

## **MANAGEMENT'S DISCUSSION & ANALYSIS**

**Quarter ended January 31, 2005**

**This document is dated December March 2, 2005.**

*The financial data contained in this report and in the Consolidated Financial Statements of the Company for the Three and Six Months Ended January 31, 2005 have been prepared in accordance with Canadian Generally Accepted Accounting Principles in Canada 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 verticals in North America, South America, 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 (GVW in excess of 14,000 lbs) in the USA use telematics. They also estimate that fewer than 5% of the 2 million commercial vehicles have telematics installed.

Clarus' estimate of penetration in the consumer market shows telematics devices being used in less than 2% of vehicles in the USA and in less than 1% of vehicles globally.

Factors driving the increase in use of telematics include:

- lower costs for hardware and airtime,
- more complex and better subscriber services at similar prices,
- a trend toward safety and security of mobile workers and assets, and
- an increased awareness of the benefits of telematics by consumers.

The combination of a number of competitors going through restructuring and a recent trend of consolidation among various players in the market indicates the industry is forcing weaker competitors out while stronger ones are continuing to grow. However, the uncertainty caused by these bankruptcies and takeovers resulted, for a time, in a slower adoption of the technology by potential customers. Now that the industry has been somewhat streamlined and strengthened skeptical customers should have more confidence going forward.

#### ***Economic***

The increase in the Canadian dollar relative to the US dollar continues to negatively impact WebTech's revenue and net income. For the six months ended January 31, 2005, approximately 65% (2004: 71%) of the revenue was US dollar based. The exchange rate at January 31, 2005 was 0.8308 compared with 0.7539 on January 31, 2004. However, WebTech is starting to sell to customers in both UK Pound Sterling and in Euros.

#### ***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. Materially all assets of the Company are located in Canada.

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 Three Months Ended January		For the Six Months Ended January	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Canada	19%	34%	22%	29%
United States of America	40%	55%	48%	58%
Europe	28%	11%	19%	11%
Other	13%	-%	11%	13%

*Sales by category are as follows:*

	For the Three Months Ended January		For the Six Months Ended January	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Subscriber revenue	25%	31%	30%	27%
Non-recurring hardware and software revenue	75%	69%	70%	73%

During the second quarter of 2005, the Company realized a 15% increase in US sales over the same quarter of the prior year, consistent with a 15% increase over the six month periods then ended. Canadian sales for the quarter decreased by 10% when compared to the prior year quarter, however six month sales reflect an overall increase of 5%. The Company's growth in North America is attributed to internal growth of the Company's operations and sales force.

Subscriber revenues have reduced as a percentage of total sales due to a 71% increase in hardware sales for the second quarter. However, as these units are activated subscriber revenues will continue to grow. Subscriber revenues for the three and six months ended January 31, 2005 increased by 32% and 55% respectively over the comparable prior year periods.

## **RESULTS FROM OPERATIONS**

Although there has been negative pressure from the declining US dollar, the Company has realized significant revenue growth while maintaining strong profit margins and profitability,

### **Revenue**

For the second quarter of 2005, the Company realized revenue growth of 59% over the second quarter of the prior year. Of the revenue growth for the quarter, 56% is attributable to sales growth in Europe and 36% is due to sales outside Europe and North America. For the six month period ended January 31, 2005, the Company realized 38% growth over the comparable period of the prior year. Of the revenue growth for the six month period, 38% is attributable to sales growth in Europe and 36% is due to sales outside Europe and North America.

### **Gross Profits and Margins**

Gross profit grew by 54% over the prior comparable quarter and by 29% over the prior six month period, due to the growth in sales. Gross profit margin for the second quarter of 2005 was 49%, compared with 51% for the prior comparable period and for the six month period was 49% compared with 53% of the prior comparable period. The decrease in margins is due to a shift in revenue mix during the second quarter, as hardware sales increased as a percentage of total revenue, and due to lower pricing for large volume opportunities in initial trial sales.

### **Net Income**

For the three and six months ended January 31, 2005, Webtech realized net income of \$329 and \$61 (2004: \$103 and \$129) respectively. The increase in net income is primarily due to higher gross profits and proportionately lower operating costs.

### **Operating Expenses**

The Company realized a 45% increase in expenses, including sales and marketing, research and development, administration and other, over the comparable quarter and a 44% increase for the six month comparable period.

