



# **CONSOLIDATED FINANCIAL STATEMENTS**

For the Three Months Ended October 31, 2006 and 2005

## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, Subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

## MANAGEMENT'S DISCUSSION & ANALYSIS

**Quarter Ended October 31, 2006**

**This document is dated December 8, 2006.**

**(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. Such forward-looking statements involve known and unknown risks and uncertainties, including those set out herein, 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.*

*These forward-looking statements relate to, among other things, financial results, product plans, timing, content and pricing of products, market and industry expectations, the wireless communications industry, the mobile fleet industry, general economic, business and political conditions, loss or addition of key employees, stock market volatility, changes in laws and regulations, the Company's ability to compete successfully, adapt to technological advances, changing industry standards and other factors.*

*All forward-looking statements in this document are based on management's beliefs, intentions, and expectations with respect to future events and are subject to certain risks, uncertainties, and assumptions as of the date of this release. 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 Quarter Ended October 31, 2006 have been prepared in accordance with Canadian Generally Accepted Accounting Principles in Canada and are stated in Canadian Dollars.*

*This interim report has been prepared in accordance with requirements for interim Management Discussion and Analysis. Certain information that has not substantially changed from information disclosed in the annual Management Discussion and Analysis has not been duplicated in this report. The following discussion and analysis should be read in conjunction with (i) the consolidated financial statements of the Company for the three months ended October 31, 2006, (ii) management discussion and analysis for the year ended July 31, 2006 dated October 15, 2006, (iii) the consolidated financial statements of the Company for the year ended July 31, 2006 and (iv) the 2006 the Annual Information Form of the Company dated April 18, 2006. 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 quarter ended October 31, 2006 in accordance with Canadian Generally Accepted Accounting Principles for interim financial reporting. 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 October 31, 2006. 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, with the exception of the following control deficiency: at the date of this analysis, the Company has not implemented a whistleblower policy.*

## **OVERVIEW**

### **INDUSTRY AND ECONOMIC FACTORS**

#### *Industry*

Industry factors remain unchanged from industry factors disclosed in the Company's annual management discussion and analysis.

In fiscal 2006 the Company launched its Consumer Automotive division to focus on safety and security, monitoring and diagnostics and in-vehicle navigation services. In their fall 2005 report, Cannacord Capital indicated their belief that consumer applications will drive the growth in the location based services market.

Based on Cannacord Capital's report, in 2005 vehicle theft in the US was reported to be over US \$8.4 billion annually and in Canada was reported as CAD \$600 million annually with 1 in every 100 cars stolen. The Company has focused on markets outside North America such as Brazil where auto theft amounts to \$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 deal to deliver units to its distributor in Brazil for deployment by Volkswagen and believes there is opportunity for significant growth in this market.

#### *Economic*

WebTech's revenue and net income are affected by fluctuations in the exchanges rates of the Canadian dollar, the US dollar and UK Pounds Sterling. For the quarter ended October 31, 2006, approximately 70% (October 31, 2005: 65%) of revenue was US dollar based and 15% (October 31, 2005: 21%) of revenue was based in UK Pounds Sterling. The exchange rate for US Dollars at October 31, 2006 was 0.891, compared with 0.884 on July 31, 2006. The exchange rate for UK Pounds Sterling at October 31, 2006 was 0.467, compared with 0.473 on July 31, 2006. 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.

### **RESULTS FROM OPERATIONS**

The Company has realized significant revenue growth during the quarter ended October 31, 2006, while maintaining strong profit margins and increasing profitability.

#### **Revenue**

The Company achieved revenue growth of 52.9% over the comparable quarter of the prior year primarily due to its sales into the consumer automotive market in Brazil. Sales were lower for the quarter ended October 31, 2006 over the immediately preceding quarter due to the seasonal nature of the Company's business, as evidenced by first quarter results for the past four years.

