

**TRANZEO WIRELESS TECHNOLOGIES INC.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**QUARTER ENDED MARCH 31 2007**

(Unaudited)

(IN CANADIAN DOLLARS)

**INTERIM CONSOLIDATED BALANCE SHEETS**

**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**

**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

# TRANZEO WIRELESS TECHNOLOGIES INC.

## Interim Consolidated Balance Sheet

	<b>March 31, 2007</b>	<b>Dec. 31, 2006</b>
	<b>(Unaudited)</b>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalent.....	\$ 5,242,150	\$ 389,249
Accounts receivable.....	2,125,844	1,472,965
Current portion of future income taxes .....	304,610	412,729
Prepaid expenses.....	392,976	268,454
Inventories (Note 3).....	4,532,931	4,208,724
	12,598,511	6,752,121
Property, plant, and equipment .....	8,872,648	5,824,907
Deferred development costs .....	483,951	236,041
Future income taxes.....	213,919	-
	\$ 22,169,029	\$ 12,813,069
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities:		
Accounts payable and accrued liabilities .....	\$ 1,713,620	\$ 2,253,781
Current portion of capital lease obligation (Note 7).....	501,749	513,843
	2,215,369	2,767,624
Future income taxes .....	-	5,201
Capital lease obligation (Note 7).....	871,752	971,668
	3,087,121	3,744,493
Shareholders' equity:		
Share capital (Note 5).....	16,807,626	7,343,319
Contributed surplus.....	500,447	292,566
Retained earnings.....	1,773,835	1,432,691
	19,081,908	9,068,576
	\$ 22,169,029	\$ 12,813,069

Commitments and Contingencies (Note 7)

The accompanying notes are an integral part of these consolidated financial statements.

# TRANZEO WIRELESS TECHNOLOGIES INC.

## Interim Consolidated Statements of Operations and Deficit (Unaudited)

	Three Months Ended	
	March 31,	
	2007	2006
Sales.....	\$ 4,752,117	\$ 4,477,097
Cost of goods sold.....	<u>2,882,961</u>	<u>3,058,055</u>
Gross profit.....	<u>1,869,156</u>	<u>1,419,042</u>
 Expenses		
Sales and marketing.....	344,543	362,199
Research and development.....	245,691	109,559
General and administrative.....	557,802	392,030
Amortization.....	<u>133,908</u>	<u>93,641</u>
	<u>1,281,944</u>	<u>957,429</u>
 Earnings before other items.....	<u>587,212</u>	<u>461,613</u>
 Other (income) expenses		
Interest income.....	(20,588)	
Interest on long term debt.....	41,300	9,238
Foreign exchange loss (gain).....	<u>15,528</u>	<u>(1,520)</u>
	<u>36,240</u>	<u>7,718</u>
 Net earnings before income taxes... ..	550,972	453,895
Income tax expense (Note 4).....	<u>209,828</u>	<u>51,933</u>
 Net earnings .....	341,144	401,962
Retained earnings (deficit), beginning of year.....	1,432,691	(117,406)
Retained earnings, end of year.....	<u>\$ 1,773,835</u>	<u>\$ 284,556</u>
 Earnings per share for the period (Note 7)		
Basic.....	<u>\$ 0.01</u>	<u>\$ 0.02</u>
Diluted.....	<u>\$ 0.01</u>	<u>\$ 0.02</u>
 Weighted average number of shares outstanding for the year.....	<u>24,087,375</u>	<u>21,927,485</u>

The accompanying notes are an integral part of these consolidated financial statements.

# TRANZEO WIRELESS TECHNOLOGIES INC.

## Interim Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended	
	March 31	
	2007	2006
Cash flows from operating activities:		
Net income for the period .....	\$ 341,144	\$ 401,962
Adjustments to reconcile net loss to net cash from operating activities:		
Amortization .....	133,908	93,641
Interest on capital leases.....	41,300	9,238
Future income taxes - current.....	108,119	-
Stock based compensation.....	64,638	-
	<u>689,109</u>	<u>504,841</u>
Changes in working capital assets and liabilities		
Prepaid expenses.....	(124,522)	(36,370)
Future income taxes.....	(219,120)	-
Accounts receivable.....	(652,879)	(908,214)
Accounts payable and accrued liabilities.....	(540,161)	181,990
Inventories.....	(324,207)	438,791
	<u>(1,171,780)</u>	<u>181,038</u>
Net cash flows used in operating activities.....	<u>(1,171,780)</u>	<u>181,038</u>
Cash flows from investing activities:		
Additions to property, plant, and equipment.....	(3,181,649)	(672,335)
Deferred development expenses.....	(247,910)	-
	<u>(3,429,559)</u>	<u>(672,335)</u>
Net cash flows used in investing activities.....	<u>(3,429,559)</u>	<u>(672,335)</u>
Cash flows from financing activities:		
Repayment of capital lease obligations.....	(153,310)	(162,449)
Issuance of common shares for asset acquisition .....	2,000,000	-
Issuance of common shares for public offering, net (Note 5).....	7,576,916	-
Issuance of common shares from options and warrants exercised.....	30,634	-
	<u>9,454,240</u>	<u>(162,449)</u>
Net cash flows from financing activities	<u>9,454,240</u>	<u>(162,449)</u>
Net increase (decrease) in cash.....	4,852,901	(653,746)
Cash and cash equivalents, beginning of year.....	389,249	1,161,939
Cash and cash equivalents, end of year .....	<u>\$ 5,242,150</u>	<u>\$ 508,193</u>
<b>CASH PAID FOR</b>		
Interest .....	\$ 41,300	\$ 9,238
Income taxes .....	\$ -	\$ -

