

## MANAGEMENT'S DISCUSSION & ANALYSIS

Year Ended July 31, 2005

This document is dated October 17, 2005.

(Dollars expressed in 000's)

*The financial data contained in this report and in the Consolidated Financial Statements of the Company for the Year Ended July 31, 2005 have been prepared in accordance with Canadian Generally Accepted Accounting Principles and are stated in Canadian Dollars.*

### OVERALL PERFORMANCE

#### Industry and Economic Factors that Impact WebTech Wireless

##### **Industry**

WebTech develops and sells location-based and Telematics subscriber services and hardware. The Company has developed a fully integrated end-to-end system (both a subscriber service called Quadrant System and hardware) that provides a platform to offer Wireless Vehicle Services ("WVS") to various industry and government vertical markets in North, Central, and South America, Australia, Europe, Asia and the Middle East.

*Wireless Vehicle Services provided through the Quadrant System can be separated into four areas:*

1. Location Based Services – navigation, Automatic Vehicle Location ("AVL") / tracking, "localized" Internet, traffic reporting, proximity advertising, geofencing and vehicle monitoring.
2. Safety & Security (often called Telematics) – Transport of hazardous material, anti-theft, vehicle recovery, air-bag deployment notification, remote door lock/unlock, and remote vehicle diagnostics.
3. Communications – dispatch, voice/cellular, data, and messaging.
4. Fleet Management – mobile computing, digital forms/reporting, invoicing, city search, and data collection. An estimate provided by Clarus Securities Inc. indicated that only 15% - 20% of the over 4 million "heavy" trucks in the USA use Telematics.

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 consumers.

**Economic**

WebTech's revenue and net income are affected by fluctuations in the exchange rates of the Canadian dollar, the US dollar and UK Pounds Sterling. For the year ended July 31, 2005, approximately 62% (2004: 78%) of revenue was US dollar based and 20% (2004: nil) of revenue was based in UK Pounds Sterling. The exchange rate for US Dollars at July 31, 2005 was 0.817 compared with 0.752 on July 31, 2004. The exchange rate for UK Pounds Sterling at July 31, 2005 was .464 compared with 0.413 on July 31, 2004. The relative strengthening in the Canadian dollar impacts revenues and accounts receivable negatively, which is partially offset by a favorable impact on expenses and accounts payable.

**Segmented Information**

The Company has sales in Canada, the United States of America, Europe, the Middle East, Asia and other areas of the world. At the beginning of the second quarter of 2005, the Company acquired a business located in the United Kingdom, establishing a significant European sales base.

Revenues can be split into the two categories of subscriber revenues and non-recurring hardware and software sales.

*Sales by geographic segment are as follows*

|                          | For the Years Ended |             |
|--------------------------|---------------------|-------------|
|                          | <u>2005</u>         | <u>2004</u> |
| Canada                   | 20%                 | 22%         |
| United States of America | 43%                 | 63%         |
| Europe                   | 21%                 | 12%         |
| Other                    | 16%                 | 3%          |

WebTech has realized a steady increase in revenue during the year in all geographic segments due in part to an increase in worldwide demand for wireless vehicle services and in part to the Company's further expansion into these markets.

Sales to Canada grew by 40% and sales to the US grew by 9% over the prior year. While sales to North America continued to grow, they were reduced as a percentage of total revenue due to increased sales in foreign markets. In November 2004 the Company opened a subsidiary office in the United Kingdom in connection with the acquisition of a business, to drive its European operations, resulting in a 173% growth in European revenues over the prior year. Sales outside North America and Europe grew almost eight fold due to further expansion of the Company's distribution channels world-wide.

*Sales by category are as follows:*

|   | <u>2005</u> | <u>2004</u> |
|---|-------------|-------------|
| Subscriber revenue                          | 26%         | 31%         |
| Non-recurring hardware and software revenue | 74%         | 69%         |

Subscriber revenues have reduced as a percentage of total sales due to a 64% increase in hardware sales for the year. However, as many of the hardware units are activated, subscriber revenues will continue to grow. Subscriber revenues increased by 42% over the prior year.

## SELECTED ANNUAL INFORMATION

|   | Years Ended          |                      |                      |
|---|----------------------|----------------------|----------------------|
|   | <u>July 31, 2005</u> | <u>July 31, 2004</u> | <u>July 31, 2003</u> |
| Total assets                                | \$ 6,898             | \$ 4,570             | \$ 1,827             |
| Sales                                       | 10,316               | 6,564                | 3,415                |
| Net Income                                  | 439                  | 7                    | (564)                |
| Basic and diluted earnings (loss) per share | \$0.01               | \$0.0                | (\$0.03)             |

## RESULTS FROM OPERATIONS

The Company has realized significant revenue growth while maintaining strong profit margins and profitability.

### Revenue

The Company achieved revenue growth of 57% over prior year as the Company continued to expand its distribution channels and strengthen its penetration of existing markets. Growth of 42% in subscriber revenues reflects the Company's ability to attract and retain customers.

The Company anticipates that it will continue to exhibit strong growth due to increased market demand for wireless fleet services and due to the Company's increased market penetration. The Company has been successful in adding larger commercial and government fleets to its customer base. With the Company's introduction of a long-haul trucking solution during the year, along with increases in sales force and infrastructure to accommodate larger fleets, revenue growth from hardware sales and subscribers is expected.

### Gross Profits and Margins

Gross profit grew by 52% to \$5,121 in 2005 from \$3,367 in 2004 due to growth in sales. Gross profit margin for the year was 50% compared with 51% of the prior year. The decrease in margin is due to a reduction in recurring revenue as a percentage of total sales to 26% in 2005 from 29% in 2004.

### Net Income

In 2005 WebTech realized net income of \$439 compared with net income of \$7 for the prior year. Due to a change in accounting policy, net income for the year included stock based compensation expense of \$153. The change in accounting policy was adopted retroactively without restatement, therefore no stock-based compensation expense was included for the prior year.

