

**TRANZEO WIRELESS TECHNOLOGIES INC.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**QUARTER ENDED JUNE 30 2009**

(Unaudited)

(IN CANADIAN DOLLARS)

**INTERIM CONSOLIDATED BALANCE SHEETS**

**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS**

**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

# TRANZEO WIRELESS TECHNOLOGIES INC.

## Interim Consolidated Balance Sheet

	<b>June 30, 2009</b>	<b>Dec. 31, 2008</b>
	<b>(Unaudited)</b>	
<b>Assets</b>		
Current assets:		
Accounts receivable.....	\$ 3,440,313	\$ 3,289,007
Prepaid expenses.....	696,695	768,822
Inventories (Note 3).....	<u>5,157,852</u>	<u>6,786,039</u>
	9,294,860	10,843,868
Property, plant, and equipment .....	10,963,839	11,482,421
Deferred development costs .....	6,894,170	5,945,883
Future income taxes.....	<u>3,096,292</u>	<u>2,533,191</u>
	<u>\$ 30,249,161</u>	<u>\$ 30,805,363</u>
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities:		
Bank Indebtedness.....	\$ 3,488,906	\$ 3,116,276
Accounts payable and accrued liabilities .....	5,275,138	4,835,195
Equipment Loan.....	75,520	84,960
Current portion of capital lease obligation(Note 8).....	858,085	998,169
Short Term Note Payable (Note 4).....	<u>-</u>	<u>2,000,000</u>
	9,697,649	11,034,600
Capital lease obligation and equipment loan (Note 8).....	<u>225,735</u>	<u>644,858</u>
	<u>9,923,384</u>	<u>11,679,458</u>
Shareholders' equity:		
Share capital (Note 6).....	19,922,457	17,525,344
Contributed surplus.....	1,055,524	1,015,298
Retained earnings (deficit).....	<u>(652,204)</u>	<u>585,263</u>
	20,325,777	19,125,905
	<u>\$ 30,249,161</u>	<u>\$ 30,805,363</u>

Commitments and Contingencies (Note 8)

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

# TRANZEO WIRELESS TECHNOLOGIES INC.

## Interim Consolidated Statements of Operations and Retained Earnings (Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Sales.....	\$3,332,533	\$6,003,857	\$6,500,410	\$11,764,806
Cost of goods sold.....	<u>2,340,027</u>	<u>4,107,891</u>	<u>4,522,272</u>	<u>7,794,326</u>
Gross Profit.....	<u>992,506</u>	<u>1,895,966</u>	<u>1,978,138</u>	<u>3,970,480</u>
<b>Expenses</b>				
Sales and marketing.....	352,520	595,200	688,711	1,136,276
Research and development – amortization of deferred costs.....	321,504	83,350	594,504	142,200
General and administrative.....	693,593	695,434	1,383,984	1,350,515
Share based compensation.....	14,728	-	40,226	-
Amortization.....	<u>314,676</u>	<u>209,993</u>	<u>632,772</u>	<u>418,619</u>
	<u>1,697,021</u>	<u>1,583,977</u>	<u>3,340,197</u>	<u>3,047,610</u>
Earnings (loss) from operations.....	(704,515)	311,989	(1,362,059)	922,870
<b>Other expenses (income)</b>				
Interest Expense.....	184,660	166,928	389,960	256,288
Foreign exchange loss (gain).....	<u>(3,477)</u>	<u>(15,922)</u>	<u>(1,451)</u>	<u>(4,188)</u>
	<u>181,183</u>	<u>151,006</u>	<u>388,509</u>	<u>252,100</u>
Earnings (loss) before income taxes.....	(885,698)	160,983	(1,750,568)	670,770
Income taxes (recovery) (Note 5).....	<u>(261,290)</u>	<u>50,709</u>	<u>(513,101)</u>	<u>211,292</u>
Net earnings (loss) .....	(624,408)	110,274	(1,237,467)	459,478
Retained Earnings (deficit), beginning of period.....	<u>(27,796)</u>	<u>2,733,183</u>	<u>585,263</u>	<u>2,383,979</u>
Retained Earnings (deficit), end of period.....	<u>\$(652,204)</u>	<u>\$2,843,457</u>	<u>\$(652,204)</u>	<u>\$2,843,457</u>
<b>Earnings (loss) per share for the period (Note 7)</b>				
Basic.....	\$(0.02)	\$0.00	\$(0.02)	\$0.02
Diluted.....	<u>\$(0.02)</u>	<u>\$0.00</u>	<u>\$(0.02)</u>	<u>\$0.02</u>
Weighted average number of shares - basic.....	27,454,035	26,284,405	30,213,794	26,284,405

