



# **CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended July 31, 2007 and 2006

## MANAGEMENT'S DISCUSSION & ANALYSIS

**For the Year and Quarter Ended July 31, 2007**

**This document is dated October 26, 2007.**

**(Dollars expressed in 000's)**

### GENERAL

*Certain statements in this document, including statements which may contain words such as "could", "expect", "believe", "will", and similar expressions and statements related to matters that are not historical facts, are forward-looking statements. These forward-looking statements relate to, among other things, financial results, product plans, timing, content and pricing of products, market and industry expectations, and general economic, business and political conditions. All forward-looking statements in this document are based on management's beliefs, intentions and expectations with respect to future events. Such forward-looking statements involve known and unknown risks and uncertainties, including those set out below under the heading Risk and Uncertainties, which may cause the actual results, performances, or achievements of the Company to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements.*

*In light of the many risks and uncertainties that may cause future results to differ materially from those expected the Company cannot give assurance that the forward-looking statements contained in this document will be realized. Forward-looking statements are not guarantees of future performance. The Company assumes no obligation to update its forward-looking statements to reflect subsequent information or events.*

*The financial data contained in this report and in the Consolidated Financial Statements of the Company for the three months and year ended July 31, 2007 have been prepared in accordance with Canadian Generally Accepted Accounting Principles in Canada and are stated in Canadian Dollars.*

*The following discussion and analysis should be read in conjunction with the consolidated financial statements of the Company for the year ended July 31, 2007 as well as the Company's 2007 Annual Information Form ("AIF"). Each of the foregoing is available at [www.sedar.com](http://www.sedar.com).*

*Management has designed disclosure controls and procedures, or has caused them to be designed under its supervision, to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to management by others within those entities, particularly during the period in which the annual filings are being prepared. Management has also designed such internal control over financial reporting, or caused it to be designed under management's supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of the financial statements for the year ended July 31, 2007 in accordance with Canadian Generally Accepted Accounting Principles for financial reporting. Other than the creation and implementation of a Whistleblower Policy in the quarter there has been no change in the Company's disclosure controls and procedures or in the Company's internal control over financial reporting that occurred during the most recently completed quarter that has materially affected, or is reasonably likely to materially affect, the Company's disclosure controls and procedures or internal control over financial reporting.*

*The Chief Executive Officer and Chief Financial Officer of the Company have evaluated the effectiveness of the Company's disclosure controls and procedures in place as at July 31, 2007. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer of the Company concluded that the design and operations of these disclosure controls and procedures were effective.*

## OVERVIEW

Established in 1999 by two pioneers in the wireless GPS industry WebTech Wireless Inc. ("WebTech" or the "Company") specializes in the provision of GPS location based services (telematics) to fleet manager and automotive OEM's around the world.

With sales in more than 40 countries and a broad suite of GPS location devices and related accessories as well as an enterprise software offering which allows customers to keep track of and control a variety of assets at all times WebTech is a leader in this evolving industry.

WebTech sells its hardware and services through a mix of direct and indirect sales channels. A typical sale includes the sale and installation of a number of location devices comprised of a GPS locator and a GPRS modem, plus a subscription for a year or more to WebTech's web-based tracking system, Quadrant.

### ***Brazil Operations***

During the year ended July 31, 2007 WebTech Wireless Inc. completed an agreement it had been working on for several years with Crown Telecom ("Crown"), its Value Added Reseller ("VAR") in Brazil, to build a business based on the VAR selling telematics monitoring services to purchasers of new automobiles in Brazil. Under the agreement WebTech sold locators to Crown, which were factory installed by Crown into new automobiles produced at an automobile manufacturer at its factory in Brazil. Crown then had the opportunity to sell anti-theft and other telematics monitoring services to the end purchaser of the automobile with the opportunity for that purchaser to achieve significant savings on auto insurance by subscribing to the Crown service through arrangements Crown had made with insurance companies in Brazil.

In January 2007, the Company, Crown and the automobile manufacturer successfully completed a pilot program consisting of the installation of 20,000 locators demonstrating that the monitoring service offered by Crown was effective. At that time, Crown and the Company entered into an agreement whereby Crown committed to purchasing 490,000 units from the Company for factory installation over a 12 month period. Soon thereafter the Company entered into an agreement to lend up to USD 12,000,000 to Crown to provide it with working capital to establish the program. Under that purchase order, the Company has shipped a net total of 55,400 locator units to Crown.

In May 2007 the Company determined that Crown was in default of its loan agreement and its distributor agreement with the Company, primarily due to non-payment of amounts due. As a result, the Company suspended shipments to Crown, terminated the distributor agreement and took action to collect on the amounts due. The Company has since determined that it is improbable that Crown will be able to repay the amounts owing. As such, the Company has made a full provision for the loan receivable from Crown in the amount of \$5,251 (equivalent to USD\$4.5 million) and has taken a loss on inventory shipped of \$7,814. In addition the Company is taking a charge for inventory impairment of \$7,437 related to inventory manufactured for sale to Crown as well as a charge of \$1,677 for inventory under contract for manufacture for a total charge of \$22,179.

The Company is pursuing Crown for repayment and is exercising its security and other rights under its loan and distributor agreements with Crown however it may not be successful in doing so. These agreements are governed by the laws of Brazil which laws may not be adequate to ensure remedy for the Company. In addition, the Company is aware that Crown has significant other liabilities owing. As such, the Company is unable at this time to estimate the amounts it will recover from Crown, if any.

The Company's security for the loan receivable from Crown includes a pledge of the shares in Crown Telecom. Should the Company be successful in exercising these rights, or otherwise change its relationship with Crown Telecom such that it becomes the primary beneficiary of its operations, the accounting treatment of the Company's relationship with Crown may change. Included amongst the changes that may occur is a consolidation of Crown's results under Variable Interest Entity ("VIE") rules. The Company's current expectation is that it will not be successful in taking control of Crown.

## INDUSTRY AND ECONOMIC FACTORS

### *Industry*

WebTech is a wireless service provider that develops, manufactures and sells turnkey wireless Global Positioning System ("GPS") solutions designed to improve the productivity and profitability of small to large mobile fleets. The Company has developed a fully integrated end-to-end system (both a subscriber service called the Quadrant System and the requisite GPS locator hardware) that provides a platform to offer Wireless Vehicle Services ("WVS") to various consumer automotive, industry and government vertical markets in North, Central, and South America, Australia, Europe, Asia and the Middle East.

WebTech's solutions integrate GPS, terrestrial wireless communication technologies and the Internet to provide fleet operators real-time information about the location and status of their vehicles. Products include wireless hardware and software services running on cellular and satellite networks, offering the following:

- Location Based Services ("LBS") – Real-time location data including mapping, landmark reporting, speed and geo-fencing.
- Connectivity – dispatch, voice/cellular, data, messaging, Peripherals including laptops and personal digital assistants ("PDA's") may be used providing access to corporate applications.
- Safety & Security – Transport of hazardous material, anti-theft, vehicle recovery, air-bag deployment notification, remote door lock/unlock, and remote vehicle diagnostics.
- Telemetry – ability to monitor and control vehicles remotely, including headlights, turn signals, brakes, door locks and remote engine shut-off (fuel pump).
- Trip recorder – detailed record of telemetry inputs and location information.

Beginning in 2006 the Company shifted its emphasis from its historical markets of municipal maintenance fleets, and delivery services companies to much larger opportunities like long-haul trucking companies, automotive OEMs and wireless carriers. According to a June 2006 report by consulting firm Global Industry Analysts, the market for commercial vehicle telematics in the US alone is expected to grow annually at almost 20% until 2010. According to a December 2005 report by C.J. Driscoll & Associates, a consulting firm that specializes in GPS and wireless technologies, there are more than 20 million fleet vehicles in the US, of which only 1.5 to 2.0 million have GPS tracking systems installed.

During the year ended July 31, 2007, WebTech entered into an exclusive distribution agreement with Rogers Wireless to distribute the Company's product under the white-label brand of "mFleet" through Roger's distributor network across Canada. In addition the Company continued to explore and develop opportunities through its global relationships with IBM and Motorola for other large scale deployments of its products and services.

Factors driving the increase in use of telematics include:

- continuing need to improve efficiencies and operation control, especially with the escalation in fuel costs;
- new wireless networks and reduced costs for hardware and airtime;
- more comprehensive and better subscriber services at similar prices;
- a trend toward safety and security of mobile workers and assets;
- homeland security concerns in the US; and
- an increased awareness of the benefits of telematics by insurance companies, automobile manufacturers and consumers. Industry factors remain unchanged from those disclosed in the Company's annual management discussion and analysis.

Telematics Research Group estimates that worldwide sales of telematics-enabled vehicles will reach approximately 20% of all new automobiles sold in 2007 and 43% of all new automobiles sold in 2010.

