favourable.

Gross margin is stabilised for the legacy products. As production runs increase for the new generation of products, it is possible to negotiate lower pricing for products and assembly costs, which constitutes the major portion of cost of product sold. Lower volumes than expected will have an adverse effect on the ability to achieve meaningful cost reductions. 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 quarters ended March 31, 2015 and 2014 were \$221 and 253 respectively.

Investment in R&D—Due to cash constraints, the Company had been experiencing delayed new products introduction. The Company is expediting the product development and the current investment in R&D is anticipated to pay off in late 2016 to early 2017.

The lack of increase in research and development expenses is due to limits placed on external costs, with the majority of spending being internally related. 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 develop highly customizable hardware components and customized software to service the ever changing unique needs of the premium market applications. With the acquisition of PD Middleton, the Company anticipates utilising the engineering expertise, research and the manufacturing facility available in Middleton WI to provide subsystems and systems products to the market place. 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)**

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 the sales staff and inside sales staff, who are supported by a global network of specialized representatives who are compensated based on the level of revenue they generate each quarter.

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 quarters ended March 31, 2015 and 2014 were \$581 and \$732, respectively. The significant decrease for the period ended March 31, 2015 as compared to same period in 2014 is due principally to San Jose staff reduction, control over legal, and other professional fees and other overhead costs. In 2014 the Company had undertaken a restructuring of its operations benefits of which will continue to show positive results in the future. In the second quarter 2014, the Company laid off 4 staff, (including sales staff), and 2 in the third quarter, followed by 2 more in the fourth quarter.

With addition of PD, operations, reliability testing, sales support and all administrative function has been relocated to Middleton office, which provides the opportunity to further decrease operating costs in San Jose. The functions have been transferred and integrated without increasing any overheads in the Middleton location.

Stock compensation expense was \$30 for the quarter ended March 31, 2015 compared to \$80 in the comparable period of 2014.

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 who are compensated based on the level of revenue they generate each quarter.

Europe and Asia is managed by a well-qualified Vice President of sales. As Asia is a specialized market area, a team of sale representative stationed in Hong Kong functions as manufacturer's representative to support the programs established by the entire sales team, regardless of the originating source country of each program.

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**Interest Expenses**

Interest expense for the quarters ended March 31, 2015 and 2014 were \$76 and \$17, respectively.

Interest in 2014 relates to escrow loans, secured subordinated convertible debenture and on the Norton Rose loan described in Note 12 to the unaudited interim condensed consolidated financial statements at March 31, 2015 and 2014.

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**Liquidity and Capital Resources:**

As of March 31, 2015, the Company had cash of \$1,768 compared to \$126 as of March 31, 2014. The Company had a net working capital of \$143 as of March 31, 2015 compared to working capital deficit of \$401, as of December 31, 2014 respectively and shareholders' equity of \$1,597 and \$1,128 at March 31, 2015 and December 31, 2014 respectively. In period ending March 31, 2014 the Company had a working capital deficit of \$3,019. The Company has started to generate positive cash flow from operations. The Company has managed capital by budgeting for its working capital needs, and securing debt and equity financing in order to fund its operations. However sources for capital are difficult to come by.

***Secured subordinated convertible debenture***

As part of the purchase price the Company issued a Convertible secured convertible note for \$2.5 million (the "Debenture"). The Debenture will mature on November 4, 2015 and will bear interest at the rate of 10.25% per annum payable on the maturity date of the Debenture. Precision may convert all or any part of the principal amount outstanding under the Debenture into common shares of the Company at a conversion price of CDN\$0.25 per Share, which could result in the Company issuing approximately 12 million shares dependent on the exchange rate at the time of conversion. The conversion option is considered to be a derivative because the conversion feature is in CDN\$, which is different than the Company's functional currency USD\$. Therefore, the derivative is bifurcated and recorded as its own derivative liability. A fair value measurement was completed at the time the convertible debt was issued, and FV is updated at each reporting date.

