

TRANZEO WIRELESS TECHNOLOGIES INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008



**DALE MATHESON
CARR-HILTON LABONTE LLP**

DMCL CHARTERED ACCOUNTANTS

Partnership of:

Vancouver	Robert J. Burkart, Inc. Alvin F. Dale Ltd. Robert J. Matheson, Inc.	James F. Carr-Hilton Ltd. Barry S. Hartley, Inc. Rakesh I. Patel Inc.	Kenneth P. Chong Inc. Reginald J. LaBonte Ltd.
South Surrey	Michael K. Braun Inc.	Peter J. Donaldson, Inc.	
Port Coquitlam	Wilfred A. Jacobson Inc.	Fraser G. Ross, Ltd.	Brian A. Shaw Inc.

AUDITORS' REPORT

To the Shareholders of Tranzeo Wireless Technologies Inc.

We have audited the consolidated balance sheets of Tranzeo Wireless Technologies Inc. as at December 31, 2008 and 2007 and the consolidated statements of operations, comprehensive income (loss) and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"DMCL"

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS

Vancouver, Canada
March 27, 2009

TRANZEO WIRELESS TECHNOLOGIES INC.

Consolidated Balance Sheets

	December 31, 2008	December 31, 2007
Assets		
Current assets:		
Cash (Note7).....	\$ -	\$ 168,171
Accounts receivable (Note 7).....	3,289,007	2,827,431
Current portion of future income tax asset (Note 4).....	-	559,786
Prepaid expenses.....	768,822	560,673
Inventories (Notes 3 and 7).....	6,786,039	7,438,122
	10,843,868	11,554,183
Equipment (Notes 5 and 7).....	11,482,421	11,343,886
Deferred development costs (Note 6).....	5,945,883	2,842,016
Future income tax asset (Note 4).....	2,533,191	218,540
	\$ 30,805,363	\$ 25,958,625
Liabilities and Shareholders' Equity		
Current Liabilities:		
Bank Indebtedness (Note7).....	\$ 3,116,276	\$ -
Accounts payable and accrued liabilities (Note 10).....	4,835,195	2,869,359
Equipment loan (Note 7).....	84,960	-
Current portion of capital lease obligation (Note 8).....	998,169	903,133
Short Term Debt (Note 8).....	2,000,000	-
	11,034,600	3,772,492
Capital lease obligation and equipment loan (Note 8).....	644,858	1,462,980
	11,679,458	5,235,472
Shareholders' equity:		
Share capital (Note 10).....	17,525,344	17,497,824
Contributed surplus (Note 10).....	1,015,298	841,350
Retained earnings.....	585,263	2,383,979
	19,125,905	20,723,153
	\$ 30,805,363	\$ 25,958,625

**Commitments and Contingencies (Notes 7, 8 and 9)
Subsequent event (Note 14)**

APPROVED BY THE DIRECTORS:

Signed: "Jim Tocher" Director

Signed: "Trudi Kloepper" Director

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

TRANZEO WIRELESS TECHNOLOGIES INC.

Consolidated Statements of Operations, Comprehensive Income (Loss) and Retained Earnings

	Year ended December 31,	
	2008	2007
Sales.....	\$ 19,412,379	\$ 18,363,866
Cost of goods sold.....	<u>14,863,890</u>	<u>11,287,298</u>
Gross profit.....	<u>4,548,489</u>	<u>7,076,568</u>
 Expenses		
Sales and marketing.....	1,998,920	1,670,050
Research and development.....	398,550	668,967
General and administrative.....	2,723,425	2,203,705
Stock based compensation.....	79,948	186,083
Amortization.....	<u>1,279,356</u>	<u>648,518</u>
	<u>6,480,199</u>	<u>5,377,323</u>
 Income before other items.....	<u>(1,931,710)</u>	<u>1,699,245</u>
 Other (income) expenses		
Interest income.....	-	(75,799)
Interest expense.....	624,246	149,252
Foreign exchange loss	<u>33,143</u>	<u>88,504</u>
	<u>657,389</u>	<u>161,957</u>
 Net income (loss) before income tax	(2,589,099)	1,537,288
Future income tax expense (recovery) (Note 4).....	<u>(790,382)</u>	<u>586,000</u>
 Net and comprehensive income (loss).....	(1,798,717)	951,288
Retained earnings, beginning of year.....	2,383,979	1,432,691
Retained earnings, end of year.....	<u>\$ 585,263</u>	<u>\$ 2,383,979</u>
 Earnings (loss) per share for the year		
Basic.....	<u>\$ (0.07)</u>	<u>\$ 0.04</u>
Diluted.....	<u>\$ (0.07)</u>	<u>\$ 0.04</u>
 Weighted average number of shares outstanding for the year		
Basic.....	<u>26,297,563</u>	<u>25,735,429</u>
Diluted.....	<u>26,297,563</u>	<u>26,132,090</u>

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

TRANZEO WIRELESS TECHNOLOGIES INC.

Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2008	2007
Cash flows from operating activities:		
Net income (loss) for the year.....	\$ (1,798,717)	\$ 951,288
Adjustments to reconcile net loss to net cash from operating activities:		
Amortization	1,279,356	648,518
Deferred development amortization.....	398,550	102,250
Interest on capital lease obligation.....	238,829	159,773
Future income tax expense.....	(790,382)	586,000
Stock based compensation.....	79,948	186,083
	(592,416)	2,633,912
Changes in working capital assets and liabilities		
Prepaid expenses.....	(208,149)	(292,219)
Accounts receivable.....	(461,576)	(1,354,466)
Accounts payable and accrued liabilities.....	(1,524,360)	(2,284,946)
Inventories.....	4,142,279	(1,061,931)
	1,355,778	(2,359,650)
Net cash flows from (used in) operating activities.....	1,355,778	(2,359,650)
Cash flows from investing activities:		
Additions to property, plant, and equipment.....	(1,374,259)	(3,962,467)
Deferred development costs.....	(4,141,553)	(2,502,519)
	(5,515,812)	(6,464,986)
Net cash flows used in investing activities.....	(5,515,812)	(6,464,986)
Cash flows from financing activities:		
Bank indebtedness.....	3,116,276	-
Repayment of capital lease obligation.....	(1,236,893)	(689,082)
Proceeds from Equipment Loan, net.....	84,960	-
Proceeds from sale and lease back.....	-	1,204,881
Short Term Debt.....	2,000,000	-
Issuance of common shares, net.....	27,520	8,087,759
	3,991,863	8,603,558
Net cash flows from financing activities.....	3,991,863	8,603,558
Net decrease in cash.....	(168,171)	(221,078)
Cash, beginning of year.....	168,171	389,249
Cash, end of year	\$ -	\$ 168,171
CASH PAID FOR		
Interest	\$ 626,697	\$ 171,457
Income taxes	\$ -	\$ -

SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS (Note 13)

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

TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements
Year Ended December 31, 2008

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

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. The Company's shares are listed on the Toronto Stock Exchange ("TSX").

The consolidated financial statements for the year ended December 31, 2008 have been prepared on a going concern basis, which presumes the Company will continue in operation for the foreseeable future and will realize its assets and discharge its liabilities in the normal course of operation. During the year, the Company has incurred a net loss of \$1,798,717. The Company's continued existence as well as the recovery of amounts capitalized as deferred development costs and future income tax assets, is dependent upon generating profitable operations in 2009 and beyond. If the Company continues to realize losses the recovery of these assets will be in doubt and could be subject to impairment in 2009. Management is currently evaluating other sources of financing, including debt and equity financing, or a combination thereof but there is no assurance that additional financing will be available, if needed, on terms acceptable to the Company. Management is also aware that significant uncertainties exist, related to current economic conditions that could impact the Company's ability to continue to finance its ongoing business development activities. As a result, management plans on reducing spending in order to preserve cash and maintain liquidity until overall market conditions improve. Management is not able to assess the likelihood or timing of improvements in the equity markets for raising capital for future acquisitions or expenditures. This uncertainty represents a liquidity risk and may impact the Company's ability to continue as a going concern in the future.

In accordance with the terms of its line of credit (Note 7), the Company is required to maintain a working capital ratio of not less than 2:1. As at December 31, 2008, the Company's working capital ratio was approximately 1.1:1 and therefore was not in compliance with the covenant related to this facility.

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) 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 on consolidation.

(c) 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 inventory obsolescence provision, uncollectible accounts receivable provision, realization and eligibility of expenditures claimed as investment tax credits, allocation of indirect costs to cost of sales and inventory, the allocation of indirect costs to research and

development, the determination of impairment of assets and useful lives for amortization, fair values of financial instruments, future income tax rates and valuation allowance and fair value for stock-based awards and compensation. Financial results as determined by actual events could differ from those estimates.