WebTech anticipates that it will exhibit strong growth due to increased market demand for wireless fleet services and due to the Company's increased market penetration. The Company expects that revenue from small to medium size government and commercial fleets will continue to grow and also expects revenue to grow due to its expansion into the consumer automotive market and the long-haul trucking market. The possible rollout of WebTech locators on all Volkswagen passenger vehicles, as announced by the Company on October 26, 2006, could drive significant future revenue growth, however

negotiations between several parties involved have not been concluded and there is no certainty that this business will continue.

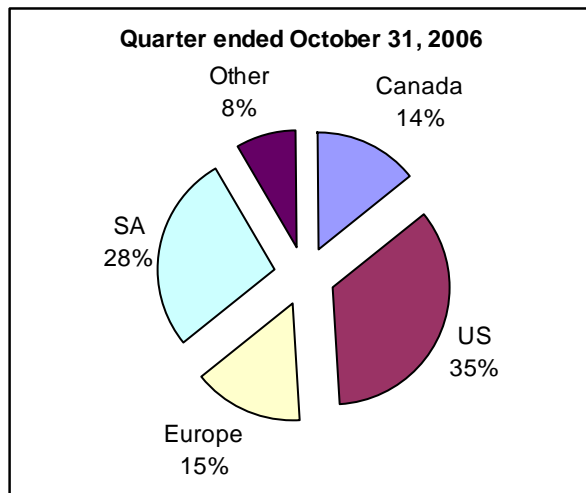
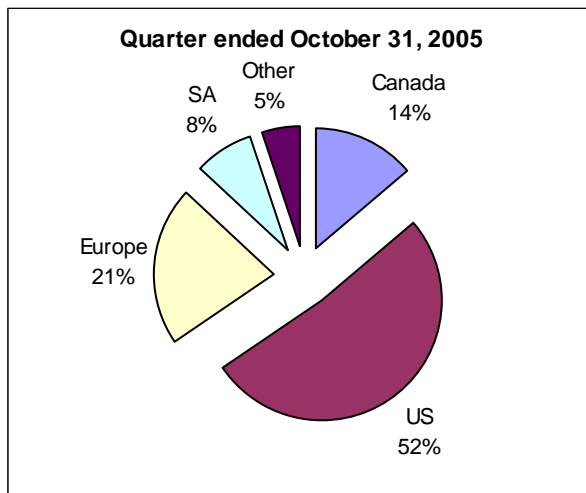
Growth of 49.9% in recurring services revenues over the prior year reflects the Company's ability to attract and retain customers. The Company continues to maintain a high customer retention rate. As the Company increases locator sales, subscriber revenues continue to increase. However, due to the increase in order quantity and the increase in reseller orders, there may be a time lag to allow for training, installation and activation of locators.

**Segmented Information**

The Company has sales in Canada, the United States of America, Europe, the Middle East, Asia, South America and other areas of the world. Due to an increase in 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 quarter ended October 31, 2006.

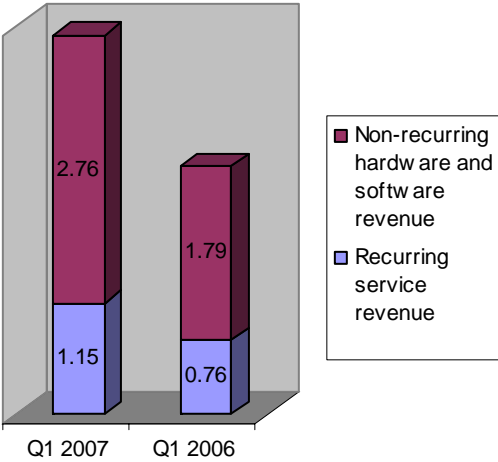
Revenue from sales in North America increased by 14.2% over the prior comparable period as sales to government fleets and small to medium commercial fleets increased. The Company's new product offering targeted at the long haul trucking sector also contributed to increased sales in North America.

*Sales by geographic segment are as follows:*



Revenues can be split into the two categories of: (i) subscriber revenues; and (ii) non-recurring hardware and software sales. Subscriber (or recurring services) revenues have remained consistent as a percentage of total sales at approximately 29.0% for the quarters ended October 31, 2006 and 2005 respectively. However, as many of the hardware units are activated, subscriber revenues will continue to grow. Subscriber revenues increased by 49.9% over the prior comparable quarter.