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	
	2009	2008	2009	2008
Cash flows from operating activities:				
Net income (loss) for the period .....	\$(624,408)	\$110,274	\$(1,237,467)	\$459,478
Adjustments to reconcile net earnings to net cash from operating activities:				
Amortization .....	314,676	209,993	632,772	418,619
Amortization of deferred development costs.....	321,504	83,350	594,504	142,200
Interest on capital leases.....	34,195	59,971	75,868	125,143
Future income taxes (recovery).....	(261,290)	50,709	(513,101)	211,292
Stock based compensation.....	14,728	-	40,226	-
	<u>(200,595)</u>	<u>514,297</u>	<u>(407,198)</u>	<u>1,356,732</u>
Changes in working capital assets and liabilities:				
Prepaid expenses.....	65,109	(19,740)	72,127	(102,580)
Accounts receivable.....	(224,561)	(416,753)	(151,306)	(2,444,759)
Accounts payable and accrued liabilities.....	(2,160,936)	(2,863,311)	(2,943,950)	(1,245,490)
Inventories.....	3,087,097	2,569,809	5,012,080	1,567,706
Net cash flows used in operating activities	<u>566,114</u>	<u>(215,698)</u>	<u>1,581,753</u>	<u>(868,391)</u>
Cash flows from investing activities				
Additions to property, plant and equipment .....	(84,871)	(481,441)	(114,190)	(776,343)
Deferred development expenses.....	(786,459)	(1,048,871)	(1,592,791)	(2,004,782)
Net cash flows used in investing activities	<u>(871,330)</u>	<u>(1,530,312)</u>	<u>(1,706,981)</u>	<u>(2,781,125)</u>
Cash flows from financing activities:				
Bank indebtedness.....	240,729	(9,125)	372,630	2,044,145
Proceeds from short term note payable.....	-	2,000,000	-	2,000,000
Repayment of short term note payable.....	(2,000,000)	-	(2,000,000)	-
Repayment of capital leases obligations.....	(327,906)	(339,265)	(635,075)	(657,200)
Proceeds from equipment loan.....	-	94,400	-	94,400
Repayment of equipment loan.....	(4,720)	-	(9,440)	-
Issuance of common shares.....	2,397,113	-	2,397,113	-
Net cash flows from financing activities	<u>305,216</u>	<u>1,746,010</u>	<u>125,228</u>	<u>3,481,345</u>
Net increase (decrease) in cash.....	-	-	-	(168,171)
Cash, beginning of period.....	-	-	-	168,171
Cash, end of period.....	-	-	-	-
Supplementary cash information				
Cash paid for interest.....	\$184,660	\$166,928	\$389,960	\$256,288

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, 2009

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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 on the Toronto Stock Exchange ("TSX") under the symbol TZT after completing an initial public offering.

On January 31, 2007 the Company acquired 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.

On January 31, 2007 the company formed a wholly owned subsidiary, Tranzeo Wireless Technologies USA Inc. The subsidiary was formed for the purpose of carrying out research and development activities in San Diego, USA.

On October 1, 2007 the company formed a wholly owned subsidiary, Tranzeo Wireless Technologies Ireland Limited. The subsidiary was formed for the purpose of selling the Company's wireless internet connectivity solutions into the European market.

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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, 2008. 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 wholly owned subsidiaries, Tranzeo Wireless EMC Labs Inc, Tranzeo Wireless Technologies USA Inc. and Tranzeo Wireless Technologies Ireland Limited. All inter-company balances, revenues and expenditures have been eliminated.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Cont'd

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### (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.

### 3. INVENTORIES

	June 30, 2009	Dec 31, 2008
Raw materials	4,110,291	5,557,215
Finished goods	1,047,561	1,228,824
	<u>\$5,157,852</u>	<u>\$6,786,039</u>

### 4. SHORT TERM NOTE PAYABLE

The short term note was repaid on June 18, 2009.

