

TRANZEO WIRELESS TECHNOLOGIES LTD.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

CONSOLIDATED BALANCE SHEETS

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUDITORS' REPORT

To the Shareholders of
Tranzeo Wireless Technologies Inc.

We have audited the consolidated balance sheet of Tranzeo Wireless Technologies Inc. as at December 31, 2005 and 2004 and the consolidated statements of operations and deficit 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 audits.

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 positions of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada

March 14, 2006

"Dale Matheson Carr-Hilton LaBonte"
Chartered Accountants

TRANZEO WIRELESS TECHNOLOGIES INC.

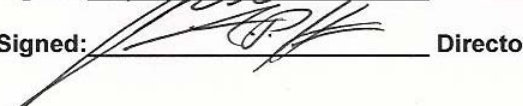
Consolidated Balance Sheet

	Dec. 31, 2005	Dec. 31, 2004
Assets		
Current assets:		
Cash and cash equivalent.....	\$ 1,161,939	\$ -
Accounts receivable.....	824,758	267,555
Prepaid expenses (Note 10).....	270,287	57,991
Inventories (Note 3)	4,218,401	1,080,913
	6,475,385	1,406,459
Property plant, and equipment (Note 4)	2,396,144	771,920
	\$ 8,871,529	\$ 2,178,379
Liabilities and Shareholders' Equity		
Current Liabilities:		
Bank indebtedness.....	\$ -	\$ 26,585
Accounts payable and accrued liabilities.....	1,798,114	704,436
Customer deposits.....	81,964	79,824
Current portion of convertible debentures (Note 5 and 10)	-	550,000
	1,880,078	1,360,845
Convertible Debentures (Note 5 and 10)	-	1,038,236
	1,880,078	2,399,081
Shareholders' equity:		
Share Capital (Note 7)	6,974,568	778,340
Contributed Surplus (Note 7c)	134,289	-
Equity Component of Convertible Debenture (Note 5)	-	54,603
Deficit.....	(117,406)	(1,053,645)
	6,991,451	(220,702)
	\$ 8,871,529	\$ 2,178,379

Commitments and Contingencies (Note 9)
Subsequent events (Note 11)

APPROVED BY THE DIRECTORS

Signed:  Director

Signed:  Director

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

TRANZEO WIRELESS TECHNOLOGIES INC.

Consolidated Statements of Operations and Deficit

	Year ended December 31	
	2005	2004
Sales.....	\$ 14,563,960	\$ 7,377,386
Cost of goods sold.....	<u>10,106,123</u>	<u>5,492,190</u>
Gross Profit.....	<u>4,457,837</u>	<u>1,885,196</u>
Expenses		
Sales and marketing.....	1,177,952	744,430
Research and development.....	694,811	430,255
General and administrative.....	1,259,375	749,688
Amortization.....	<u>235,204</u>	<u>111,970</u>
	<u>3,367,342</u>	<u>2,036,343</u>
Earnings (loss) before other items.....	<u>1,090,495</u>	<u>(151,147)</u>
Other (income) expenses		
Interest income.....	(8,651)	-
Interest on long term debt.....	83,070	122,526
Interest accreted on convertible debentures.....	10,978	18,538
Foreign exchange loss.....	<u>68,859</u>	<u>23,841</u>
	<u>154,256</u>	<u>164,905</u>
Net earnings (loss) before income taxes.....	936,239	(316,052)
Income tax expense (Note 6)	<u>-</u>	<u>-</u>
Net earnings (loss)	936,239	(316,052)
Deficit, beginning of period.....	(1,053,645)	(737,593)
Deficit, end of period.....	<u>\$ (117,406)</u>	<u>\$ (1,053,645)</u>
Earnings (loss) per share for the period (Note 8)		
Basic.....	<u>\$ 0.06</u>	<u>\$ (0.03)</u>
Diluted.....	<u>\$ 0.05</u>	<u>\$ -</u>
Weighted average number of shares outstanding for the year.....	<u>16,397,889</u>	<u>10,875,226</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	
	2005	2004
Cash flows from operating activities:		
Net income (loss) for the period	\$ 936,239	\$ \$(316,052)
Adjustments to reconcile net loss to net cash from operating activities:		
Amortization	235,204	111,970
Accreted interest on convertible debentures.....	10,978	18,538
	<u>1,182,421</u>	<u>(185,544)</u>
Changes in working capital assets and liabilities		
Prepaid expenses.....	(212,296)	(39,838)
Accounts receivable.....	(557,203)	(204,407)
Accounts payable and accrued liabilities.....	1,093,678	307,999
Inventories.....	(3,137,488)	(785,874)
Customer deposits.....	2,140	49,415
	<u>(1,628,748)</u>	<u>(858,249)</u>
Net cash flows used in operating activities.....		
	<u>(1,628,748)</u>	<u>(858,249)</u>
Cash flows from investing activities:		
Additions to property, plant, and equipment.....	(1,796,928)	(702,142)
Cash flows from financing activities:		
Advances from (payments to) related parties	-	(35,588)
Net proceeds on issuance of convertible debentures.....	-	1,065,415
Issuance of common shares, net.....	4,614,200	503,000
	<u>4,614,200</u>	<u>1,532,827</u>
Net cash flows from financing activities		
	<u>4,614,200</u>	<u>1,532,827</u>
Net increase (decrease) in cash.....	1,188,524	(27,564)
(Deficiency) Cash and Cash Equivalent, beginning of year.....	(26,585)	979
Cash and Cash Equivalent, end of year	<u>\$ 1,161,939</u>	<u>\$ (26,585)</u>
CASH PAID FOR		
Interest	\$ 83,070	\$ 122,526
Income taxes	\$ -	\$ -
	<u>\$ 83,070</u>	<u>\$ 122,526</u>