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

Sales and marketing expense increased by 66% over the prior comparable quarter due to in large part to the addition of European sales costs. For the six month period, sales and marketing expense increased by 81% due to an expansion of our North American sales force, with its attendant sales costs (such as travel). Webtech will continue to expand its sales force as a significant part of its internal growth strategy.

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

Research and development costs increased by 44% over the prior comparable quarter and by 40% over the comparable six month period. This increase is due to hiring new engineering staff and increased research and development activities to enhance our product portfolio and services offering. The Company will continue to invest in research and development activities to maintain technical leadership.

### ***Administration***

The Company continues to carefully control administrative expenses, with a 15% increase over the prior comparable quarter, mainly due to increased staffing. Administrative expense for the six month period did not change materially over prior year comparable period. It is anticipated that administrative expense will continue to grow to support the increase in sales, however it is expected to grow at a lower rate, further enhancing profitability due to economies of scale.

### **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. Finally, 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 regulations as they might pertain to certain issues concerning, content, privacy, taxation and other considerations by foreign or state governments.

**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 result in interruptions in the Company's services.

Foreign Exchange – Fluctuations in the exchange rate between the Canadian and US dollars affects WebTech by impacting revenue, expenses and the balance sheet. Although the Company reports in CAD dollars, for the six months ended January 31, 2005, 65% (2004: 71%) of revenues were US dollar denominated and 18% (2004: Nil) were in UK Pound 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 January 31, 2005 the exchange rate was 0.8308 compared with 0.7539 at January 31, 2004. At the moment, the Company does not engage in exchange rate hedging contracts and, while it may do so in the future, there are not any present plans to do so. During the second quarter of 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 pound sterling, however its costs of sales are primarily denominated in CAD and US dollars. Current economic forecasts that Webtech has seen estimate a relatively flat exchange rate between the CAD dollar and UK pounds sterling. However, if UK pound sterling weakens relative to the Canadian dollar, the Company may record losses on translation of its subsidiary's accounts.

## SUMMARY OF QUARTERLY RESULTS

### Selected Quarterly Financial Information

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

Quarter Ended	2005 Jan 31	2004 Oct 31	2004 Jul 31	2004 Apr 30	2004 Jan 31	2003 Oct 31	2003 Jul 31	2003 Apr 30
Revenue	2,790	1,341	1,723	1,841	1,753	1,247	944	804
Gross Profit	1,381	660	843	961	905	690	513	348
Gross Margin	49%	49.2%	48.9%	52.2%	51.6%	55.3%	54.3%	43.3%
Expenses	1,081	928	1,071	856	801	664	731	690
Net earnings	329	(268)	(228)	105	104	26	(218)	(342)
EPS (Basic)	(\$0.01)	(\$0.01)	(\$0.01)	\$0.00	\$0.00	\$0.00	(\$0.01)	(\$0.01)
EPS (Diluted)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Total Assets	5,459	4,447	4,385	4,741	2,816	2,116	1,827	2,251
Total Long-	0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

### Factors affecting quarterly results

The company has been growing organically through direct sales to smaller sized customers. 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 for 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 \$732 in sales for the quarter.

The company has been able to maintain healthy gross margins, despite the falling US dollar, by aggressively cutting product costs. Overhead costs are strictly controlled and increased only when absolutely necessary to support increasing business.

#### **Progress on previous announcements**

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

The value of the deliveries to the end of the first quarter of fiscal 2005 is right on track with the schedule in the agreement.

##### ***August 9, 2004 MOU announcement with the City of Richmond***

The product called for in the MOU has been delivered and paid for by the City of Richmond.

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

Tracking World (Pvt) Ltd., our distributor in Pakistan, visited with Webtech at our offices in Vancouver for training and business planning purposes.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Assets**

WebTech's total asset base at January 31, 2005 was \$5,459, up by 20% from the balance at year-end 2004, due to \$233 received from the exercise of incentive stock options and share purchase warrants and \$232 to cash flow generated by operating activities, with the remainder of the increase due to increased inventory and accounts receivable balances to support the growth in sales activity.

### **Working Capital**

At January 31, 2005, the Company had a positive working capital of \$3,678. However, the Company may be dependent on future equity financing or the exercise of existing share purchase warrants outstanding in order to satisfy its ongoing growth activities. Working capital is strong as a result of earlier private placements, and the Company's ability to generate cash through operations.