The Company has focused its consumer automotive initiatives on markets outside North America, such as Brazil, where auto theft (a prime driver of the demand for telematics-enabled automobiles) are higher than in other markets. In Brazil alone, auto thefts amount to approximately \$5 billion per year (according to a report by US & Foreign Commercial Service and the US Department of State, 2004). In January

2006 the Company signed a one-year, 20,000 unit order to deliver units to Crown, its VAR in Brazil, for deployment by an automobile manufacturer in Brazil. Subsequently the Company received a purchase order from Crown for 490,000 units to commence delivery in January 2007. The Company has since determined that this VAR is unable to meet its financial obligations to the Company and is taking charges totaling \$22.2 million relating to the write off of amounts owed by the VAR and related to inventory shipped to, manufactured for and to be manufactured for the VAR.

The Company is pursuing other opportunities in Brazil through both direct and indirect channels and is pursuing other consumer automotive opportunities in markets around the world.

A key component of the Company's strategy outside of North America is to use VARs who purchase good from the Company for resale in the VAR's territory. In many cases the VARs that the Company works with are new companies with limited capital resources. In some cases the Company may provide extended credit terms, and in the case of its VAR in Brazil, a term loan. Due to the limited operating history of some of these VARs and due to limited credit security there is risk that the business of certain of these VARs may fail and as a result the Company may report losses. The Company has experienced just such a risk in Brazil, where Crown has, as a result of previously reported working capital problems, defaulted on its agreement with the Company, forcing the Company to write off its loan receivable from Crown. Despite this, the Company continues to pursue its consumer automotive strategy in Brazil.

While the impairment and other charges related to the Company's former VAR in Brazil are significant, the Company remains well funded with sufficient working capital balances.

### ***Economic***

WebTech's reported revenue and net income are affected by fluctuations in the exchanges rates of the Canadian dollar, the US dollar and UK pound. For the year ended July 31, 2007 approximately 59% (July 31, 2006 - 70%) of revenue was US dollar denominated and 20% (July 31, 2006 - 18%) of revenue was denominated in UK pounds. The exchange rate for US Dollars at July 31, 2007 was 0.9384, compared with 0.8843 on July 31, 2006. The exchange rate for UK pounds at July 31, 2007 was 0.4609, compared with 0.4733 on July 31, 2006. The strengthening of the Canadian dollar against the US dollar experienced by the Company impacts reported revenues, accounts receivable and loan receivable negatively. The effect is partially offset by a favorable impact on expenses and accounts payable and the weakening of the Canadian dollar against the UK pound.

Given the weakening of the US dollar against the Canadian dollar in the year, the Company is reporting a significant loss from foreign exchange. A large portion of this loss was generated from the large US dollar balances owed by Crown (which has since been written off) and thus the size of the foreign exchange loss is not expected to be a systemic recurring charge although the Company will continue to hold foreign denominated assets in smaller amounts.

<b>Selected Annual Information</b>	<b>FY2007</b>	<b>FY2006</b>	<b>FY2005</b>
000's except per share amounts			
Revenue	15,304	16,344	10,316
Net Income	(26,158)	1,104	439
Net Income/(loss) per share	\$ (0.49)	\$ 0.03	\$ 0.01
Net Income/(loss) per share - fully diluted	\$ (0.49)	\$ 0.03	\$ 0.01
Total Assets	36,716	22,334	6,898
Total Long Term Financial Liabilities	-	-	-
(1) The Company has not reported any extraordinary or discontinued items in the periods presented.			
(2) The Company has not declared or paid any dividends in the periods reported.			

The Company had established a pattern of growth and profitability and until experiencing the setbacks in its business in Brazil. As described earlier the Company had every expectation that this pattern would continue in FY 2007. If the Company's former VAR in Brazil had not failed to fulfill its financial obligations the Company would be reporting continued sales growth and profitability. The Company's reported assets have grown each year primarily through raising capital on the financial markets, and while the Company is well funded at this time, there is no guarantee that it will not need additional external funding in the future.

## **RESULTS FROM OPERATIONS**

The Company had significant shipments of products during the year ended July 31, 2007, as a direct result of the growth of its business in Brazil. The Company has since determined that it may not be paid for this business and has suspended shipments to its VAR in Brazil. Revenue from these shipments to Brazil was not recorded subsequent to November 30, 2006. The Company is writing off the loan receivable owed by the VAR and is taking an inventory impairment charge on inventory shipped to, manufactured for sale to the VAR and to be manufactured for the VAR. The combined total of these charges is \$22,179.

### **Revenue**

The Company is reporting revenue of \$15,304 (2006 - \$16,344) a decrease of 6% year over year. This decrease is due primarily to a drop in sales in Europe and the non-recognition of shipments by the Company to its VAR in Brazil.

While the Company's growth in the consumer automotive market has been disrupted by events in Brazil, the Company believes that its strategy of pursuing the automotive market is sound, and continues to pursue other such opportunities in Brazil and around the world. The Company also expects that revenue from commercial fleets will continue to grow. Sales growth from small to medium size government is also expected as is revenue from transportation and trucking.

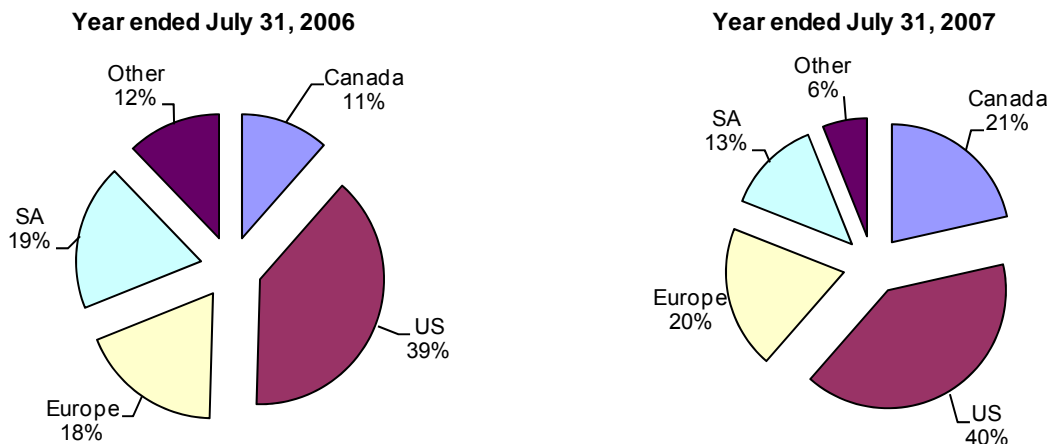
The Company earns recurring subscriber revenue from monitoring the locators which it sells. Recurring service revenues grew by 44% for the year over the prior year. As locator sales increase, subscriber revenues also increase. Due however to the increase in order quantity and the increase in reseller orders, there may be a time lag between the date when locator sales occur and the date when the Company will bill or recognize recurring service revenue. This time lag relates to the delay between sale of the units to resellers and their follow on sale to end users, training, and the installation and activation of locators. As the Company's consumer automotive business increases, subscriber revenues for

automotive customers will increase at a lower rate than the Company's historical norm due to the relatively lower average revenue per unit. It is the Company's intention that this lower rate per unit be offset by higher volumes.

**Segmented Information**

The Company has made sales in over 40 countries around the world, with the majority of sales coming from Canada, the United States, Europe, the Middle East, and South America. Due to an increase in the worldwide demand for wireless vehicle services and due to the Company's further expansion into these markets, the Company realized a general increase in international sales during the years ended July 31, 2007, driven by the previously noted increase in sales to Brazil.

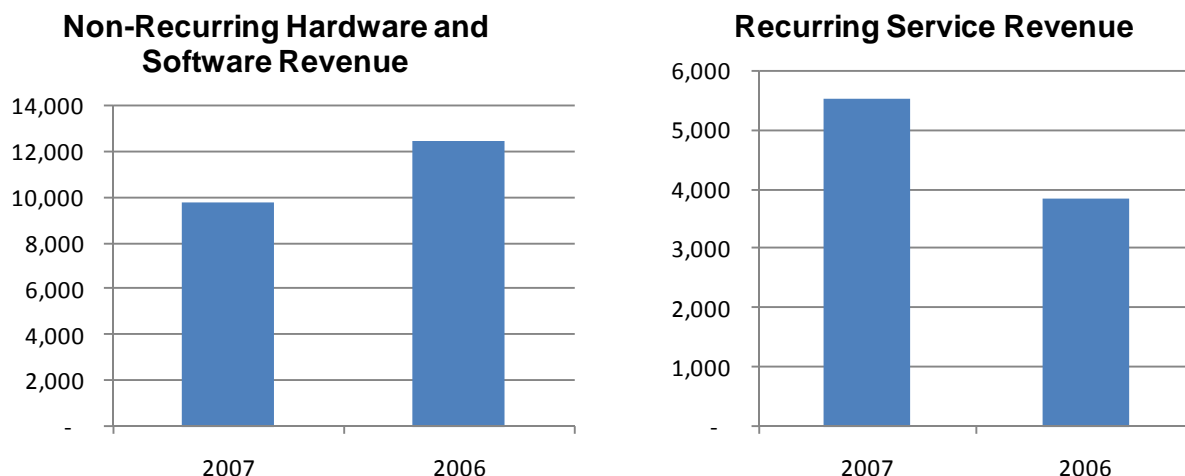
*Sales by geographic segment*



Revenue from sales in North America for the year increased by 14% over the prior comparable period as sales to government fleets and small to medium commercial fleets increased. Revenues from South America decreased significantly year over year as the Company did not recognize any revenues from sales to its VAR after November 30, 2006.