(d) Cash Equivalents

The Company considers cash equivalents to be cash as well as all highly liquid short-term investments with a maturity of 90 days or less at the date of acquisition.

(e) Inventories

Inventories consist of raw materials, work-in-progress and finished goods, and are recorded at the lower of cost, determined on a FIFO basis, and net realizable value. Cost includes direct costs and applicable overhead allocation for finished goods and work-in-progress.

(f) Equipment

Equipment is stated at cost less accumulated amortization. Amortization is provided at various rates designed to amortize the assets over the estimated useful lives. The amortization rates are follows:

Automobiles	30% declining balance
Computer equipment	5% - 30% declining balance
Computer software	100% declining balance
Manufacturing Equipment	5% - 20% declining balance,
Testing Equipment	Straight line over ten years
Product source code	Straight line over ten years
Warehouse and tenant improvements	Straight line over ten years

The carrying value of property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate the recoverable value may be less than the carrying amount. Recoverable value determinations are based on management's estimates of undiscounted and discounted future net cash flows expected to be recovered from specific assets or groups of assets through use or future disposition. Impairment charges are recorded in the period in which determination of impairment is made by management.

(g) Revenue Recognition

Revenue from product and service sales is recognized when the amount is fixed or determinable, title has transferred or initial services have been performed, and collection is reasonably assured.

(h) Cost of Sales

Cost of sales includes materials, direct labour and overhead cost allocations associated with the manufacture of the Company's products.

(i) Research and Development

Research costs are expensed as incurred. Development costs are expensed as incurred unless specific criteria for deferral and amortization under Canadian generally accepted accounting principles ("GAAP") have been met. The Company capitalizes the costs for development meeting the criteria up to the date the project has reached commercial production. Incidental recoveries and sales of test products prior to commercial production are offset against capitalized costs. Prior to commercial production management reviews the carrying value of capitalized development costs and the Company records impairment charges as appropriate whenever events or changes in circumstances indicate an impairment may have occurred. Capitalized development costs are amortized over a five year term on a straight line basis commencing upon commercial sales of the related new products. The amortization expense is included in the research and development expense in the statement of Operations, Comprehensive income (loss) and Retained earnings.

(j) Foreign Exchange

The Company's functional currency and reporting currency is the Canadian dollar. Foreign denominated monetary assets and liabilities are translated to their Canadian dollar equivalents using foreign exchange rates that prevailed at the balance sheet date. Non-monetary items are translated at historical exchange rates, except for items carried at market value, which are translated at actual or average rates of exchange during the year. Exchange gains or losses arising on foreign currency translation are included in the determination of operating results for the year.

The Company's subsidiaries are integrated foreign operations and are translated into Canadian dollars using the temporal method. Monetary items are translated at the exchange rate in effect at the balance sheet date; non-monetary items are translated at historical exchange rates. Income and expense items are translated at the average exchange rate for the period. Translation gains and losses are reflected in income (loss) for the year.

(k) Earnings per Share

As required by Section 3500 of the Canadian Institute of Chartered Accountants ("CICA") Handbook, the Company applies the treasury stock method in computing earnings per share. Pursuant to the treasury stock method, the Company determines the dilutive effect of stock options and other dilutive instruments. The treasury stock method assumes that proceeds received from in-the-money stock options are used to repurchase common shares at the average market price for the reporting period. Basic earnings per share figures have been calculated using the weighted average number of shares outstanding during the respective periods.

(l) Future Income Taxes

The liability method of tax allocation is used in accounting for income taxes. Under this method an enterprise would recognize a future income tax liability whenever recovery or settlement of the carrying amount of an asset or liability would result in future income tax outflows. Similarly, an enterprise would recognize a future income tax asset whenever recovery or settlement of the carrying amount of an asset or liability would generate future income tax reductions. In the case of unused tax losses, income tax reductions, and certain items that have a tax basis but cannot be identified with an asset or liability on the balance sheet, the recognition of future income tax benefits is determined by reference to the likely realization of a future income tax reduction.