The Debenture is recorded at fair value (excluding the conversion option derivative), and this from face value is being accreted over the life of the loan with a charge to interest expense. Present value factor discount rate of 15.4% was used to determine the fair value of the Debenture.

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 and refinancing its debenture in the future until such time as the Company shows a history of profitability and resolves the litigation.

**Private Placement Programs:**

The Company announced on February 27, 2014 closing of first tranche of its non-brokered private placement Offering, issuing 2,175,000 units at a price of CDN\$0.20 (approximately \$0.18) per Unit. A Unit consist of one common share of the Company and one half of one common share purchase warrant. Each warrant will entitle the holder to purchase one additional common share of the Company at a price of CDN\$0.25 per share. The warrants will expire on April 30, 2016.

On April 30, 2014, the Company received acceptance for filing documentation, the final number of shares issued amounted to 2,706,834, along with 1,480,726 warrants attached to those shares, for gross proceeds of \$474. The value of the warrants was \$46 and the remaining \$428 was allocated to the common stock.

There are 96,614,024 Common shares issued at March 31, 2015 and 84,765,758 Common shares issued at March 31, 2014.

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**Operating Activities, Three Months ended March 31, 2015 and 2014**

In the three months ended March 31, 2015, operating activities generated cash of \$1,135 compared to cash used of \$463 in the same period in 2014.

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**Investment Activities**

Cash flow related to investment activities consisted of expenditures for equipment in the three months ended March 31, 2015 and 2014. The Company is not capital intensive as the capital expenditures were minimal for 2015 and there were no expenditures in quarter ended March 31, 2014.

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**Financing Activities**

There were no financing activities in the first quarter of 2015. Cash proceeds from a share, and debt issue were \$523 in first quarter 2014.

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**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.

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**Related Party Transactions**

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. The escrow amounts were released on February 25, and March 27, 2014.

A Director of the Company had been appointed Interim Chief Financial Officer. He receives an Honorarium of \$15 per month.

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**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. The significant accounting policies used by the Company and critical accounting estimates and judgments made by the Company are disclosed in Note 2 and 4 to the unaudited condensed consolidated financial statements for the three month period ended March 31, 2015 and 2014, which are available on Sedar at [www.sedar.com](http://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.

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**Property and Equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight line method over estimated useful lives of:

- Three years for computer equipment and software
- Five years for office furniture and fixtures
- Five to ten years for machinery and equipment
- Over the shorter of lease or estimated useful life of leasehold improvement.

Useful lives and amortization methods are reviewed annually.

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**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:

<b>Financial Instrument</b>	<b>Category</b>	<b>Measurement Method</b>
Cash	Loans and receivables	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Note receivable	Loans and receivables	Amortized cost
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
Notes payable	Other liabilities	Amortized cost
Secured convertible debenture	Other liabilities	Fair value
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 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 Income Loss and Comprehensive Income 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 re-measurement at each balance sheet date with any changes in fair value being recognized in the Consolidated Statements of Income Loss and Comprehensive Income 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.

### ***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 significant gains or losses arising from transactions denominated in currencies other than the functional currency for the three month periods ended March 31, 20015 and 2014.

### ***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 month periods ended March 31, 2015 and 2014, 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.

### ***IFRS***

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers." The new accounting standard requires an entity to apply a five step model to recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, as well as, a cohesive set of disclosure requirements that would result in an entity providing comprehensive information about the nature, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard becomes effective for reporting periods beginning on or after January 1, 2017, with early adoption permitted. The Company is currently assessing the impact of this new standard.

In July 2014, the IASB issued IFRS 9 - Financial Instruments, which replaces the earlier versions of IFRS 9 (2009, 2010, and 2013) and completes the IASB's project to replace IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 includes a logical model for classification and measurement of financial assets; a single, forward-looking 'expected credit loss' impairment model and a substantially reformed approach to hedge accounting to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Earlier adoption is permitted. The Company is currently evaluating the impact of IFRS 9 on its financial statements.