Revenues can be split into the two categories of: (i) non-recurring hardware and software sales; and (ii) subscriber revenues. Hardware and software revenues have decreased by 22% over the prior year. Subscriber (or recurring services) revenues have increased by 44% over the prior year, and have increased as a percentage of total sales to approximately 36% vs. 24% for the prior year as the Company has experienced continuing strong subscription renewals.

Sales in \$millions by category are as follows:



### Gross Profit and Margins

Gross profit grew by 6% to \$8,768 for the year ended July 31, 2007 from \$8,249 in the prior year due to the fact that the Company experienced a larger share of revenue coming from higher gross margin subscription and service revenues and the fact that the prior year included hardware sales to the lower margin personal automotive segment than were experienced in the current year. Gross profit margin for the year was 57% (2006 – 50%). The increase in the gross profit margin is consistent with the overall increase in gross profit on slightly lower sales.

### Net Income

For the year ended July 31, 2007 WebTech realized a net (loss) income of (\$26,158) (2006: \$1,104). The loss was primarily caused by the write off of amounts owing from the Company's former VAR in Brazil and the related write down of certain inventory shipped to, manufactured for or under contract for manufacture for this VAR for a total charge of \$22,179. The the balance of the loss stems largely from a foreign exchange loss, impairment of an intangible asset and an overall increase in operating expenses as the Company expanded to meet the anticipated increase in business activities generated by the growth in Brazil.

During the year ended July 31, 2007 the Company realized interest income from the investment of excess working capital of \$873 (2006: \$164).

During the year the Company booked a foreign currency (loss) of (\$1,499) (2006: (\$131)) The increase in reported foreign currency losses for the year is a direct result of the Company holding larger than normal US dollar denominated assets, being the loan receivable owed by Crown. The Company also holds foreign denominated cash from time throughout the year as it collects receipts and funds it's various operations around the world.

During the year ended July 31, 2007 the Company booked bad debts totaling \$632 with the largest share being amounts owed by its distributor in Kuwait. Since the amounts owing from the Kuwait distributor were first provided for in the quarter ended April 30, 2007, the Company has recovered over \$100 of the amount provided for reducing the total bad debt expense for the year.

During the year ended July 31, 2007 the Company booked an inventory impairment charge of \$7,437 for inventory intended for sale to its VAR in Brazil, a loss of \$1,677 on inventory under contract for manufacture to this VAR and a loss of \$7,814 related to inventory shipped to the VAR. The loss from inventory shipped represents the dollar value of inventory shipped to Crown which had not yet been

recognized as revenue. Unlike the impaired inventory, the inventory shipped is no longer in the control of the Company.

### **Operating Expenses**

The Company experienced a 90% increase in operating expenses in the fourth quarter compared to the prior year's fourth quarter, and a 66% increase in operating expenses year over year.

#### ***Marketing and Sales***

Marketing and sales expense increased by 56% over the prior year. Of such increase, 56% was due to increased sales staff and consulting costs, 11% was due to increased marketing staff costs, 7% was due to increased recruiting costs, and the balance due to the growing sales force and its related costs. Variable sales commissions relating primarily to North American hardware sales comprise 14% (2006 – 15%) of the total years' marketing and sales expense. Marketing and sales expense for the quarter ended July 31, 2007 remained consistent as a percentage of sales at 17% primarily as a result of large the increase in reported revenue from sales to the Company's former VAR in Brazil.

#### ***Research and Development***

Research and development costs for the year increased by 77% over the prior year due to increased staffing costs and increased research and development activities to enhance WebTech's product portfolio and services offerings.

During the year the Company introduced new products aimed at transportation customers to manage both trailer and tractor assets:

- Trackbox, a rugged enclosure for WT5000 Locators that require portability and operate in environmentally harsh conditions.
- Latest release of WebTech Quadrant Transportation Fleet Management solution, compliant with Canadian 2007 Hours of Service Rules and the California 8/80 Rule.
- Enhancements to Quadrant Enterprise Groups that improve the ability for large companies to manage regional fleets nation-wide.
- Multi-zone temperature sensors to meet increasing regulatory requirements for perishable and pharmaceutical transportation.
- WT1900, WebTech and Iridium to provide intelligent dual-mode cellular and satellite asset tracking and management solution for the transportation industry.
- The first industry solution for tracking both tractors and multiple trailers, WebTech's Power Line Control (PLC) Identification System.

Also during the year, the Company introduced two additional new products currently in development:

- Application Specific Integrated Circuit (ASIC), designed for installation on large volume assembly lines of automotive manufacturers, delivers telematics and location-based services (LBS) to passenger and commercial vehicles.
- Integration of Motorola's embedded G24 JAVA wireless module in WebTech Wireless' locators, allowing the large community of JAVA programmers to add custom functionality to the locator and leverage the wide set of existing JAVA applications.

The Company continues to invest in research and development activities to maintain technical leadership in consumer automotive and transportation markets.

#### ***General and Administration***

General and administration expenses increased by 54% over the prior year primarily due to increased operations. Of this increase, 68% was due to increased staffing costs, 19% was due to a one time listing fee and other costs related to the Company listing on the Toronto Stock Exchange in April 2007, 11% was due to increased professional fees, and the balance was due to miscellaneous support costs. Administration expense remained consistent as a percentage of total sales from 10% last year to 10% in this year. General and administration expenditures are expected to continue

increasing as the Company continues to build infrastructure to support its growth, although the Company expects that they will decrease as a percentage of sales due to economies of scale.

### Litigation

On May 11, 2007 the Company was served with notice of a lawsuit filed in the Eastern District of Texas by Lunar Eye Inc., alleging patent infringement by the Company. This lawsuit has since been scheduled for trial in November 2008.

The Company has reviewed the lawsuit and believes it to be without merit, and has taken the necessary steps to defend itself against the allegations contained therein at a trial currently scheduled for November 2008. The Company has filed a Request for Re-examination of the underlying patent with the US Patent and Trademark Office ("USPTO"). Should the request for re-examination be successful, it is likely that the related re-examination could take several years.

The Company is taking certain legal action in Brazil against Crown Telecom its former VAR in Brazil. At this time the Company believes it unlikely that it will realize any recovery of the amounts owed by Crown as a result of these actions.

### SUMMARY OF QUARTERLY RESULTS

#### Selected Quarterly Financial Information

Unaudited (Expressed in thousands of Canadian dollars, except per share amounts)

Quarter Ended	FY 2007				FY 2006			
	31-Jul-07	30-Apr-07 (Restated)	31-Jan-07 (Restated)	31-Oct-06	31-Jul-06	30-Apr-06	31-Jan-06	31-Oct-05
Revenue	\$ 3,836	\$ 3,922	\$ 3,639	\$ 3,907	\$ 4,990	\$ 4,734	\$ 4,064	\$ 2,556
Gross Profit	\$ 2,645	\$ 2,514	\$ 1,695	\$ 1,914	\$ 2,565	\$ 2,373	\$ 2,062	\$ 1,249
Gross Margin %	69%	64%	47%	49%	51%	50%	51%	49%
Expenses	\$ 1,713	\$ 5,126	\$ 2,921	\$ 1,990	\$ 2,232	\$ 1,892	\$ 1,563	\$ 1,491
Net earnings (loss)	\$ (7,121)	\$ (18,678)	\$ (393)	\$ 34	\$ 609	\$ 492	\$ 334	\$ (331)
EPS (Basic)	\$ (0.13)	\$ (0.35)	\$ (0.01)	Nil	\$ 0.02	\$ 0.01	\$ 0.01	\$ (0.01)
EPS (Diluted)	\$ (0.13)	\$ (0.35)	\$ (0.01)	Nil	\$ 0.02	\$ 0.01	\$ 0.01	\$ (0.01)
Total Assets	\$ 36,716	\$ 42,218	\$ 61,522	\$ 22,531	\$ 22,334	\$ 20,946	\$ 11,315	\$ 10,348
Total Long Term Liabilities	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

#### Factors affecting quarterly results

The most significant factor affecting the Company's quarterly results for the period ended July 31, 2007 is an impairment charge on inventory manufactured or under contract for manufacture for sale to the Company's former VAR in Brazil. Revenue from shipments to Brazil was not recorded subsequent to November 30, 2006.

The Company has historically grown organically through increased direct sales to small and medium-sized customers, as well as larger government and commercial clients. The sales cycle to these customers can vary from a few weeks to many months. In addition, over the past several years, the Company has been seeding the market by selling product to large potential customers for use on a trial basis. Some of these trials may last for over one year. Consequently, results may vary from quarter to quarter as sales cycles or trials may close in a particular quarter or slip into the next quarter (or later). Nevertheless, the long term historical trend has been for rapidly increasing sales of the Company's products, although this trend may be disrupted as the Company works to replace the business in Brazil.

