

TRANZEO WIRELESS TECHNOLOGIES INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

QUARTER ENDED JUNE 30 2007

(Unaudited)

(IN CANADIAN DOLLARS)

INTERIM CONSOLIDATED BALANCE SHEETS

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

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TRANZEO WIRELESS TECHNOLOGIES INC.

Interim Consolidated Balance Sheet

	<u>June 30, 2007</u> <u>(Unaudited)</u>	<u>Dec. 31, 2006</u>
Assets		
Current assets:		
Cash and cash equivalent.....	\$ 3,681,773	\$ 389,249
Accounts receivable.....	2,952,238	1,472,965
Current portion of future income taxes	217,584	412,729
Prepaid expenses.....	486,852	268,454
Inventories (Note 3).....	<u>5,547,827</u>	<u>4,208,724</u>
	12,886,274	6,752,121
Property, plant, and equipment	10,124,659	5,824,907
Deferred development costs	840,904	236,041
Future income taxes.....	<u>218,540</u>	<u>-</u>
	<u>\$ 24,070,377</u>	<u>\$ 12,813,069</u>
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 2,587,166	\$ 2,253,781
Current portion of capital lease obligation (Note 7).....	<u>489,420</u>	<u>513,843</u>
	3,076,586	2,767,624
Future income taxes	-	5,201
Capital lease obligation (Note 7).....	<u>757,911</u>	<u>971,668</u>
	<u>3,834,497</u>	<u>3,744,493</u>
Shareholders' equity:		
Share capital (Note 5).....	17,505,578	7,343,319
Contributed surplus.....	555,445	292,566
Retained earnings.....	<u>2,174,857</u>	<u>1,432,691</u>
	<u>20,235,880</u>	<u>9,068,576</u>
	<u>\$ 24,070,377</u>	<u>\$ 12,813,069</u>

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 June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Sales.....	\$5,308,409	\$ 4,803,112	\$10,060,526	\$ 9,280,209
Cost of goods sold.....	3,216,617	3,033,849	6,099,578	6,091,904
Gross Profit.....	<u>2,091,792</u>	<u>1,769,263</u>	<u>3,960,948</u>	<u>3,188,305</u>
Expenses				
Sales and marketing.....	407,687	303,205	752,230	665,404
Research and development (Note 4).....	273,689	40,115	519,380	149,674
General and administrative.....	622,077	526,745	1,179,879	918,776
Amortization.....	148,034	122,997	281,942	216,638
	<u>1,451,487</u>	<u>993,062</u>	<u>2,733,431</u>	<u>1,950,492</u>
Earnings from operations.....	640,305	776,201	1,227,517	1,237,813
Other expenses (income)				
Interest Income	(38,452)	-	(59,040)	-
Interest on long term debt.....	38,556	31,024	79,856	40,262
Foreign exchange loss.....	3,153	12,613	18,681	11,093
	<u>3,257</u>	<u>43,637</u>	<u>39,497</u>	<u>51,355</u>
Earnings before income taxes.....	637,048	732,564	1,188,020	1,186,458
Income taxes (Note 4).....	236,026	249,950	445,854	301,883
Net earnings	401,022	482,614	742,166	884,575
Retained Earnings (deficit), beginning of period.....	1,773,835	284,557	1,432,691	(117,404)
Retained earnings, end of period.....	<u>\$2,174,857</u>	<u>\$767,171</u>	<u>\$2,174,857</u>	<u>\$ 767,171</u>
Earnings per share for the period (Note 6)				
Basic.....	\$.02	\$.02	\$.03	\$.04
Diluted.....	<u>\$.01</u>	<u>\$.02</u>	<u>\$.03</u>	<u>\$.04</u>
Weighted average number of shares - basic.....	26,263,038	21,927,485	25,181,131	21,927,485

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 June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Cash flows from operating activities:				
Net income for the period	\$401,022	\$ 482,614	\$742,166	\$ 884,575
Adjustments to reconcile net loss to net cash from operating activities:				
Amortization	148,034	122,997	281,942	216,638
Amortization of deferred development costs.....	19,650	-	19,650	-
Interest on capital leases.....	38,556	31,024	79,856	40,262
Future income taxes – current.....	87,026	-	195,145	-
Stock based compensation.....	55,000	-	119,638	-
	<u>749,288</u>	<u>636,635</u>	<u>1,438,397</u>	<u>1,141,475</u>
Changes in working capital assets and liabilities:				
Prepaid expenses.....	(93,876)	61,652	(218,398)	25,281
Accounts receivable.....	(826,394)	(336,159)	(1,479,273)	(1,244,373)
Accounts payable and accrued liabilities.....	873,546	328,310	333,385	510,302
Future income taxes.....	(4,621)	164,832	(223,741)	164,832
Inventories.....	(1,014,897)	(183,117)	(1,339,103)	255,674
Net cash flows used in operating activities	<u>(316,954)</u>	<u>672,153</u>	<u>(1,488,733)</u>	<u>853,191</u>
Cash flows from investing activities				
Additions to property, plant and equipment	(1,400,045)	(481,688)	(4,581,694)	(1,154,023)
Deferred development expenses.....	(376,603)	-	(624,513)	-
Net cash flows used in investing activities	<u>(1,776,648)</u>	<u>(481,688)</u>	<u>(5,206,207)</u>	<u>(1,154,023)</u>
Cash flows from financing activities:				
Repayment of capital leases obligations.....	(164,726)	(96,445)	(318,036)	(258,894)
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 warrants and options exercised.....	697,951	-	728,584	-
Net cash flows from financing activities	<u>533,225</u>	<u>(96,445)</u>	<u>9,987,464</u>	<u>(258,894)</u>
Net increase (decrease) in cash.....	(1,560,377)	94,020	3,292,524	(559,726)
Cash, beginning of period.....	5,242,150	508,193	389,249	1,161,939
Cash, end of period.....	<u>\$3,681,773</u>	<u>\$ 602,213</u>	<u>\$3,681,773</u>	<u>\$ 602,213</u>
Supplementary cash information				
Cash paid for interest.....	\$38,556	\$ 31,024	\$79,856	\$ 40,262

