

TRANZEO WIRELESS TECHNOLOGIES LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

QUARTER ENDED SEPTEMBER 30 2006

(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

	<u>Sept 30, 2006</u> (Unaudited)	<u>Dec. 31, 2005</u>
Assets		
Current assets:		
Cash and cash equivalents.....	\$ 803,116	\$ 1,161,939
Accounts receivable.....	1,660,907	824,758
Prepaid expenses	283,928	270,287
Inventories (Note 3).....	<u>4,007,206</u>	<u>4,218,401</u>
	6,755,157	6,475,385
Property plant, and equipment (Note 4).....	<u>4,775,513</u>	<u>2,396,144</u>
	<u>\$ 11,530,670</u>	<u>\$ 8,871,529</u>
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable and accrued liabilities.....	\$ 2,175,992	\$ 1,880,078
Income Taxes Payable.....	172,183	-
Current portion of capital lease obligation.....	<u>299,468</u>	<u>-</u>
	2,647,643	1,880,078
Capital lease obligation(Note 8).....	<u>595,005</u>	<u>-</u>
	<u>3,242,648</u>	<u>1,880,078</u>
Shareholders' equity:		
Share Capital (Note 6).....	6,974,568	6,974,568
Contributed Surplus	134,289	134,289
Retained Earnings (Deficit).....	<u>1,179,165</u>	<u>(117,406)</u>
	<u>8,288,022</u>	<u>6,991,451</u>
	<u>\$ 11,530,670</u>	<u>\$ 8,871,529</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 Deficit (Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Sales.....	\$4,523,692	\$ 4,003,580	\$13,803,901	\$ 10,234,759
Cost of goods sold.....	<u>2,877,051</u>	<u>2,801,877</u>	<u>8,968,955</u>	<u>7,141,566</u>
Gross Profit.....	<u>1,646,641</u>	<u>1,201,703</u>	<u>4,834,946</u>	<u>3,093,193</u>
Expenses				
Sales and marketing.....	250,899	278,616	916,303	820,270
Research and development.....	37,456	188,185	187,129	492,245
General and administrative.....	593,408	362,237	1,512,183	886,623
Amortization.....	<u>101,152</u>	<u>61,111</u>	<u>317,790</u>	<u>166,546</u>
	<u>982,915</u>	<u>890,149</u>	<u>2,933,405</u>	<u>2,365,684</u>
Earnings from operations.....	663,726	311,555	1,901,541	727,509
Other expenses				
Interest on long term debt.....	28,130	2,936	68,392	83,043
Interest accreted on convertible debentures.....	-	290	-	10,978
Foreign exchange loss.....	<u>10,237</u>	<u>31,767</u>	<u>21,330</u>	<u>60,504</u>
	<u>38,367</u>	<u>34,993</u>	<u>89,722</u>	<u>154,525</u>
Earnings before income taxes.....	625,359	276,561	1,811,819	572,984
Income taxes (Note 5).....	<u>213,364</u>	<u>-</u>	<u>515,247</u>	<u>-</u>
Net earnings	411,995	276,561	1,296,572	572,984
Retained Earnings (deficit), beginning of period.....	<u>767,170</u>	<u>(757,222)</u>	<u>(117,407)</u>	<u>(1,053,645)</u>
Retained earnings (deficit), end of period.....	<u>\$1,179,165</u>	<u>\$ (480,661)</u>	<u>\$1,179,165</u>	<u>\$ (480,661)</u>
Earnings per share for the period (Note 6)				
Basic.....	\$.02	\$.01	\$.06	\$.04
Diluted.....	<u>\$.02</u>	<u>\$.01</u>	<u>\$.05</u>	<u>\$.04</u>
Weighted average number of shares - basic.....	21,927,485	18,935,548	21,927,485	14,643,412