Sales in \$millions by category are as follows:



**Gross Profit and Margins**

Gross profit grew by 53.4% to \$1,914 for the quarter ended October 31, 2006 from \$1,248 for the quarter ended October 31, 2006 due to growth in total sales. Gross profit margin for the quarter ended October 31, 2006 was 49.0%, consistent with 48.8% for the prior comparable period. Profit margin from hardware sales and other non-recurring revenues remained constant, despite pressure from larger volume pricing, due to economies of scale from fixed manufacturing overhead. It is anticipated that overall margins will decrease in the short term due to larger volume hardware pricing, but increase in the long term as our subscriber base grows.

**Net Income**

In the first quarter of fiscal 2007 WebTech realized net income of \$34, compared with net loss of \$331 for the first quarter of the prior year. During the first quarter of 2007 WebTech reported a foreign currency gain of \$20, compared with a loss of \$90 for the first quarter last year 2005. Also, WebTech reported interest income of \$88 in the first quarter compared with \$2 for the prior comparable period, reflecting the investment of the proceeds of its April 11, 2006 private placement.

**Operating Expenses**

The Company realized a 33.5% increase in first quarter expenses, including sales and marketing, research and development, amortization and administration, over the prior year’s comparable quarter.

**Marketing and Sales**

Marketing and sales expense increased by 29% over the prior comparable period. Of such increase 27% was due to travel, 23% was due to increased marketing staff costs, 23% was due to recruiting costs, 12% was due to increased sales staff costs, 10% was due to increased advertising and promotion, and the balance due to the growing sales force and its related costs. Marketing and sales expense was comprised 15% of variable sales commissions relating primarily to North American hardware sales (2005 – 13%). Marketing and sales expense for the quarter ended October 31, 2006 decreased as a percentage of sales from 25% in the first quarter last year to 21% in the first quarter this year. Despite its variable component, it is anticipated that marketing and sales expense will continue to decrease as a percentage of sales due to economies of scale.

### **Research and Development**

Research and development costs increased by 58% 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 quarter the Company introduced three new products;

- WT5800 Locator with WiFi communicates over any standard 802.11 access point, providing a cost effective alternative for companies that don't require real-time updates or driver communications.
- WT1700 Bluetooth Adapter Kit connects to a WebTech Locator to provide access to Bluetooth enabled laptops, PDA's and Machine-to-Machine devices.
- Locator Driver ID Kit monitors vehicle usage by individual drivers using an iButton keyfob.

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

### **Administration**

Administration expense increased by 14% over the prior comparable period. Of this increase, 58% was due to increased staffing and consulting costs, 26% was due to increased recruiting costs and the balance was due to increased miscellaneous support costs. Administration expense decreased as a percentage of total sales from 15% in the first quarter last year to 11% in the first quarter of this year. Although administration expenditures are expected to increase as the Company continues to build infrastructure to support its growth, the Company expects that they will decrease as a percentage of sales due to economies of scale.

## **SUMMARY OF QUARTERLY RESULTS**

### **Selected Quarterly Financial Information**

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

<b>Quarter Ended</b>	<b>2006 Oct 31</b>	<b>2006 Jul 31</b>	<b>2006 Apr 30</b>	<b>2006 Jan 31</b>	<b>2005 Oct 31</b>	<b>2005 Jul 31</b>	<b>2005 Apr 30</b>	<b>2005 Jan 31</b>
Revenue	3,907	4,990	4,734	4,064	2,556	3,269	2,916	2,790
Gross Profit	1,914	2,565	2,373	2,062	1,249	1,658	1,442	1,361
Gross Margin (%)	49%	51%	50%	51%	49%	50%	49%	49%
Expenses	1,990	2,232	1,892	1,563	1,491	1,392	1,324	991
Net earnings (loss)	34	609	492	334	(331)	236	142	329
EPS (Basic)	Nil	\$0.02	\$0.01	\$0.01	(\$0.01)	\$0.01	Nil	\$0.01
EPS (Diluted)	Nil	\$0.02	\$0.01	\$0.01	(\$0.01)	\$0.01	Nil	\$0.01
Total Assets	22,531	22,334	20,946	11,315	10,348	6,898	6,640	5,459
Total Long Term Liabilities	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

### **Factors affecting quarterly results**

The Company has been growing organically through 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 weeks to many months. As well, over the last several years, the Company has been seeding the market by selling product to large customers to use for trials. Some of these trials last for over one year. 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 long term trend has been for

rapidly increasing sales. In addition, the Company's sales are subject to seasonality. Typically, locator sales in the first quarter of each year are lower due to decreased buying activity in the summer months.