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

TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements
(Unaudited)
June 30, 2007

1. OPERATIONS

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(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 Technologies (EMC Labs) Inc and Tranzeo Wireless Technologies (USA) Inc. 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)
June 30, 2007

3. INVENTORIES

	June 30, 2007	Dec 31, 2006
Raw materials	4,905,266	3,412,758
Finished goods	642,561	795,966
	<u>\$5,547,827</u>	<u>\$4,208,724</u>

4. INCOME TAXES

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

	Quarter Ended June 30 2007	Quarter Ended June 30 2006
	\$	\$
Income before income taxes	637,047	732,564
Stock based compensation – non deductible	55,000	-
Income for tax purposes	<u>692,047</u>	<u>732,564</u>
Tax provision at statutory rates-34.12%	<u>236,026</u>	<u>249,950</u>

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 \$150,000 of non refundable tax credits which was applied to reduce research and development expenses in the current quarter (June 30, 2006 -\$237,000) and \$100,992 on the first quarter of 2007 (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)
June 30, 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
Share Warrants from IPO exercised	282,750	706,875
Agency fees		(480,000)
Agency warrant – stock based compensation to Contributed Surplus		(143,241)
Financing costs		(175,749)
	26,278,405	17,281,837
Tax benefit recognized on share financing charges		223,741
Balance at June 30, 2007	26,278,405	17,505,578

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	(165,162)	1.58
Balance, June 30, 2007	1,937,448	1.43

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)
June 30, 2007

5. SHARE CAPITAL – cont'd

Share Purchase Warrants

The following table summarizes outstanding warrants:

	Warrants	Weighted Average Exercise Price \$	Weighted Average Remaining Life (Years)
Breakdown at December 31, 2006			
Warrants from initial public offering(Note a)	1,196,412	\$ 2.50	-
Agent warrants	298,503	\$ 2.20	0.26
Balance as at December 31 2006	1,494,915	\$2.44	0.26
Current Year Activity			
IPO Warrants exercised	(282,750)	\$2.50	
IPO Warrants expired	(913,662)	\$2.50	
Agents warrants from Feb 14 share offering	192,000	\$2.50	0.63
Agents Warrants from IPO exercised	(2,333)	\$2.20	
Balance at June 30, 2007	488,170	\$2.32	0.41

Note:

- a) 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:

	June 30, 2007	June 30 2006
	\$	\$
Net income available to shareholders	401,022	482,614
Weighted average shares outstanding	26,236,038	21,927,485
Effect of dilutive securities , stock options and warrants	582,269	620,279
	26,845,307	22,547,764
Basic earnings per share	\$ 0.02	\$ 0.02
Diluted earnings per share	\$ 0.01	\$ 0.02

TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements
(Unaudited)
June 30, 2007

7. COMMITMENTS AND CONTINGENCIES

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	341,184
2008	550,919
2009	461,032
2010	85,416
Total minimum lease payments as at December 31 2006	1,438,551
Amount representing interest at 13.5%	<u>(191,220)</u>
Balance of the obligation	1,247,331
Current Portion	489,420
Long term portion	<u>757,911</u>

8. RELATED PARTY TRANSACTIONS

The Company paid or accrued total rent of \$60,048 in the current quarter (June 30 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 \$433,425 (2005 – \$732,097) in the current quarter from a company whose chief executive officer is a director of the Company. Included in accounts payable is \$125,707 (2006 – \$220,628) payable to the same related company.

TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements
(Unaudited)
June 30, 2007

9. SEGMENTED INFORMATION

	Canada \$	US \$	Other \$	Total \$
June 30, 2007				
Sales	1,687,482	6,565,304	1,807,740	10,060,526
Property, plant and equipment	10,124,659			10,124,659
June 30, 2006				
Sales	1,524,513	6,918,457	837,245	9,280,209
Property, plant and equipment	4,505,062			4,505,062

10. ASSET ACQUISITION

- (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>