In December 2014, the IASB issued Amendments to IAS 1 - Presentation of Financial Statements. The objective of the amendments was to facilitate improved financial statement disclosures and should not require any significant change to current practices. The Company intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2016. The Company is currently evaluating the impact of Amendments to IAS 1 on its financial statement.

Reference in this MD&A are made to net loss, operating margin, earnings before interest and income taxes. The calculations of these measures can be found embedded in the MD&A.

The Company uses these non-IFRS measures as a benchmark measurement of its own operating results. We consider these non-IFRS measures to be a meaningful supplement to net earnings. We also believe these non-IFRS measures are commonly used by securities analysts, investors and other interested parties to evaluate our financial performance. While these non-IFRS measures have been disclosed herein to permit a more complete comparative analysis of the Company's operating performance, readers are cautioned that these non-IFRS measures as reported by the Company may not be comparable in all instances to non-IFRS measures as reported by other companies.

Net loss before interest and income taxes does not represent cash generated from operations as defined by IFRS and it is not necessarily indicative of cash available to fund cash needs. Furthermore, loss before interest and income taxes does not reflect the impact of a number of items that affect the net loss. Earnings before interest and income taxes are not a measure of financial performance under IFRS, and should not be considered as an alternative to measures of performance under IFRS.

The glossary of financial terms is as follows:

- Net Loss: Revenue - cost of sales - operating expenses
- Margin: Gross Profit/ revenue
- Net cash used in Operating Activities: Net Loss +/- items not affecting cash (please see consolidated statement of cash flows)



## ***Risk Factors***

The following are some of the Risk factors that the Company could face. An investment in the securities of the Company will be speculative and involve a high degree of risk.

### **Decreased Product Demand**

Demand for the Company's products will depend largely on the development and expansion of the relevant markets for embedded wireless technology. The size and rate of growth of this market may in the future fluctuate significantly based on numerous factors. These factors include the adoption of alternative technologies, the market for OEM products, capital spending levels and general economic conditions. Although the Company's products will be integrated into a variety of end user markets, demand for these end products may fluctuate or decline and hence use of the Company's products may not grow. The Company must anticipate market trends and the price, performance and functionality requirements of current and potential future customers and end-users and must successfully develop and manufacture products that meet these requirements. In addition, the Company must meet the timing requirements of these customers and must make products available to them in sufficient quantities. Additionally, end users could develop products or technologies that provide the same or similar functionality as one or more of the Company's products and render its products obsolete in their applications. The Company will rely upon relationships with customers and end-users for insights into product development strategies for emerging system requirements. The Company will generally incorporate new products into a customer's or end-user's product or system at the design stage. However, these design efforts, which can often require significant expenditures by the Company, may precede product sales, if any, by a year or more. Moreover, the value to the Company of any design win will depend in large part on the ultimate success of the customer or end-user's product and on the extent to which the system's design accommodates components manufactured by third parties. If the Company fails to achieve design wins or if the design wins fail to result in significant future revenues, its operating results would be harmed. If the Company has problems developing or maintaining relationships with customers and end-users, its ability to develop well-accepted new products may be impaired.

### **Lengthy Sales Cycle**

The Company's customers will typically perform numerous tests and extensively evaluate its products before incorporating them into their systems. The time required for the testing, evaluation and design of the Company's products into a customer's equipment can take 18 months or more. Because of this lengthy sales cycle, the Company may experience a delay between the time when it increases expenses for research and development and sales and marketing efforts and the time when it generates higher revenues, if any, from these expenditures. In addition, the delays inherent in its lengthy sales cycle raise additional risks of customer decisions to cancel or change product plans. When it achieves a design win, there can be no assurance that the customer will ultimately ship products incorporating its products. The Company's business could be materially adversely affected if a significant customer curtails, reduces or delays orders during the sales cycle or chooses not to release products incorporating the Company's products. The Company's customers are not obligated to purchase products that the Company has designed for them and may cancel their orders at any time.