## **Fourth Quarter Specifics**

### ***Marketing and Sales***

Marketing and sales expense for the fourth quarter increased by 56% over the prior comparable period. Of such increase, 63% was due to increased sales staff and consulting costs, 14% was due to increased marketing staff costs, 10% was due to increased communication costs, and the balance due to the growing sales force and its related costs. The Company has grown its international and internal sales force significantly in the past year and does not expect such large increases in expense to continue.

### ***Research and Development***

Research and development costs for the quarter increased by 103% over the prior comparable period due to increased staffing costs and increased research and development activities to enhance WebTech's product portfolio and services offerings. As with other expense categories the Company does not expect such increases in expenses to continue.

### ***General and Administration***

General and administration expenses in the quarter increased by 62% over the prior comparable quarter primarily due to increased staffing and related costs and increased filing and compliance costs.

The Company's sales to commercial markets are subject to seasonality. Typically, locator sales in the fourth quarter of each year are more robust as commercial and municipal customers spend from new budgets and are lower in the first quarter of each year due to decreased buying activity in the Company's final quarter which falls in the summer months.

The Company's sales and delivery of orders may be canceled or postponed due to other factors outside the control of the Company such as factory strike, government regulation, political instability or other factors. In addition, sales to the consumer market are dependent on the manufacturing schedules of third parties and are outside the control of the Company. Such events, should they occur, may have a material negative impact on the Company's revenues, profitability, and/or financial condition as seen in this quarter with the Company's former VAR in Brazil.

## **LIQUIDITY AND CAPITAL RESOURCES**

### ***Current Assets***

WebTech's total current assets at July 31, 2007 totaled \$35,695 (July 31, 2006 - \$21,304). The increase was mainly due to receipt of proceeds from a \$40,250 financing that closed in January 2007.

### ***Working capital***

At July 31, 2007, the Company had positive working capital of \$31,792, compared with \$18,812 at July 31, 2006. The Company also has available a credit facility of up to \$1 million, subject to margin criteria, with a Canadian chartered bank, the margin facility was not utilized at any time during the year.

Subject to the factors set out elsewhere in this document, including Risks and Uncertainties and in the Company's AIF, the Company does not currently foresee any working capital deficiencies.

Working capital is strong as a result of recent equity financings and funds received from the exercise of incentive stock options and share purchase warrants. In January 2007 the Company raised \$37,534 (\$40,250 gross proceeds net of cash issue costs) from the issuance of common shares. Also during the second quarter of 2007 the Company reduced working capital with the provision of a loan for up to US \$12 million, with payment terms in excess of one year, to its VAR in Brazil. Pursuant to the loan agreement, the Company advanced US \$2 million in cash and additional amounts against accounts

receivable and customer deposits. This loan has since been determined to be non-performing and the Company made a provision for the full amount of the loan in the third quarter.

The Company has also generated working capital from historical financings. During the first quarter of fiscal 2006, the Company raised \$3,439 from the exercise of share purchase warrants. During the fourth quarter of fiscal 2006, the Company raised \$9,302 (reported net of cash issue costs) from the private placement of special warrants

Notwithstanding the Company's strong working capital position, the Company may be dependent on future financing in order to satisfy future growth activities.

### ***Cash and cash equivalents***

At July 31, 2007, the Company had cash and cash equivalents of \$22,344, compared with \$10,640, at July 31, 2006.

During the fourth quarter the Company used cash to fund operating activities, which is net income adding back non-cash items, of \$4,294 (2006: generated \$781) and used cash of \$1,750 (2006: \$1,450) to fund non-cash working capital items, mainly attributable to increased inventory.

For the year ended July 31, 2007, the Company used cash flows from operating activities of \$5,650 (2006: generated \$1,601) and used cash of \$17,700 (2006: 4,241) to fund non-cash working capital items, also mainly attributable to increases in inventory, prepaid expenses and deposits paid.

### ***Accounts Receivable***

Accounts receivable of \$4,128 (2006 - \$7,015) have been adjusted for net amounts due from its distributor in Kuwait. Amounts due from three customers with large volume sales contracts comprised 29.2% of accounts receivable. From time to time, to take advantage of significant growth opportunities, the Company may grant credit terms in excess of its standard credit terms to its resellers and distributors with large volume orders, reducing accounts receivable turnover and contributing to larger accounts receivable balances and increased credit risk. At July 31, 2007, accounts receivable were comprised of aged amounts as follows: 4% over 120 days; 2% over 180 days and 18% over 240 days.

The Company's management has reviewed its accounts receivable balances as at July 31, 2007, and believes that adequate provision has been made for doubtful accounts

### ***Inventory***

During the quarter the Company took an inventory impairment charge of \$3,374, as well as a loss on contract of \$1,677 which relates to inventory under contract for manufacture. This charge is in addition to an inventory impairment charge booked in the quarter ended April 30, 2007 and was made to adjust the carrying value of certain inventory manufactured for sale to the Company's former VAR in Brazil to its estimated fair market value at year end.

Inventory has increased (net of the impairment charge) from \$2,849 at July 31, 2006 to \$7,640 at July 31, 2007. As the Company's inventory levels increase, there is risk that cancellation of orders could result in significant unsold balances subject to obsolescence.

The Company currently has commitments to manufacturers to produce \$2,236 of inventory originally contracted for in anticipation of sale to the Company's former VAR in Brazil. The Company believes that the fair market value of the inventory under contract is below its cost and has therefore made a provision \$1,677 to provide for this impairment in value. The liability for this impairment has been recognized as an account payable. This liability will be reduced upon delivery of the related goods.

Whilst the Company has used its best efforts to estimate the realizable value of this inventory it is not certain that all of the inventory on hand or under contract for manufacture will be sold on a timely basis and for a reasonable return, and while unlikely, it is still possible that the Company will require a further charge for the remaining inventory on hand.

**Prepaid expenses and deposits**

Prepaid expenses and deposits primarily relate to amounts paid to manufacturers in advance of receiving inventory. Prepaid expenses and deposits increased from \$800 at July 31, 2006 to \$1,583 at July 31, 2007, which reflects an increase in deposits to manufacturers.

**COMMITMENTS**

The Company has entered into leases for premises with the following total minimum payments:

FY2008	\$	290
FY2009		322
FY2010		350
FY2011		373
FY2012 through FY2017		2,284
<b>Total</b>	<b>\$</b>	<b>3,619</b>

The Company has entered into commitments to purchase inventory from suppliers with a total estimated value of \$2,236. An amount of \$1,677 has been recorded as a liability and as a loss on contract charge to the consolidated statement of operations being the difference between the cost of the inventory under contract and its fair market value as estimated by management. This liability will be reduced when the related inventory is delivered by the supplier.

**RELATED PARTY TRANSACTIONS**

The Company was charged the following amounts by directors and officers or companies with directors in common.

	For the Year Ended July 31	
	2007	2006
Administration		
Consulting fees	\$ 100	\$ 352
Directors fees	49	55
Professional fees	2	16
Share Issue Costs	-	64
Research and development	100	322
	<b>\$ 251</b>	<b>\$ 809</b>

At July 31, 2007, accounts payable and accrued liabilities included \$22 (July 31, 2006 - \$330) due to directors and officers of the Company.

During the year ended July 31, 2007, directors of the company exercised 561,667 (July 31, 2006 - nil) incentive stock options at a weighted average price of \$0.44 (July 31, 2006 - nil) per common share.

## CRITICAL ACCOUNTING ESTIMATES

### Write off of amounts owing by Crown Telecom

The Company has written off 100% of the amounts owed to it by Crown Telecom, the Company's former VAR in Brazil based on management's belief that Crown will continue to be unable to meet its financial obligations to the Company and others. Management arrived at this conclusion based on its knowledge of Crown's operations, discussions with Crown management and creditors and discussions with the Company's legal and business advisors in Canada and Brazil. Crown's financial position continues to worsen and it appears increasingly unlikely that Crown will solve its working capital problems, and is thus unlikely to repay some or any of the amounts owing to the Company.

### Write down of Inventory

The Company has determined that portions of its inventory on hand and under contract need to be written down in value due to a significant run-up in inventory purchases made in anticipation of sales to Crown. This reduction in value is based on management's estimate that the inventory in question will ultimately be disposed of for less than cost. This estimate is based on the high number of units in question, the nature of the units built for Crown, the shelf life of the units and the potential market for these particular units and the price points they might attract. Should these estimates prove incorrect, this may have either a positive or negative impact on future earnings of the Company depending on the ultimate price achieved for the inventory.

## CHANGES IN ACCOUNTING POLICIES

During the year ended July 31, 2007 the Company changed its policy for depreciating Property and Equipment from the declining balance to the straight-line method which in management's opinion better reflects the useful and realizable value of the assets throughout their life at the same time the Company reviewed and revised the estimated useful life of certain categories of assets. The combined effect of these changes has resulted in a prior period charge of \$192 and an approximately \$180 increase in amortization expense in these statements versus what the expense would have been under the previous methodology and estimates.