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 Consolidated Financial Statements

December 31, 2005 and 2004

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 June 30, 2005, the Company entered into an agreement to amalgamate with its controlling shareholder, JAT Ventures Ltd. ("JAT"). On completion of the amalgamation, all common shares (6,883,700) of the Company previously held directly by JAT were held directly by the former shareholders of JAT. The amalgamation did not result in any change in the number of outstanding shares of the Company and did not result in a change to the Company's net assets.

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) 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.

(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 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 Financials Statements

December 31, 2005 and 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

(d) Cash Equivalents

The Company considers cash equivalents to include all short-term money market investments with a maturity of 90 days or less at the date of acquisition.

(e) Inventories

Inventories consist of raw materials and finished goods, and are recorded at the lower of cost or net realizable value on a first in first out basis. Cost includes direct costs and applicable overhead allocation to finished goods.

(f) Amortization of property, plant and equipment

Property and equipment are 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	20% declining balance
Computer software and website	100% declining balance
Equipment	20% declining balance
Warehouse and tenant improvements	Straight line over five years

The carrying value of property 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 entitlement amount is fixed or determinable, delivery has occurred or services have been performed, and collection is reasonably assured.

(h) Asset retirement obligations

The company follows the Canadian Institute of Chartered Accountants - CICA Handbook, section 3110, Asset retirement obligations. This standard addresses recognition and measurement of liabilities for legal obligations associated with the retirement of property, plant and equipment. Under this standard, such obligations are initially measured at fair value and subsequently adjusted for any changes resulting from the passage of time and revisions to either the timing or the amount of the original estimates. The amount of any asset retirement cost is capitalized to the related asset and amortized into earnings over time. This standard came into effect on January 1, 2004. Management has determined that the implementation of this standard has no impact on these financial statements.

TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

(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 principals ("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.

(j) Foreign exchange

The Company's functional 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.

(k) Earnings (loss) per Share

The Company uses the treasury stock method to determine 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. (Note 8)

(l) Stock based compensation

The Company reports and records all stock-based transactions following the guidelines of CICA Handbook Section 3870 using the fair-value method 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.

(m) 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. As at December 31, 2005, no future tax asset benefit has been recorded.

TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

(n) Risk Management

(i) Currency risk

A significant proportion of the Company's sales revenue is generated in the United States, and the majority of inventory and component parts are purchased from sources outside of Canada. As these purchases are paid for using US currency, the sales revenue currency risk may be reduced. The Company does not currently hedge its foreign currency exposure and therefore is at risk for foreign currency exchange fluctuations.

A significant portion of the Company's cash is held in US currency which may be subject to significant currency risk due to the fluctuations of exchange rates between the Canadian dollar and the U.S. dollar.

(ii) Technology risk

The Company operates in an environment primarily driven by electronics technology. Equipment, inventories and operations are subject to risks of obsolescence resulting from technological advancements.

(o) Financial Instruments

The fair values of the Company's cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their carrying amounts due to their immediate or short-term maturity.