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 September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Cash flows from operating activities:				
Net income for the period	\$411,995	\$276,561	\$1,296,572	\$ 572,984
Adjustments to reconcile net loss to net cash from operating activities:				
Amortization	101,153	61,111	317,790	166,546
Accreted interest on convertible debentures.....	-	290	-	10,978
	<u>513,148</u>	<u>337,962</u>	<u>1,614,362</u>	<u>750,508</u>
Changes in working capital assets and liabilities:				
Prepaid expenses.....	(38,923)	92,567	(13,644)	(183,588)
Accounts receivable.....	408,224	(192,690)	(836,149)	(310,215)
Accounts payable and accrued liabilities.....	(214,385)	1,113,465	295,916	1,707,728
Income taxes payable.....	7,350	-	172,183	-
Inventories.....	(44,479)	(1,049,387)	211,195	1,981,696
Net cash flows used in operating activities	<u>630,935</u>	<u>301,917</u>	<u>1,443,863</u>	<u>(17,263)</u>
Cash flows from investing activities				
Additions to property, plant and equipment	<u>(371,606)</u>	<u>(460,705)</u>	<u>(2,697,159)</u>	<u>(880,782)</u>
Cash flows from financing activities:				
Capital lease obligation.....	(58,426)	-	894,473	-
Net Proceeds on issuance of convertible debentures	-	(1,595,415)	-	(1,595,415)
Issuance of common shares net.....	-	1657,915	-	2,567,215
Net cash flows from financing activities	<u>(58,426)</u>	<u>62,500</u>	<u>894,473</u>	<u>971,800</u>
Net increase (decrease) in cash.....	200,903	(96,288)	(358,823)	73,755
Cash (deficiency), beginning of period.....	<u>602,213</u>	<u>143,458</u>	<u>1,161,939</u>	<u>(26,585)</u>
Cash, end of period.....	<u>\$ 803,116</u>	<u>\$ 47,170</u>	<u>\$803,116</u>	<u>\$ 47,170</u>
Supplementary cash information				
Cash paid for interest.....	\$28,130	\$ 2,936	68,392	\$ 83,043

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

TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements
(Unaudited)
September 30, 2006

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.

Certain comparative figures have been reclassified to conform with the current year's method of presentation.

(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, 2005. 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 subsidiary, Tranzeo EMC Laboratories 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 the determination of impairment of assets and useful lives for depreciation and amortization, fair values of financial instruments, the future income tax valuation allowance, and the determination of fair value for stock-based awards and compensation. Where estimates have been used financial results as determined by actual events could differ from those estimates.

TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to Consolidated Financial Statements
(Unaudited)
September 30, 2006

3. INVENTORIES

	September 30 2006	December 31 2005
Raw materials	2,972,488	3,735,645
Finished goods	1,034,718	482,756
	4,007,206	4,218,401

4. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2006		
	Cost	Accumulated amortization	Net Book Value
	\$	\$	\$
Automobile	48,238	19,637	28,601
Computer equipment	611,041	115,892	495,149
Computer software and website	531,244	106,845	424,399
Equipment	3,371,326	373,728	2,997,598
Warehouse and tenant improvements	978,273	148,507	829,766
	5,540,122	764,609	4,775,513

**Included in equipment is equipment acquired under capital leases in the amount of \$1,169,068

	December 31, 2005		
	Cost	Accumulated amortization	Net Book Value
	\$	\$	\$
Automobile	41,421	12,462	28,959
Computer equipment	581,446	60,165	521,281
Computer software and website	258,114	76,654	181,460
Equipment	1,158,590	231,548	927,042
Warehouse and tenant improvements	804,225	66,823	737,402
	2,843,796	447,652	2,396,144

TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to Consolidated Financial Statements
(Unaudited)
September 30, 2006

5. INCOME TAXES

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

	Quarter Ended September 30 2006	Quarter Ended September 30 2005
	\$	\$
Income (loss) before income taxes	625,359	185,511
Current income taxes at statutory rates-34.12% (17.6%- 2005)	213,364	32,650
Benefit of tax losses not previously recognized		(32,650)
Income taxes	\$213,364	-

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 \$326,780 of tax credits which was applied to reduce research and development expenses in the current quarter and \$122,000 of refundable tax credits in the first quarter of 2006 and \$237,000 of refundable tax credits in the second quarter of 2006.

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.