### **Net Cash and Cash Equivalents**

At January 31, 2005 the Company had cash and cash equivalents of \$591 compared with \$1,538 at January 31, 2004. Cash decreased by \$529 during the second quarter of 2005, as the Company increased its purchases of inventory to meet product demand. The Company has an additional \$250,000 available under a credit line agreement with the Royal Bank of Canada.

### **Accounts receivable**

Accounts receivable was \$2,117 at January 31, 2005 compared with \$919 at July 31, 2004 as a result of higher sales and a slower billing cycle due to the set up of its UK subsidiary.

### **Prepaid expenses and deposits**

Prepaid deposits included in the total prepaid expenses and deposits relate to amounts paid to manufacturers in advance of receiving inventory. Prepaid deposits increased from \$262 at July 31, 2004 to \$559 at January 31, 2005 due an increase in manufacturing activities, to avoid inventory backlogs due to long lead times.

## Commitments

There has been no material change in the commitments disclosed in the Company's annual MD&A.

## RELATED PARTY TRANSACTIONS

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

	Quarter ended October 31	
	<u>2005</u>	<u>2004</u>
Consulting fees	\$39	\$36
Interest and bank charges	-	32
Professional fees	18	-
Research and development	36	36
Salaries and wages	<u>36</u>	<u>36</u>
	<u>\$129</u>	<u>\$140</u>

At January 31, 2005, accounts payable includes \$39 (\$185 at October 31, 2003) due to directors and officers of the Company.

At January 31, 2005 no amount was due while at January 31, 2004 \$215 due to directors of the Company was unsecured, bore interest at 10% per annum and had no specific terms of repayment.

## OUTSTANDING SHARE DATA

As at March 2, 2005 the Company had 33,794,412 common shares outstanding. Of these common shares, 13,233,145 are held in escrow to be released in varying amounts on set dates up until July 22, 2009. A total of 7,394,498 share purchase warrants with prices ranging from \$0.75 to \$1.00 expire on dates from March 5, 2005 until August 27, 2005. There are 1,312,500 brokers' warrants outstanding with prices of \$0.60 and \$0.75, which expire on either March 5, 2005 or August 27, 2005. The Company had 4,504,857 share purchase options outstanding entitling the holders to purchase one common share for each option held at \$0.25 to \$0.65 per share expiring on various dates up to May 1, 2009.

## ADDITIONAL INFORMATION

### *SEDAR*

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

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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.**  
**CONSOLIDATED BALANCE SHEET**  
(Prepared by Management without audit)

	<u>Six months ended January 31, 2005 (\$000's)</u>	<u>Year ended July 31, 2004 (\$000's)</u>
<b>ASSETS</b>		
Current Assets		
Cash	591	1,538
Accounts Receivable	2,117	919
Scientific research tax credits receivable	-	202
Inventory	1,615	1,087
Prepaid expenses and deposits	<u>621</u>	<u>335</u>
	4,944	4,081
Due from a director	1	87
Property, plant and equipment	469	402
Goodwill (note 3)	<u>45</u>	<u>-</u>
	<u><u>5,459</u></u>	<u><u>4,570</u></u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued liabilities	1,168	708
Customer deposits	<u>98</u>	<u>20</u>
	<u>1,266</u>	<u>728</u>
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
Share capital (note 4)	7,108	6,874
Contributed Surplus (note 4)	333	277
Retained earnings (deficit)	<u>(3,248)</u>	<u>(3,309)</u>
	<u>4,193</u>	<u>3,842</u>
	<u><u>5,459</u></u>	<u><u>4,570</u></u>

**APPROVED BY THE DIRECTORS:**

"Anwar Sukkarie"  
Director

"Gordon Becker"  
Director

**NOTICE TO READERS OF THE INTERIM FINANCIAL STATEMENTS**

The balance sheets as at January 31, 2005, the statements of operations and deficit, and the statements of cash flows for the three months ending January 31, 2005 have not been reviewed on behalf of the shareholders by the independent external auditors of the Company.