Management has determined that the carrying amounts for debt instruments and convertible debentures approximate their fair value.

(p) Related party transactions

Related party transactions have been recorded at their exchange value that is the amount of consideration agreed to by both parties which in all cases, unless otherwise indicated, approximates fair market value.

(q) Research and development tax credits

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.

TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

3. INVENTORIES

	December 31, 2005	December 31, 2004
	\$	\$
Raw materials	3,735,645	806,241
Finished goods	482,756	274,672
	4,218,401	1,080,913

4. PROPERTY, PLANT AND EQUIPMENT

	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

Included in equipment is \$514,011 in respect of various projects under development for which amortization was not provided in the current year. Of this total amount, \$416,599 represents a wireless backbone and distribution network for high speed broadband internet access which will provide internet access to the remote communities and the out lying areas of the Whistler Mountain Resort in British Columbia (Note 7). It will also provide a test facility for the introduction of new products. \$97,412 represents expenditures in respect of an SAP corporate financial system which is planned to be finished and implemented in 2006. Amortization of these costs will commence in 2006.

TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

4. PROPERTY, PLANT AND EQUIPMENT – cont'd

	December 31, 2004		
	Cost	Accumulated amortization	Net Book Value
	\$	\$	\$
Automobile	10,919	2,224	8,695
Computer equipment	155,967	30,312	125,655
Computer software and website	57,029	48,740	8,289
Equipment	564,426	100,222	464,204
Warehouse and tenant improvements	196,027	30,950	165,077
	984,368	212,448	771,920

5. CONVERTIBLE DEBENTURES

The following table illustrates transactions occurring in the convertible debentures:

	Liability Component	Equity Component
	\$	\$
Convertible debentures issued November 30, 2001	24,155	845
Interest accreted	33	
Balance as at December 31, 2002	24,188	845
Convertible debentures issued during 2002	210,631	7,369
Interest accreted	2,151	-
Balance as at December 31, 2002	236,970	8,214
Convertible debentures issued during 2003	296,623	10,377
Interest accreted	6,702	-
Balance as at December 31, 2003	540,295	18,591
Convertible debentures issued during 2004	1,029,403	36,012
Interest accreted	18,538	-
Balance as at December 31, 2004	1,588,236	54,603
Interest accreted	10,978	-
Converted to common shares	(1,599,214)	(54,603)
Balance as at December 31, 2005	-	-

TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

5. CONVERTIBLE DEBENTURES – cont'd

During the period from November 30, 2001 to December 31, 2004, the Company received a total of \$1,615,415 from private individuals through the issuance of convertible debentures which were due two years after the date of issuance. The debentures included interest at 10% per annum, compounded annually, and payable monthly, and were convertible into the Company's common shares at a conversion rate of \$0.25 per share. The debenture holder had the option to convert at any time prior to the maturity date.

Application of the provisions of CICA Handbook section 3860 "Financial Instruments" required the convertible debentures to be recorded with separate debt and equity components. The debt was recorded at its fair value of \$1,560,812, assuming a fair value interest rate for comparable debt of 12% per annum. The equity component, which is represented by management's estimate of the fair value attributed to the conversion feature, has a carrying value of \$54,603, being the difference between the face amount of the convertible debentures and their fair value as calculated above. The carrying value of the equity component was initially recorded as a separate component of shareholder's equity. In addition to the stated 10% interest rate, the Company recorded a further interest expense over the term of the debentures equal to \$54,603 resulting from the difference between the stated and fair value interest rates.

During the year ended December 31, 2005, all outstanding convertible debentures with a total carrying value of \$1,599,214 at the time were converted into 6,461,660 common shares. The equity component of these convertible debentures in the amount of \$54,603 was recorded as a capital transaction in share capital.

6. FUTURE INCOME TAXES

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

	Year ended December 31, 2005	Year ended December 31, 2004
Income (loss) before income taxes	\$ 936,240	\$ (316,053)
Current income taxes at statutory rates-25.9% (17.6%- 2004)	242,486	(55,625)
Benefit of tax losses not previously recognized	(242,486)	55,625
Income taxes	-	-

Until October 4, 2005, the Company was a Canadian controlled private corporation eligible for the small business income tax rate of 17.6% on the first \$300,000 of taxable income. Subsequent to that date, the Company's tax rate is 34.1%. The statutory rate of 25.9% for 2005 reflects blending of these two rates.

