

TRANZEO WIRELESS TECHNOLOGIES INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

QUARTER ENDED JUNE 30 2008

(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

	June 30, 2008 (Unaudited)	Dec. 31, 2007
Assets		
Current assets:		
Cash and cash equivalent.....	\$ -	\$ 168,171
Accounts receivable.....	5,272,190	2,827,431
Current portion of future income taxes	763,494	559,786
Prepaid expenses.....	663,253	560,673
Inventories (Note 3).....	8,389,666	7,438,122
	15,088,603	11,554,183
Property, plant, and equipment	11,865,271	11,343,886
Deferred development costs	4,383,598	2,842,016
Future income taxes.....	218,540	218,540
	\$ 31,556,012	\$ 25,958,625
Liabilities and Shareholders' Equity		
Current Liabilities:		
Bank Indebtedness.....	\$ 2,044,145	\$ -
Accounts payable and accrued liabilities	4,143,119	2,869,359
Short Term Note Payable (Note 4).....	2,000,000	-
Current portion of capital lease obligation and equipment loan (Note 8)..	1,009,396	903,133
	9,196,660	3,772,492
Capital lease obligation and equipment loan (Note 8).....	1,082,721	1,462,980
	10,279,381	5,235,472
Shareholders' equity:		
Share capital (Note 6).....	17,497,824	17,497,824
Contributed surplus.....	935,350	841,350
Retained earnings.....	2,843,457	2,383,979
	21,276,631	20,723,153
	\$ 31,556,012	\$ 25,958,625

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	
	2008	2007	2008	2007
Sales.....	\$6,003,857	\$5,308,409	\$11,764,806	\$10,060,526
Cost of goods sold.....	4,107,891	3,216,617	7,794,326	6,099,578
Gross Profit.....	<u>1,895,966</u>	<u>2,091,792</u>	<u>3,970,480</u>	<u>3,960,948</u>
Expenses				
Sales and marketing.....	595,200	407,687	1,136,276	752,230
Research and development.....	83,350	273,689	142,200	519,380
General and administrative.....	695,434	622,077	1,350,515	1,179,879
Amortization.....	209,993	148,034	418,619	281,942
	<u>1,583,977</u>	<u>1,451,487</u>	<u>3,047,610</u>	<u>2,733,431</u>
Earnings from operations.....	311,989	640,305	922,870	1,227,517
Other expenses (income)				
Interest Income.....	-	(38,452)	-	(59,040)
Interest Expense.....	166,928	38,556	256,288	79,856
Foreign exchange loss (gain).....	(15,922)	3,153	(4,188)	18,681
	<u>151,006</u>	<u>3,257</u>	<u>252,100</u>	<u>39,497</u>
Earnings before income taxes.....	160,983	637,048	670,770	1,188,020
Income taxes (Note 5).....	50,709	236,026	211,292	445,854
Net earnings	110,274	401,022	459,478	742,166
Retained Earnings, beginning of period.....	<u>2,733,183</u>	<u>1,773,835</u>	<u>2,383,979</u>	<u>1,432,691</u>
Retained Earnings, end of period.....	<u>\$2,843,457</u>	<u>\$2,174,857</u>	<u>\$2,843,457</u>	<u>\$2,174,857</u>
Earnings per share for the period (Note 7)				
Basic.....	\$0.00	\$0.02	\$0.02	\$0.03
Diluted.....	<u>\$0.00</u>	<u>\$0.01</u>	<u>\$0.02</u>	<u>\$0.03</u>
Weighted average number of shares - basic.....	26,284,405	26,263,038	26,284,405	25,181,131

