



CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended October 31, 2005 and 2004

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 INTERIM REPORT

Quarter ended October 31, 2005

This document is dated December 9, 2005.

(Dollars expressed in 000's)

The financial data contained in this report and in the Consolidated Financial Statements of the Company for the Quarter Ended October 31, 2005 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 Company's Annual Management Discussion and Analysis is available at www.sedar.com.

INDUSTRY AND ECONOMIC FACTORS

Industry

Industry factors are substantially unchanged from industry factors disclosed in the Company's annual Management Discussion and Analysis

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 quarter ended October 31, 2005, approximately 65% of revenue was based in US dollars and 21% of revenue was based in UK Pounds Sterling. For the quarter ended October 31, 2004, approximately 78% of revenue was based in US dollars and no revenue was based in UK Pounds Sterling. The exchange rate for US Dollars at October 31, 2005 was 0.8466 compared with 0.7799 on October 31, 2004. The exchange rate for UK Pounds Sterling at October 31, 2005 was 0.479 compared with 0.4465 on October 31, 2004. The relative strengthening in the Canadian dollar impacts revenues and accounts receivable negatively, this is partially offset by a favorable impact on expenses and accounts payable.

RESULTS FROM OPERATIONS

The Company has realized significant revenue growth over the same quarter of the prior year, despite downward pressure from a declining US Dollar.

Revenue

In the first quarter of 2006, the Company achieved revenue growth of 91% over the first quarter of the prior year as the Company continued to expand its distribution channels and strengthen its penetration of existing markets.

The Company's sales are subject to seasonality, as evidenced in prior year results. Typically we ship less locators in August and September due to lower buying activity in the summer months of July and August.

Locator sales increased by 127% over the comparable quarter. Of this growth 23% was derived from the Company's UK operations.

Growth of 39% 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

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infrastructure to accommodate larger fleets, revenue growth from hardware sales and subscribers is expected.

Gross Profits and Margins

Gross profit grew by 89% to \$1,249 in the first quarter of 2006 from \$660 in the first quarter of 2005 due to growth in sales. Gross profit margin for the quarter was 49%, consistent with the gross profit margin for the prior comparable quarter.

Net Loss

In the first quarter of 2006, WebTech realized a net loss of \$331 compared with a net loss of \$268 for the first quarter of 2005. Of the loss, \$90 was due to foreign currency loss compared with \$77 of the prior comparable period and \$90 was due to bonuses payable to senior management.

Operating Expenses

The Company realized a 74% increase in expenses, including sales and marketing, research and development, administration and other, over the prior year.

Marketing and Sales

Sales expense increased by 69% over the prior comparable year, with 50% of the increase due to an increase in higher commissionable sales, 20% due to an increase in marketing costs and the balance primarily due to the 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 growth strategy.

Research and Development

Research and development costs increased by 76% 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. The Company will continue to invest in research and development activities to maintain technical leadership.

Administration

As previously anticipated, administration costs have increased as the company continues to build infrastructure to support its growth. Administrative costs increased by 75% over the prior comparable period, to support increased transaction volumes. In addition bonuses of \$70 were included in administration expense for the current quarter.

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SUMMARY OF QUARTERLY RESULTS

Selected Quarterly Financial Information

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

Quarter Ended	2005 Oct 31	2005 July 31	2005 Apr 30	2005 Jan 31	2004 Oct 31	2004 Jul 31	2004 Apr 30	2004 Jan 31
Revenue	2,556	3,269	2,916	2,790	1,341	1,723	1,841	1,753
Gross Profit	1,307	1,658	1,442	1,361	660	843	948	905
Gross Margin (%)	49%	50%	49%	49%	49%	49%	51%	51%
Expenses	1,580	1,392	1,324	991	857	1,071	818	748
Net earnings (loss)	(331)	236	142	329	(268)	(228)	105	104
EPS (Basic)	(\$0.01)	\$0.01	Nil	\$0.01	(\$0.01)	(\$0.01)	Nil	Nil
EPS (Diluted)	(\$0.01)	\$0.01	Nil	\$0.01	(\$0.01)	(\$0.01)	Nil	Nil
Total Assets	10,348	6,898	6,640	5,459	4,447	4,570	4,741	2,816
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 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.

In addition to organic growth, the Company grew 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 21% of sales for the first quarter of fiscal 2006.

The Company maintained healthy gross margins, despite the falling US dollar, by aggressively controlling product costs. Overhead costs are strictly controlled but can increase to support increasing business.

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.