### Operating Expenses

The Company realized a 43% increase in expenses, including sales and marketing, research and development, administration and other, over the prior year.

#### *Marketing and Sales*

Sales expense increased by 102% over the prior comparable year, due 40% to the expansion of our North American sales force, with its attendant sales costs (such as travel), 22% to the addition of European sales costs, 5% due to increased marketing costs, with the remaining increase due to higher commissionable sales. WebTech will continue to expand its sales force as a significant part of its growth strategy.

#### *Research and Development*

Research and development costs increased by 49% over the prior year due to hiring new engineering staff and increased research and development activities to enhance WebTech's product

portfolio and services offering. In addition to numerous product enhancements added during the year, WebTech launched a full-service offering for the long-haul trucking market, including automated driver logs, fuel tax reporting, J1708 reporting, schedule adherence, driver performance and remote back-office integration. The Company will continue to invest in research and development activities to maintain technical leadership.

### ***Administration***

The Company continues to carefully control administrative expenses. The decrease of 22% from \$1,314 in 2004 to \$1,026 in 2005 is attributable to a larger proportion of overhead costs being allocated to rapidly growing areas of its business including sales and marketing, research and development and cost of sales. It is anticipated that in future periods administration costs will increase as the Company builds infrastructure to support its growth.

### **Risks and Uncertainties that could impact WebTech**

The achievement of WebTech's goals faces risks and uncertainties, including, but not limited to, the following.

**Competition** - The Automatic Vehicle Location and Telematics industry is a very competitive space. A number of the Company's existing competitors have substantially greater financial, marketing and other resources. Several of these companies also have greater name recognition and well established relationships with some of the Company's target customers. Furthermore, these competitors may be able to adopt more aggressive pricing policies and offer more attractive terms to customers than the Company. The Company may face increasing price pressure from its customers. In addition, current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to compete more effectively. Also, existing and potential competitors may develop enhancements to, or future generations of, competitive products and services that will have better performance features than the Company's system.

**Employees** - Because of the technical nature of its business and the dynamic market in which the Company competes, continued performance depends on attracting and retaining highly skilled engineering, managerial, consulting, marketing and sales personnel. In particular, the Company's future success depends in part on the continued services of each of its current executive officers and other key employees. In order to increase revenues significantly, the Company needs to hire a substantial number of employees in the near future. 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 it is difficult to hire and retain these persons.

**Government Regulations** - The Company operates in a Global Marketplace. The Company could incur additional costs in order to comply with foreign and state government regulations as they might pertain to certain issues concerning, content, privacy, taxation and other considerations.

**Operations** - The Company's operations are dependent upon its ability to protect its network infrastructure and customers' equipment against damage from human error, fire, earthquakes, floods, power loss, telecommunications failures, sabotage, intentional acts of vandalism, and similar events. Despite precautions taken by, and planned to be taken by the Company, the occurrence of a natural disaster or other unanticipated problem at one or more of the Company's network access point facilities could result in interruptions to the services provided by the Company. Such an event could significantly impact the ability of suppliers to provide the data communications capacity required by the Company and could in turn impact the Company's sales and customer relations.

**Working Capital** - The Company's success is predicated on its ability to finance growth. Management believes that operations and commitments will be adequately financed over the following year, however the Company's ability to satisfy its future growth activities may be dependent on future financing.

**Foreign Exchange** - Fluctuations in the exchange rate between the Canadian and US dollars and between Canadian dollars and UK Pounds Sterling affect WebTech by impacting revenue, expenses and the balance sheet. Although the Company reports in CAD dollars, for the year ended July 31, 2005, 62%

(2004: 78%) of revenues were US dollar denominated and 20% (2004: Nil) were in UK Pounds Sterling. A weakening US dollar reduces revenues when reported in CAD 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 decrease if the US dollar weakens against the CAD 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 part of the Company's foreign exchange exposure. At July 31, 2005 the exchange rate was 0.817 compared with 0.752 at July 31, 2004. To date, the Company has not engaged in exchange rate hedging contracts. During the year ended 2005, the Company commenced active business in the United Kingdom through its wholly owned subsidiary, pursuant to a business acquisition. The UK subsidiary sells to customers and incurs operating costs primarily in UK Pounds Sterling, however its costs of sales are primarily denominated in CAD and US dollars. If UK Pounds Sterling weakens relative to the Canadian dollar, the Company may record losses on translation of its subsidiary's accounts. At July 31, 2005 the Company held net current monetary balances of \$1,208 in UK Pounds Sterling and \$2,897 in US Dollars.

## SUMMARY OF QUARTERLY RESULTS

### Selected Quarterly Financial Information

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

| Quarter Ended               | 2005<br>July 31 | 2005<br>Apr 30 | 2005<br>Jan 31 | 2004<br>Oct 31 | 2004<br>Jul 31 | 2004<br>Apr 30 | 2004<br>Jan 31 | 2003<br>Oct 31 |
|-----------------------------|-----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Revenue                     | 3,269           | 2,916          | 2,790          | 1,341          | 1,723          | 1,841          | 1,753          | 1,247          |
| Gross Profit                | 1,658           | 1,442          | 1,361          | 660            | 843            | 948            | 905            | 690            |
| Gross Margin (%)            | 50%             | 49%            | 49%            | 49%            | 49%            | 51%            | 51%            | 55%            |
| Expenses                    | 1,392           | 1,324          | 991            | 857            | 1,071          | 818            | 748            | 598            |
| Net earnings (loss)         | 236             | 142            | 329            | (268)          | (228)          | 105            | 104            | 26             |
| EPS (Basic)                 | \$0.01          | Nil            | \$0.01         | (\$0.01)       | (\$0.01)       | Nil            | Nil            | Nil            |
| EPS (Diluted)               | \$0.01          | Nil            | \$0.01         | (\$0.01)       | Nil            | Nil            | Nil            | Nil            |
| Total Assets                | 6,898           | 6,640          | 5,459          | 4,447          | 4,570          | 4,741          | 2,816          | 2,116          |
| Total Long Term Liabilities | \$0             | \$0            | \$0            | \$0            | \$0            | \$0            | \$0            | \$0            |

### Factors affecting quarterly results

The Company has been growing organically through direct sales to small and medium-sized customers, as well as larger government clients. The sales cycle to these customers can vary from weeks to many months. As well, over the last several years the company has also been seeding the market by selling product to large customers to use for trials. Some of these trials last for over two years. As a result, predicting the sales results for a quarter is difficult as sales cycles or trials may close in the quarter or easily slip into the next quarter (or even take longer). Nevertheless, the longer term trend has been rapidly increasing sales.