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	
	2008	2007	2008	2007
Cash flows from operating activities:				
Net income for the period	\$110,273	\$401,022	\$459,478	\$742,166
Adjustments to reconcile net earnings to net cash from operating activities:				
Amortization	209,993	148,034	418,619	281,942
Amortization of deferred development costs.....	83,350	19,650	142,200	19,650
Interest on capital leases.....	59,971	38,556	125,143	79,856
Future income taxes – current.....	50,709	162,469	211,292	301,883
Stock based compensation.....	-	55,000	-	119,638
	<u>514,297</u>	<u>824,731</u>	<u>1,356,732</u>	<u>1,545,135</u>
Changes in working capital assets and liabilities:				
Prepaid expenses.....	(19,740)	(93,876)	(102,580)	(218,398)
Accounts receivable.....	(666,753)	(909,277)	(2,859,759)	(1,593,451)
Accounts payable and accrued liabilities.....	(344,061)	873,546	1,273,761	333,385
Inventories.....	50,559	(1,014,897)	(951,542)	(1,339,103)
Net cash flows used in operating activities	<u>(465,698)</u>	<u>(319,773)</u>	<u>(1,283,388)</u>	<u>(1,272,432)</u>
Cash flows from investing activities				
Additions to property, plant and equipment	(481,441)	(1,400,045)	(776,343)	(2,581,694)
Deferred development expenses.....	(798,870)	(376,603)	(1,589,784)	(624,513)
Net cash flows used in investing activities	<u>(1,280,311)</u>	<u>(1,776,648)</u>	<u>(2,366,127)</u>	<u>(3,206,207)</u>
Cash flows from financing activities:				
Repayment of capital leases obligations.....	(339,266)	(164,726)	(657,201)	(318,036)
Proceeds from short term note payable.....	2,000,000	-	2,000,000	-
Proceeds from equipment loan.....	94,400	-	94,400	-
Issuance of common shares.....	-	700,770	-	8,089,199
Net cash flows from financing activities	<u>1,755,134</u>	<u>536,044</u>	<u>1,437,199</u>	<u>7,771,163</u>
Net increase (decrease) in cash.....	9,125	(1,560,377)	(2,212,316)	3,292,524
Cash (Bank Indebtedness), beginning of period.....	<u>(2,053,270)</u>	<u>5,242,150</u>	<u>168,171</u>	<u>389,249</u>
Cash (Bank Indebtedness), end of period.....	<u>(2,044,145)</u>	<u>\$3,681,773</u>	<u>(2,044,145)</u>	<u>\$3,681,773</u>
Supplementary cash information				
Cash paid for interest.....	\$166,665	\$38,556	\$256,025	\$79,856

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, 2008

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 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.

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, 2007. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Cont'd

(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, 2008	Dec 31, 2007
Raw materials	7,431,845	5,835,993
Finished goods	957,821	1,602,129
	<u>\$8,389,666</u>	<u>\$7,438,122</u>

4. SHORT TERM NOTE PAYABLE

The short term note payable is due September 30, 2008

5. INCOME TAXES

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

	Quarter Ended June 30 2008	Quarter Ended June 30 2007
	\$	\$
Income before income taxes	160,983	637,048
Stock based compensation – non deductible	-	55,000
Income for tax purposes	<u>160,983</u>	<u>692,048</u>
Tax provision at statutory rates-31.5% (2007 - 34.12 %)	<u>50,709</u>	<u>236,026</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 \$250,000 of non refundable tax credits which was applied to reduce research and development expenses in the current quarter (June 30, 2007 -\$150,000) and \$165,000 in the first quarter of 2008 (March 31, 2007 – \$100,992).

6. 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, 2008

6. SHARE CAPITAL – cont'd

Authorized:

Unlimited voting common shares, no par value

Unlimited preferred shares, no par value

Issued:

	Common	\$
Balance at December 31, 2007 and June 30, 2008	26,284,405	17,497,824

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, 2007	2,031,448	1.22
Granted	290,000	1.00
Cancelled and Expired	(121,500)	-
Balance, June 30 2008	2,199,948	1.21

The weighted average remaining life of the options as at June 30, 2008 was 7.44 years

Share Purchase Warrants

The following table summarizes outstanding warrants:

	Warrants	Weighted Average Exercise Price \$	Weighted Average Remaining Life (Years)
Balance, December 31, 2007	192,000	\$2.50	0.12
Exercised	-	-	
Expired (February 13, 2008)	(192,000)	\$2.50	
Balance, June 30, 2008	-	-	

TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements
(Unaudited)
June 30, 2008

7. EARNINGS PER SHARE

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

	June 30, 2008	June 30, 2007
	\$	\$
Net income available to shareholders	110,274	401,022
Weighted average shares outstanding	26,284,405	26,236,038
Effect of dilutive securities, stock options and warrants	-	582,269
	26,284,405	26,818,307
Basic earnings per share	\$ 0.00	\$ 0.02
Diluted earnings per share	\$ 0.00	\$ 0.01

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):

	\$
2008	268,599
2009	497,729
2010	422,725
2011	307,225
2012	306,188
	<u>1,802,466</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	\$
2008	588,698
2009	1,110,520
2010	579,987
2011	5,581
Total minimum lease payments as at December 31 2007	2,284,786
Amount representing interest at 13.5%	(287,192)
Balance of the obligation	1,997,594
Current Portion	977,662
Long term portion	<u>1,019,932</u>

TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements
(Unaudited)
June 30, 2008

9. RELATED PARTY TRANSACTIONS

The Company paid or accrued total rent of \$60,048 in the current quarter (June 30 2007 - \$60,048) to companies owned by the President of the Company. Included in lease commitments (Note 8) is \$1,080,846 that will be payable to these related companies over the next five years.

The Company purchased raw materials of \$494,420 (2007 – \$433,425) in the current quarter from a company whose chief executive officer is a director of the Company. Included in accounts payable is \$392,763 (2007 – \$125,707) payable to the same related company.

10. SEGMENTED INFORMATION

	Canada \$	US \$	Other \$	Total \$
June 30, 2008				
Sales	1,979,800	7,777,718	2,007,288	11,764,806
Property, plant and equipment	11,865,271			11,865,271
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