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

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

Sales by geographic segment are as follows:

	<u>Q1 2006</u>	<u>Q1 2005</u>
Canada	14%	28%
United States of America	52%	66%
Europe	21%	2%
Other	13%	4%

Sales to Canada decreased by 8% and sales to the US grew by 49% 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.

Sales by category are as follows:

	<u>Q1 2006</u>	<u>Q1 2005</u>
Subscriber revenue	30%	41%
Non-recurring hardware and software revenue	70%	59%

Subscriber revenues have declined as a percentage of total sales due to a 127% increase in hardware sales over the prior comparable period. However, as many of the hardware units are activated, subscriber revenues will continue to grow. Subscriber revenues increased by 39% over the prior year.

LIQUIDITY AND CAPITAL RESOURCES

Current Assets

WebTech's total current asset base at October 31 was \$9,648, an increase of 54% over the balance at the end of its most recently completed fiscal year. The increase was mainly due to higher balances of cash, 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 October 31, 2005, the Company had positive working capital of \$8,085, compared with \$5,003 at July 31, 2005. The Company has a credit facility of up to \$1 million, subject to margin criteria, with the Royal Bank of Canada. Working capital is strong as a result of earlier private placements and funds received from the exercise of incentive stock options and share purchase warrants over prior years and the Company's ability to generate cash through operations. During the first quarter of 2006, 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 significant future growth activities, including maintaining adequate inventory levels to meet customer orders.

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(Dollars expressed in 000's)

Cash

At October 31, 2005 the Company had cash and cash equivalents of \$4,168 compared with \$1,072 at July 31, 2005. Cash increased by \$3,096 during the quarter, primarily due to proceeds received from the exercise of warrants.

Accounts receivable

Accounts receivable was \$2,517 at October 31, 2005 compared with \$2,825 at July 31, 2005. Sales to larger fleets with industry standard credit terms have reduced accounts receivable turnover, contributing to larger accounts receivable balances.

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 \$440 at July 31, 2005 to \$623 at October 31, 2005 to avoid inventory backlogs due to long manufacturing lead times.

COMMITMENTS

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

2006	\$ 230
2007	245
2008	251
2009	34
	<hr/>
	\$ 760
	<hr/> <hr/>

RELATED PARTY TRANSACTIONS

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

	Three Months Ended October 31	
	<u>2005</u>	<u>2004</u>
Administration:		
Consulting fees	\$121	\$18
Directors fees	3	-
Professional fees	5	-
Salaries and wages	-	18
Interest and bank charges	-	-
Research and development	<u>38</u>	<u>18</u>
	<u>\$167</u>	<u>\$54</u>

At October 31, 2005, accounts payable included bonuses of \$90 (July 31, 2005: \$38) due to directors and officers of the Company.

MANAGEMENT'S DISCUSSION & ANALYSIS INTERIM REPORT

Quarter ended October 31, 2005
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RISKS AND UNCERTAINTIES

WebTech faces risks and uncertainties that could affect the achievement of its goals. The Company is subject to risks and uncertainties from factors 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 Company's operations. Such risks have not changed substantially from the disclosure contained in the Company's annual Management Discussion and Analysis, which is incorporated by reference herein.

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, 2005, 65% (2005: 78%) of revenues were US dollar denominated and 21% (2005: 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 October 31, 2005 the exchange rate was 0.8466 compared with 0.817 at July 31, 2005. 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, 2005 the Company held net current monetary balances of \$1,361 in UK Pounds Sterling and \$2,701 in US Dollars.

OUTSTANDING SHARE DATA

As at December 13, 2005 the Company had 40,100,676 common shares outstanding. Of these common shares, 11,800,398 are held in escrow to be released in varying amounts on set dates up until July 22, 2009. As at December 13, 2005 the Company has 4,554,407 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.

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.

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.

November 7, 2005 - Motorola signs distribution agreement with WebTech Wireless

Initial units shipped.

**MANAGEMENT'S DISCUSSION & ANALYSIS
INTERIM REPORT**

Quarter ended October 31, 2005
This document is dated December 9, 2005.
(Dollars expressed in 000's)

ADDITIONAL INFORMATION

SEDAR

Additional information relating to WebTech is available on SEDAR at 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.
CONSOLIDATED BALANCE SHEETS
(amounts in 000's)