**WEBTECH WIRELESS INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
(Prepared by Management without audit)

	Three Months Ended January 31, 2005 (\$000's)	Three Months Ended January 31, 2004 (\$000's)	Six Months Ended January 31, 2005 (\$000's)	Six Months Ended January 31, 2004 (\$000's)
<b>Sales</b>	2,790	1,751	4,132	2,998
<b>Cost of goods sold</b>	<u>1,409</u>	<u>856</u>	<u>2,091</u>	<u>1,414</u>
<b>Gross profit</b>	<u>1,381</u>	<u>895</u>	<u>2,041</u>	<u>1,584</u>
<b>Expenses</b>				
Administration	327	288	520	518
Sales and marketing	400	241	781	430
Research and development	293	204	522	372
Amortization	<u>61</u>	<u>15</u>	<u>115</u>	<u>26</u>
	1,081	748	1,938	1,346
<b>Income (loss) before other items</b>	<u>300</u>	<u>147</u>	<u>103</u>	<u>238</u>
Interest expense/(income)	(6)	17	(12)	32
Foreign exchange loss/(gain)	<u>(23)</u>	<u>27</u>	<u>54</u>	<u>77</u>
	(29)	44	42	109
Net income/ (loss) for the period	<u><u>329</u></u>	<u><u>103</u></u>	<u><u>61</u></u>	<u><u>129</u></u>
Deficit, beginning of the period	<u>(3,577)</u>	<u>(3,013)</u>	<u>(3,309)</u>	<u>(3,039)</u>
Deficit, end of period	<u><u>(3,248)</u></u>	<u><u>(2,910)</u></u>	<u><u>(3,248)</u></u>	<u><u>(2,910)</u></u>

**WEBTECH WIRELESS INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOW**  
(Prepared by Management without audit)

	Three Months Ended January 31, 2005 (\$000's)	Three Months Ended January 31, 2004 (\$000's)	Six Months Ended January 31, 2005 (\$000's)	Six Months Ended January 31, 2004 (\$000's)
<b>Operating Activities</b>				
Net Income for the period	329	103	61	129
Add item not affecting cash:				
Stock based compensation	32	-	56	-
Amortization	61	16	115	26
	<u>422</u>	<u>119</u>	<u>232</u>	<u>155</u>
<b>Changes in non-cash working capital items related to operations:</b>				
Accounts receivable	(1,293)	(504)	(1,198)	(769)
Scientific research tax credits receivable	202	-	202	-
Inventory	(205)	(112)	(527)	(235)
Prepaid expenses and deposits	(257)	(47)	(286)	(25)
Accounts payable and accrued liabilities	357	230	460	456
Customer deposits	98	(6)	78	9
	<u>(1,098)</u>	<u>(439)</u>	<u>(1,271)</u>	<u>(564)</u>
<b>Financing Activities</b>				
Common shares issued, net of costs	195	362	233	374
Due to directors	111	11	85	21
	<u>306</u>	<u>373</u>	<u>318</u>	<u>395</u>
<b>Investing Activities</b>				
Purchase goodwill	(45)	-	(45)	-
Purchase of capital assets	(114)	(65)	(181)	(79)
	<u>(159)</u>	<u>(65)</u>	<u>(226)</u>	<u>(79)</u>
Net increase (decrease) in cash during the year	(529)	(12)	(947)	(93)
Cash, beginning of period	<u>1,120</u>	<u>61</u>	<u>1,538</u>	<u>142</u>
Cash, end of the period	<u><u>591</u></u>	<u><u>49</u></u>	<u><u>591</u></u>	<u><u>49</u></u>

**WEBTECH WIRELESS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**January 31, 2005**

(all dollar amounts are in \$000's except per share amounts)

**Note 1 Nature and Continuance 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 pursuant to a Certificate of Continuance.

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.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. As at January 31, 2005, the Company has accumulated losses of \$3,248 since incorporation. The continued operations of the Company and the realization of its assets and satisfaction of liabilities are dependent upon management's ability to successfully implement the Company's business strategy and raise equity or debt financing as required.

**Note 2 Summary of Significant Accounting Policies**

**(a) Basis of Presentation**

These 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, 2004 and should be read in conjunction therewith.

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.

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 from these estimates.

## **Note 2 Summary of Significant Accounting Policies continued**

### **(b) Stock-based Compensation**

Effective January 1, 2004, the Canadian Institute of Chartered Accountants (CICA) Handbook section 3870 Stock Based Compensation and Other Stock Based Payments was amended to require expense treatment of all stock-based compensation and payments for options granted on or after January 2, 2002. As permitted by this standard, this change in accounting policy has been applied retroactively without restatement of prior years' financial statements, and results in a \$277 reduction in retained earnings and a \$277 increase in contributed surplus

### **(c) Goodwill**

The Company has adopted CACA Handbook Section 3062 Goodwill and Other Intangible Assets. Goodwill is tested for impairment annually, or more frequently if impairment indicators arise, to determine if an impairment loss should be recognized.