In addition to organic growth, the Company has also grown by acquisition during the second quarter of 2005. At the beginning of the second quarter, the Company acquired the business of a UK based reseller of its products and services. This new business unit contributed \$2,077 in sales during the nine months since its acquisition.

For the quarter ended July 31, 2005 the Company reported a 97% increase in sales from \$1.7 million for the fourth quarter of 2004 to \$3.3 million for the fourth quarter of 2005. The increase in sales is due to customers with larger fleet sizes and due to increased market penetration worldwide. The Company also

reported a 97% increase in gross margin due to the higher sales levels. Expenses increased by 30% over the prior comparable quarter to support the higher sales volume, mainly due to a 101% increase in marketing and sales expense over the prior comparable period. For the fourth quarter of 2005, the Company reported net income of \$236 compared with a loss of \$268 for the prior comparable quarter. The increase in net income is due to better economies of scale at higher sales levels.

The Company maintained healthy gross margins, despite the falling US dollar, by aggressively controlling product costs.

### **Progress on previous announcements**

#### ***January 14, 2005 \$2 million exclusive partnership to deliver fleet Telematics to Pakistan***

The Company is continuing to ship product as anticipated.

#### ***May 25, 2004 \$1.5 million, 12 month agreement with Datacom Wireless***

Contract is complete. Follow-on sales have increased above contract levels.

#### ***June 1, 2005 Expands government fleet in major US city***

Units for the City of Chicago are installed and operational.

#### ***July 5, 2005 Receives first order for 150 units from Atkins UK***

Units shipped.

#### ***September 19, 2005 Provide wireless fleet management to 300 vehicles for large western building products Supplier***

Units shipped, installed and operational.

#### ***September 26, 2005 wins bid with Los Angeles Metro***

188 Units shipped, installed and operational.

#### ***October 6, 2005 wins bid with City of San Francisco***

400 Units shipped, installed and operational.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Current Assets**

WebTech's total current asset base at July 31 was \$6,281, an increase of 51% over the balance at year-end 2004. The increase was mainly due to higher balances of inventory and accounts receivable which were financed by cash generated by the exercise of incentive stock options and share purchase warrants, cash flow from operating activities and increases in accounts payable.

### **Working Capital**

At July 31, 2005, the Company had positive working capital of \$5,003. During the year, the Company obtained a credit facility of up to \$1 million, subject to margin criteria, with the Royal Bank of Canada. This facility bears interest at the prime lending rate plus 1%, is repayable on demand, and is secured by a general charge on the assets of the Company. Working capital is strong as a result of earlier private placements, \$1,146 received from the exercise of incentive stock options and share purchase warrants over the year and the Company's ability to generate cash through operations. Subsequent to July 31, 2005 the Company raised an additional \$3,439 from the exercise of share purchase warrants. However, the Company may be dependent on future financing in order to satisfy its future growth activities.

### **Cash**

At July 31, 2005 the Company had cash and cash equivalents of \$1,072 compared with \$1,538 at July 31, 2004. Cash decreased by \$466 during the year, primarily due to increases in inventory and accounts receivable.

**Accounts receivable**

Accounts receivable were \$2,825 at July 31, 2005 compared with \$1,006 at July 31, 2004 as a result of higher sales. Sales to larger fleets with industry standard credit terms have reduced accounts receivable turnover, contributing to the increase in accounts receivable balance.

**Prepaid expenses and deposits**

Prepaid expenses and deposits included in the total prepaid expenses and deposits relate to amounts paid to manufacturers in advance of receiving inventory. Prepaid deposits increased from \$335 at July 31, 2004 to \$440 at July 31, 2005 due an increase in manufacturing activities, to avoid inventory shortages due to long lead times.

**Commitments**

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

|               |           |
|---------------|-----------|
| July 31, 2006 | \$202     |
| July 31, 2007 | 199       |
| July 31, 2008 | 199       |
| July 31, 2009 | <u>17</u> |
|               | \$617     |

**RELATED PARTY TRANSACTIONS**

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

|                           | <u>2005</u>  | <u>2004</u>  |
|---------------------------|--------------|--------------|
| Administration:           |              |              |
| Consulting fees           | \$149        | \$74         |
| Directors fees            | 45           | -            |
| Professional fees         | 38           | 9            |
| Salaries and wages        | 72           | 72           |
| Interest and bank charges | -            | 24           |
| Research and development  | <u>72</u>    | <u>72</u>    |
|                           | <u>\$376</u> | <u>\$251</u> |

At July 31, 2005, accounts payable included \$38 (2004: \$21) due to directors and officers of the Company. At July 31, 2005, \$1 (2004 - \$87) was due from a director of the Company, was unsecured, bore interest at 2% per annum and was repayable out of bonuses and/or sale of common shares.

During the year ended July 31, 2005 directors of the Company exercised an aggregate of 533,333 (2004: 300,000) incentive stock options at a weighted average exercise price of \$0.64 (2004: \$0.29) per common share.

## **OUTSTANDING SHARE DATA**

As at October 17, 2005 the Company had 40,061,543 common shares outstanding. Of these common shares, 12,678,549 are held in escrow to be released in varying amounts on set dates up until July 22, 2009. The Company has 4,600,206 share purchase options outstanding entitling the holders to purchase one common share for each option held at \$0.25 to \$0.78 per share expiring on various dates up to September 15, 2010.