Authorized:

Unlimited voting common shares, no par value

Unlimited preferred shares, no par value

Issued:

	Common	\$
Balance at September 30 2006 (and December 31 2005)	21,927,485	6,974,568

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	Weighted Average Life in Years
Balance as at December 31 2005	1,506,000	1.00	10.0
Granted	200,000	2.00	10.0
Exercised	-	-	-
Expired	-	-	-
Balance, end of period	1,706,000	1.12	9.6

TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to Consolidated Financial Statements
(Unaudited)
September 30, 2006

6. SHARE CAPITAL-Cont'd

Stock Options

A total of 1,506,000 stock options were granted on May 30, 2005 to employees of the Company, prior to the company being a publicly traded entity. The options vest at the rate of 25% every three months, starting 15 months after the IPO date, and expire on October 4, 2015. The total fair value of these options at the date of grant was estimated to be \$280,016 using the Black-Scholes option pricing model and the following assumptions: an expected life of three years, a risk free interest rate of 3.5% and expected volatility of 20%. The fair value amount adjusted for expiry and new grants will be expensed to operations upon vesting, all of which occurs in the 2007 fiscal year. In 2006 the company granted a total of 200,000 share purchase options to employees with an exercise price of \$2.00 per share for a term of ten years. The options vest 25% every three months, starting 15 months after the date of grant, and expire in 10 years. The total fair value of these options at the date of grant was estimated to be \$82,569 using the Black-Scholes option pricing model with an expected life of three years, a risk free interest rate of 3.87% and an expected volatility of 40%, and will be expensed upon vesting of the underlying options.

Stock Warrants

The following table summarizes issued stock warrants :

	Warrants	Weighted Average Exercise Price \$	Weighted Average Remaining Life
Balance at Dec.31 05 and September 30 06			
Warrants from initial public offering	1,196,412	\$ 2.50	\$ 1.25
Agent warrants	298,503	\$ 2.00	\$ 1.76
	<u>1,494,915</u>	<u>\$ 2.40</u>	<u>\$ 1.36</u>

7. EARNINGS PER SHARE

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

	Quarter Ended September 30 2006	2005
Net income available to shareholders	\$ 411,995	\$ 276,560
Impact on assumed conversion of convertible debentures		
Interest paid on convertible debt	-	2,936
Interest accreted on convertible debt	-	290
	<u>\$ 411,995</u>	<u>\$ 279,786</u>
Weighted average shares outstanding	21,927,485	18,935,548
Effect of dilutive securities and stock options and warrants	3,200,915	833,000
	<u>25,128,400</u>	<u>19,768,548</u>
Basic earnings per share	\$ 0.02	\$ 0.01
Diluted earnings per share	\$ 0.02	\$ 0.01

TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to Consolidated Financial Statements
(Unaudited)
September 30 2006

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 five years as follows (see Note 9 – Related Party Transactions):

	\$
2006	417,091
2007	325,554
2008	316,276
2009	277,761
2010	240,188
	<u>1,576,870</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	\$
2006	115,409
2007	376,020
2008	311,224
2009	223,455
2010	67,267
Total minimum lease payments as at September 30 2006	1,093,375
Amount representing interest at 13.5%	(198,902)
Balance of the obligation	894,473
Current Portion	299,468
Long term portion	595,005

9. RELATED PARTY TRANSACTIONS

The Company paid or accrued total rent of \$66,048 in current quarter (\$18,000 September 30, 2005) to companies owned by the President of the Company. Included in lease commitments (Note 9) is \$1,206,940 that will be payable to these related companies over the next five years.

The Company purchased raw materials of \$683,222 in the current quarter from a company whose chief executive officer is a director of the Company. Included in accounts payable is \$432,317 payable to the same related company.

TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to Consolidated Financial Statements
(Unaudited)
September 30, 2006

10. SEGMENTED INFORMATION

	Canada	US	Other	Total
	\$	\$	\$	\$
September 30, 2006				
Sales	2,317,844	9,876,883	1,608,621	13,803,901
Capital assets	4,775,513	-	-	4,775,513
September 30, 2005				
Sales	1,872,961	7,717,008	644,790	10,234,759
Capital assets	1,486,156	-	-	1,486,153