The following table provides a summary of the new depreciation rate based on the estimated useful life of each asset class compared to the old rate.

	New Rate	Old Rate
Computer equipment	25%	20% - 30%
Computer software	50%	100%
Furniture and fixtures	25%	20
Leasehold improvements	Term of lease	Term of lease
Office and other equipment	25%	20%

## NEW ACCOUNTING PRONOUNCEMENTS

### Accounting Changes – CICA 1506

This section establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies and estimates, and correction of errors, replacing former CICA 1506. Implementation guidance has been added to CICA 1506 in March 2007.

This pronouncement is effective for interim and annual financial statements relating to years beginning on or after January 1, 2007. The Company has determined that there will not likely be any material impact on their financial statements resulting from this pronouncement.

### New Requirements for financial instruments, hedging and comprehensive income – CICA 1530, 3855 & 3865

This section introduces new requirements for recognition and measurement of financial instruments (CICA 3855), hedge accounting (CICA 3865) and comprehensive income (CICA 1530). CICA 3865 has been amended in March 2007 to clarify the transitional provisions.

As this pronouncement will be effective for public companies interim and annual financial statements for years beginning on or after October 1, 2006, the Company will be affected by this new standard. The Company is currently assessing the impact this standard will have on its financial statements beginning with the interim three-month period ending October 31, 2007.

## **USE OF ESTIMATES**

A precise determination of many assets and liabilities is dependent upon future events; therefore, the preparation of financial statements for a period necessarily involves the use of estimates which have been made using careful judgment. Actual results may differ from these estimates.

## **RISKS AND UNCERTAINTIES**

WebTech faces a number of risks and uncertainties that could affect the achievement of its goals. Risks and Uncertainties facing the company are more fully described in the Company's AIF dated October 26, 2007 and include the following:

### ***Credit Concentration and Credit Risk***

The Company provides credit to its clients in the normal course of operations. The Company estimates, on a continuing basis, the probable losses, and records a provision for losses based on the estimated realizable value. There is no assurance that this provision will be adequate. During the year ended July 31, 2007 the Company wrote off USD\$4.5 million owed under a loan to its VAR in Brazil. In addition, approximately 8.9% of accounts receivable is due from the Company's distributor in Pakistan and approximately 20.3% is owed by two resellers in the UK. The Company is confident that it will collect these amounts however there is no assurance that the Company will be successful in doing so.

### ***Foreign Exchange***

Fluctuations in the exchange rate between the Canadian and US dollars and between Canadian dollars and UK pounds affect WebTech by impacting revenue, expenses and the balance sheet. Although the Company reports in Canadian dollars, for the year ended July 31, 2007, 59% (July 31, 2006 - 70%) of revenues were US dollar denominated and 20% (July 31, 2006 - 18%) were denominated in UK pounds. A weakening US dollar reduces revenues when reported in Canadian dollars. A strengthening US dollar would have the opposite effect. There is a somewhat mitigating effect in that a portion of the Company's inventory costs are denominated in US dollars. There is a negative impact on the balance sheet as the value of US denominated receivables and loans decreases as the US dollar weakens against the Canadian dollar. There is some offset as US denominated payables will also decrease at the same time. In summary, the offsets between US dollar revenues and expenses and US dollar receivables and payables provide natural hedges for a portion of the Company's foreign exchange exposure. At July 31, 2007 the US dollar exchange rate was 0.9384 compared with 0.8843 at July 31, 2006. To date, the Company has not engaged in exchange rate hedging contracts. As noted above the Company also sells to customers in UK pounds and incurs operating costs (primarily from its UK subsidiary) in UK pounds, however the Company's costs of sales are primarily denominated in US dollars. If the UK pound weakens relative to the Canadian dollar, the Company may record losses on translation of its subsidiary's accounts.

As at July 31, 2007, the Company held net current monetary balances in US dollars and in UK pounds equal to \$3,541 and \$1,278 respectively.

### ***Loan Receivable***

On January 25, 2007 the Company entered into a two-year loan agreement with Crown and two related companies (collectively "Crown"), its VAR in Brazil. The loan facility, for a total amount of up to US \$12 million, bears interest at 12%, payable monthly, with principal payments due in year two. Crown is

currently in default of the loan and we are exercising our rights, but may not be successful in doing so. In addition, the loan agreement is governed by the laws of Brazil and is enforceable by the courts of Brazil. There is risk that the legal system in Brazil may not be adequate to enforce the loan agreement or its security. There is also risk that Crown's business will fail, due to its inability to fund its ongoing operations, or due to its inability to execute on its contracts. It is now apparent that Crown does not have the capital resources necessary to fulfill its obligations.

As of the date of this report, the Company has made a determination that the loan will likely not be collected and has made a full provision to write off this loan.

In addition, the Company is subject to the following risks and uncertainties which are described in greater detail in the Company's AIF:

- The Company has grown quickly and expects to continue growing. If the Company is unable to effectively manage this growth its ability to operate effectively would be impaired.
- The Company may not be able to sustain profitability from operations for the current fiscal year and beyond.
- The Company operates in a rapidly evolving technology market. Its continued success depends on its ability to keep pace with these technology changes.
- The Company may not be able to continue to protect its intellectual property from unauthorized exploitation by others and to protect itself from claims of infringement by others.
- The Company may require further financing to fund its growth and such financing may not be available on acceptable terms, or at all.
- The Company's industry is very competitive and includes several competitors with greater resources than the Company.
- The Company depends on several suppliers and service providers to provide critical components for its products and services.
- WebTech may be subject to product liability claims arising from the use of its products and services which could, if successful, adversely impact the Company's business.
- The Company may have significant inventory volumes that could be subject to write down due to obsolescence as occurred in this quarter.
- Insurance to cover the risks to which the Company's activities will be subject may not be available at economically feasible premiums or at all. There is no assurance that in the event of claim or loss that the Company will have adequate insurance coverage.
- WebTech provides its customers with a limited warranty on its products. Despite quality control procedures, there is no assurance that the Company's provision for this warranty is adequate.
- The Company's success depends on its ability to attract and retain highly skilled engineering, managerial, marketing and sales personnel. Competition for qualified personnel in the wireless and wireless data industries is intense. The Company believes that there are only a limited number of persons with the requisite skills to serve in many key positions and the Company may not be able to hire and retain these persons.
- The Company's stock price may experience significant fluctuations due to operating performance, performance relative to analysts' estimates, disposition or acquisition by a large shareholder, a law suit against the Company, the loss or acquisition of a significant customer or distributor, industry-wide factors and factors other than the operating performance of the Company. These factors, among others, may cause decreases in the value of the Common Shares.
- The Company operates in a global marketplace with sales in numerous countries and is exposed to numerous regulatory regimes.
- The Company's operations are dependent upon its ability to protect its network infrastructure, portal system and customers' equipment against damage from human error, fire, earthquakes, floods, power loss, telecommunications failures, power failure, sabotage, intentional acts of vandalism and similar events.
- The Company's success is dependent on its ability to market its products and services.

- The Company's results could be adversely affected by changing economic conditions in the countries in which it operates.
- The Company depends on signals from GPS satellites built and maintained by the US Department of Defense. Availability of these satellites is dependent on the US Department of Defense continuing to maintain the satellites and could be affected by future government regulation.
- The Company depends on a small number of customers for a significant portion of its revenue.
- The future growth of the Company depends in part on the successful deployment of next generation wireless data and voice networks by third parties for which the Company is developing products.
- As part of the business strategy of the Company, the Company may acquire additional assets and businesses principally relating to or complementary to the Company's current operations. Any acquisitions and/or mergers will be accompanied by the risks commonly encountered in acquisitions of companies.

#### **OUTSTANDING SHARE DATA**

As at October 26, 2007 the Company had 58,353,310 common shares outstanding. The Company has 2,907,635 share purchase options outstanding entitling the holders to purchase one common share for each option held at prices from \$0.25 to \$6.98 per share expiring on various dates up to July 31, 2012.

#### **ADDITIONAL INFORMATION**

##### ***SEDAR***

Additional information relating to WebTech, including WebTech's AIF, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

October 26, 2007

## **Auditors' Report**

### **To the Board of Directors and Shareholders of WebTech Wireless Inc.**

We have audited the balance sheet of **WebTech Wireless Inc.** as at July 31, 2007 and the statements of operations and deficit and cash flows for the year 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 audit 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 financial statements present fairly, in all material respects, the financial position of the company as at July 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at July 31, 2006 and for the year then ended were audited by other auditors who expressed an opinion without reservation on these financial statements in their report dated September 29, 2006.