## **ADDITIONAL INFORMATION**

### *SEDAR*

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

---

This report contains forward-looking statements involving risks and uncertainties pertaining to, but not limited to, use of estimates, product plans, timing, content, and pricing of products, market and industry expectations, the wireless communications industry, the mobile Vehicle industry, and general economic and political conditions. Given the risks and uncertainties inherent in the markets and industries referred to in this report, actual results may vary, perhaps materially from these forward looking statements. WebTech cannot guarantee that any forward looking statements will be realized.

**WEBTECH WIRELESS INC.**

**REPORT AND FINANCIAL STATEMENTS**

July 31, 2005 and 2004

**AUDITORS' REPORT**

To the Shareholders,  
WebTech Wireless Inc.

We have audited the consolidated balance sheets of WebTech Wireless Inc. as at July 31, 2005 and 2004 and the consolidated statements of operations, deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada  
September 30, 2005

**"AMISANO HANSON"**  
Chartered Accountants

**WEBTECH WIRELESS INC.**  
**CONSOLIDATED BALANCE SHEETS**

July 31, 2005 and 2004  
(amounts in 000's)

|  | <u>2005</u>     | <u>2004</u>       |
|--|-----------------|-------------------|
| <b>ASSETS</b>                              |                 |                   |
| Current                                    |                 |                   |
| Cash                                       | \$ 1,072        | \$ 1,538          |
| Accounts receivable                        | 2,825           | 1,006             |
| Scientific research tax credits receivable | -               | 202               |
| Inventory - <i>Note 4</i>                  | 1,944           | 1,087             |
| Prepaid expenses and deposits              | <u>440</u>      | <u>335</u>        |
|  | 6,281           | 4,168             |
| Capital assets - <i>Note 6</i>             | 449             | 402               |
| Intangible assets - <i>Note 3</i>          | <u>168</u>      | <u>          </u> |
|  | <u>\$ 6,898</u> | <u>\$ 4,570</u>   |

|   |              |            |
|---|--------------|------------|
| <b>LIABILITIES</b>  |              |            |
| Current   |              |            |
| Accounts payable and accrued liabilities - <i>Note 11</i> | \$ 1,256     | \$ 708     |
| Deferred revenue  | <u>22</u>    | <u>20</u>  |
|   | <u>1,278</u> | <u>728</u> |

|                                       |                 |                 |
|---------------------------------------|-----------------|-----------------|
| <b>SHAREHOLDERS' EQUITY</b>           |                 |                 |
| Share capital - <i>Notes 7 and 14</i> | 8,196           | 6,874           |
| Contributed surplus                   | 365             | -               |
| Deficit                               | <u>(2,941)</u>  | <u>(3,032)</u>  |
|                                       | <u>5,620</u>    | <u>3,842</u>    |
|                                       | <u>\$ 6,898</u> | <u>\$ 4,570</u> |

Commitments - *Notes 7 and 10*  
Subsequent Events - *Note 14*

APPROVED BY THE DIRECTORS:

\_\_\_\_\_  
"Anwar Sukkarie"

\_\_\_\_\_  
"Cameron Fraser"

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

**WEBTECH WIRELESS INC.**  
**CONSOLIDATED STATEMENT OF OPERATIONS**  
For the Years Ended July 31, 2005 and 2004  
(amounts in 000's except per share amounts)

|  | <u>2005</u>       | <u>2004</u>       |
|--|-------------------|-------------------|
| Sales - Note 12                                      | \$ 10,316         | \$ 6,564          |
| Cost of goods sold                                   | <u>5,195</u>      | <u>3,197</u>      |
| Gross profit   | <u>5,121</u>      | <u>3,367</u>      |
| Expenses   |                   |                   |
| Administration - Note 11                             | 1,026             | 1,314             |
| Amortization   | 316               | 76                |
| Marketing and sales                                  | 2,059             | 1,017             |
| Research and development                             | <u>1,234</u>      | <u>828</u>        |
|  | <u>4,635</u>      | <u>3,235</u>      |
| Income before other items                            | 486               | 132               |
| Other items  |                   |                   |
| Interest expense/(income)                            | (16)              | 6                 |
| Foreign exchange                                     | <u>63</u>         | <u>119</u>        |
| Net income for the year                              | <u>\$ 439</u>     | <u>\$ 7</u>       |
| Basic and diluted earnings per share                 | <u>\$0.01</u>     | <u>\$0.00</u>     |
| Weighted average number of common shares outstanding | <u>34,081,644</u> | <u>29,774,288</u> |

**WEBTECH WIRELESS INC.**  
**CONSOLIDATED STATEMENT OF DEFICIT**  
For the Years Ended July 31, 2005 and 2004  
(amounts in 000's except per share amounts)

|  |                   |                   |
|--|-------------------|-------------------|
| Deficit, beginning of the year           | \$ (3,032)        | \$ (3,039)        |
| Net income for the year                  | 439               | 7                 |
| Change in accounting policy - Note 2 (g) | <u>(348)</u>      | <u>-</u>          |
| Deficit, end of year                     | <u>\$ (2,941)</u> | <u>\$ (3,032)</u> |