### **(d) Comparative Figures**

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

## **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") for total consideration of \$56, attributed \$45 to goodwill, \$11 to inventory and \$10 to prepaid expense along with the assumption of \$10 of accounts payable. 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. The Company will pay to Axxess 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.

## Note 4 Share Capital

### Authorized:

- April 30, 2004 – Unlimited number of common shares with no par value;
- April 30, 2003 – Unlimited number of Class A common shares, voting with no par value;
- Unlimited number of Class B common shares, non-voting with no par value; and
- Unlimited number of Class C preferred shares, with no par value.

### Issued:

	Number <u>Total</u>	Total <u>Amount</u>
Issued on amalgamation	20,411,415	\$ 2,551
Issued for Caliente	3,104,000	297
Finders fee	822,800	-
Amalgamation costs	-	(340)
Stock options at \$0.20	300,000	60
Issued for cash at \$0.60	7,644,498	4,587
Stock options at \$0.25	644,333	161
Stock options at \$0.47	67,809	32
Warrants at \$0.65	113,499	74
Share issue costs	-	(547)
July 31, 2004	<u>33,108,354</u>	<u>6,874</u>
Stock options at \$0.25	242,199	61
Stock options at \$0.47	50,000	23
October 31, 2004	<u>33,400,553</u>	<u>6,958</u>
Stock options at \$0.47	119,740	56
Stock options at \$0.25	96,119	24
Warrants at \$0.60	125,000	75
Share issue costs	-	(5)
January 31, 2005	<u><u>33,741,412</u></u>	<u><u>\$ 7,108</u></u>

#### Note 4 Share Capital continued

Escrow:

At January 31, 2005, there were 13,233,145 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>
March 24, 2005	150,000
July 22, 2005	751,951
September 24, 2005	150,000
January 22, 2006	1,503,901
March 24, 2006	150,000
July 22, 2006	1,503,901
January 22, 2007	1,503,901
July 22, 2007	1,503,901
January 22, 2008	1,503,901
July 22, 2008	1,503,901
January 22, 2009	1,503,901
July 22, 2009	1,503,887
	<hr/>
	13,233,145
	<hr/>

#### Share Purchase Warrants

At January 31, 2005, the Company had 7,394,498 share purchase warrants outstanding entitling the holders thereof to purchase one common share for each warrant held as follows:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
1,250,000	\$0.75	March 5, 2005
1,000,000	\$1.00	March 12, 2005
561,165	\$0.75	June 23, 2005
4,583,333	\$0.75	August 27, 2005
<hr/>		
<u>7,394,498</u>		

## Note 4 Share Capital continued

### Brokers Warrants

At July 31, 2004, the Company had 500,000 brokers' warrants outstanding, entitling the holders thereof to purchase 500,000 units at \$0.60 per unit expiring March 5, 2005. Each unit consists of one common share and one-half of a share purchase warrant. One full share purchase warrant entitles the holder to purchase one common share at \$0.75 per share to March 5, 2005.

During December, 2004, 125,000 of the above brokers' warrants were exercised reducing the balance of brokers' warrants outstanding to 375,000 at January 31, 2005, and 62,500 of the share purchase warrants were issued to the holders.

In addition, at January 31, 2005, 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-half of a share purchase warrant. One full share purchase warrant entitles the holder to purchase one common share at \$0.75 per share to August 27, 2005.