## **LIQUIDITY AND CAPITAL RESOURCES**

### ***Current Assets***

WebTech's total current asset base at October 31, 2006 was \$21,471 (July 31, 2006 - \$21,304). The increase was mainly due to higher inventory levels, prepaid expenses and deposits, which offsets a reduction in cash.

### ***Working capital***

At October 31, 2006, the Company had positive working capital of \$19,126, compared with \$18,812 at July 31, 2006. The Company has a credit facility of up to \$1 million CAD, subject to margin criteria, with the Royal Bank of Canada.

Working capital is strong as a result of private placements and funds received from the exercise of incentive stock options and share purchase warrants. During the first quarter of fiscal 2006, the Company raised \$3,439 from the exercise of share purchase warrants. During the third quarter of fiscal 2006, the Company raised an additional \$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 significant future growth activities.

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

At October 31, 2006, the Company had cash and cash equivalents of \$7,909, compared with \$10,640, at July 31, 2006. During the quarter ended October 31, 2006, the Company generated cash flows of \$155 from operations (July 31, 2006: \$1,601), which is net income adding back amortization and stock-based compensation expense. The Company used cash of \$3,045 to fund non-cash working capital items (July 31, 2006: \$4,241), mainly attributable to increases in inventory, prepaid expenses and deposits paid.

### ***Accounts receivable***

Accounts receivable were \$7,285 at October 31, 2006, compared with \$7,015 at July 31, 2006. Amounts due from three customers with large volume sales contracts comprised 57.6% of accounts receivable. The Company's management has reviewed its accounts receivable balances as at October 31, 2006, including the balances of these three customers, and believes that adequate provision has been made for doubtful accounts. 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 October 31, 2006, accounts receivable was aged 15.7% over 120 days, an additional 22.4% over 180 days and an additional 3.6% over 240 days.

### ***Inventory***

Inventory increased from \$2,849 at July 31, 2006 to \$4,759 at October 31, 2006, to meet anticipated increased demand for the Company's products.

### ***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 \$1,518 at October 31, 2006, which reflects an increase in deposits on order to avoid inventory backlogs resulting from long manufacturing lead times for component parts.

## COMMITMENTS

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

2007	207
2008	285
2009	49
	<u>\$ 541</u>

## RELATED PARTY TRANSACTIONS

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

	<u>For The Three Months</u> <u>Ended October</u>	
	<u>2006</u>	<u>2005</u>
Administration		
Consulting fees	\$ 55	\$ 121
Directors fees	13	3
Professional fees	7	5
Salaries and wages	-	-
Share issue costs	-	-
Research and development	<u>30</u>	<u>38</u>
	<u>\$ 105</u>	<u>\$ 167</u>

At October 31, 2006, accounts payable and accrued liabilities included \$310 (July 31, 2006: \$330) due to directors and officers of the Company.

During the quarter ended October 31, 2006, directors of the company exercised 300,000 (October 31, 2005: nil) incentive stock options at a weighted average price of \$0.25 (October 31, 2005: nil) per common share.

## CHANGES IN ACCOUNTING POLICIES

### New Accounting Pronouncements

New accounting pronouncements which may affect the Company's financial statements are substantially unchanged from those disclosed in the Company's annual management discussion and analysis dated October 15, 2006.