### **Defects in the Company Products**

The Company's products are complex. While it will test its products, these products may still have errors, defects or bugs that are found only after commercial production has begun. The Company's customers or end-users may not purchase its products if the products have reliability, quality or compatibility problems. This delay in acceptance could make it more difficult to retain existing customers and to attract new customers. Moreover, product errors, defects or bugs could result in additional development costs, diversion of technical and other resources from The Company's other development efforts, claims by its customers or others against it, or the loss of credibility with current and prospective customers. The Company may have to spend significant amounts of capital and resources to address and fix problems in new products. The Company must continuously develop its products using new technologies to remain competitive on a cost and performance basis. Migrating to new technologies is a challenging task requiring new design skills, methods and tools and is difficult to achieve.

### **Concentrated Customer Base**

The Company will depend on a small number of customers for substantially all of its net revenue and the loss of, or a significant reduction in orders from, any of them could significantly reduce its net revenue and adversely affect its operating results. It will sell its products primarily to OEMs either directly through its internal sales force or indirectly through distributors. Certain of these customers in turn sell more broadly to multiple companies that directly address consumer demand. The markets in which it sells products are prone to significant and unpredictable changes in demand, and its product sales are directly affected by the ability of its concentrated customer base to sell their products that incorporate its products. If these products are not commercially successful or if the development or commercial introduction of such products is delayed or fails to occur as planned or forecasted, or if its customers do not consistently manage their inventory of products it sells to them, its operating results will be adversely affected. The Company expects demand from a small number of customers to continue to account for a substantial portion of its net revenue for the current fiscal year. In addition, The Company's accounts receivable tend to be concentrated with a small group of customers and it expects this to continue. Consolidation among its customers may increase its customer concentration. The loss of any of the Company's major customers could materially adversely impact its operating results and financial position.

### **Competition**

The Company will face significant competition and many of its competitors have greater resources than it will have, and thus it may be unsuccessful in competing against current and future competitors. It may also face competition from new and emerging companies that may enter its existing or future markets. Many of the Company's competitors and potential competitors have longer operating histories, greater name recognition, complementary product offerings, a larger customer base, and longer relationships with customers and distributors, and significantly greater financial, sales, marketing, manufacturing, distribution, technical, and other resources than the Company has. As a result, they may be able to respond more quickly to customer requirements, to devote greater resources to the development, promotion, and sales of its products and to influence industry acceptance of their products better than the Company can. These competitors may also be able to adapt more quickly to new or emerging technologies or standards and may be able to deliver products with performance comparable or superior to that of the Company's products at a lower cost.

### **Reliance on Third Party Distributors and Sales Representatives**

The Company has entered into relationships with distributors and sales representatives to sell its products, and the Company will be unable to predict the extent to which these partners will be successful in marketing and selling its products. Moreover, its distributors and sales representatives may also market and sell competing products. The Company's future performance will also depend, in part, on its ability to attract additional distributors or sales representatives that will be able to market and support its products effectively, especially in markets in which it has not previously distributed its products. If it cannot retain or attract quality distributors or sales representatives, its sales and results of operations will be harmed. The inability of the Company to enter into contracts with qualified individuals could have an effect on the growth of the Company's business within the aforementioned regions.

### **Loss of Key Personnel Due To Competitive Market Conditions and Attrition**

The Company's success will depend to a significant extent upon its senior management and key technical and sales personnel. The loss of one or more of these employees could have a material adverse effect on our business. The Company success will depend on its ability to attract and retain qualified technical, sales and marketing, customer support, financial and accounting, and managerial personnel. Competition for such personnel in Silicon Valley is intense, and it may not be able to retain its key personnel or to attract, assimilate or retain other highly qualified personnel in the future. In addition, it may lose key personnel due to attrition, including health, family and other reasons. The Company may experience difficulty in hiring and retaining candidates with appropriate qualifications. If the Company does not succeed in hiring and retaining candidates with appropriate qualifications, its business could be materially adversely affected.

