

**TRANZEO WIRELESS TECHNOLOGIES INC.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**QUARTER ENDED MARCH 31 2009**

(Unaudited)

(IN CANADIAN DOLLARS)

**INTERIM CONSOLIDATED BALANCE SHEETS**

**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME (LOSS)  
AND DEFICIT**

**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

# TRANZEO WIRELESS TECHNOLOGIES INC.

## Interim Consolidated Balance Sheet

	March 31, 2009 (Unaudited)	December 31, 2008
<b>Assets</b>		
Current assets:		
Accounts receivable.....	\$ 3,215,752	\$ 3,289,007
Prepaid expenses.....	761,804	768,822
Inventories (Note 3).....	4,861,056	6,786,039
	8,838,612	10,843,868
Property, plant, and equipment.....	11,193,644	11,482,421
Deferred development costs.....	6,429,215	5,945,883
Future income taxes.....	2,835,002	2,533,191
	\$ 29,296,473	\$ 30,805,363
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities:		
Bank Indebtedness.....	\$ 3,248,177	\$ 3,116,276
Accounts payable and accrued liabilities.....	4,052,181	4,835,195
Equipment Loan.....	80,240	84,960
Current portion of capital lease obligation (Note 7).....	949,058	998,169
Short Term Debt.....	2,000,000	2,000,000
	10,329,656	11,034,600
Capital lease obligation (Note 7).....	428,473	644,858
	10,758,129	11,679,458
Shareholders' equity:		
Share capital (Note 5).....	17,525,344	17,525,344
Contributed surplus.....	1,040,796	1,015,298
Retained earnings (deficit).....	(27,796)	585,263
	18,538,344	19,125,905
	\$ 29,296,473	\$ 30,805,363
Commitments and Contingencies (Note 7)		
Subsequent Events (Note 12)		

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

# TRANZEO WIRELESS TECHNOLOGIES INC.

## Interim Consolidated Statements of Operations, Comprehensive Income (Loss) and Deficit (Unaudited)

	Three Months Ended	
	March 31,	
	2009	2008
Sales.....	\$ 3,167,877	\$ 5,760,949
Cost of goods sold.....	2,182,245	3,686,435
Gross profit.....	985,632	2,074,514
Expenses		
Sales and marketing.....	336,191	541,076
Research and development – amortization of deferred costs.....	273,000	58,850
General and administrative.....	690,391	655,081
Share based compensation.....	25,498	-
Amortization.....	318,096	208,626
	1,643,176	1,463,633
Net income (loss) before other items.....	(657,544)	610,881
Other expenses		
Interest Expense.....	205,300	89,360
Foreign exchange loss.....	2,026	11,734
	207,326	101,094
Net income (loss) before income taxes.....	(864,870)	509,787
Income tax expense (recovery) (Note 4).....	(251,811)	160,583
Net and comprehensive income (loss).....	(613,059)	349,204
Retained earnings, beginning of quarter.....	585,263	2,383,979
Retained earnings (deficit), end of quarter.....	\$ (27,796)	\$ 2,733,183
Earnings (loss) per share for the period (Note 6).....		
Basic.....	\$ (0.02)	\$ 0.01
Diluted.....	\$ (0.02)	\$ 0.01
Weighted average number of shares outstanding for the year	26,370,405	26,284,405