As at December 31, 2005 the Company and its subsidiary have net potential future tax assets of approximately \$560,000. Management has determined that the realization of the benefits from these future tax assets remains uncertain due to the Company's limited profitable operating history. Accordingly, a full future tax asset valuation allowance has been provided and no future tax asset has been recognized.

TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

6. FUTURE INCOME TAXES – cont'd

The tax effects of temporary differences that give rise to significant components of potential future income tax assets and liabilities at currently enacted tax rates are as follows:

	December 31, 2005	December 31, 2004
	\$	\$
Future income tax assets (liabilities):		
Net operating loss carryforwards	-	297,200
Property, plant and equipment	(48,716)	(5,040)
Scientific research and experimental development expenditure pool carryforwards	115,700	-
Financing costs	331,379	-
Research and development non-refundable investment tax credits	160,529	-
	558,892	292,160
Valuation allowance	(558,892)	(292,160)
Net future income tax asset	-	-

Refundable 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. Pursuant to the SR&ED program, the Company was entitled to recover, while a Canadian controlled private corporation, a refundable investment tax credit of 45% on the first \$2 million of qualified expenditures carried out in Canada. As a public entity, the Company is entitled to a 35% non-refundable investment tax credit against certain federal and provincial taxes. The tax credits can be carried forward up to ten years and applied against future taxes payable for ten years.

The Company records these refundable tax credits when received or realized. In 2005, the Company recorded \$43,081 received in respect of refundable tax credits related to qualified expenditures incurred in 2003 and the amount was credited to the current year's research and development expenses.

As at December 31, 2005, the Company has potential refundable investment tax credits of \$330,000 in respect of the 2004 and 2005 taxation years. As Canada Revenue Agency has not completed its review of these claims, this amount is not reflected in the Company's financial statements.

TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

7. 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 Shares	\$
Balance at December 31, 2001, 2002 and 2003	6,883,700	275,340
Issued for cash by private placement at \$0.10 per share	5,030,000	503,000
Balance at December 31, 2004	11,913,700	778,340
Issued for cash by private placements at \$1.00 per share (a)	909,300	909,300
Issued for asset acquisition (b)	250,000	62,500
Conversion of convertible debentures (Note 5)	6,461,660	1,653,817
Initial public offering (c)	2,392,825	4,785,650
Agency fees (c)	-	(358,924)
Agency warrant (c)	-	(134,289)
Financing costs	-	(721,826)
Balance at December 31, 2005	21,927,485	6,974,568

During the year the Company issued the following shares:

- Pursuant to non-brokered private placements, the Company issued 909,300 shares at \$1.00 per share.
- Pursuant to an asset purchase agreement, the Company issued 250,000 common shares at \$0.25 per share for total fair value of \$62,500 to purchase all the assets of E-Net Interactive Inc ("E-Net"). The assets of E-Net were under development and did not constitute a business entity. Accordingly, the entire consideration was applied to the identifiable assets under development (Note 4).

TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

7. SHARE CAPITAL – cont'd

- c) On October 4, 2005 the Company completed an initial public offering of 2,392,825 units at \$2.00 per unit for gross proceeds of \$4,785,650. Each unit consisted of one common share and one-half of one non-transferable share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at a price of \$2.50 per share for a period of 18 months expiring April 4, 2007.

Pursuant to the agency agreement for the Initial Public Offering (“IPO”), the Company paid its agents a cash commission of 7.5% of the gross proceeds of the offering. As well, the agents received Agents’ Warrants in an amount equal to 12.5% of the number of units sold under the offering. Each agent’s warrant entitles the holder to purchase one common share at \$2.00 for a period of 12 months from the closing date of the offering, and at \$2.20 for the second 12-month period after the closing date of the offering (Note 8).

The total fair value of these warrants at the date of grant was estimated to be \$134,289 using the Black-Scholes option pricing model with an expected life of two years, a risk free interest rate of 3.5% and an expected volatility of 40%. The amount was recorded in contributed surplus.

Under the terms of an escrow agreement signed during the year, a total of 6,755,944 shares (‘Escrowed Securities’) were subject to escrow restrictions. The Escrowed Securities will be subject to an 18 months automatic time release escrow. Twenty-five percent of the Escrowed Securities were released on the date the Company’s common shares were listed on the TSX, with the balance released in three equal amounts at six month intervals.

As at December 31, 2005, 5,066,995 shares remained in escrow.

