

**TRANZEO WIRELESS TECHNOLOGIES INC.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**QUARTER ENDED SEPTEMBER 30 2008**

(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

	Sept 30, 2008 (Unaudited)	Dec. 31, 2007
<b>Assets</b>		
Current assets:		
Cash and cash equivalents.....	\$ -	\$ 168,171
Accounts receivable.....	4,692,760	2,827,431
Current portion of future income taxes.....	1,030,553	559,786
Prepaid expenses .....	732,851	560,673
Inventories (Note 3).....	7,995,873	7,438,122
	14,452,037	11,554,183
Property plant, and equipment .....	11,781,857	11,343,886
Deferred development costs.....	5,080,644	2,842,016
Future income taxes.....	218,540	218,540
	\$ 31,533,078	\$ 25,958,625
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities:		
Bank Indebtedness.....	\$ 2,661,773	\$ -
Accounts payable and accrued liabilities.....	3,899,742	2,869,359
Short Term Note Payable (Note 4).....	2,000,000	-
Current portion of capital lease obligation and equipment loan (Note 8).....	1,009,756	903,133
	9,571,271	3,772,492
Capital lease obligation and equipment loan (Note 8).....	831,003	1,462,980
	10,402,274	5,235,472
Shareholders' equity:		
Share Capital (Note 6).....	17,497,824	17,497,824
Contributed Surplus .....	935,350	841,350
Retained Earnings .....	2,697,630	2,383,979
	21,130,804	20,723,153
	\$ 31,533,078	\$ 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 Deficit (Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Sales.....	\$4,414,293	\$4,601,415	\$16,179,099	\$14,661,941
Cost of goods sold.....	<u>2,982,826</u>	<u>2,800,785</u>	<u>10,777,152</u>	<u>8,900,363</u>
Gross Profit.....	<u>1,431,467</u>	<u>1,800,630</u>	<u>5,401,947</u>	<u>5,761,578</u>
Expenses				
Sales and marketing.....	501,077	446,554	1,635,353	1,198,784
Research and development (Note 5).....	96,350	147,506	238,550	666,886
General and administrative.....	629,500	624,550	1,982,015	1,804,430
Amortization.....	<u>230,895</u>	<u>177,217</u>	<u>649,514</u>	<u>459,159</u>
	<u>1,457,822</u>	<u>1,395,827</u>	<u>4,505,432</u>	<u>4,129,259</u>
Earnings (Loss) from operations.....	(26,355)	404,803	896,515	1,632,319
Other expenses (income)				
Interest Income.....	-	(12,774)	-	(71,814)
Interest Expense.....	163,466	34,832	419,754	114,688
Foreign exchange loss.....	<u>23,065</u>	<u>57,564</u>	<u>18,877</u>	<u>76,245</u>
	<u>186,531</u>	<u>79,622</u>	<u>438,631</u>	<u>119,119</u>
Earnings (Loss) before income taxes.....	(212,886)	325,181	457,884	1,513,200
Income taxes (Note 5).....	<u>(67,059)</u>	<u>124,080</u>	<u>144,233</u>	<u>569,934</u>
Net earnings (Loss) .....	(145,827)	201,101	313,651	943,266
Retained earnings, beginning of period.....	<u>2,843,457</u>	<u>2,174,857</u>	<u>2,383,979</u>	<u>1,432,692</u>
Retained earnings, end of period.....	<u>\$2,697,630</u>	<u>\$2,375,958</u>	<u>\$2,697,630</u>	<u>\$2,375,958</u>
Earnings (loss) per share for the period (Note 7)				
Basic.....	\$(.01)	\$.01	\$.01	\$.04
Diluted.....	<u>-</u>	<u>\$.01</u>	<u>\$.01</u>	<u>\$.04</u>
Weighted average number of shares - basic.....	26,284,405	26,278,405	26,284,405	25,550,908