(signed) PricewaterhouseCoopers LLP

### **Chartered Accountants**

**WEBTECH WIRELESS INC.**  
**CONSOLIDATED BALANCE SHEET**

July 31, 2007 and 2006

(Amounts in 000's)

	2007	2006
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$ 22,344	\$ 10,640
Accounts receivable, net of allowance of \$4,963 (Note 4)	4,128	7,015
Inventory, net of allowance (Note 4)	7,640	2,849
Prepaid expenses and deposits	1,583	800
	35,695	21,304
Property and equipment (Note 2 & 8)	1,021	738
Intangible assets (Note 5)	-	292
Loan Receivable (Note 4)	-	-
	\$ 36,716	\$ 22,334
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	\$ 3,332	\$ 2,198
Deferred lease inducement	110	-
Deferred revenue	461	294
	3,903	2,492
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 9)	60,142	21,105
Contributed surplus (Note 10)	858	574
Deficit	(28,187)	(1,837)
	32,813	19,842
	\$ 36,716	\$ 22,334

Commitments (Note 15)  
Subsequent Events (Note 17)

APPROVED BY THE DIRECTORS:

"Anwar Sukkarie"

"Richard Pinder"

The accompanying notes form an integral part of these Consolidated Financial Statements

**WEBTECH WIRELESS INC.**  
**CONSOLIDATED STATEMENT OF OPERATIONS**

*For the Years Ended July 31, 2007 and 2006*

(Amounts in 000's except per share amounts)

	2007	2006
Revenue (Note 12)	\$ 15,304	\$ 16,344
Cost of goods sold	6,536	8,095
Gross profit	8,768	8,249
Expenses		
Marketing and sales	4,352	2,785
Research and development (Note 11)	3,810	2,154
General and Administration (Note 11)	2,914	1,897
Amortization	674	342
	11,750	7,178
Income (loss) before other items	(2,982)	1,071
Other items		
Interest income	873	164
Intangible asset impairment	(371)	-
Foreign exchange gain (loss) (Note 13)	(1,499)	(131)
Loss on contract (Note 4)	(1,677)	-
Impairment of loan receivable (Note 4 & 6)	(5,251)	-
Inventory impairment (Note 4)	(7,437)	-
Loss on inventory shipped (Note 4)	(7,814)	-
Net (loss) income for the year	\$ (26,158)	\$ 1,104
Deficit, beginning of the year	(1,837)	(2,941)
Change in amortization policy (Note 2)	(192)	-
Deficit, end of year	\$ (28,187)	\$ (1,837)
Basic and fully diluted (loss) earnings per share (Note 3)	\$ (0.49)	\$ 0.03
Weighted average shares outstanding during the year	53,676,990	42,240,524

The accompanying notes form an integral part of these Consolidated Financial Statements

**WEBTECH WIRELESS INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

*For the Years Ended July 31, 2007 and 2006*

(Amounts in 000's)

	2007	2006
<b>Operating Activities</b>		
Net income for the period	\$ (26,158)	\$ 1,104
Add items not affecting cash:		
Loss on inventory shipped	7,814	-
Impairment of loan receivable, net of foreign exchange ( <i>Note 4 &amp; 6</i> )	5,262	-
Inventory impairment	4,063	-
Loss on contract	1,677	-
Amortization	674	342
Stock based compensation	652	155
Intangible asset impairment	371	-
Lease inducement benefit expensed	(5)	-
	(5,650)	1,601
Changes in non-cash working capital items related to operations:		
Accounts receivable	12	(4,190)
Inventory	(8,854)	(905)
Inventory shipped (unrecognized revenue)	(7,814)	-
Prepaid expense and deposits	(783)	(360)
Accounts payable and accrued liabilities	(543)	942
Deferred inducement benefit	115	-
Deferred revenue	167	272
	(23,350)	(2,640)
<b>Financing Activities</b>		
Common shares issued, net of costs ( <i>Note 9</i> )	38,669	12,962
Loan receivable ( <i>Note 6</i> )	(2,387)	-
	36,282	12,962
<b>Investing Activities</b>		
Purchase of intangible assets ( <i>Note 5</i> )	(129)	(156)
Purchase of capital assets	(1,099)	(598)
	(1,228)	(754)
Net increase (decrease) in cash during the period	11,704	9,568
Cash, beginning of period	10,640	1,072
Cash, end of period	\$ 22,344	\$ 10,640
Cash and cash equivalents consist of:		
Cash	\$ 22,344	\$ (110)
Term deposits	-	10,750
	\$ 22,344	\$ 10,640
<b>Supplemental cash flow information and non-cash transactions</b>		
Interest paid	\$ 9	\$ 5
Income taxes paid	-	-
Conversion of accounts receivable to loan receivable	2,875	-

The accompanying notes are an integral part of these Consolidated Financial Statements

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

July 31, 2007 and 2006

(Dollar amounts in 000's except per share amounts)

**Note 1 Nature of Operations**

WebTech Wireless Inc. (the "Company" or "WebTech") is a British Columbia corporation having first been incorporated under the laws of the Yukon Territory on May 12, 1999. The Company was continued to Alberta on July 24, 2000 before its continuance to British Columbia on August 1, 2006.

WebTech develops, sells and provides subscriber services for location-based and telematics hardware and software.

The Company's shares are listed for trading on the TSX under the symbol WEW. Prior to April 26, 2007, the Company's shares traded on the TSX Venture Exchange under the symbol WEW.V.

**Note 2 Change in Accounting Policy and Accounting Estimates**

During the year ended July 31, 2007 the Company changed its policy for depreciating Property and Equipment from the declining balance to the straight-line method which in management's opinion better reflects the useful and realizable value of the assets throughout their life. At the same time the Company reviewed and revised the estimated useful life of certain categories of assets. The combined effect of these changes has resulted in an adjustment to retained earnings of \$192. The company has adjusted retained earnings and prior periods have not been restated. Had the Company not changed its accounting policy, current year amortization and loss would be \$180 lower.

The following table provides a summary of the new depreciation rate based on the estimated useful life of each asset class compared to the old rate.

	New Rate	Old Rate
Computer equipment	25%	20% - 30%
Computer software	50%	100%
Furniture and fixtures	25%	20%
Leasehold improvements	Term of lease	Term of lease
Office and other equipment	25%	20%

**Note 3 Significant Accounting Policies****Basis of Presentation**

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada and are stated in Canadian dollars.

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, WebTech Wireless Europe Ltd., which was incorporated in the United Kingdom (UK), and WebTech Wireless International Inc., which was incorporated in Barbados. All inter-company balances and transactions have been eliminated upon consolidation.

**Foreign Currency Translation**

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the balance sheet dates and non-monetary assets and liabilities are translated at exchange rates prevailing at the transaction dates. Foreign currency denominated revenues and expenses are translated at exchange rates that approximate exchange rates prevailing at the transaction dates. Gains or losses arising from the translations are recognized in the current year. Foreign

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

July 31, 2007 and 2006

(Dollar amounts in 000's except per share amounts)

currency amounts held and reported by the Company's UK subsidiary, WebTech Wireless Europe Ltd, are translated according to the temporal method.

**Use of Estimates**

In conformity with Canadian generally accepted accounting principles the preparation of these financial statements requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ materially from these estimates.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on deposit and callable short-term interest-bearing investments, with original maturities of three months or less.

**Impairment of Long-lived Assets**

The Company reviews the carrying values of its property and equipment for impairment on a regular basis or whenever events or circumstances indicate the carrying amount may be recoverable. If the carrying value exceeds the amount recoverable, based on undiscounted estimated future cash flows, a write-down to their fair value is charged to the consolidated statement of operations.

**Inventory**

Inventory is comprised entirely of finished goods and is valued at the lower of cost and net realizable value and cost of sales is determined using the first-in, first-out method. The company purchases its inventory as finished goods from contract manufacturers and therefore carries no work in progress or raw materials inventory. Inventory is regularly reviewed for obsolescence and written down to realizable value when obsolescence occurs.

**Revenue Recognition and Warranty Provision**

The Company derives non-recurring revenue from the sale of vehicle tracking hardware and software and recurring revenue from vehicle tracking services. Revenue from hardware sales is recognized when persuasive evidence of an arrangement exists, the fee is fixed and determinable, the hardware is shipped and when management has determined that the revenue is collectible. Recurring software revenue from tracking services is invoiced in advance and deferred and recognized on a monthly basis as the services are provided.

A one-year warranty on hardware sales is provided by the Company. A warranty reserve equal to 1% of hardware sales is provided on all sales. The Company periodically reviews the adequacy of warranty reserves.

**Property and Equipment**

Property and equipment are recorded at cost when acquired. Amortization is charged on a straight-line basis using the following rates:

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

July 31, 2007 and 2006

(Dollar amounts in 000's except per share amounts)

Computer equipment	25%
Computer software	50%
Furniture and fixtures	25%
Leasehold improvements	Term of lease
Office and other equipment	25%

Historically the Company followed a declining-balance method for calculating amortization which was abandoned during the year ended July 31, 2007 in favour of the straight-line method. Prior period amounts which had been reported using the declining-balance method have been restated using the straight-line basis in these financial statements.