The accompanying notes are an integral part of these consolidated financial statements

# TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements  
(Unaudited)  
March 31, 2007

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## 1. OPERATIONS

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Tranzeo Wireless Technologies Inc. (the "Company") was incorporated on December 6, 2000 under the Company Act, British Columbia, and was continued as a Canadian Federal Corporation on April 1, 2004 under the Canada Business Corporations Act. The Company was formed for the purpose of developing and selling wireless internet connectivity solutions.

On October 4, 2005, the Company's common shares were listed and called for trading on the Toronto Stock Exchange ("TSX") under the symbol TZT after completing an initial public offering.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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### (a) Basis of Presentation

These financial statements are expressed in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles.

### (b) Interim financial statements

These interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2006. The disclosure in these interim consolidated financial statements do not meet all disclosure requirements of Canadian generally accepted accounting principles for annual financial statements.

### (c) Principles of Consolidation

These financial statements have been prepared on a consolidated basis and include the accounts of the Company and its two wholly owned subsidiaries, Tranzeo Wireless EMC and Tranzeo Wireless USA. All significant inter-company balances, revenues and expenditures have been eliminated.

### (d) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to allocation of overhead and other indirect costs to cost of sales and inventory, the allocation of direct costs to research and development, the determination of impairment of assets and useful lives for depreciation and amortization, fair values of financial instruments, future income tax valuation allowance and fair value for stock-based awards and compensation. Financial results as determined by actual events could differ from those estimates.

# TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements  
(Unaudited)  
March 31, 2007

## 3. INVENTORIES

	March 31, 2007	Dec 31, 2006
Raw materials	3,393,836	3,412,758
Finished goods	1,139,095	795,966
	4,532,931	4,208,724

## 4. INCOME TAXES

A reconciliation of current income taxes at statutory rates with the reported taxes is as follows:

	Quarter Ended March 31 2007	Quarter Ended March 31 2006
	\$	\$
Income before income taxes	550,972	453,894
Stock based compensation – non deductible	64,638	-
Income for tax purposes	615,610	453,894
Tax provision at statutory rates-34.12%	209,828	154,868
Benefit of tax losses not previously recognized	-	(102,935)
Income taxes	209,828	\$51,933

### Refundable Tax Credits:

The Company is entitled to claim certain tax credits from the federal and provincial governments in respect of qualifying expenditures incurred in carrying out Scientific Research and Experimental Development (SR&ED) in Canada. The Company recorded \$100,992 of non refundable tax credits which was applied to reduce research and development expenses in the current quarter (March 31, 2006 -\$122,000).

## 5. SHARE CAPITAL

On May 19, 2005, the Company amended its authorized share capital from 100,000,000 common shares to an unlimited number of common shares without par value and an unlimited number of preferred shares without par value. Preferred shares are entitled to priority over the common shares with respect to priority in the payment of dividends and the distribution of assets in the event of the liquidation, dissolution or winding-up of the Company.

# TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements  
(Unaudited)  
March 31, 2007

## 5. SHARE CAPITAL – cont'd

Authorized:

Unlimited voting common shares, no par value

Unlimited preferred shares, no par value

Issued:

	Common	\$
Balance at December 31, 2006	21,927,485	7,343,319
Issued for asset acquisition	840,337	2,000,000
Public Equity Financing	3,200,000	8,000,000
Agents Warrants from IPO exercised	2,333	5,133
Stock Options exercised	25,500	25,500
Agency fees		(480,000)
Agency warrant – stock based compensation to Contributed Surplus		(143,241)
Financing costs		(162,205)
	25,995,655	16,588,506
Balance at March 31, 2007		219,120
Tax benefit recognized on share financing charges		219,120
	25,995,655	16,807,626

### Stock Options

The following table summarizes stock option transactions that occurred during the period:

	Number of Common Shares subject to Options	Weighted Average Exercise Price per Share
Balance, December 31, 2006	1,708,000	1.18
Granted	420,110	2.47
Exercised	(25,500)	1.00
Expired	-	-
Cancelled	-	-
	2,102,610	1.44

The weighted average remaining life of the options as at December 31, 2006 was 9.75

# TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements  
(Unaudited)  
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## 5. SHARE CAPITAL – cont'd

### Share Purchase Warrants

The following table summarizes outstanding warrants:

	Warrants	Weighted Average Exercise Price \$	Weighted Average Remaining Life (Years)
<b>Breakdown at December 31, 2006</b>			
Warrants from initial public offering(Note b)	1,196,412	\$ 2.50	0.01
Agent warrants	298,503	\$ 2.00	0.05
Balance as at December 31 2006	1,494,915	\$2.40	0.11
Current Quarter Activity			
Agents warrants from Feb 14 share offering	192,000	\$2.50	0.90
Agents Warrants from IPO exercised	(2,333)	\$2.20	
Balance at March 31 2007	1,684,582	\$2.41	0.11

Note:

- An Over-allotment option was granted to the agents of the February 14, 2007 share offering to purchase 480,000 shares at \$2.50 with an expiry date of March 14, 2007. All of these options have expired as at March 31, 2007.
- On April 3,2007 282,750 warrants from the initial public offering (1,196,412) were exercised, the residual of 913,662 expired April 4, 2007.

## 6. EARNINGS PER SHARE

The following is a reconciliation of basic and diluted net earnings per share:

	March 31, 2007	March 31 2006
	\$	\$
Net income available to shareholders	341,144	401,962
Weighted average shares outstanding	24,087,375	21,927,485
Effect of dilutive securities , stock options and warrants	940,302	620,279
	25,027,677	22,547,764
Basic earnings per share	\$ 0.01	\$ 0.02
Diluted earnings per share	\$ 0.01	\$ 0.02

# TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements  
(Unaudited)  
March 31, 2007

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## 7. COMMITMENTS AND CONTINGENCIES

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### Lease Commitments

The Company has operating lease commitments for office premises, office equipment, and vehicles, requiring payments in each of the next five years as follows (see Note 9 – Related Party Transactions):

	\$
2007	401,730
2008	340,013
2009	290,209
2010	240,188
2011	240,188
	<u>1,512,328</u>

### Capital Lease Obligations

The following is a schedule of future minimum lease payments under the capital leases expiring July 31 2010 together with the balance of the obligation under capital lease.

Year ending December 31	\$
2007	505,796
2008	550,919
2009	461,032
2010	85,416
Total minimum lease payments as at December 31 2006	1,603,163
Amount representing interest at 13.5%	<u>(229,662)</u>
Balance of the obligation	1,373,501
Current Portion	501,749
Long term portion	<u>871,752</u>

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## 8. RELATED PARTY TRANSACTIONS

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The Company paid or accrued total rent of \$60,048 in the current quarter (March 31 2005 - \$66,048) to companies owned by the President of the Company. Included in lease commitments (Note 8) is \$960,752 that will be payable to these related companies over the next five years.

The Company purchased raw materials of \$427,715 (2005 – \$57,686) in the current quarter from a company whose chief executive officer is a director of the Company. Included in accounts payable is \$156,684 (2006 – \$44,426) payable to the same related company.

# TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements  
(Unaudited)  
March 31, 2007

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## 9. SEGMENTED INFORMATION

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	Canada \$	US \$	Other \$	Total \$
<b>March 31, 2007</b>				
Sales	872,905	3,076,772	802,440	4,752,117
Property, plant and equipment	8,872,648			8,872,648
<b>March 31, 2006</b>				
Sales	776,705	3,318,668	381,724	4,477,097
Property, plant and equipment	3,877,302			3,877,302

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## 10. ASSET ACQUISITION

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- (a) On January 31, 2007 the Company completed the acquisition of all of the assets of Sensoria Corporation ("Sensoria") relating to Sensoria's wireless mesh networks technology for broadband applications. The assets acquired included Sensoria's patents and intellectual property. In addition, the Company has hired most of Sensoria's employees. The Company issued 840,337 common shares at an aggregate value of \$2,000,000 and paid cash consideration of \$798,120 (\$675,000 US) as consideration for the acquisition of the assets. In addition to a statutory hold period, the common shares issued are subject to a contractual hold period such that after 120 days following their issuance 25% of the shares will be released, then in each of the subsequent eight months an additional 9.375% of the shares issued will be released.

The allocation by management of the total purchase price is approximately as follows:

Technology / Source Code	\$2,585,288
Patents	118,240
Inventory	89,862
Equipment / Other	4,730
<u>Total Purchase Price</u>	<u>\$2,798,120</u>