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	
	2008	2007	2008	2007
Cash flows from operating activities:				
Net income (loss) for the period .....	\$(145,827)	\$201,101	\$313,651	\$943,266
Adjustments to reconcile net loss to net cash from operating activities:				
Amortization .....	230,895	177,217	649,514	459,159
Amortization of deferred developments costs.....	96,350	23,850	238,550	43,500
Interest on capital leases.....	60,128	34,832	185,271	114,688
Future income taxes - current.....	(67,059)	124,080	144,233	569,934
Stock based compensation.....	-	38,497	-	159,457
	<u>174,487</u>	<u>599,577</u>	<u>1,531,219</u>	<u>2,290,004</u>
Changes in working capital assets and liabilities:				
Prepaid expenses.....	(69,598)	15,965	(172,178)	(202,433)
Accounts receivable.....	379,430	(388,651)	(2,480,329)	(2,118,633)
Accounts payable and accrued liabilities.....	(243,377)	(804,919)	1,030,384	(471,533)
Inventories.....	393,793	(486,437)	(557,749)	(1,825,540)
Net cash flows used in operating activities	<u>634,735</u>	<u>(1,064,465)</u>	<u>(648,653)</u>	<u>(2,328,135)</u>
Cash flows from investing activities				
Additions to property, plant and equipment .....	(147,481)	(734,589)	(923,824)	(3,316,283)
Deferred development expenses.....	(793,396)	(664,539)	(2,383,180)	(1,290,374)
Net cash flows used in investing activities	<u>(940,877)</u>	<u>(1,399,128)</u>	<u>(3,307,004)</u>	<u>(4,606,657)</u>
Cash flows from financing activities:				
Repayment of capital leases obligations and equipment loan.....	(311,486)	(163,936)	(968,687)	(481,972)
Proceeds from short term note payable.....	-	-	2,000,000	-
Proceeds from equipment loan.....	-	-	94,400	-
Issuance of common shares net.....	-	-	-	8,081,759
Net cash flows used in financing activities	<u>(311,486)</u>	<u>(163,936)</u>	<u>1,125,713</u>	<u>7,599,787</u>
Net increase (decrease) in cash.....	(617,628)	(2,627,529)	(2,829,944)	664,995
Cash (Bank Indebtedness), beginning of period.....	<u>(2,044,145)</u>	<u>3,681,773</u>	<u>168,171</u>	<u>389,249</u>
Cash (Bank Indebtedness), end of period.....	<u>(2,661,773)</u>	<u>1,054,244</u>	<u>(2,661,773)</u>	<u>1,054,244</u>
Supplementary cash information				
Cash paid for interest.....	\$163,466	\$34,832	\$419,754	\$114,688

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, 2008

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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.

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, 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 EMC Laboratories Inc, Tranzeo Wireless Technologies USA Inc and Tranzeo Wireless Technologies Ireland Limited. 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, 2008

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## 3. INVENTORIES

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	September 30 2008	December 31 2007
Raw materials	6,159,788	5,835,993
Finished goods	1,836,085	1,602,129
	<u>7,995,873</u>	<u>7,438,122</u>

## 4. SHORT TERM NOTE PAYABLE

The company is in the process of securing a three-month extension to December 31, 2008.

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## 5. INCOME TAXES

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

	Quarter Ended September 30 2008	Quarter Ended September 30 2007
	\$	\$
Income (loss) before income taxes	(212,886)	325,181
Stock based compensation – non deductible	-	38,497
Income for tax purposes	<u>(212,886)</u>	<u>363,678</u>
Current income taxes at statutory rates-31.5% (34.2%- 2007)	<u>(67,059)</u>	<u>124,080</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 \$200,000 (2007 - \$80,000) of tax credits which was applied to reduce research and development expenses in the current quarter. The company has recorded \$615,000 of tax credits during the current year (2007 – \$330,992)

# TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to Consolidated Financial Statements  
(Unaudited)  
September 30, 2008

## 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 December 31, 2007 and September 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	1.21
Granted	290,000	1.00
Cancelled and Expired	(189,344)	1.00
Balance, September 30 2008	2,132,104	1.19

The weighted average remaining life of the options as at September 30, 2008 was 7.20 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, September 30, 2008	-	-	

# TRANZEO WIRELESS TECHNOLOGIES INC.

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

## 7. EARNINGS PER SHARE

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

	Sept 30, 2008	Sept 30, 2007
	\$	\$
Net income (loss) available to shareholders	(145,827)	201,101
Weighted average shares outstanding	26,284,405	26,278,405
Effect of dilutive securities, stock options and warrants	-	446,434
	26,284,405	26,728,839
Basic earnings per share	\$ (0.01)	\$ 0.01
Diluted earnings per share	\$ -	\$ 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 five years as follows (see Note 9 – Related Party Transactions):

	\$
2008	133,174
2008	506,185
2009	431,181
2010	315,681
2011	314,645
	<u>1,700,866</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	323,471
2009	1,128,763
2010	528,315
2011	5,712
Total minimum lease payments as at September 30 2008	1,986,261
Amount representing interest at 10.75%	<u>(235,182)</u>
Balance of the obligation	1,751,079
Current Portion	990,876
Long term portion	<u>760,203</u>

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# TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements  
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## 9. RELATED PARTY TRANSACTIONS

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The Company paid or accrued total rent of \$60,048 in current quarter (\$60,048 September 30, 2007) to companies owned by the President of the Company. Included in lease commitments (Note 8) is 1,056,739 (2007 – 1,200,940) that will be payable to these related companies over the next five years.

The Company purchased raw materials of \$274,443 (2007 - \$416,989) in the current quarter from a company whose chief executive officer is a director of the Company. Included in accounts payable is \$423,034 (2007 - \$166,356) payable to the same related company.

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## 10. SEGMENTED INFORMATION

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	Canada \$	US \$	Other \$	Total \$
<b>September 30, 2008</b>				
Sales	3,279,231	9,829,049	3,070,819	16,179,099
Capital assets	11,781,857	-	-	11,781,857
<b>September 30, 2007</b>				
Sales	2,809,160	9,617,173	2,235,608	14,661,941
Capital assets	11,343,866	-	-	11,343,866