### 5. INCOME TAXES

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

	Quarter Ended June 30 2009	Quarter Ended June 30 2008
	\$	\$
Income (loss) before income taxes	(885,699)	160,983
Stock based compensation – non deductible	14,728	-
Income (loss) for tax purposes	<u>870,971</u>	<u>160,983</u>
Tax provision at statutory rates-30.0 % (2008 – 31.5 %)	<u>(261,290)</u>	<u>50,709</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 \$nil of non refundable tax credits which was applied to reduce research and development expenses in the current quarter (June 30, 2008 -\$250,000) and \$50,000 in the first quarter of 2009 (June 30, 2008 – \$165,000).

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### 6. SHARE CAPITAL

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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, 2009

## 6. SHARE CAPITAL – cont'd

On June 18, 2009, the Company completed an equity offering of 7,121,000 units including finder's fee to the agents of the equity offering of 45,000 units, with each unit being comprised of one common share and one-half of one share purchase warrant. There were 3,538,000 warrants exercisable to purchase an additional share at a price of \$0.65 per share for a period of 24 months from closing. The equity offering had gross proceeds of \$2,848,400. In addition, 495,320 warrants exercisable to purchase an additional share were granted to the agents of the equity offering at an exercise price of \$0.40 per share for a period of 24 months from closing

The following table summarizes Share capital transactions that occurred during the period:

Authorized:		
Unlimited voting common shares, no par value		
Unlimited preferred shares, no par value		
Issued:	Common	\$
Balance at December 31, 2008 and March 31, 2009	26,370,405	17,525,344
Public equity financing	7,121,000	2,830,400
Share issuance costs:		
Cash		(433,287)
Balance at June 30, 2009	33,491,405	19,922,457

### 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, 2008	2,494,104	1.11
Granted	-	-
Cancelled and Expired	(134,828)	1.85
Balance, June 30 2009	2,359,276	0.53

The weighted average remaining life of the options as at June 30, 2009 was 6.58 years. On June 30, 2009 the Company re-priced 1,082,276 share options to \$0.32 per unit from an original exercise price of \$1.00 to \$1.50.

# TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements  
(Unaudited)  
June 30, 2009

## 7. EARNINGS PER SHARE

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

	June 30, 2009	June 30, 2008
Net income (loss) available to shareholders	\$ (624,408)	\$ 110,274
Weighted average shares outstanding	27,454,035	26,284,405
Effect of dilutive securities, stock options and warrants	298,316	-
	<u>27,752,351</u>	<u>26,284,405</u>
Basic earnings per share	\$ (0.02)	\$ 0.00
Diluted earnings per share	\$ (0.02)	\$ 0.00

## 8. 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):

	\$
2009	271,442
2010	492,218
2011	347,440
2012	314,645
2013	314,645
	<u>1,740,390</u>

### Capital Lease Obligations

The following is a schedule of future minimum lease payments under the capital leases expiring July 31, 2011 together with the balance of the obligation under capital lease.

Year ending December 31	\$
2009	525,566
2010	611,770
2011	10,462
Total minimum lease payments as at December 31 2008	1,147,798
Amount representing interest at 10.68%	(63,978)
Balance of the obligation	1,083,820
Current Portion	858,085
Long term portion	<u>225,735</u>

# TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements  
(Unaudited)  
June 30, 2009

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## 9. RELATED PARTY TRANSACTIONS

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The Company paid or accrued total rent of \$68,815 in the current quarter (June 30 2008 - \$60,048) to companies owned by the President of the Company. Included in lease commitments (Note 8) is \$1,118,901 that will be payable to these related companies over the next five years.

The Company purchased raw materials of \$213,891 (June 30 2008 – \$494,420) in the current quarter from a company whose chief executive officer is a director of the Company. Included in accounts payable is \$535,987 (2008 – \$396,763) payable to the same related company.

The Company purchased raw materials of \$ 426,105 (June 30, 2008 – \$32,518) in the current quarter from a company whose Chairman of the Board of Directors is a director of the Company. Included in accounts payable is \$ 609,693 (June 30, 2008 – \$207,352) payable to the same related company.

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## 10. SEGMENTED INFORMATION

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	Canada \$	US \$	Other \$	Total \$
<b>June 30, 2009</b>				
Sales	1,297,869	3,679,857	1,522,684	6,500,410
Property, plant and equipment	10,963,839			10,963,839
<b>June 30, 2008</b>				
Sales	1,979,800	7,777,718	2,007,288	11,764,806
Property, plant and equipment	11,865,271			11,865,271

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# TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements  
(Unaudited)  
June 30, 2009

## 11. FINANCIAL INSTRUMENTS

Under Canadian generally accepted accounting principles, financial instruments are classified into one of the following categories: held for trading, held-to-maturity, available-for-sale, loans and receivables, or other liabilities.