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	
	March 31,	
	2009	2008
Cash flows from operating activities:		
Net income (loss) for the quarter.....	\$ (613,059)	\$ 349,204
Adjustments to reconcile net income to net cash from operating activities:		
Amortization .....	318,096	208,626
Deferred development amortization.....	273,000	58,850
Interest on capital leases.....	41,673	65,172
Future income tax expense (recovery).....	(251,811)	160,583
Stock based compensation.....	25,498	-
	(206,603)	842,435
Changes in working capital assets and liabilities		
Prepaid expenses.....	7,018	(82,840)
Accounts receivable.....	73,255	(2,028,006)
Accounts payable and accrued liabilities.....	(3,398,366)	(1,564,777)
Inventories.....	4,540,335	2,180,495
Net cash flows from (used in) operating activities.....	1,015,639	(652,693)
Cash flows from investing activities:		
Additions to property, plant, and equipment.....	(29,319)	(294,902)
Deferred development expenses.....	(806,332)	(955,911)
Net cash flows used in investing activities.....	(835,651)	(1,250,813)
Cash flows from financing activities:		
Bank indebtedness.....	131,901	2,053,270
Repayment of capital lease obligations.....	(307,169)	(317,935)
Repayment of equipment loan.....	(4,720)	-
Net cash flows from (used in) financing activities.....	(179,988)	1,735,335
Net increase (decrease) in cash.....	-	(168,171)
Cash , beginning of period.....	-	168,171
Cash , end of period.....	\$ -	\$ -
<b>CASH PAID FOR</b>		
Interest.....	\$ 205,300	\$ 89,360
Income taxes.....	\$ -	\$ -

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

# TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements  
(Unaudited)  
March 31, 2009

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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 on the Toronto Stock Exchange ("TSX") under the symbol TZT after completing an initial public offering.

On January 31, 2008, the company formed a wholly owned subsidiary, Tranzeo Wireless Technologies USA Inc. The subsidiary was formed for the purpose of carrying out research and development activities in San Diego, USA.

On October 1, 2008, the company formed a wholly owned subsidiary, Tranzeo Wireless Technologies Ireland Limited. The subsidiary was formed for the purpose of selling the Company's wireless internet connectivity solutions into the European market.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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### (a) Basis of Presentation

The unaudited consolidated interim financial statements are prepared in accordance with Canadian generally accepted accounting principles and follow the same accounting policies and method of their application as at the most recent audited annual financial statements for the year ended December 31, 2008. These financial statements should be read in conjunction with the audited annual financial statements for the year ended December 31, 2008. .

### (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.

### (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 allocation of overhead and other indirect costs to cost of sales and inventory, the allocation of direct costs to research and development, the determination of impairment of assets and useful lives for depreciation and amortization, fair values of financial instruments, future income tax valuation allowance and fair value for stock-based awards and compensation. Financial results as determined by actual events could differ from those estimates.

# TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements  
(Unaudited)  
March 31, 2009

## 3. INVENTORIES

	March 31, 2009	Dec 31, 2008
Raw materials	3,580,742	5,557,215
Finished goods	1,280,314	1,228,824
	<u>4,861,056</u>	<u>6,786,039</u>

## 4. INCOME TAXES

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

	Quarter Ended March 31, 2009	Quarter Ended March 31, 2008
	\$	\$
Income (loss) before income taxes	(864,870)	509,787
Stock based compensation – non deductible	25,498	-
Income (loss) for tax purposes	(839,372)	509,787
Tax provision at statutory rates-30.0% (2008- 31.5%)	(251,811)	160,583
Income tax expense (recovery)	<u>(251,811)</u>	<u>160,583</u>

### 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. The Company recorded \$50,000 of non refundable tax credits which was applied to reduce research and development deferred expenses in the current quarter (March 31, 2008 -\$165,000).

## 5. 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 March 31, 2009 and December 31, 2008	26,370,405	17,525,344

# TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements  
(Unaudited)  
March 31, 2009

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## 5. SHARE CAPITAL – cont'd

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### 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, 2008	2,494,104	1.11
Granted	-	-
Cancelled and Expired	(134,749)	1.85
Balance, March 31 2009	2,359,355	0.96

The weighted average remaining life of the options as at March 31, 2009 was 7.12 years

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## 6. EARNINGS PER SHARE

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

	March 31, 2009	March 31 2008
	\$	\$
Net income (loss) available to shareholders	(613,059)	349,204
Weighted average shares outstanding	26,370,405	26,284,405
Effect of dilutive securities , stock options and warrants	-	-
	26,370,405	26,284,405
Basic earnings (loss) per share	\$ (0.02)	\$ 0.01
Diluted earnings (loss) per share	\$ (0.02)	\$ 0.01

# TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements  
(Unaudited)  
March 31, 2009

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## 7. COMMITMENTS AND CONTINGENCIES

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### 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 8 – Related Party Transactions):

	\$
2009	413,372
2010	460,216
2011	344,716
2012	314,645
2013	314,645
	<u>1,847,594</u>

### Capital Lease Obligations

The following is a schedule of future minimum lease payments under the capital leases expiring on January 31, 2011 together with the balance of the obligation under capital lease.