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, 2005 and 2004  
(amounts in 000's)

|   | <u>2005</u>            | <u>2004</u>            |
|---|------------------------|------------------------|
| <b>Operating Activities</b>   |                        |                        |
| Net income for the year   | \$ 439                 | \$ 7                   |
| Add items not affecting cash:   |                        |                        |
| Stock based compensation  | 153                    | -                      |
| Amortization  | <u>316</u>             | <u>76</u>              |
|   | 908                    | 83                     |
| <b>Changes in non-cash working capital items related to operations:</b> |                        |                        |
| Accounts receivable   | (1,875)                | (504)                  |
| Scientific research tax credits receivable                              | 202                    | 314                    |
| Inventory   | (857)                  | (522)                  |
| Prepaid expense and deposits  | (105)                  | (295)                  |
| Accounts payable and accrued liabilities                                | 589                    | 111                    |
| Deferred revenue  | <u>2</u>               | <u>8</u>               |
|   | <u>(1,136)</u>         | <u>(805)</u>           |
| <b>Financing Activities</b>   |                        |                        |
| Common shares issued, net of costs                                      | 1,146                  | 3,026                  |
| Due to directors  | -                      | (281)                  |
| Loans payable   | <u>-</u>               | <u>(214)</u>           |
|   | <u>1,146</u>           | <u>2,531</u>           |
| <b>Investing Activities</b>   |                        |                        |
| Purchase of intangible assets   | (112)                  | -                      |
| Purchase of capital assets  | <u>(364)</u>           | <u>(330)</u>           |
|   | <u>(476)</u>           | <u>(330)</u>           |
| Net increase (decrease) in cash during the year                         | (466)                  | 1,396                  |
| Cash, beginning of year   | <u>1,538</u>           | <u>142</u>             |
| Cash, end of year   | \$ <u><u>1,072</u></u> | \$ <u><u>1,538</u></u> |
| Cash paid for interest  | \$ <u><u>-</u></u>     | \$ <u><u>119</u></u>   |
| Cash paid for income taxes  | \$ <u><u>-</u></u>     | \$ <u><u>-</u></u>     |
| Non-cash transactions - <i>Note 9</i>                                   |                        |                        |

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

**WEBTECH WIRELESS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

July 31, 2005 and 2004

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

**Note 1 Nature of Operations**

Webtech Wireless Inc. (the "Company" or "WebTech") was incorporated under the laws of the Yukon Territory on May 12, 1999. The Company was continued from the Yukon Territory to Alberta on July 24, 2000.

Effective March 13, 2003, the Company amalgamated with Caliente Capital Corp. ("Caliente"), a public company, and as a result of the amalgamation, the Company became listed on the TSX Venture Exchange.

The Company is in the business of developing and selling location-based and telematics subscriber services and hardware.

**Note 2 Summary of Significant Accounting Policies**

These financial statements have been prepared in accordance with generally accepted accounting principles in Canada and are stated in Canadian dollars. Because a precise determination of many assets and liabilities is dependent upon future events, 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, perhaps materially, from these estimates. These financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

**(a) Principles of Consolidation**

These consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All material inter-company balances have been eliminated. The Company's subsidiary, Webtech Wireless Europe Ltd., which was incorporated in the United Kingdom, commenced active business during November 2004. Webtech Wireless International Inc., which was incorporated in Barbados, is inactive.

**(b) Capital Assets and Amortization**

Capital assets are recorded at cost. Amortization is charged on a declining balance basis using the following rates:

|                                    |      |
|------------------------------------|------|
| Computer equipment                 | 30%  |
| Computer network                   | 30%  |
| Computer software                  | 100% |
| Furniture and fixtures             | 20%  |
| Leasehold improvements             | 20%  |
| Tooling                            | 20%  |
| Office equipment                   | 20%  |
| Research and development equipment | 20%  |
| Research and development software  | 100% |

In the year of acquisition, amortization is charged at one-half rates.

**(c) Goodwill and Other Intangible Assets**

The Company has adopted CICA Handbook Section 3062 Goodwill and Other Intangible Assets. Goodwill and other 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.

**Note 2 Summary of Significant Accounting Policies (continued)****(d) Basic and Diluted Earnings Per Share**

Basic earnings per share are calculated by dividing net income for the year by the weighted average number of common shares outstanding during the year. Diluted earnings 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. Fully diluted amounts are not presented when the effect of the computations are anti-dilutive. Accordingly, there is no difference in the amounts presented for basic and fully diluted loss per share.

**(e) Financial Instruments**

The carrying values of cash, accounts receivable and accounts payable and accrued liabilities approximate fair value because of the short-term maturity of those instruments. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these assets and liabilities.

**(f) 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.

**(g) Stock-based Compensation**

Effective for fiscal years commencing on or after January 1, 2004, Canadian generally accepted accounting principles require the fair value of all share purchase options granted after January 1, 2002 (January 1, 2003 for non-public companies) to be expensed over their vesting period 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 to share capital. Previously only share purchase options granted to non-employees followed this method and options granted to employees were not expensed. The Company was a private company until March 13, 2003 and accordingly this policy is retroactive to the fiscal year beginning August 1, 2003.

The Company has adopted the new policy on a retroactive basis with no restatement of prior periods. Accordingly, on August 1, 2004, deficit was increased by \$348, contributed surplus was increased by \$334 and share capital was increased by \$14 to account for share purchase option expense that would have been charged to operations with respect to employee share purchase options granted and exercised during the period from August 1, 2003 to July 31, 2004. 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. Changes in these assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's share purchase options.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

July 31, 2005 and 2004

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

**Note 2 Summary of Significant Accounting Policies (continued)**

During the year ended July 31, 2005 stock based compensation expensed was \$153. Had the Company expensed the fair value of employee share purchase options in prior periods, the following pro forma amounts would have resulted:

|                                  | <u>Year ended</u><br><u>July 31, 2004</u> |
|----------------------------------|---|
| As reported                      | \$ 7                                      |
| Pro-forma                        | \$ (341)                                  |
| Basic and diluted loss per share |   |
| As reported                      | \$ -                                      |
| Pro-forma                        | \$ (0.01)                                 |

The following assumptions were used for the Black-Scholes model:

|  | <u>July 31, 2005</u> | <u>July 31, 2004</u> |
|--|----------------------|----------------------|
| Risk free rate                                 | 2.0%                 | 2.0%                 |
| Dividend yield                                 | 0%                   | 0%                   |
| Expected volatility                            | 61%                  | 66%                  |
| Weighted average expected option life          | 3 years              | 3 years              |
| Weighted average fair value of options granted | \$0.27               | \$0.30               |

**(h) 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 in the current year 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 that are likely to be realized.