(m) Stock Based Compensation

The Company reports and records all stock based compensation transactions following the guidelines of CICA Handbook Section 3870 using a fair-value methodology for recording all stock-based compensation to employees, directors and consultants. The fair value of options and other stock based awards to employees or consultants, issued or altered in the period, are determined using the Black-Scholes option pricing model. The fair value of stock options and warrants are determined at the date of grant and charged to operations over the period of vesting.

(n) Related Party Transactions

Related party transactions are recorded at their exchange amount that is the amount of consideration agreed to by the related parties.

(o) Research and Development Tax Credit

Research and development tax credits are accounted for using the cost reduction method. Accordingly, tax credits are recorded as a reduction of the related expenses or capital expenditures when recoverability is reasonably assured.

(p) Financial Instruments

The Company follows the CICA Handbook Section 3855, "Financial Instruments". This section prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. Under Section 3855, financial instruments must be classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities.

The Company's financial instruments consist of cash, accounts receivable, bank indebtedness, accounts payable, capital lease obligations, and short term debt. Cash, which is measured at its face value, representing fair value, is classified as held-for-trading. Accounts receivable, which is measured at its face value, representing fair value, are classified as loans and receivables. Bank indebtedness, accounts payable and short term debt, which are measured at amortized cost, are classified as other financial liabilities.

For the years ended December 31, 2008 and 2007, the Company has no derivatives or embedded derivatives.

(q) Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.

(r) Comprehensive Income

The Company follows CICA Handbook Section 1530, "Comprehensive Income". Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. Section 1530 establishes standards for reporting and presenting certain gains and losses not normally included in net income or loss, such as unrealized gains and losses related to available for sale securities, and gains and losses resulting from the translation of self-sustaining foreign operations, in a statement of comprehensive income. For the years ended December 31, 2008 and 2007, the Company has no items that are required to be reported in comprehensive income (loss). Accordingly, net loss equals comprehensive income (loss).

(s) Newly Adopted Accounting Standards

Accounting Changes – CICA Handbook Section 1506

This standard establishes criteria for changes in accounting policies, accounting treatment and disclosure regarding changes in accounting policies, estimates and corrections of errors. In particular, this section allows for voluntary changes in accounting policies only when they result in the financial statements providing reliable and more relevant information. This section requires changes in accounting policies to be applied retrospectively unless doing so is impracticable.

Capital Disclosures – CICA Handbook Section 1535

This section specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has not complied with any capital requirements; and (iv) if it has not complied, the consequences of such noncompliance. The Company has included disclosures recommended by this new section in Note 15 to these financial statements.

Financial Instruments – Disclosures, CICA Handbook Section 3862, and Financial Instruments – Presentation, CICA Handbook Section 3863

These new standards, which replaced Section 3861 – Disclosure and Presentation, revise and enhance disclosure requirements while carrying forward presentation requirements. These new sections will place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has included disclosure recommended by these new sections in Note 14.

Going Concern – CICA Handbook Section 1400

In June 2007, the CICA modified section 1400 "General Standards of Financial Statement Presentation" in order to require that management make an assessment of the Company's ability to continue as a going concern over a period which is at least, but not limited to, twelve months from the balance sheet date. These new requirements were adopted by the Company on February 1, 2008. The new requirements address disclosures only and will have no impact on the Company's financial results.

Inventory – CICA Handbook Section 3031

Effective January 1, 2008, the Company adopted the new recommendations of the CICA under CICA Handbook Section 3031 Inventories. This Section provides expanded guidance on the measurement and disclosure requirements for inventories. Specifically, the new standard requires that inventories be measured at the lower of cost and net realizable value, and provides more guidance on the determination of cost and its subsequent recognition as expense, including any write-down to net realizable value. The adoption of this new standard had no effect on the amounts disclosed in the financial statements.

(t) Recent Accounting Standards, not yet adopted

International Financial Reporting Standards (“IFRS”)

In 2006, the Accounting Standards Board of Canada (“ACSB”) ratified a strategic plan that will result in the convergence of Canadian GAAP, as used by publicly accountable entities, with IFRS over a transitional period. The ACSB has developed and published a detailed implementation plan, with changeover required for fiscal years beginning on or after January 1, 2011. The Company is in the process of reviewing the impact of this initiative on its financial statements.

3. INVENTORIES

	December 31, 2008	December 31, 2007
	\$	\$
Raw materials	5,557,215	5,835,993
Finished goods	1,228,824	1,602,129
	6,786,039	7,438,122

During the year ended December 31, 2008 the Company provided \$650,000 for slow moving inventory.