**Intangible Assets**

Intangible assets with an indefinite life are tested for impairment annually or more frequently if impairment indicators arise, to determine if an impairment loss should be recognized. Intangible assets with a finite life are amortized on a straight-line basis over their estimated useful life and are also tested for impairment annually or when indication of impairment exists. The Company currently has no intangible assets.

**Research and Development**

Research expenditures are expensed when incurred. Development costs are capitalized provided that certain criteria are met. For the years ended July 31, 2007 and 2006, research and development costs were fully expensed in the years they were incurred.

Refundable scientific research tax credits are accrued at the time the related costs are incurred provided that their recovery is reasonably assured. Refundable tax credits arising from capital expenditures are applied to the cost of the assets and refundable credits arising from other expenditures are applied as a reduction of such expenses.

**Stock-based Compensation**

The fair value of granted share purchase options is calculated at the grant date and expensed over the vesting period of the share purchase options with a corresponding increase to contributed surplus. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase in share capital.

The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility.

**Basic and Diluted Earnings (Loss) Per Share**

Basic earnings (loss) per share are calculated by dividing net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share reflect the dilution that would occur if potentially dilutive securities were exercised or converted into common shares at the beginning of the period. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method and the effect of convertible securities by the "if converted" method.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

July 31, 2007 and 2006

(Dollar amounts in 000's except per share amounts)

**Income taxes**

The Company accounts for income taxes by the asset and liability method. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income taxes and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the substantive enactment date. Any future income tax asset is reduced by a valuation allowance to the extent that it is more likely than not that some portion or all of the asset will not be realized.

**Note 4 Provisions for loan receivable and impaired inventory**

During the year the Company provided trade financing of up to US \$12 million to Crown Telecom ("Crown"), the Company's former Value Added Reseller ("VAR") in Brazil. The Company has since determined that Crown is unlikely to meet its financial obligations to the Company and has thus made a full provision for amounts owing from Crown (\$5,251) and has adjusted the carrying value of certain inventory shipped to Crown and not yet recognized as revenue (\$7,814), as well as additional inventory manufactured and under contract for manufacture for sale to Crown (\$7,437).

In addition there is a further charge relating to inventory under contract for manufacture and delivery subsequent to the year end. As the Company intends to take delivery of this inventory once it is completed, the Company has recorded an accrued liability and a loss on contract charge in the statement of operations of \$1,677 representing the difference between the contracted cost of the inventory under contract and its fair market value. This accrued liability will be reduced when the related inventory is delivered by the supplier.

The total of all losses directly related to Crown is therefore \$22,179.

The Company is pursuing the amounts owed by Crown and is attempting to exercise its security and other rights under its loan and distributor agreements with Crown, however the Company may not be successful in doing so. These agreements are governed by the laws of Brazil and these laws may not be adequate to ensure remedy for the Company. In addition the Company is aware that Crown has significant other liabilities owing to third parties. As such the Company is unable at this time to estimate the amounts it will recover from Crown, if any.

**Note 5 Intangible Assets**

On November 1, 2004 the Company entered into an agreement with Global Axxess Corporation Limited ("Axxess") under which it acquired all of the business of Globetrac Limited ("Globetrac"), a former reseller of the Company's products and services in Europe. Consideration for the acquisition consisted of: the forgiveness of accounts receivable due from Globetrac; the assumption of certain accounts payable of Globetrac; a commission equal to 6% of gross sales generated from customers and resellers of Globetrac at and after the transaction date subject to certain restrictions. Axxess shall be entitled to the commission for a period not to exceed 11 years from August 1, 2005. As the commission is payable on a contingent basis and calculated on future sales, it could not be reasonably determined at the acquisition date. The contingent consideration is therefore recorded when the amounts can be determined and is amortized on a straight line basis over the remainder of the estimated useful life (originally 11 years). For the year ended July 31, 2007, additional contingent consideration of \$129 was allocated 100% to customer lists (2006 - \$156).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

July 31, 2007 and 2006

(Dollar amounts in 000's except per share amounts)

Based on the Company's sales and operating experience in servicing the Globetrac accounts the Company has determined that the value of the acquired customer list has become impaired. The Company has therefore recorded a charge of \$371 to reflect this impairment.

	<b>2007</b>	<b>2006</b>
Opening Balance	\$ 292	\$ 169
Additions	129	156
Amortization	(50)	(33)
	371	292
Impairment charge	(371)	-
Balance at year end	\$ -	\$ 292

**Note 6 Loan Receivable and Loan Provision**

On January 25, 2007, the Company entered into a loan agreement with its distributor, Crown Telecom of Brazil ("The Borrower"). The loan facility, for up to a maximum of US\$12 million, carries interest at a rate of 12% per annum payable monthly with blended payments of interest and principal commencing in year two. The loan is secured by a pledge of the Borrower's shares and a personal guarantee of the owner of Crown. The loan agreement is subject to the laws and jurisdiction of Brazil. As of the date of these statements, the Borrower is in default of the loan and the Company has stopped accruing interest income from the loan. The Company has made a full provision for this loan loss and is taking active steps to secure its interests under the loan. (See note 4)

**Note 7 Credit Facility**

On July 31, 2007 the Company had a credit facility of up to \$1 million, subject to margin criteria, with a Canadian chartered bank. This facility bears interest at the bank's Canadian prime lending rate plus 1%. The credit facility is secured by a general charge on the assets of the Company. At July 31, 2007, the Company carried a nil balance on this facility (2006 - nil).

**Note 8 Property and Equipment**

	2007			2006		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Computer equipment	\$1,640	\$780	\$860	\$733	\$271	\$462
Computer software	710	663	47	613	548	65
Furniture and fixtures	160	154	6	154	66	88
Leasehold improvements	124	57	67	79	25	54
Office and other equipment	161	120	41	113	44	69
	<b>\$2,795</b>	<b>\$1,774</b>	<b>\$1,021</b>	<b>\$1,692</b>	<b>\$954</b>	<b>\$738</b>

**Note 9 Share Capital**

Authorized: Unlimited common shares with no par value  
 Unlimited preferred shares issuable in series

Issued	Total number	Dollars (000s)
<b>Balance July 31, 2005</b>	<b>35,384,377</b>	<b>\$ 8,196</b>
Issued for cash:		
Stock Options	1,273,350	356
Warrants <sup>1</sup>	4,617,166	3,439
Private placement <sup>2</sup>	6,896,552	10,000
Transfer from contributed surplus on exercise of stock options	-	30
Less: Share issue costs	-	(916)
<b>Balance July 31, 2006</b>	<b>48,171,445</b>	<b>\$ 21,105</b>
Issued for cash:		
Stock Options	1,824,303	843
Share purchase warrants <sup>3</sup>	206,896	300
Common Shares <sup>4</sup>	8,050,000	40,250
Transfer from contributed surplus on exercise of stock options	-	284
Transfer from contributed surplus on exercise of warrants	-	84
Less: Share issue costs		(2,724)
<b>Balance July 31, 2007</b>	<b>58,252,644</b>	<b>\$ 60,142</b>

1 During the year ended July 31, 2006, 4,617,166 share purchase warrants were exercised at an average price of \$0.74 per common share and the remaining 564,310 share purchase warrants, with an average exercise price of \$0.71 per common share were cancelled.

2 On April 11, 2006, 6,896,552 special warrants were issued by private placement for gross proceeds of \$10,000. Costs related to the financing were \$916 in underwriting and related issue expenses. Effective June 6, 2006 each special warrant was exercised at no additional cost into one common share of the Company.

3 In connection with the April 11, 2006 private placement, the underwriters were granted 206,896 special broker warrants each of which was exercised for no additional consideration into one share purchase warrant on June 6, 2006 exercisable at \$1.45 per common share. As at July 31, 2007, all of these share purchase warrants had been exercised.

4 On January 16, 2007, 8,050,000 common shares were issued at a price of \$5.00 per common share for gross proceeds of \$40,250. Issue costs related to the financing were \$2,724.

**Stock Option Plan**

The Company has a Stock Option Plan from which it makes incentive awards to employees, directors and consultants. Under the current Stock Option Plan, the Company is authorized to grant up to a total of 8,020,135 share purchase options a figure which represents 13.8% of the Company's issued common shares. Share purchase options awarded under the Plan are granted on the 20<sup>th</sup> of each month at an exercise price equal to the market price of the Company's common shares on the date of the grant, normally the final trading day of any given month.

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The Company's standard vesting schedule calls for vesting over three years with one-third of the options vesting on each of the first, second and third anniversaries of the grant date.