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 Toronto Stock Exchange (“TSE”) or, if the shares are no longer listed for trading on the TSE, 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 will be non-transferable and may be subject to vesting provisions determined by the Board of Directors.

TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

7. SHARE CAPITAL – cont'd

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	Weighted Average Life in Years
Balance, beginning of period	-	-	-
Granted	1,506,000	1.00	10.0
Exercised	-	-	-
Expired	-	-	-
Balance, end of period	1,506,000	1.00	9.9

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.

Stock Warrants

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

	<u>Warrants</u>	<u>Weighted Average Exercise Price \$</u>	<u>Weighted Average Remaining Life</u>
Balance – December 31, 2004	-	-	-
Granted			
Warrants from initial public offering	1,196,412	2.50	1.25
Agent warrants	298,503	2.00	1.76
Balance – December 31, 2005	1,494,915	2.40	1.36

TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

8. EARNINGS PER SHARE

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

	Year ended December 31, 2005 \$	Year ended December 31, 2004 \$
Net income available to shareholders	936,239	(316,052)
Impact on assumed conversion of convertible debentures		
Interest paid on convertible debt	83,070	122,526
Interest accreted on convertible debt	10,978	18,538
	<u>1,030,287</u>	<u>(174,988)</u>
Adjusted weighted average shares outstanding		
Weighted average shares outstanding	16,397,889	10,875,226
Effect of dilutive securities and stock options and warrants	3,000,915	6,461,660
	<u>19,398,804</u>	<u>17,336,886</u>
Basic earnings per share	0.06	(0.03)
Diluted earnings per share	0.05	-

As losses were reported for the year ended December 31, 2004, giving effect to the convertible securities would have been anti-dilutive and is therefore not disclosed.

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Notes to Consolidated Financial Statements

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9. 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 10 – Related Party Transactions):

	\$
2006	455,351
2007	406,564
2008	397,285
2009	309,261
2010	240,188
	<u>1,808,649</u>

Warranty

The Company provides a one year warranty on its products. The Company's warranty return experience has been less than 1% to date.

Capital Lease Commitments

Subsequent to year end, the company acquired approximately \$900,000 of manufacturing equipment financed through capital leases. The leases have varying terms ranging from 24 to 53 months with total financial commitments of approximately \$1,000,000. The principle repayments for the next five years are as follow:

	\$
2006	275,363
2007	234,883
2008	167,645
2009	157,172
2010	64,937
	<u>900,000</u>

(See Note 11)

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Notes to Consolidated Financial Statements

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10. RELATED PARTY TRANSACTIONS

The Company paid or accrued total rent of \$128,247 (2004 - \$72,000) to companies owned by the President of the Company. Included in lease commitments (**Note 9**) is \$1,272,940 that will be payable to these related companies over the next five years.

The Company paid \$125,000 to a company owned by the President of the Company as a rental security deposit, which is included in prepaid expenses.

The Company purchased raw materials of \$1,468,887 (2004 - \$1,867,268) from a company whose chief executive officer is a director of the Company. Included in accounts payable is \$115,494 (2004 - \$93,330) payable to the same related company.

Convertible debentures included the following amounts owing to parties related to the Company's president:

December 31	
2005	2004
\$ -	\$ 211,500

11. SUBSEQUENT EVENTS

Subsequent to the year end, the Company granted a total of 200,000 share purchase options to consultants and 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.

Subsequent to year end, the company acquired approximately \$900,000 of manufacturing equipment financed through capital leases. The leases have varying terms ranging from 24 to 53 months with total financial commitments of approximately \$1,000,000.

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Notes to Consolidated Financial Statements

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12. SEGMENTED INFORMATION

	Canada \$	US \$	Other \$	Total \$
December 31, 2005				
Sales	2,603,206	10,961,121	999,633	14,563,960
Capital assets	2,396,144	-	-	2,396,144
December 31, 2004				
Sales	1,657,323	5,342,203	377,860	7,377,386
Capital assets	771,920	-	-	771,920

13. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

During the year, the Company entered into certain non-cash transactions that have been excluded from the statement of cash flows as follows:

- a) Issued 250,000 common shares for the acquisition of N-Net at a deemed price per share of \$0.25 representing a total value of \$62,500.
- b) Issued 6,461,660 common shares at \$0.25 per share for conversion of outstanding debentures having a face value of \$1,653,817.
- c) Issued 298,503 agents warrants in connection with the initial public share offering with an estimated value of \$134,289 that has been charged to financing costs and credited to contributed surplus