4. FUTURE INCOME TAXES

(a) The tax effects of temporary differences that give rise to significant future tax assets and future tax liabilities at December 31, 2008 and December 31, 2007 are presented below:

	December 31, 2008	December 31, 2007
	\$	\$
Current portion of future income tax assets		
Share issuance costs	-	104,806
Non-refundable investment tax credits	-	454,980
	-	559,786
Long term portion of future income tax assets (liabilities)		
Property, plant and equipment	(1,281,596)	(1,020,423)
Deferred development costs	(682,260)	(371,944)
Share issuance costs	172,674	195,032
Non capital loss carry forward	1,695,973	281,701
Non-refundable investment tax credits	2,628,400	1,133,174
	2,533,191	217,540
	2,533,191	777,326

The net future tax asset is calculated at a rate of 30% (2007 – 30.00%) to reflect substantially enacted tax rate changes for federal and provincial taxes, based on estimates of when temporary differences will reverse.

(b) The Company's provision for income tax is comprised of:

	December 31, 2008	December 31, 2007
	\$	\$
Provision for income taxes based on a combined basic Canadian federal and provincial income tax rate of 31.5% (2007 – 34.12%)	(815,566)	524,522
Increase (decrease) in tax resulting from:		
Stock based compensation expense	25,184	63,040
Other	-	(1,562)
	(790,382)	586,000

5. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2008			2007
	Cost	Accumulated amortization	Net Book Value	Net Book Value
	\$	\$	\$	\$
Automobile	63,387	38,475	24,912	23,184
Computer equipment	1,387,214	310,586	1,076,628	1,065,476
Computer software and website	788,866	266,013	522,853	503,429
Equipment	7,530,262	1,468,012	6,062,250	5,917,518
Product Source Code	3,043,573	372,832	2,670,741	3,004,573
Building and Land	354,176	-	354,176	-
Warehouse and tenant improvements	1,163,451	392,590	770,861	829,706
	14,330,929	2,848,508	11,482,421	11,343,886

Included in equipment above is equipment acquired under capital leases as follows:

	December 31, 2008			2007
	Cost	Accumulated amortization	Net Book Value	Net Book Value
	\$	\$	\$	\$
Equipment	3,769,361	619,253	3,150,108	3,232,755

6. DEFERRED DEVELOPMENT COSTS

During the year the company capitalized \$3,502,419 (2007-\$2,708,225) of development costs, net of investment tax credits of \$796,136 (2007-\$351,927). Amortization of deferred development costs in the current year was \$398,550 (2007-\$102,250).

To December 31, 2008, the Company recorded deferred development cost of \$5,945,883 (2007 - \$2,842,016), net of amortization of \$500,800 (2007 - \$102,250).

7. BANK INDEBTEDNESS

The Company has arranged a line of credit with its bank in the amount of \$3,300,000. At December 31, 2008, the Company had utilized \$2,954,639 of this facility (2007-\$695,000). At December 31, 2008 the Company had outstanding cheques in excess of funds on hand of \$161,637. At December 31, 2007 the line of credit was netted against cash in the balance sheet. The line of credit is due on demand and bears interest at the bank prime rate plus 1%.

The Company has arranged for a loan of \$94,400 to purchase equipment. To December 31, 2008, the Company had made principle repayments of \$9,440. The principal is repayable in sixty monthly installments of \$ 1,573 to June 2013 and bears interest at the bank's prime rate.

The line of credit and equipment loan are secured by the following:

- a) General Security Agreement representing a first charge on all the Company's assets and undertaking, and a fixed charge in first position over any equipment financed by the equipment loan;
- b) Export Development Canada Accounts Receivable insurance, with direction to pay in favor of the bank;
- c) Assignment of all risk insurance with the bank as the first payee; and
- d) Assignment of a life insurance policy of a director in the amount of \$1,000,000.

As at December 31, 2008, the Company was in violation of certain of the financial covenants for these bank debts. Consequently, all the debt is classified as a current liability.