**(i) Inventory**

Inventory is valued at the lower of cost and net realizable value. For the year ended July 31, 2005 cost of sales was determined on the first in first out method. For the year ended July 31, 2004 cost of sales was determined using the average cost method. Inventory at July 31, 2004 and cost of sales for the year ended July 31, 2004 have not been restated as the effect of the change in policy is not material.

**(j) 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, 2005 and 2004 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. Where recovery is not reasonable assured they will be recorded or accrued when assurance of reasonable recovery is determined. Amounts to be recovered from scientific research tax credits may be adjusted based upon assessment by Canada Revenue Agency.

Effective March 13, 2003 these credits are no longer refundable to the Company, but may be applied against income taxes payable. Any unused credits expire after ten years.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

July 31, 2005 and 2004

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

**Note 2 Summary of Significant Accounting Policies (continued)**

**(k) Revenue Recognition and Warranty Provision**

The Company derives non-recurring revenue from the sale of vehicle tracking hardware and recurring revenue from vehicle tracking services. Revenue from hardware sales is recognized when the hardware is shipped. Revenue from tracking services is 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. As at July 31, 2005, the warranty reserve has been adequate to cover the costs associated with defective units. The Company periodically reviews the adequacy of warranty reserves.

**(l) Government Assistance**

Government assistance is recorded as a reduction of the related expense incurred.

**Note 3 Asset Acquisition**

Effective 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"). Consideration for the acquisition is the forgiveness of accounts receivable due from Globetrac, the assumption of certain accounts payable of Globetrac and a commission equal to 6% of gross sales for customers and resellers of Globetrac at the transaction date and for prospective customers and resellers, provided business with these customers or resellers commences within one year of the transaction date. Axxess shall be entitled to such commission over a period not to exceed 11 years. The commission is contingently payable based on future sales and cannot be reasonable determined at the acquisition date. The contingent consideration will be recorded when the amounts can be determined. For the year ended July 31, 2005 contingent consideration to date has been determined to be \$123. Total consideration to date of \$179, has been allocated \$11 to inventory, \$10 to prepaid expense and \$168 to customer lists, less \$10 of accounts payable assumed. Globetrac is a former reseller of the Company's products and services in Europe. The Company has assumed Globetrac's customers, resellers, suppliers and portals and all technical support and warranty issues.

**Note 4 Inventory**

|                | <u>2005</u>     | <u>2004</u>     |
|----------------|-----------------|-----------------|
| Raw materials  | \$ 1,571        | \$ 1,079        |
| Finished goods | <u>373</u>      | <u>8</u>        |
|                | <u>\$ 1,944</u> | <u>\$ 1,087</u> |

**Note 5 Credit Facility**

On July 31, 2005 the Company had a credit facility of up to \$1 million, subject to margin criteria, with the Royal Bank of Canada. This facility bears interest at the prime lending rate plus 1%, is repayable on demand, and is secured by a general charge on the assets of the Company.

**WEBTECH WIRELESS INC.**

Page 5

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

July 31, 2005 and 2004

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

**Note 6 Capital Assets**

|                                       | 2005            |                                     |               | 2004          |                                     |               |
|---------------------------------------|-----------------|-------------------------------------|---------------|---------------|-------------------------------------|---------------|
|                                       | <u>Cost</u>     | <u>Accumulated<br/>Amortization</u> | <u>Net</u>    | <u>Cost</u>   | <u>Accumulated<br/>Amortization</u> | <u>Net</u>    |
| Computer equipment                    | \$ 284          | \$ 104                              | \$ 180        | \$ 177        | \$ 58                               | \$ 119        |
| Computer network                      | 7               | 3                                   | 4             | 4             | 2                                   | 2             |
| Computer software                     | 341             | 255                                 | 86            | 170           | 36                                  | 134           |
| Furniture and fixtures                | 110             | 49                                  | 61            | 70            | 39                                  | 31            |
| Leasehold improvements                | 35              | 16                                  | 19            | 28            | 13                                  | 15            |
| Office equipment                      | 95              | 30                                  | 65            | 82            | 16                                  | 66            |
| Tooling                               | 4               | 1                                   | 3             | 4             | 1                                   | 3             |
| Research and development<br>equipment | 83              | 57                                  | 26            | 64            | 33                                  | 31            |
| Research and development<br>software  | 181             | 176                                 | 5             | 132           | 131                                 | 1             |
|                                       | <u>\$ 1,140</u> | <u>\$ 691</u>                       | <u>\$ 449</u> | <u>\$ 731</u> | <u>\$ 329</u>                       | <u>\$ 402</u> |

**Note 7 Share Capital**

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

| <b>Issued:</b>   | <u>Total<br/>number</u> | <u>Total Amount</u> |
|--|-------------------------|---------------------|
| Balance, July 31, 2003   | 27,138,215              | \$ 3,848            |
| Issued for cash:   |                         |                     |
| Private placement  | 5,144,498               | 3,087               |
| Stock options  | 712,142                 | 192                 |
| Warrants   | 113,499                 | 74                  |
| Less: Share issue costs  | -                       | (327)               |
| Balance July 31, 2004  | 33,108,354              | 6,874               |
| Change in accounting policy, <i>Note 2(g)</i>                  | -                       | 14                  |
| Issued for cash:   |                         |                     |
| Stock Options  | 1,122,058               | 450                 |
| Warrants   | 1,091,465               | 700                 |
| Private placement <sup>1</sup>                                 | 62,500                  | 40                  |
| Transfer from contributed surplus on exercise of stock options | -                       | 122                 |
| Less: Share issue costs  | -                       | (4)                 |
| Balance July 31, 2005  | <u>35,384,377</u>       | <u>\$ 8,196</u>     |

<sup>1</sup>During the quarter ended April 30, 2005, the Company issued 62,500 common shares at a price of \$0.64 per share to directors of the Company as payment for annual director fees.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