	<u>October 31, 2005</u> <i>(Unaudited)</i>	<u>July 31, 2005</u> <i>(Audited)</i>
ASSETS		
Current		
Cash	\$ 4,168	\$ 1,072
Accounts receivable	2,517	2,825
Inventory	2,340	1,944
Prepaid expenses and deposits	623	440
	9,648	6,281
Capital Assets	504	449
Intangible Assets, <i>Note 2(b)</i>	196	168
	\$ 10,348	\$ 6,898
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 1,514	\$ 1,256
Deferred Revenue	49	22
	1,563	1,278
SHAREHOLDERS' EQUITY		
Share capital, <i>Note 5</i>	11,657	8,196
Contributed Surplus	400	365
Deficit	(3,272)	(2,941)
	8,785	5,620
	\$ 10,348	\$ 6,898

Commitments, *Note 6*

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 Three Months Ended October 31, 2005 and 2004
(amounts in 000's)

	<i>2005</i>	<i>2004</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Sales, <i>Note 8</i>	\$ 2,555	\$ 1,341
Cost of goods sold	1,307	681
Gross profit	1,248	660
Expenses		
Administration, <i>Note 7</i>	388	193
Amortization	53	53
Marketing and sales	647	382
Research and development	403	229
	1,491	857
Loss before other items	(243)	(197)
Other items		
Interest income	(2)	(6)
Foreign exchange loss, <i>Note 9</i>	90	77
Net loss for the period	\$ (331)	\$ (268)
Basic & diluted loss per share	\$ (0.01)	\$ (0.01)
Weighted average number of common shares outstanding	34,951,230	29,799,749

WEBTECH WIRELESS INC.
CONSOLIDATED STATEMENT OF DEFICIT
For the Three Months Ended October 31, 2005 and 2004
(amounts in 000's)

Deficit, beginning of the period	\$ (2,941)	\$ (3,032)
Loss for the period	(331)	(268)
Adjustment to Prior Year Retained Earnings, <i>Note 2 (c)</i>	-	(348)
Deficit, end of period	\$ (3,272)	\$ (3,648)

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

WEBTECH WIRELESS INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

For the Three Months Ended October 31, 2005 and 2004
(amounts in 000's)

	<u>2005</u> <i>(Unaudited)</i>	<u>2004</u>
Operating Activities		
Net loss for the period	\$ (331)	\$ (268)
Add items not affecting cash:		
Stock based compensation, <i>Note 2(c)</i>	38	24
Amortization	53	53
	<u> </u>	<u> </u>
	(240)	(191)
Changes in non-cash working capital items related to operations:		
Accounts receivable	307	95
Inventory	(396)	(322)
Prepaid expense and deposits	(183)	(29)
Accounts payable and accrued liabilities	258	103
Deferred Revenue	27	(20)
	<u> </u>	<u> </u>
	(227)	(364)
Financing Activities		
Common shares issued, net of costs, <i>Note 5</i>	3,458	38
Due to Directors	1	(25)
	<u> </u>	<u> </u>
	3,459	13
Investing Activities		
Purchase goodwill and other intangible assets	(27)	-
Purchase of capital assets	(109)	(67)
	<u> </u>	<u> </u>
	(136)	(67)
Net increase (decrease) in cash during the year	3,096	(418)
Cash, beginning of period	<u>1,072</u>	<u>1,538</u>
Cash, end of period	<u>\$ 4,168</u>	<u>\$ 1,120</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

October 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 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, 2005 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.

(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) 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) Stock-based Compensation

Effective for fiscal years commencing on or after January 31, 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. The Company was a private company until March 13, 2004 and accordingly this policy is retroactive to the fiscal year beginning August 1, 2003. The Company has adopted this new policy on a retroactive basis with no restatement of prior periods. 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 during the period from August 1, 2003 to July 31, 2004.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2005 and 2004

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

Note 2 Summary of Significant Accounting Policies (continued)

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.

During the quarter ended October 31, 2005 stock based compensation expensed was \$38 (October 31, 2004 - \$24).

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

	<u>October 31, 2005</u>	<u>July 31, 2005</u>
Risk free rate	2.0%	2.0%
Dividend yield	0%	0%
Expected volatility	63%	61%
Weighted average expected option life	3 years	3 years
Weighted average fair value of options granted	\$0.335	\$0.270

(d) Basic and Diluted Loss Per Share

Basic earnings per share are computed by dividing the loss for the quarter by the weighted average number of common shares outstanding during the quarter. Diluted earnings per share reflect the dilution that would occur if potentially dilutive securities were exercised or converted to common shares. The dilutive effect of options 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 due to the losses incurred. Accordingly, there is no difference in the amounts presented for basic and diluted loss per share.

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. 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. During the three months ended October 31, 2005 additional contingent consideration of \$32, net of accumulated amortization of \$4, was allocated to customer lists. Globetrac is a former reseller of the Company's products and services in Europe.