## RISKS AND UNCERTAINTIES

WebTech faces a number of risks and uncertainties that could affect the achievement of its goals. The Company is subject to risks and uncertainties including but not limited to competition its ability to hire skilled employees, government regulations, the availability of working capital and risks and uncertainties relating to the companies products and services and operations. Risks and uncertainties facing the company are disclosed in the Company's Annual Information Form dated April 18, 2006 and are incorporated by reference herein. In addition, the Company faces the following risks and uncertainties at October 31, 2006:

## **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. At October 31, 2006, approximately 34.9% of accounts receivable is due from a South American distributor, which resells the Company's products and services to a large automobile manufacturer in Brazil, and which has been in business for approximately two years. In addition, approximately 10.2% of accounts receivable is due from the Company's distributor in Kuwait. There is no assurance that the Company will be successful in collecting these accounts from its distributors. Although the Company has no present basis to infer that this is a likely event, if the Company is not able to collect these accounts through the normal course of its operations, there is no assurance that legal remedy will be adequate due to the locations of the distributors. Also, approximately 19% of accounts receivable is due from two UK resellers of the Company's hardware.

## **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 quarter ended October 31, 2006, 70% (October 31, 2005: 65%) of revenues were US dollar denominated and 15% (October 31, 2005: 21%) 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 October 31, 2006 the US dollar exchange rate was 0.891 compared with 0.884 at July 31, 2006. 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 a wholly owned subsidiary. 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 October 31, 2006 the Company held net current monetary balances of \$2,019 in UK Pounds Sterling and \$6,542 in US Dollars.

## **PROGRESS ON PREVIOUS ANNOUNCEMENTS**

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

In the second quarter of 2006, to handle subscriber growth, the Company provided a dedicated Quadrant Portal using WebTech's newly architected solution based on IBM's xSeries servers and WebSphere software platform. Sales to this region are approximately \$1 million to-date.

### ***January 4, 2006 - Volkswagen to install WebTech Locator at assembly line in Brazil. Crown Telecom places a confirmed purchase order for CDN\$ 6 Million with WebTech Wireless.***

At the date of this report 16,400 locators have been shipped.

### ***October 26, 2006 – WebTech and Crown Telecom participate in the Volkswagen stand at the Sao Paulo Auto Show in Brazil***

At the show Crown Telecom and Volkswagen launched "24Horas", a service powered by WebTech products and services, offering safety and security services to the owners of all Volkswagen passenger vehicles manufactured and sold in Brazil. There are estimated to be greater than 400,000 Volkswagen passenger vehicles manufactured and sold in Brazil each year. Contract negotiations between the parties are still underway.

## **OUTSTANDING SHARE DATA**

As at December 8, 2006 the Company had 49,064,051 common shares outstanding. The Company has 3,168,324 share purchase options outstanding entitling the holders to purchase one common share for each option held at \$0.25 to \$1.50 per share expiring on various dates up to October 4, 2011. Also, the Company has 100,956 compensation options outstanding pursuant to a private placement, entitling the holders thereof to purchase one common share for each option held at a price of \$1.45 up to April 11, 2007.

## **ADDITIONAL INFORMATION**

### *SEDAR*

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

**WEBTECH WIRELESS INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(amounts in 000's)

	October 31, 2006 <i>(unaudited)</i>	July 31, 2006 <i>(audited)</i>
<b>ASSETS</b>		
Current		
Cash & cash equivalents	\$ 7,909	\$ 10,640
Accounts receivable	7,285	7,015
Inventory	4,759	2,849
Prepaid expenses and deposits	1,518	800
	21,471	21,304
Capital Assets	744	738
Intangible assets	316	292
	\$ 22,531	\$ 22,334
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	\$ 1,964	\$ 2,198
Deferred revenue	380	294
	2,345	2,492
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	21,445	21,105
Contributed surplus	544	574
Deficit	(1,803)	(1,837)
	20,186	19,842
	\$ 22,531	\$ 22,334

APPROVED BY THE DIRECTORS:

"Anwar Sukkarie"

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"Cameron Fraser"

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

**WEBTECH WIRELESS INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**For the Quarters Ended October 31, 2006 and 2005**  
(amounts in 000's except per share amounts)