July 31, 2005 and 2004

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

**Note 7 Share Capital (continued)**

**Escrow**

At July 31, 2005, there were 12,528,549 (July 31, 2004 – 14,135,096) common shares held in escrow. These escrow shares will be released pro rata to the shareholders according to the following timetable:

| <u>Date</u>                | <u>Total</u> |
|----------------------------|--------------|
| <sup>1</sup> July 28, 2005 | 728,151      |
| September 24, 2005         | 150,000      |
| January 22, 2006           | 1,456,301    |
| March 24, 2006             | 150,000      |
| July 22, 2006              | 1,456,301    |
| January 22, 2007           | 1,456,301    |
| July 22, 2007              | 1,456,301    |
| January 22, 2008           | 1,456,301    |
| July 22, 2008              | 1,456,301    |
| January 22, 2009           | 1,456,301    |
| July 22, 2009              | 1,456,291    |
|                            | 12,678,549   |
|                            | 12,678,549   |

<sup>1</sup>At July 31, 2005 these shares were eligible for release subject to application being made by the Company.

**Share Purchase Warrants**

At July 31, 2005, the Company had 4,881,666 share purchase warrants outstanding entitling the holders thereof to purchase one common share for each warrant held as follows:

| Number                 | Exercise Price | Expiry Date     |
|------------------------|----------------|-----------------|
| 299,800 <sup>1</sup>   | \$0.75         | August 27, 2005 |
| 158,533 <sup>1</sup>   | \$0.60         | August 27, 2005 |
| 4,423,333 <sup>2</sup> | \$0.75         | August 27, 2005 |
| <u>4,881,666</u>       |                |                 |

<sup>1</sup> At July 31, 2004, the Company had 458,333 brokers' warrants outstanding, entitling the holders thereof to purchase 458,333 units at \$0.60 per unit expiring August 27, 2005. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share at \$0.75 per share to August 27, 2005. During the year ended July 31, 2005 299,800 of the brokers' warrants were exercised reducing the brokers' warrants outstanding to 158,553 at July 31, 2005 and 299,800 of the share purchase warrants were issued to the holders.

Subsequent to July 31, 2005 all of the remaining 158,533 \$0.60 broker warrants were exercised and 158,333 \$0.75 underlying share purchase warrants were issued to the holders. Of the \$0.75 underlying share purchase warrants, 224,800 were exercised and the remaining 233,533 expired.

At July 31, 2004, the Company had 500,000 brokers' warrants outstanding, which entitled the holders thereof to purchase 500,000 units at \$0.60 per unit until March 5, 2005. Each unit consisted of one common share and one-half of a share purchase warrant. One full share purchase warrant entitled the holder to purchase one common share at \$0.75 per share to March 5, 2005. During the year ended

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

July 31, 2005 and 2004

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

**Note 7 Share Capital (continued)**

July 31, 2005, 496,000 of the brokers' warrants were exercised and 135,665 of the underlying share purchase warrants were exercised. At July 31, 2005 there were no warrants outstanding.

<sup>2</sup> Subsequent to July 31, 2005 4,233,833 \$0.75 warrants were exercised and the remaining 189,500 warrants expired.

**Stock Option Plan**

Under the Stock Option Plan, the Company is authorized to grant share purchase options of up to 20% of its issued common shares to its employees, directors and consultants. Share purchase options are granted at an exercise price equal to the market price of the Company's common shares on the date of the grant.

Materially all of the Company's share purchase options vest over three years. Approximately one-third of the options vest on each of the first, second and third grant date anniversaries.

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

|                                    | Number of<br>Shares | Weighted<br>Average<br>Exercise<br>Price |
|------------------------------------|---------------------|--|
| Options outstanding, July 31, 2003 | 3,686,000           | \$0.25                                   |
| Granted                            | 2,668,343           | \$0.54                                   |
| Expired or cancelled               | (466,191)           | \$0.27                                   |
| Exercised                          | <u>(712,142)</u>    | <u>\$0.27</u>                            |
| Options outstanding July 31, 2004  | 5,176,010           | \$0.39                                   |
| Granted                            | 815,950             | \$0.64                                   |
| Expired or cancelled               | (492,595)           | \$0.47                                   |
| Exercised                          | <u>(1,122,058)</u>  | <u>\$0.40</u>                            |
| Options outstanding July 31, 2005  | <u>4,377,307</u>    | <u>\$0.43</u>                            |
| Options exercisable July 31, 2005  | 3,249,347           | \$0.37                                   |

At July 31, 2005, the Company had 4,377,307 share purchase options outstanding entitling the holders to purchase one common share for each option held as follows:

| <u>Number</u> | <u>Exercise Price</u> | <u>Expiry Dates</u>           |
|---------------|-----------------------|-------------------------------|
| 2,054,014     | \$0.25                | April 1, 2006 to Dec. 4, 2007 |
| 494,000       | \$0.47                | Jan. 5, 2008 to Oct. 3, 2008  |
| 238,500       | \$0.53                | Aug. 16, 2009 to Nov. 1, 2009 |
| 1,071,343     | \$0.60                | Oct. 31, 2007 to May 1, 2009  |
| 250,000       | \$0.64                | January 20, 2010              |
| 269,450       | \$0.76                | April 14, 2010                |

See Note 14. Subsequent Events

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

July 31, 2005 and 2004

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

**Note 8 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 35.62% (2004 - 37.62%) and the United Kingdom small business tax rate of 30% (2004 – N/A) for the following reasons:

|                                     | <u>2005</u>  | <u>2004</u>  |
|-------------------------------------|--------------|--------------|
| Income taxes based on income before | \$ 156       | \$ 3         |
| Income taxes                        |              |              |
| Timing differences                  | 368          | 144          |
| Permanent differences               | 10           | 6            |
| Change in valuation allowance       | <u>(534)</u> | <u>(153)</u> |
| Income tax provision                | <u>\$ -</u>  | <u>\$ -</u>  |