### **Reliance on Industry Partners**

The Company will rely on industry partners including suppliers, contractors and joint venture parties in executing its business strategy and operations. As a result, the Company may be exposed to third party credit risk through its contractual arrangements with its current or future suppliers, contractors and joint venture parties. In the event that such entities fail to meet their contractual obligations to the Company, such failures could have a material adverse effect on the Company and its ability to implement its business strategy and operations.

### **Liquidity Concerns and Future Financings**

The Company will have limited financial resources and will require significant capital and operating expenditures in connection with its operations. The Company's future capital commitments will likely exceed its cash resources, which would require the Company to raise additional financing, refinance its secured subordinated convertible debenture, and resolve the litigation. The development, design and promotion of the Company's products will be very expensive, with a substantial period of time occurring before production can commence. In addition, the Company may incur major unanticipated liabilities or expenses. If additional financing is raised by the issuance of shares from the treasury of the Company, control of the Company may change and shareholders may suffer additional dilution. The ability of the Company to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Company. There is a risk that interest rates will increase given the current historical low level of interest rates. An increase in interest rates could result in a significant increase in the amount that the Company pays to service future debt incurred by the Company and affect the Company's ability to fund ongoing operations. There can be no assurance that the Company will be successful in obtaining required financing as and when needed. It may be difficult or impossible for the Company to obtain debt financing or equity financing on commercially acceptable terms. This may be further complicated by the limited market liquidity for shares of smaller companies such as the Company, restricting access to some institutional investors. Failure to obtain additional financing on a timely basis could result in delay or indefinite postponement of further development of its products. Such delay would have a material and adverse effect on the Company's business, financial condition and results of operations.

### **Protection of Intellectual Property and Proprietary Rights**

The Company's future success and competitive position depends in certain part upon its ability to obtain and maintain proprietary technology used in its principal products. Currently, it has limited protection of its intellectual property in the form of patents. Its existing or future patents may be invalidated, circumvented, challenged or licensed to others. The rights granted thereunder may not provide competitive advantages to the Company. In addition, the Company's current and future patent applications may not be issued with the scope of the claims sought by it, if at all. Furthermore, others may develop technologies that are similar or superior to the Company's technology, duplicate the Company's technology or design around the patents owned or licensed by it. In addition, effective patent, trademark, copyright and trade secret protection may be unavailable or limited in foreign countries where the Company may require protection. The Company cannot be sure that steps taken by it to protect its technology will prevent misappropriation of the technology.

The Company may from time to time receive notifications of claims that it may be infringing patents or other intellectual property rights owned by third parties.

#### **Intellectual Property Litigation**

The Company may become involved with costly and lengthy litigation involving its patents and other intellectual property, which could subject it to liability, require it to indemnify customers or end-users, require it to obtain or renew licenses, stop selling its products or force it to redesign its products. Litigation involving patents and other intellectual property is widespread in the high-technology industry where a number of companies and other entities aggressively bring numerous infringement claims to assert their patent portfolios. These claims could result in litigation and/or claims for indemnification, which, in turn, could subject the Company to significant liability for damages, legal fees and costs. Any potential intellectual property litigation also could force the Company to do one or more of the following:

- stop selling, offering for sale, making or having made products or technology that contains the allegedly infringing intellectual property;
- limit or restrict the type of work that employees involved in such litigation may perform for the Company;
- pay substantial damages and/or license fees and/or royalties to the party claiming infringement that could adversely impact the Company's liquidity or operating results;
- attempt to obtain or renew licenses to the relevant intellectual property, which licenses may not be available on reasonable terms or at all; and
- attempt to redesign those products that contain the allegedly infringing intellectual property.