8. SHORT TERM DEBT

On April 1, 2008 the Company arranged a short term note payable in the amount of \$2,000,000. The note is payable on demand, bears interest at 2% per month and is secured by the following:

- a) A promissory note of \$2,000,000 in the form requested by the Lender;
- b) A general security agreement under which the Borrower will grant to the Lender a security interest in all of its present and after-acquired property, subject only to the prior security interest of the Bank, granted pursuant to the Bank Security (Note 7); and
- c) A subordination agreement with the Bank, under which the Bank's priority in respect of the Bank Security shall be limited to \$5,165,000 plus accrued but unpaid interest and the costs and expenses of the Bank payable by the Borrower to the Bank pursuant to the Bank Facilities (Note 7).

9. COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

The Company has operating lease commitments for office premises (Note 11) and vehicles requiring payments in each of the next five years as follows:

	\$
2009	552,592
2010	467,705
2011	352,205
2012	314,645
2013	314,645
	2,001,792

Capital Lease Obligations

The following is the future minimum lease payments under capital leases together with the balance of the capital lease obligation:

	\$
2009	1,127,103
2010	630,920
2011	9,176
Total minimum lease payments as at December 31, 2008	1,767,200
Amount representing interest	(124,173)
Balance of the obligation	1,643,026
Current Portion	(998,169)
Long term portion	644,858

10. SHARE CAPITAL

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
Stock options exercised	31,500	31,500
Warrants exercised	285,083	712,008
Share issuance costs:		
Cash	-	(655,749)
Finder warrants	-	(143,241)
Stock options	-	(13,754)
Tax benefit of share issuance costs	-	223,741
Balance at December 31, 2007	26,284,405	17,497,824
Stock options exercised	86,000	27,520
Balance at December 31, 2008	26,370,405	17,525,344

Stock Options

In May 2005, the Company adopted a stock option plan (the "Plan") having the following significant terms: The Plan permits the Company to grant stock options to directors, executive officers, employees and other service providers. The maximum number of options that may be granted under the Plan shall not exceed 10% of the then issued and outstanding common shares. The exercise price of stock options granted under the Plan, as determined by the Board of Directors, shall not be less than the "market price" of the shares (as defined by the policies of the TSX or, if the shares are no longer listed for trading on the TSX, then such other exchange or quotation system on which the shares are listed or quoted for trading. Upon expiry of an option, or in the event an option is otherwise terminated for any reason, without having been exercised in full, the number of shares in respect of the expired or terminated option shall again be available for the purposes of the Plan. All options granted under the Plan may not have an expiry date exceeding ten years from the date on which the Board of Directors grant and announce the granting of the option. If the option holder ceases to be a director of the Company or its subsidiaries or ceases to be employed by the Company or its subsidiaries (other than by reason of death or cause), as the case may be, then the option granted shall expire no later than the 90th day following the date that the option holder ceases to be a director or ceases to be employed by the Company or its subsidiaries, subject to the terms and conditions set out in the Plan. In the event of

dismissal of the option holder from employment or service for cause, all options held by the option holder, whether or not vested at the date of dismissal, will immediately terminate without any right of the option holder to exercise any of the options. Options granted pursuant to the Plan are non-transferable and may be subject to vesting provisions determined by the Board of Directors.

The following table summarizes stock option transactions that occurred during the year:

	Number of Common Shares subject to Options	Weighted Average Exercise Price per Share
Balance, December 31, 2006	1,708,000	1.18
Granted	520,110	2.31
Exercised	(31,500)	1.00
Cancelled	(165,162)	2.20
Balance, December 31, 2007	2,031,448	1.39
Granted	738,000	0.59
Exercised	(86,000)	0.32
Cancelled	(189,344)	1.64
Balance, December 31, 2008	2,494,104	1.17

The weighted average remaining life of the vested and non-vested options as at December 31, 2008 was 7.29 year and 8.97 years (2007 – 7.56 years), respectively.

During the year ended December 31, 2008 the Company granted a total of 738,000 share purchase options to employees with exercise prices ranging from \$0.32 to \$1.00 per share for a term of ten years. The options vest based on the terms approved by the Board of Directors and expire in 10 years. The total fair value of these options at the date of grant was estimated to be \$155,376 using the Black-Scholes option pricing model with an expected life of three years, an average risk free interest rate of 2.7% and an average expected volatility of 100%. The grant date average fair value of options granted during the year was \$ 0.21 (2007 – \$0.97).