Future tax assets and liabilities are recognized for temporary differences between the carrying amounts of balances 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:

|                                  | <u>2005</u>    | <u>2004</u>    |
|----------------------------------|----------------|----------------|
| Non-capital losses               | \$ 492         | \$ 693         |
| Deductible share issue costs     | 142            | 192            |
| Scientific research expenditures | 427            | 173            |
| Investment tax credits           | 638            | 374            |
| Capital assets allowance         | (12)           | 50             |
| Less: valuation allowance        | <u>(1,667)</u> | <u>(1,482)</u> |
|                                  | <u>\$ -</u>    | <u>\$ -</u>    |

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

Non-capital losses can be carried forward and applied against future taxable income. These non-capital losses expire as follows:

|      | <u>2005</u>     |
|------|-----------------|
| 2008 | \$ 314          |
| 2009 | 688             |
| 2010 | <u>306</u>      |
|      | <u>\$ 1,308</u> |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

July 31, 2005 and 2004

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

**Note 8 Income Taxes (continued)**

Investment tax credits can be carried forward and applied against future income taxes payable. These investment tax credits expire as follows:

|      |               |
|------|---------------|
| 2010 | \$ 44         |
| 2011 | 2             |
| 2013 | 52            |
| 2014 | 276           |
| 2015 | 264           |
|      | <u>638</u>    |
|      | <u>\$ 638</u> |

Scientific research expenditures of \$1,135 can be carried forward indefinitely and applied against future income.

**Note 9 Non-cash Transactions**

Investing and financing transactions that do not have a direct impact on current cash flows are excluded from the statement of cash flows. During the years ended July 31, 2005 and 2004 the following transactions were excluded from the statement of cash flows.

During the year ended July 1, 2005 the Company acquired certain business assets, as disclosed in Note 3, which were paid for by settlement of accounts receivable due to vendors.

During the year ended July 31, 2005 the Company issued 62,500 common shares at \$0.64 per share, which were paid by settlement of debt owed to the placees.

During the year ended July 31, 2004, the Company issued 35,233 units as finders fees on private placement subscriptions. Each unit was comprised of one common share and one share purchase warrant entitling the holder to purchase an additional common share at \$0.75 until June 23, 2005.

**Note 10 Commitments**

The Company has entered into a lease for premises with the following total minimum annual payments:

|      |               |
|------|---------------|
| 2006 | \$ 202        |
| 2007 | 199           |
| 2008 | 199           |
| 2009 | 17            |
|      | <u>617</u>    |
|      | <u>\$ 617</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2005 and 2004

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

**Note 11 Related Party Transactions**

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

|                           | <u>2005</u>  | <u>2004</u>  |
|---------------------------|--------------|--------------|
| Administration:           |              |              |
| Consulting fees           | \$149        | \$74         |
| Directors fees            | 45           | -            |
| Professional fees         | 38           | 9            |
| Salaries and wages        | 72           | 72           |
| Interest and bank charges | -            | 24           |
| Research and development  | <u>72</u>    | <u>72</u>    |
|                           | <u>\$376</u> | <u>\$251</u> |

At July 31, 2005, accounts payable included \$38 (2004: \$21) due to directors and officers of the Company. At July 31, 2005, \$1 (2004 - \$87) was due from a director of the Company, was unsecured, bears interest at 2% per annum and was repayable out of bonuses and/or sale of common shares.

During the year ended July 31, 2005 directors of the Company exercised an aggregate of 533,333 (2004: 300,000) incentive stock options at a weighted average exercise price of \$0.64 (2004: \$0.29) per common share.

**Note 12 Segmented Information**

The Company has sales in Canada, the United States of America, Europe and in other areas of the world. Revenues can be split into the two categories of recurring service revenues and non-recurring hardware and software sales. Materially all of the assets of the Company are located in Canada.

*Sales by geographic segment are as follows:*

|                          | <u>2005</u>     | <u>2004</u>    |
|--------------------------|-----------------|----------------|
| Canada                   | \$2,031         | \$1,466        |
| United States of America | 4,464           | 4,086          |
| Europe                   | 2,208           | 809            |
| Other                    | <u>1,613</u>    | <u>203</u>     |
|                          | <u>\$10,316</u> | <u>\$6,564</u> |

*Sales by category are as follows:*

|   | <u>2005</u>     | <u>2004</u>    |
|---|-----------------|----------------|
| Recurring service revenue                   | \$2,725         | \$1,917        |
| Non-recurring hardware and software revenue | <u>7,591</u>    | <u>4,647</u>   |
|   | <u>\$10,316</u> | <u>\$6,564</u> |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

July 31, 2005 and 2004

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

**Note 13 Financial Instruments****a) Foreign Currency Risk:**

During the year ended July 31, 2005, the Company derived 62% (2004 – 78%) of its revenues in US dollars and 20% of its revenues in UK Pounds Sterling (2004 – n/a). The Company periodically estimates its obligations payable in these foreign currencies and converts foreign funds in excess of these obligations into Canadian currency. The Company does not use derivative instruments. At July 31, 2005 the Company held net current monetary assets of \$1,208 in UK Pounds Sterling and \$2,897 in US Dollars.

**b) Credit Risk:**

The Company provides credit to its clients in the normal course of operations. It carries out, on a continuing basis, credit checks on its clients and maintains provisions for contingent credit losses. For other debts, the Company estimates, on a continuing basis, the probable losses, and provides a provision for losses based on the estimated realizable value.

**Note 14 Subsequent Events**

Subsequent to July 31, 2005 4,617,166 share purchase warrants were exercised at an average price of \$0.74 per common share for total proceeds of \$3,439. On August 27, 2005 the remaining 423,033 warrants expired.

Subsequent to July 31, 2005, 60,000 employee stock options were exercised at a price of \$0.25 per common share. Also subsequent to July 31, 2005 the Company granted 79,500 employee stock options, exercisable at \$0.76 per common share and expiring on August 10, 2005,.

**Note 15 Comparative Figures**

Certain comparative figures have been reclassified to conform with the basis of presentation adopted for the current year.