A summary of the activity in the Company's Stock Option Plan is presented below:

	Number of Shares	Weighted Average Exercise Price
<b>Options outstanding July 31, 2005</b>	<b>4,363,307</b>	<b>\$ 0.43</b>
Granted	527,400	\$ 1.01
Expired or cancelled	(82,700)	\$ 0.73
Exercised	(1,273,350)	\$ 0.28
<b>Options outstanding July 31, 2006</b>	<b>3,534,657</b>	<b>\$ 0.56</b>
Granted	1,900,900	\$ 3.03
Expired or cancelled	(540,219)	\$ 2.36
Exercised	(1,824,303)	\$ 0.46
<b>Options outstanding July 31, 2007</b>	<b>3,071,035</b>	<b>\$ 1.83</b>
<b>Options exercisable July 31, 2007</b>	<b>1,356,292</b>	<b>\$ 0.78</b>

As at July 31, 2007, the Company had 3,071,035 share purchase options outstanding entitling the holders to purchase one common share for each option held as follows:

Awards Outstanding By Range							
Exercise Price		Outstanding Awards			Exercisable Awards		
Low	High	Quantity	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Quantity	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
\$ 0.25	\$ 0.38	100,000	1.17	\$ 0.25	100,000	1.17	\$ 0.25
\$ 0.47	\$ 0.71	1,065,134	1.68	\$ 0.56	987,634	1.64	\$ 0.56
\$ 0.76	\$ 1.14	531,500	3.51	\$ 0.93	122,163	3.25	\$ 0.87
\$ 1.20	\$ 1.80	141,501	3.82	\$ 1.38	14,830	3.60	\$ 1.39
\$ 2.55	\$ 3.83	875,100	4.91	\$ 2.58	131,665	4.98	\$ 2.63
\$ 5.50	\$ 5.50	273,800	4.48	\$ 5.50	-	-	\$ -
\$ 6.48	\$ 6.98	84,000	6.63	\$ 6.58	-	-	\$ -
<b>\$ 0.25</b>	<b>\$ 6.98</b>	<b>3,071,035</b>	<b>3.38</b>	<b>\$ 1.83</b>	<b>1,356,292</b>	<b>2.10</b>	<b>\$ 0.78</b>

During the year ended July 31, 2007 stock based compensation expense was \$652 (July 31, 2006 - \$155) and is included in operating expenses of the related department on the statement of operations.

The following assumptions were used in calculating the Company's stock based compensation expense using the Black-Scholes model:

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	2007	2006
Risk free rate	3.00%	2.00%
Dividend yield	0%	0%
Expected volatility	81.55%	60%
Weighted average expected option life	3 years	3 years
Weighted average fair value of options granted	\$ 1.45	\$ 0.43
Total options outstanding	3,071,035	3,534,657

**Note 10 Contributed Surplus**

<b>Balance July 31, 2005</b>	<b>\$ 365</b>
Stock options	155
Stock options exercised	(30)
Share purchase warrants <sup>1</sup>	84
<b>Balance July 31, 2006</b>	<b>\$ 574</b>
Stock options	652
Stock options exercised	(284)
Share purchase warrants exercised <sup>1</sup>	(84)
<b>Balance July 31, 2007</b>	<b>\$ 858</b>

<sup>1</sup> Share purchase warrants were granted in connection with the April 11, 2006 private placement of Special Warrants. As at July 31, 2007 there are no warrants outstanding.

**Note 11 Related Party Transactions**

The Company was charged the following amounts by directors and officers who are related by virtue of their ownership positions in the Company or by companies with directors in common.

	2007	2006
Administration		
Consulting fees	\$ 100	\$ 352
Directors fees	49	55
Professional fees	2	16
Share Issue Costs	-	64
Research and development	100	322
	<b>\$ 251</b>	<b>\$ 809</b>

At July 31, 2007, accounts payable and accrued liabilities included \$22 (July 31, 2006 - \$330) due to directors and officers of the Company.

During the year ended July 31, 2007, directors of the company exercised 561,667 (July 31, 2006 - nil) incentive stock options at a weighted average price of \$0.44 (July 31, 2006 - nil) per common share.

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**Note 12 Segmented Information**

The Company operates in a single business segment - telematics, and has sales in Canada, the United States of America, Europe, South America and in other areas of the world. Revenues can be split into two categories: non-recurring hardware and software sales and recurring service revenues. As at July 31, 2007, 95% of the Company's property and equipment and intangible assets are located in Canada and 5% are located in Europe and are held by the Company's wholly owned subsidiary.

*Revenue by geographic segment is as follows:*

	2007	2006
Canada	\$ 3,287	\$ 1,874
United States of America	6,113	6,370
Europe	2,991	3,022
South America	1,984	3,087
Other	929	1,991
	<b>\$ 15,304</b>	<b>\$ 16,344</b>

*Revenue by category is as follows:*

	2007	2006
Recurring service revenue	5,529	3,852
Non-Recurring Hardware and Software Revenue	9,775	12,492
Recurring service revenue	<b>\$ 15,304</b>	<b>\$ 16,344</b>

**Note 13 Financial Instruments****a) Fair Value of Financial Instruments:**

The Company's financial instruments consist of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying amount.

**b) Foreign Currency Risk:**

During the year ended July 31, 2007, 59% of the Company's revenue was in US dollars and 20% was in UK pounds (2006 - 70% and 18%). The Company periodically estimates its obligations payable in these foreign currencies and converts excess foreign funds into Canadian currency. The Company does not currently use derivative instruments. At July 31, 2007, the Company held net current monetary assets in US dollars and in UK pounds equal to \$3,541 and \$1,278 respectively (2006: \$7,585 US dollars and \$1,612 UK pounds)

**c) Credit Concentration and Risk:**

The Company provides credit to its clients in the normal course of operations. The Company estimates, on a continuing basis, the probable losses and records a provision for losses based on the estimated realizable value. At July 31, 2007, accounts receivable from three customers comprised an aggregate of 29.2% of total accounts receivable (2006 - 55%).

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No individual customer comprised greater than 10% of sales.

**Note 14 Income Taxes**

Components of Income Tax provision

Income taxes vary from the amount that would be computed by applying the combined federal and provincial tax rates of approximately 34.12% (2006 - 34.12%) for the following reasons:

	2007	2006
Income taxes at statutory rates	(8,925)	377
Non-deductible stock based compensation and other expenses	226	76
Deductible share issuance costs	(295)	(109)
Change in valuation allowance	8,741	387
Reduction in statutory tax rates	292	(147)
Foreign tax rate differential	(39)	-
Utilization of loss carryforwards not previously recognized	-	(167)
Utilization of income tax credit carryforwards not previously recognized	-	(416)
	\$ -	\$ -

Future tax assets and liabilities are recognized for temporary differences between the carrying amounts of balance sheet items and their corresponding tax values as well as for the benefit of losses or credits available to be carried forward to future years that are likely to be realized.

Significant components of the Company's future tax assets and liabilities, after applying enacted corporate income tax rates, are as follows:

	2007	2006
Non-capital losses carried forward	6,739	-
Share issuance costs	923	334
Scientific research and experimental development pool	1,297	741
Investment tax credits	718	504
Capital assets	82	(32)
Accrued Liability	565	-
Other	50	67
Less: Valuation allowance	(10,374)	(1,614)
	\$ -	\$ -

The Company has recorded a full valuation allowance against its future income tax assets based on the extent to which it is more likely than not that future income tax assets will be realized within the carry-forward period.

Canadian investment tax credits of \$718 (2006 - \$504) can be carried forward and applied against future income taxes payable. These investment tax credits will expire as follows:

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2026	\$	504
2027		214
	\$	718

Scientific research and experimental development expenditures of \$4,252 can be carried forward indefinitely and applied against future income.

Canadian non-capital loss carryovers of \$21,100 can be carried forward and applied against future income taxes payable. These losses expire in 2027.

The UK operating loss carryovers of \$1,013 can be carried forward and applied against future UK income taxes payable. These losses have an indefinite carry-forward period.

**Note 15 Commitments**

The Company has entered into commitments to purchase inventory from suppliers with a total estimated value of \$2,236. An amount of \$1,677 has been recorded as an accrued liability and as a loss on contract charge to the consolidated statement of operations being the difference between the cost of the inventory under contract and its fair market value as estimated by management. The balance of \$1,677 is recognized as a commitment and will be fully recognized when the inventory is delivered. This liability will be reduced when the related inventory is delivered by the supplier.

The Company has entered into leases until 2017 for premises with the following total minimum annual (or cumulative) payments:

2008	\$	290
2009		322
2010		350
2011		373
2012 through 2017		2,284
<b>Total</b>	<b>\$</b>	<b>3,619</b>

**Note 16 Litigation**

On May 11, 2007 the Company was served with notice of a lawsuit filed in the Eastern District of Texas by Lunar Eye Inc., alleging patent infringement by the Company. This lawsuit has since been scheduled for trial in November 2008.

The Company has reviewed the lawsuit and believes it to be without merit, and has taken the necessary steps to defend itself against the allegations contained therein at a trial currently scheduled for November 2008. The Company has filed a Request for Re-examination of the underlying patent with the US Patent and Trademark Office ("USPTO"). Should the request for re-examination be successful, it is likely that the related re-examination could take several years.

The Company is taking certain legal action in Brazil against Crown in Brazil (note 4 and 6). At this time the Company believes it unlikely that it will realize any recovery of the amounts owed by Crown as a result of these actions.

**Note 17 Subsequent Event**

Subsequent to July 31, 2007, the Company issued 100,666 common shares pursuant to the exercise of incentive stock options at a weighted average price of \$0.54 per common share.