#### **Reliance of Information Technology Systems**

The Company will rely upon the performance of its information technology systems to process, transmit, store and protect electronic information, and the failure of any critical information technology system may result in serious harm to its reputation, business, and results of operations and/or financial condition. It will be dependent on technology infrastructure and maintains and relies upon certain critical information systems for the effective operation of its business. These information technology systems include telecommunications, the Internet, various computer hardware and software applications, network communications and e-mail. These information technology systems are subject to damage or interruption from a number of potential sources including natural disasters, viruses, destructive or inadequate code, malware, power failures, cyber-attacks, and other events. To the extent that these information systems are under the Company's control, it has implemented security procedures, such as virus protection software and emergency recovery processes, to address the outlined risks. It may incur significant costs in order to implement, maintain and/or update security systems that it feels are necessary to protect its information systems. A material breach in the security of its information systems could include the theft of its intellectual property or trade secrets, negatively impact its operations, or result in the compromise of personal and confidential information of its employees, customers or suppliers. While the Company will take necessary action to ensure that its information technology systems are appropriately controlled and that it has processes in place to adequately mitigate these risks, security procedures for information systems cannot be guaranteed to be failsafe. To the extent that any system failure, accident or security breach results in disruptions or interruptions to its operations or the theft, loss or disclosure of, or damage to its data or confidential information, its reputation, business, results of operations and/or financial condition could be materially adversely affected. In addition, a miscalculation of the level of investment needed to ensure its technology solutions are current and up-to-date as technology advances and evolves could result in disruptions in its business should the software, hardware, or maintenance of such items become out-of-date or obsolete. Furthermore, when the Company implements new systems and/or upgrade existing systems, there is a risk that its business may be temporarily disrupted during the period of implementation.

#### **Foreign Operations**

A substantial portion of the Company's business will be conducted outside of the United States and Canada and, as a result, it is subject to foreign business, political and economic risks. All of its products will be manufactured outside of North America. The Company's products will be assembled and tested in Taiwan. In addition, many of its customers are located outside of North America, which further exposes it to foreign risks. The Company's operations outside of North America are directly influenced by the political and economic conditions of the region in which they are located. The Company anticipates that its manufacturing, assembly, testing and sales outside of North America will continue to account for a substantial portion of its operations and revenue in future periods. Accordingly, it is subject to risks associated with international operations, including:

- political, social and economic instability, including wars, terrorism, political unrest, boycotts, curtailment of trade and other business restrictions;
- compliance with domestic and foreign export and import regulations, and difficulties in obtaining and complying with domestic and foreign export, import and other governmental approvals, permits and licenses;
- compliance with foreign laws, and laws and practices that favour local companies;
- difficulties in staffing and managing foreign operations;
- natural disasters;
- trade restrictions or higher tariffs;
- transportation delays;
- difficulties of managing distributors;
- less effective protection of intellectual property than is afforded to us in North America or other developed countries;
- inadequate local infrastructure; and
- exposure to local banking, currency control and other financial-related risks.

The sudden disruption of the supply chain and/or the manufacture of its customer's products caused by any of the foregoing risks could impact the Company's results of operations by impairing its ability to timely and efficiently deliver its products. Moreover, the international nature of its business subjects it to risks associated with the fluctuation of the U.S. dollar versus foreign currencies. Decreases in the value of the U.S. dollar versus currencies in jurisdictions where its third party manufacturers are located have significant costs and will increase the cost of such operations, which could harm its results of operations. If a major earthquake, flood, typhoon, tsunami or other natural disaster were to affect the Company's operations or those of its suppliers, the Company's product supply or testing schedule could be interrupted, which would seriously harm its business. Natural disasters could also affect the operations of the distributors and contract manufacturers it sells to, as well as the operations of its end use customers, which would adversely affect its operations and financial results. Natural disasters anywhere in the world may potentially adversely affect the Company by harming or causing interruptions to its supply chain or the supply chains of its suppliers, direct customers or end use customers.

### **Managing Growth**

In order to manage growth and change in strategy effectively, The Company must continue to:

- a) maintain adequate systems to meet customer demand;
- b) expand research and development, sales and marketing, technical support, distribution capabilities and administrative functions;
- c) expand the skills and capabilities of its current management team; and
- d) attract and retain qualified employees.