	<u>2006</u>	<u>2005</u>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Sales	\$ 3,907	\$ 2,555
Cost of goods sold	<u>1,993</u>	<u>1,307</u>
Gross profit	<u>1,914</u>	<u>1,248</u>
Expenses		
Administration	443	388
Amortization	76	53
Marketing and sales	836	647
Research and development	<u>635</u>	<u>403</u>
	<u>1,990</u>	<u>1,491</u>
Loss before other items	(76)	(243)
Other items		
Interest Income	88	2
Foreign exchange gain (loss)	<u>22</u>	<u>(90)</u>
Net income (loss) for the period	<u>\$ 34</u>	<u>\$ (331)</u>
Basic earnings (loss) per share	<u>\$ 0.00</u>	<u>\$ (0.01)</u>
Fully diluted earnings (loss) per share	<u>\$ 0.00</u>	<u>\$ (0.01)</u>
Weighted average number of common shares outstanding	<u>42,290,339</u>	<u>34,951,230</u>

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

**WEBTECH WIRELESS INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the Quarters Ended October 31, 2006 and 2005  
(amounts in 000's)

	<u>2006</u> <i>(unaudited)</i>	<u>2005</u> <i>(unaudited)</i>
Operating Activities		
Net income for the period	\$ 34	\$ (331)
Add items not affecting cash:		
Stock based compensation	45	38
Amortization	76	53
	<u>155</u>	<u>(240)</u>
Changes in non-cash working capital items related to operations:		
Accounts receivable	(270)	307
Inventory	(1,910)	(396)
Prepaid expense and deposits	(718)	(183)
Accounts payable and accrued liabilities	(234)	258
Deferred revenue	86	27
	<u>(2,890)</u>	<u>(227)</u>
Financing Activities		
Common shares issued, net of costs	265	3,458
Due to directors	-	1
	<u>265</u>	<u>3,459</u>
Investing Activities		
Purchase of intangible assets	(36)	(27)
Purchase of capital assets	(70)	(109)
	<u>(106)</u>	<u>(136)</u>
Net increase (decrease) in cash during the period	(2,731)	3,096
Cash and cash equivalents, beginning of period	<u>10,640</u>	<u>1,072</u>
Cash and cash equivalents, end of period	<u>\$ 7,909</u>	<u>\$ 4,168</u>
Cash and cash equivalents consist of:		
Cash	\$ 1,409	\$ 1,418
Term deposits	6,500	2,750
	<u>\$ 7,909</u>	<u>\$ 4,168</u>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

October 31, 2006 and 2005

(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. On August 1, 2006, the Company was continued to British Columbia.

WebTech is in the business of developing and selling location-based and telematics subscriber services and hardware. The Company's shares are listed for trading on the TSX Venture Exchange.

**Note 2 Significant Accounting Policies**

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada for interim financial reporting and are stated in Canadian dollars. The interim consolidated financial statements have been prepared in a manner which is consistent with the accounting policies described in the Company's Annual Report for the Year Ended July 31, 2006 and should be read in conjunction therewith.

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 wholly owned subsidiaries. All inter-company balances have been eliminated. The Company's subsidiary, WebTech Wireless Europe Ltd., which was incorporated in the United Kingdom, commenced active business on November 1, 2004. WebTech Wireless International Inc., which was incorporated in Barbados, is inactive.

**(b) 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.

**(c) 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

October 31, 2006 and 2005

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

**(d) Stock-based Compensation**

The value of share purchase options is 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.

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.

**(e) 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 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 October 31, 2006, the warranty reserve has been adequate to cover the costs associated with defective units. The Company periodically reviews the adequacy of warranty reserves.

**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"). The Company has assumed Globetrac's customers, resellers, suppliers and portals and all technical support and warranty issues. 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 from August 1, 2005. The commission is contingently payable based on future sales and cannot be reasonable determined at the acquisition date. The contingent consideration is recorded when the amounts can be determined and amortized on a straight line basis over its estimated useful life of 11 years. For the year ended July 31, 2005, total consideration of \$179, which included contingent consideration of \$123, was allocated \$11 to inventory, \$10 to prepaid expense and \$168 to customer lists, less \$10 of accounts payable assumed. For the quarter ended October 31, 2006, additional contingent consideration of \$35 was allocated to customer lists. Globetrac is a former reseller of the Company's products and services in Europe.