Year ending December 31	\$
2009	885,776
2010	621,608
2011	17,119
Total minimum lease payments as at March 31, 2009	1,524,503
Amount representing interest at 10.6%	<u>(146,972)</u>
Balance of the obligation	1,377,531
Current Portion	949,058
Long term portion	<u>428,473</u>

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## 8. RELATED PARTY TRANSACTIONS

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The Company paid or accrued total rent of \$92,292 in the current quarter (March 31, 2008 - \$60,048) to companies owned by the President of the Company. Included in lease commitments (Note 7) is \$1,181,062 that will be payable to these related companies over the next five years.

The Company purchased raw materials of \$43,309 (March 31, 2008 – \$693,572) in the current quarter from a company whose chief executive officer is a director of the Company. Included in accounts payable is \$462,148 (2008 – \$530,213) payable to the same related company.

The Company purchased raw materials of \$ 3,283 (March 31, 2008 – \$336,524) in the current quarter from a company whose Chairman of the Board of Directors is a director of the Company. Included in accounts payable is \$392,166 (2008 – \$308,100) payable to the same related company.

# TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements  
(Unaudited)  
March 31, 2009

## 9. SEGMENTED INFORMATION

	Canada \$	US \$	Other \$	Total \$
<b>March 31, 2009</b>				
Sales	549,809	1,594,411	1,023,657	3,167,877
Property, plant and equipment	11,193,644	-	-	11,193,644
<b>March 31, 2008</b>				
Sales	1,213,526	3,743,601	803,821	5,760,948
Property, plant and equipment	11,593,823	-	-	11,593,823

## 10. 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:

	March 31, 2009 \$	December 31, 2008 \$
Held for Trading (1)	-	-
Loans and Receivables (2)	3,215,752	3,289,007
Other financial liabilities (3)	9,380,598	10,036,431

(1) Includes cash and cash equivalents.

(2) Includes accounts receivable.

(3) Includes accounts payable bank indebtedness and short term debt.

Cash, 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.

# TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements  
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## 10. FINANCIAL INSTRUMENTS – Cont'd

### Interest rate risk

The following table illustrates the effect of a change in interest rates on the Company's net loss as at March 31, 2009, 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	(16,310)	16,310

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 its 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 March 31, 2009, five customers exceeded 10% of the total receivable balance. These customers represented 83% of the accounts receivables balance. The Company defines past due based on agreed upon terms with each individual customer. As at March 31, 2009, 67% 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 March 31, 2009:

	CDN Dollars	US Dollars	Total
	%	%	%
Accounts receivable and other current assets	36	64	100
Bank debt, short term loan and accounts payable	70	30	100

# TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements  
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## 10. FINANCIAL INSTRUMENTS – Cont'd

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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 March 31, 2009, 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 \$68,704 for the quarter ending March 31, 2009. If the Canadian dollar had depreciated 1 percent against all foreign currencies at March 31, 2009 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 \$68,704 of after tax net income for the quarter ending March 31, 2009.

For the quarter ended March 31, 2009, a foreign exchange loss of \$2,026 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.

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## 11. CAPITAL MANAGEMENT

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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 stakeholders 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 March 31, 2009, 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 March 31, 2009.

# TRANZEO WIRELESS TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements  
(Unaudited)  
March 31, 2009

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## 12. SUBSEQUENT EVENTS

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The Company filed a preliminary short form prospectus for an equity offering of units, with each unit being comprised of one common share and one-half of one share purchase warrant. The equity offering is for minimum gross proceeds of \$2,500,000 and maximum gross proceeds of \$4,000,000, provided that the agent will have an over-allotment to purchase additional units for additional gross proceeds of up to \$600,000. The equity offering has not been priced as at March 31 2009. There is no assurance that this equity offering will be completed.