### Fair Value

The following table summarizes the carrying values of the Company's financial instruments:

	June 30, 2009	December 31, 2008
	\$	\$
Held for Trading (1)	-	-
Loans and Receivables (2)	3,440,313	3,289,007
Other financial liabilities (3)	8,839,564	10,036,431

(1) Includes cash and cash equivalents.

(2) Includes accounts receivable.

(3) Includes accounts payable bank indebtedness and short term debt.

Cash, accounts receivables and accounts payable are short term financial instruments whose fair value approximates the carrying amount given that they will mature shortly. Bank indebtedness and short-term debt's fair value approximate their carrying values as these instruments bear interest at floating market rates.

### Interest rate risk

The following table illustrates the effect of a change in interest rates on the Company's net loss as at June 30, 2009, with all other variables held constant. The change in after tax income is due to adjustments in the fair value for fixed rate short term investments classified as held for trading and included in cash equivalents.

	Interest Rates + 25 basis points	Interest Rates -25 basis points
	\$	\$
Effect on the Company's after tax income	(24,819)	24,819

The Company pays interest on its line of credit at the bank's prime rate of interest, and has interest rate risk exposure due to changes in the bank's prime rate.

# TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements  
(Unaudited)  
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## 10. FINANCIAL INSTRUMENTS – Cont'd

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### Credit risk

The company is exposed to credit risk in respect to accounts receivable in the event that its counterparties do not meet their obligations. The Company minimizes its credit risk with respect to accounts receivable by performing credit reviews for each of its customers and by obtaining accounts receivable insurance. As at June 30, 2009, three customers exceeded 10% of the total receivable balance. These customers represented 58% of the accounts receivables balance. The Company defines past due based on agreed upon terms with each individual customer.

### Foreign exchange risk

The following table summarizes the geographical distribution of the Company's financial instruments in Canadian dollars at June 30, 2009:

	CDN Dollars	US Dollars	Total
	%	%	%
Accounts receivable and other current assets	33	67	100
Bank debt, short term loan and accounts payable	63	37	100

Foreign exchange risk arises because of fluctuations in exchange rates. The Company's financial results are reported in Canadian dollars while it conducts a significant portion of its business activities in foreign currencies, primarily United States dollars. The assets, liabilities, revenue and expenses that are denominated in foreign currencies will be affected by changes in the exchange rate between the Canadian dollar and these foreign currencies. The Company does not currently use derivative financial instruments to mitigate this risk. If the Canadian dollar had appreciated 1 percent against all foreign currencies at June 30, 2009, with all other variables held constant, the impact of the foreign currency change on the Company's foreign denominated financial instruments would result in a reduction of after tax net income of \$63,814 for the quarter ending June 30, 2009. If the Canadian dollar had depreciated 1 percent against all foreign currencies at June 30, 2009 with all other variables held constant, the impact of the foreign currency change on the Company's foreign denominated financial instruments would result in an additional \$63,814 of after tax net income for the quarter ending June 30, 2009.

For the quarter ended June 30, 2009, a foreign exchange gain of \$3,477 was recognized.

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company requires funds to finance its business development activities. In addition, the Company, from time to time, needs to renegotiate its debt facilities. There is no assurance that financing will be available or, if available, that such financings will be on reasonable terms.

# TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements  
(Unaudited)  
June 30, 2009

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## 11. CAPITAL MANAGEMENT

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The Company's objectives when managing capital are to maintain a strong capital base in order to advance the Company's corporate strategies to create long-term value for its stakeholders and to sustain the Company's operations in economic cycles.

The Company defines capital to include cash, bank indebtedness, short-term debt and shareholder's equity. The Company manages its capital in order to maintain flexibility and respond to changes in economic and/or marketplace conditions. In order to increase shareholder value, the Company may adjust its capital structure by issuing new shares, purchasing shares for cancellation or raising debt. At this time, the Company utilizes debt as part its capital management strategy. For the period ending June 30, 2009, the Company has not distributed dividends to its shareholders. There were no changes in the Company's approach to capital management during the period ending on June 30, 2009.