	<u>October 31,</u> <u>2006</u>	<u>July 31,</u> <u>2006</u>
Cost	\$ 361	\$ 325
Accumulated Amortization	<u>(45)</u>	<u>(33)</u>
	<u>\$ 316</u>	<u>\$ 292</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2006 and 2005

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

**Note 4 Credit Facility**

On October 31, 2006 the Company had a credit facility of up to \$1 million CAD, subject to margin criteria, with the Royal Bank of Canada. The Canadian dollar facility bears interest at Canadian prime lending rate plus 1%. The credit facility is secured by a general charge on the assets of the Company.

**Note 5 Share Capital**

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

<b>Issued:</b>	<u>Total number</u>	<u>Total Amount</u>
Balance July 31, 2005	35,384,377	8,196
Issued for cash:		
Stock Options	1,273,350	356
Warrants	4,617,166	3,439
Private placement <sup>1</sup>	6,896,552	10,000
Transfer from contributed surplus on exercise of stock options	-	30
Less: Share issue costs	-	(916)
Balance July 31, 2006	48,171,445	\$ 21,105
Issued for cash:		
Stock Options	653,833	252
Share purchase warrants	10,715	16
Transfer from contributed surplus on exercise of stock options		68
Transfer from contributed surplus on exercise of warrants		5
Less: Share issue costs		(0)
Balance October 31, 2006	48,835,993	\$ 21,445

<sup>1</sup> On April 11, 2006, 6,896,552 special warrants were issued by private placement for gross proceeds of \$10,000. Issue costs related to the financing were \$782. Effective June 6, 2006 each special warrant was exercised at no additional cost into one common share of the Company.

**Share Purchase Warrants**

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

In connection with the April 11, 2006 private placement of special warrants, the underwriters were granted an aggregate of 206,896 special broker warrants, each of which was exercised for no additional consideration into one share purchase warrant on June 6, 2006. Each share purchase warrant entitles the holder thereof to acquire one common share of the Corporation at a price of \$1.45 until April 11, 2007. At October 31, 2006, 196,181 share purchase warrants were outstanding. (Note 11 subsequent events)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

**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:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>
Options outstanding July 31, 2005	4,363,307	\$0.43
Granted	527,400	\$1.01
Expired or cancelled	(82,700)	\$0.73
Exercised	<u>(1,273,350)</u>	\$0.28
Options outstanding July 31, 2006	<u>3,534,657</u>	\$0.56
Granted	445,000	\$1.29
Expired or cancelled	(24,667)	\$0.82
Exercised	<u>(653,833)</u>	\$0.39
Options outstanding October 31, 2006	<u>3,301,157</u>	\$0.69
Options exercisable October 31, 2006	<u>2,034,881</u>	\$0.50

At October 31, 2006, the Company had 3,301,157 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>
490,214	\$0.25	April 1, 2006 to Dec. 4, 2007
381,000	\$0.47	Jan. 5, 2008 to Oct. 3, 2008
236,500	\$0.53	Aug. 16, 2009 to Nov. 1, 2009
832,343	\$0.60	Oct. 31, 2007 to May 1, 2009
250,000	\$0.64	January 20, 2010
264,600	\$0.76	Apr. 14, 2010 to Aug. 10, 2010
161,000	\$0.78	September 15, 2010
69,500	\$1.20	December 29, 2010
51,000	\$1.50	April 18, 2011
120,000	\$1.20	July 19, 2011
185,000	\$1.10	September 11, 2011
260,000	\$1.42	October 4, 2011

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

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During the quarter ended October 31, 2006 stock based compensation expensed was \$43 (October 31, 2005 - \$38).