The following table provides detailed information about stock options outstanding at December 31, 2008:

Options outstanding	Exercisable Options	Exercise price \$	Expiry date
1,275,000	1,275,000	1.00	May 30, 2015
60,000	60,000	1.50	January 20, 2016
100,000	100,000	2.00	October 01, 2016
20,000	20,000	2.25	December 10, 2016
287,104	215,328	1.50	February 06, 2017
100,000	25,000	1.50	August 15, 2017
130,000	-	1.00	February 28, 2018
40,000	-	1.00	March 14, 2018
20,000	-	1.00	April 01, 2018
100,000	-	1.00	May 01, 2018
362,000	342,000	0.32	October 23, 2018
2,494,104	2,037,328		

Share Purchase Warrants

The following table summarizes warrant transactions that occurred during the year:

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

Contributed Surplus

The following table summarizes movements that occurred during the years ended December 31, 2008 and 2007:

	\$
Balance December 31, 2006	292,566
Stock based compensation	391,789
Fair value of warrants	156,995
Balance December 31, 2007	841,350
Stock based compensation	173,948
Balance December 31, 2008	1,015,298

11. RELATED PARTY TRANSACTIONS

The Company incurred total rent of \$ 324,899 in the current year (2007 - \$240,180) to companies owned by the President of the Company. Included in lease commitments is \$1,243,223 that will be payable to these related companies over the next five years (Note 9).

The Company purchased raw materials of \$ 1,610,696 (2007 – \$1,727,150) in the current year from a company whose chief executive officer is a director of the Company. Included in accounts payable is \$200,070 (2007 – \$463,047) payable to the same related company.

The Company purchased raw materials of \$ 584,590 (2007 – \$120,276) in the current year from a company whose Chairman of the Board of Directors is a director of the Company. Included in accounts payable is \$456,645 (2007 – \$65,285) payable to the same related company.

12. SEGMENTED INFORMATION

The Company operates in one reportable segment – broadband wireless equipment. The following table presents capital assets and total revenues by geographic region:

	Canada \$	US \$	Other \$	Total \$
December 31, 2008				
Sales	5,218,920	10,344,248	3,849,211	19,412,379
Capital assets	11,385,420	-	-	11,385,420
December 31, 2007				
Sales	3,732,619	11,859,753	2,771,494	18,363,866
Capital assets	11,343,886	-	-	11,343,886

13. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

During the years ended December 31, 2008 and 2007, the Company entered into certain non-cash transactions that have been excluded from the statement of cash flows as follows:

Year ended December 31, 2008:

- a) Recorded stock based compensation expense in the amount of \$79,948 with respect to the stock options vested during the year.

Year ended December 31, 2007:

- a) Recorded stock based compensation expense in the amount of \$391,789 with respect to the stock options vested during the year.
 - b) Recorded the future income tax effect relating to the future deduction of share issue costs incurred in the prior year. The tax benefit results in an increase in share capital of \$223,741.
 - c) Issued 840,337 common shares with a fair value \$2,000,000 for the acquisition of assets.
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14. 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:

	December, 31 2008	December, 31 2007
	\$	\$
Held for Trading (1)	-	168,171
Loans and Receivables (2)	3,289,007	2,827,431
Other financial liabilities (3)	10,036,431	2,869,359

- (1) Includes cash and cash equivalents.
- (2) Includes accounts receivable.
- (3) Includes accounts payable bank indebtedness and short term debt.

Cash and cash equivalents, 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 December 31, 2008, 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	(49,770)	49,770

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.

Credit risk

The company is exposed to credit risk in respect to accounts receivable in the event that it's 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 December 31, 2008, five customers exceeded 10% of the total receivable balance. These customers represented 40% of the accounts receivables balance. The Company defines past due based on agreed upon terms with each individual customer. As at December 31, 2008, 20% of trade receivables (net of allowances), are considered at least one day past due.

Foreign exchange risk

The following table summarizes the geographical distribution of the Company's financial instruments in Canadian dollars at December 31, 2008:

	CDN Dollars	US Dollars	Total
	%	%	%
Accounts receivable and other current assets	38	62	100
Bank debt, short term loan and accounts payable	61	39	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 December 31, 2008, 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 \$203,036 for the year ending December 31, 2008. If the Canadian dollar had depreciated 1 percent against all foreign currencies at December 31, 2008, 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 \$203,036 of after tax net income for the year ending December 31, 2008.

For the year ended December 31, 2008, a foreign exchange loss of \$33,143 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.

15. CAPITAL MANAGEMENT

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 stake holders 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 December 31, 2008, 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 December 31, 2008.