While it intends to focus on managing its costs and expenses over the long term, the Company expects to invest to support its growth and may have additional unexpected costs. It may not be able to expand quickly enough to exploit potential market opportunities.

### **Claims, Insurance and Litigation**

The Company has been named as a party to several lawsuits and it may be named in additional litigation in the future, as disclosed in the Company's audited consolidated financial statements for the years ended December 31, 2014 and 2013, and unaudited condensed consolidated financial statements for the periods ended March 31, 2015 and 2014. The ultimate outcome of any litigation could have a material adverse effect on the Company's business and the trading price of the Company's Common Shares. Litigation may be time-consuming, expensive, and disruptive to normal business operations, and the outcome of litigation is difficult to predict. The defence of these lawsuits may result in significant expenditures and the continued diversion of management's time and attention from the operation of the business, which, in turn, could impede the business. In the event the Company was to receive an unfavourable outcome in any lawsuit, its business, financial condition, results of operations, cash flows and the trading price of the Company's Common Shares may be materially and adversely affected.

### **Tax Risks**

The Company will operate and will be subject to income tax and other forms of taxation (which are not based upon income) in numerous tax jurisdictions. Taxation laws and rates which determine taxation expenses may vary significantly in different jurisdictions, and legislation governing taxation laws and rates is also subject to change. Therefore, the Company earnings may be impacted by changes in the proportion of earnings taxed in different jurisdictions, changes in taxation rates, changes in estimates of liabilities and changes in the amount of other forms of taxation. The Company may have exposure to greater than anticipated tax liabilities or expenses. The Company will be subject to income taxes and non-income taxes in a variety of jurisdictions and its tax structure is subject to review by both domestic and foreign taxation authorities.

The determination of the Company's worldwide provision for income taxes and other tax liabilities will require significant judgment. The Company believes that it will adequately provide for income taxes based on all of the information that is currently available.

### **The Global Economy**

The global economy has not fully recovered from the recent financial downturn and unforeseen events may negatively impact the Company's financial condition. Market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, caused significant volatility over the last few years. These conditions have worsened in parts of Asia and Europe, causing a loss of confidence in the global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate. These factors have negatively affected the Company's ability to raise capital.

### **Price and Volatility of Public Stock**

The trading price of the Company's Common Shares will be subject to change and could in the future fluctuate significantly, which might not necessarily be related to the financial condition, operating performance, underlying asset values or prospects of the Company. The fluctuations could be in response to numerous factors beyond the Company's control, including: quarterly variations in results of operations; changes in securities analysts' recommendations; announcements of acquisitions; changes in earnings estimates made by independent analysts; general fluctuations in the stock market; or revenue and results of operations below the expectations of public market securities

analysts or investors. Any of these could result in a sharp decline in the market price of the Company's Common Shares. It may be anticipated that any market for the Company's Common Shares will be subject to market trends generally and the value of the Company's Common Shares on the TSXV may be affected by such volatility. In addition, stock markets have occasionally experienced extreme price and volume fluctuations. In the past, the securities markets in Canada and the United States have experienced a high level of price and volume volatility, and the market price of securities of many companies, have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. It is likely that the market price for the Company's Common Shares will be subject to market trends generally, notwithstanding the financial and operational performance of the Company. These broad market fluctuations may cause a decline in the market price of the Company's Common Shares.

With the advent of the Internet, new avenues have been created for the dissemination of information. The Company has no control over the information that is distributed and discussed on electronic bulletin boards and investment chat rooms. The intention of the people or organizations that distribute such information may not be in the Company's best interest and the best interests of its shareholders. This, in addition to other forms of investment information including newsletters and research publications, could result in a sharp decline in the market price of the Company's Common Shares.

*Various other risk factors are also described in comments made in this MD&A.*

**Further Information**

Additional information on the Corporation, including the Annual Information Form, may be obtained on SEDAR at [www.sedar.com](http://www.sedar.com)

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