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

	<u>October 31, 2006</u>	<u>July 31, 2006</u>
Risk free rate	3.0%	2.0%
Dividend yield	0%	0%
Expected volatility	58%	60%
Weighted average expected option life	3 years	3 years
Weighted average fair value of options granted	\$0.534	\$0.426
Total options outstanding	<u>3,301,157</u>	<u>3,534,657</u>

**Note 6 Contributed Surplus**

Balance July 31, 2005	\$ 365
Stock options	155
Stock options exercised	(30)
Share purchase warrants <sup>1</sup>	<u>84</u>
Balance July 31, 2006	\$ 574
Stock options	43
Stock options exercised	(68)
Share purchase warrants <sup>1</sup>	<u>(5)</u>
Balance October 31, 2006	<u>\$544</u>

<sup>1</sup>The Corporation uses the Black Scholes valuation method to calculate the fair value of share purchase warrants at the date of issue. Share purchase warrants were granted in connection with the April 11, 2006 private placement of Special Warrants, Note 7.

**Note 7 Commitments**

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

2007	207
2008	285
2009	<u>49</u>
	<u>\$ 541</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

October 31, 2006 and 2005

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

**Note 8 Related Party Transactions**

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

	<u>For The Three Months</u> <u>Ended October</u>	
	<u>2006</u>	<u>2005</u>
Administration		
Consulting fees	\$ 55	\$ 121
Directors fees	13	3
Professional fees	7	5
Salaries and wages	-	-
Share issue costs	-	-
Research and development	<u>30</u>	<u>38</u>
	<u>\$ 105</u>	<u>\$ 167</u>

At October 31, 2006, accounts payable and accrued liabilities included \$310 (July 31, 2006: \$330) due to directors and officers of the Company.

During the quarter ended October 31, 2006, directors of the company exercised 300,000 (October 31, 2005: nil) incentive stock options at a weighted average price of \$0.25 (October 31, 2005: nil) per common share.

**Note 9 Segmented Information**

The Company has sales in Canada, the United States of America, Europe, South America 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. At October 31, 2006, 88.4% of the Company's assets are located in Canada and 11.6% are located in Europe, held by the Company's wholly owned subsidiary.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

October 31, 2006 and 2005

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

*Sales by geographic segment are as follows:*

	<u>For The Three Months</u> <u>Ended October</u>	
	<u>2006</u>	<u>2005</u>
Canada	\$ 560	\$ 345
United States of America	1,351	1,328
Europe	595	547
South America	1,080	205
Other	<u>321</u>	<u>131</u>
	<u>\$ 3,907</u>	<u>\$ 2,556</u>

*Sales by category are as follows:*

	<u>For The Three Months</u> <u>Ended October</u>	
	<u>2006</u>	<u>2005</u>
Recurring service revenue	\$ 1,145	\$ 764
Non-recurring hardware and software revenue	<u>2,762</u>	<u>1,792</u>
	<u>\$ 3,907</u>	<u>\$ 2,556</u>

**Note 10 Financial Instruments****a) Foreign Currency Risk:**

During the quarter ended October 31, 2006 the Company derived 70% of revenue in US dollars and 20% of revenue in UK Pounds Sterling. During the quarter ended October 31, 2005 the Company derived 65% of revenue in US dollars and 15% of revenue in UK Pounds Sterling. 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 October 31, 2006 the Company held net current monetary assets of \$2,019 in UK Pounds Sterling and \$6,542 in US Dollars.

**b) 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 October 31, 2006, accounts receivable from three customers comprised an aggregate of 57.6% of total accounts receivable.

During the quarter ended October 31, 2006 sales to one customer comprised an aggregate of 31% of sales. No other individual customer comprised greater than 10% of sales.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

October 31, 2006 and 2005

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

**Note 11 Subsequent Events**

Subsequent to October 31, 2006 the Company issued 132,833 common shares pursuant to the exercise of incentive stock options to employees of the company at a weighted average price of \$0.35 per common share. Also, subsequent to October 31, 2006, 95,225 share purchase warrants were exercised at a price of \$1.45 per common share.

Subsequent to October 31, 2006 the Company entered into a lease agreement with GWL Realty Advisors Inc. on behalf of The Great West Life Assurance Company for expanded premises at the Company's current location. This lease commences June 1, 2007 and has a term of 10 years, expiring on May 31, 2017.