	<u>October 31, 2005</u>	<u>July 31, 2005</u>
Intangible Assets	\$196	\$168

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2005 and 2004

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

Note 4 Credit Facility

On October 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.

Note 5 Share Capital

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

Issued:	<u>Total number</u>	<u>Total Amount</u>
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 ¹	62,500	40
Transfer from contributed surplus on exercise of stock options	-	122
Less: Share issue costs	-	(4)
Balance July 31, 2005	35,384,377	\$ 8,196
Issued for cash:		
Stock Options	99,133	21
Warrants	4,617,166	3,439
Transfer from contributed surplus on exercise of stock options	-	3
Less: Share issue costs	-	(2)
Balance October 31, 2005	40,100,676	\$ 11,657

¹During the year ended July 31, 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.

Escrow

At October 31, 2005, there were 11,800,398 (July 31, 2005 – 12,678,549) 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>
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
	<u>11,800,398</u>

During the quarter ended October 31, 2005, 878,151 shares were released from escrow.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2005 and 2004

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

Note 2 Summary of Significant Accounting Policies (continued)

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. During the three months ended October 31, 2005, 4,233,833 warrants were exercised at \$0.75 per share for net proceeds of \$3,175 and the remaining 189,500 warrants expired on August 27, 2005.

At July 31, 2005 the Company had 299,800 broker warrants outstanding, entitling the holders thereof to purchase 299,800 units at \$0.60 per unit. Each unit consisted of one common share and one share purchase warrant. During the three months ended October 31, 2005 158,533 broker warrants were exercised for net proceeds of \$95 and 158,533 underlying share purchase warrants were issued. The balance of 141,277 broker warrants expired on August 27, 2005.

At July 31, 2005, the Company had 299,800 \$0.75 share purchase warrants outstanding pursuant to the exercise of broker warrants. During the three months ended October 31, 2005 an additional 158,533 share purchase warrants were issued pursuant to the exercise of broker warrants, 224,800 share purchase warrants were exercised for net proceeds of \$169 and the remaining 233,533 expired on August 27, 2005.

At October 31, 2005, there were no share purchase warrants outstanding.

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 <u>Shares</u>	Weighted Average <u>Exercise 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	<u>(712,142)</u>	\$0.27
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>	\$0.40
Options outstanding July 31, 2005	4,377,307	\$0.43
Granted	282,900	\$0.77
Expired or cancelled	(0)	-
Exercised	<u>(99,133)</u>	\$0.28
Options outstanding October 31, 2005	<u>4,561,074</u>	\$0.43
Options exercisable October 31, 2005	3,257,881	\$0.38

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2005 and 2004

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

Note 2 Summary of Significant Accounting Policies (continued)

At October 31, 2005, the Company had 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>
1,968,214	\$0.25	April 1, 2006 to Dec. 4, 2007
480,667	\$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
81,500	\$0.76	August 10, 2010
201,400	\$0.78	September 15, 2010

Note 6 Commitments

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

2006	\$ 230
2007	245
2008	251
2009	34
	<u>\$ 760</u>

Note 7 Related Party Transactions

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

	Three Months Ended October 31	
	<u>2005</u>	<u>2004</u>
Administration:		
Consulting fees	\$121	\$18
Directors fees	3	-
Professional fees	5	-
Salaries and wages	-	18
Research and development	<u>38</u>	<u>18</u>
	<u>\$167</u>	<u>\$54</u>

At October 31, 2005, accounts payable included bonuses payable of \$90 (July 31, 2005: \$38) due to directors and officers of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2005 and 2004

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

Note 8 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:

	Three Months Ended October 31	
	<u>2005</u>	<u>2004</u>
Canada	\$ 345	\$ 374
United States of America	1,328	891
Europe	547	23
Other	<u>336</u>	<u>53</u>
	<u>\$2,556</u>	<u>\$1,341</u>

Sales by category are as follows:

	<u>2005</u>	<u>2004</u>
Recurring service revenue	\$ 764	\$551
Non-recurring hardware and software revenue	<u>1,792</u>	<u>790</u>
	<u>\$2,556</u>	<u>\$1,341</u>

Note 9 Financial Instruments**a) Foreign Currency Risk:**

During the three months ended October 31, 2005 the Company derived 65% of revenue in US dollars and 21% of revenue in UK Pounds Sterling. During the three months ended October 31, 2004 the Company derived 78% of revenue in US dollars and 21% no 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, 2005 the Company held net current monetary assets of \$1,361 in UK Pounds Sterling and \$2,701 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.

During the three months ended October 31, 2005 sales to no one customer comprised 10% or more of total sales.

Note 10 Comparative Figures

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