### 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 with the optionees over three years. 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 <u>Shares</u>	Weighted Average Exercise <u>Price</u>
Options outstanding, July 31, 2003	3,686,000	\$0.25
Granted	2,668,343	\$0.54
Expired or cancelled	466,191	\$0.27
Exercised	712,142	\$0.27
Options outstanding July 31, 2004	5,176,010	\$0.39
Granted	296,500	\$0.53
Expired or cancelled	406,595	\$0.60
Exercised	<u>508,058</u>	<u>\$0.31</u>
Options outstanding January 31, 2005	<u>4,557,857</u>	<u>\$0.39</u>

#### Note 4 Share Capital continued

At January 31, 2005, the Company had 4,557,857 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>
2,214,014	\$0.25	April 1, 2005 to Dec. 4, 2007
807,000	\$0.47	Jan. 5, 2008 to Oct. 3, 2008
296,500	\$0.53	Aug. 16, 2009 to Nov. 1, 2009
1,077,343	\$0.60	Oct. 31, 2007 to May 1, 2009
163,000	\$0.65	March 5, 2005

#### Stock Based Compensation Expense

Compensation expense for the three and six months ended January 31, 2005 was \$32 and \$24 respectively. Also, the estimated average option life was revised from the 2004 year-end (July 31, 2004) resulting in a reduction on the total fair value of the options previously granted from \$797 to \$521. The pro-forma stock based compensation for 2004 was consequently reduced from \$340 to \$277, which was recorded in 2005.

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

	<u>January 31, 2005</u>	<u>July 31, 2004</u>
Risk free rate	3.0%	2.0%
Dividend yield	0%	0%
Expected volatility	66%	66%
Weighted average expected option life	3 years	3 years

The weighted average fair value of the stock options granted was as follows:

	<u>Six months ended January 31, 2005</u>	<u>Year ended July 31, 2004</u>
Weighted average fair value	\$0.23	\$0.20
Total options granted	296,500	2,668,343
Total fair value of options granted	\$71	\$521

## Note 5 Earnings per Common Shares

Basic and fully diluted earning per share for the three and six months ended January 31, 2005 and 2004 is computed by 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 due to the losses incurred. Basic earnings per share for the three and six months ended January 31, 1995 were \$0.01 (1994: nil) and nil (1994: nil), respectively. Diluted earnings per share were nil for the three and six months ended January 31, 2005 and 2004.

	<u>Three months</u> <u>January 31, 2005</u>	<u>Three months</u> <u>January 31, 2004</u>	<u>Six months</u> <u>January 31, 2005</u>	<u>Six months</u> <u>January 31, 2004</u>
Weighted average Shares (basic)	33,715,442	33,483,408	33,483,408	33,615,442
Weighted average Shares (diluted)	46,880,297	41,224,219	33,483,408	32,996,095

## Note 6 Commitments

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

July 31, 2005	\$143
July 31, 2006	179
July 31, 2007	179
July 31, 2008	179
July 31, 2009	15
	<hr/>
	\$554
	<hr/>

## Note 7 Financial Instruments

### a) Foreign Currency Risk:

During the six months ended January 31, 2005, the Company derived 65% (2004 – 71%) of its revenues in US currency and 18% of its revenues in Great Britain Pounds (2004 – n/a). The Company estimates its obligations payable in these foreign currencies and converts all foreign funds in excess of these obligations into Canadian currency as they are received. The Company does not use derivative instruments.

### b) Fair Values:

Management estimates that the fair value of the Company's financial instruments at January 31, 2005 and 2004 approximates the carrying values of these instruments.

**Note 8 Related Party Transactions**

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

	Six Months Ended January	
	<u>2005</u>	<u>2004</u>
Consulting fees	\$39	\$36
Interest and bank charges	-	32
Legal	18	-
Research and development	36	36
Salaries and wages	<u>36</u>	<u>36</u>
	<u>\$129</u>	<u>\$140</u>

At January 31, 2005, accounts payable includes \$39 (2004: \$185) due to directors and officers of the Company.

At January 31, 2005 no amount was due while at January 31, 2004, the \$215 due to the directors of the Company was unsecured, bore interest at 10% per annum and had no specific terms of repayment.

**Note 9 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:*

	Six Months Ending	
	<u>2005</u>	<u>2004</u>
Canada	\$909	\$878
United States of America	1,997	1,742
Europe	770	331
Other	<u>456</u>	<u>47</u>
	<u>\$4,132</u>	<u>\$2,998</u>

*Sales by category are as follows:*

	<u>2005</u>	<u>2004</u>
Recurring service revenue	1,260	810
Non-recurring hardware and software revenue	<u>2,872</u>	<u>2,188</u>
	<u>\$4,132</u>	<u>\$2,998</u>

**Note 10    Subsequent Events**

Subsequent to January 31, 2005, 53,000 common shares were issued upon exercise of incentive stock options, for total proceeds of were exercised at prices ranging from \$0.25 to \$0.60 per common share.

