

Consolidated Financial Statements of



CardioComm Solutions Inc.

Years ended December 31, 2006 and 2005



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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of CardioComm Solutions Inc. as at December 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font.

Chartered Accountants

Victoria, Canada

April 23, 2007

CARDIOCOMM SOLUTIONS INC.

Consolidated Balance Sheets
(Expressed in Canadian Dollars)

December 31, 2006 and 2005

| | 2006 | 2005 |
|---------------------------------|-------------------|-------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 244,065 | \$ 14,468 |
| Accounts receivable | 149,037 | 110,691 |
| Inventory | 4,122 | 7,853 |
| Prepaid expenses and deposits | 8,836 | 35,274 |
| | <u>406,060</u> | <u>168,286</u> |
| Property and equipment (note 3) | 21,335 | 34,677 |
| | <u>\$ 427,395</u> | <u>\$ 202,963</u> |

Liabilities and Shareholders' Deficiency

| | | |
|--|--------------------|--------------------|
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 437,444 | \$ 276,089 |
| Deferred revenue | 571,258 | 326,323 |
| Promissory notes | 30,000 | 108,000 |
| Due to related parties (note 4) | 1,321,436 | 1,141,078 |
| Convertible note (note 5) | 377,429 | 345,025 |
| | <u>2,737,567</u> | <u>2,196,515</u> |
| Shareholders' deficiency: | | |
| Share capital (note 6) | 18,731,530 | 18,471,530 |
| Contributed surplus (note 6) | 415,620 | 367,112 |
| Other paid-in capital (note 5) | 81,704 | 81,704 |
| Deficit | (21,539,026) | (20,913,898) |
| | <u>(2,310,172)</u> | <u>(1,993,552)</u> |
| Continuing operations (note 1) | | |
| Commitments (note 9) | | |
| | <u>\$ 427,395</u> | <u>\$ 202,963</u> |

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

_____ Director

_____ Director

CARDIOCOMM SOLUTIONS INC.

Consolidated Statements of Operations and Deficit
(Expressed in Canadian Dollars)

Years ended December 31, 2006 and 2005

| | 2006 | 2005 |
|---|----------------|----------------|
| Sales | \$ 1,761,871 | \$ 1,016,293 |
| Operating expenses: | | |
| General and administrative (note 7) | 845,417 | 884,025 |
| Sales and marketing | 536,394 | 595,715 |
| Product development | 1,011,619 | 1,075,302 |
| | 2,393,430 | 2,555,042 |
| Operating loss | (631,559) | (1,538,749) |
| Foreign exchange gain (loss) | 6,431 | (2,769) |
| Loss for the year | (625,128) | (1,541,518) |
| Deficit, beginning of year | (20,913,898) | (19,372,380) |
| Deficit, end of year | \$(21,539,026) | \$(20,913,898) |
| Basic and fully diluted loss per share | \$ (0.02) | \$ (0.04) |
| Weighted average number of shares outstanding | 40,778,061 | 36,867,376 |

See accompanying notes to consolidated financial statements.

CARDIOCOMM SOLUTIONS INC.

Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

Years ended December 31, 2006 and 2005

| | 2006 | 2005 |
|--|--------------|----------------|
| Cash provided by (used for): | | |
| Operations: | | |
| Loss for the year | \$ (625,128) | \$ (1,541,518) |
| Items which do not involve cash: | | |
| Amortization of property and equipment | 21,423 | 51,976 |
| Stock compensation expense | 48,508 | 8,577 |
| Unrealized foreign exchange loss (gain) | 2,612 | (2,855) |
| Accretion of convertible notes | 9,945 | 20,805 |
| Accrued interest on convertible note | 19,847 | 21,215 |
| Changes in non-cash working capital balances: | | |
| Accounts receivable | (38,346) | 313,140 |
| Inventory | 3,731 | 3,770 |
| Prepaid expenses and deposits | 26,438 | 7,120 |
| Accounts payable and accrued liabilities | 161,355 | 218,003 |
| Deferred revenue | 244,935 | 104,527 |
| | (124,680) | (795,240) |
| Investing: | | |
| Purchase of property and equipment | (8,081) | (4,469) |
| Financing: | | |
| Issuance of common shares (net of share issue costs) | 260,000 | - |
| Advances from related parties | 364,358 | 580,000 |
| Repayments of advances from related parties | (184,000) | - |
| Issuance of promissory notes | 50,000 | 253,000 |
| Repayment of promissory notes | (128,000) | (145,000) |
| | 362,358 | 688,000 |
| Increase (decrease) in cash and cash equivalents | 229,597 | (111,709) |
| Cash and cash equivalents, beginning of year | 14,468 | 126,177 |
| Cash and cash equivalents, end of year | \$ 244,065 | \$ 14,468 |
| Supplementary information: | | |
| Cash paid during the year for: | | |
| Interest | \$ 323 | \$ - |
| Income taxes | - | - |

See accompanying notes to consolidated financial statements.

CARDIOCOMM SOLUTIONS INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)

Years ended December 31, 2006 and 2005

CardioComm Solutions Inc. (the "Company") was incorporated under the laws of British Columbia on October 26, 1989 and operated as a computer related consulting firm until 1991. In 1992, the Company commenced activities in research and development of advanced software and hardware related to a personal heart arrhythmia monitoring system. Effective December 7, 1998, the Company's name was changed to CardioComm Solutions Inc. The Company is based in Victoria, British Columbia.

1. Continuing operations:

These consolidated financial statements have been prepared on the going concern basis which assumes the realization of assets and settlement of liabilities in the normal course of business notwithstanding the fact that the Company has experienced operating losses since commencing operations and has a working capital deficiency of \$2,331,507 at December 31, 2006. The ability of the Company to continue as a going concern is dependent upon obtaining additional financing and ultimately attaining profitable operations.

Management is of the opinion that sufficient working capital will be obtained from operations and external financing to meet the Company's obligations as they come due. These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate.

2. Significant accounting policies:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following is a summary of the significant accounting policies used in the preparation of the consolidated financial statements.

(a) Principles of consolidation:

These consolidated financial statements include the accounts of CardioComm Solutions Inc. and its wholly owned subsidiary, Harley Street Software Inc., (USA). The subsidiary was incorporated under the laws of the State of Delaware, USA November 17, 1994 and has been inactive to the date of this report. All intercompany transactions and balances have been eliminated on consolidation.

(b) Cash and cash equivalents:

Cash and cash equivalents includes cash and liquid investments with a term to maturity of 90 days or less when acquired.

(c) Inventory:

Work in process and finished goods inventories are stated at the lower of cost and net realizable value. Raw materials and supplies are stated at the lower of cost and replacement value. Cost is determined on a first-in, first-out (FIFO) basis. Inventory is recorded net of any obsolescence provisions.

CARDIOCOMM SOLUTIONS INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)

Years ended December 31, 2006 and 2005

2. Significant accounting policies (continued):

(d) Property and equipment:

Property and equipment are recorded at cost less related investment tax credits and government grants. Amortization is provided over the estimated useful life of the assets, as disclosed in note 3, using the straight-line method. The cost of repairs and maintenance is expensed as incurred.

(e) Revenue recognition:

The Company recognizes revenue when it is realized or realizable and earned. The Company considers revenue realized or realizable and earned when it has persuasive evidence of an arrangement, the product has been delivered and is installed and operational at a customer's place of business or the services have been provided to the customer, the fee is fixed and determinable, and collectibility is reasonably assured. In addition to this general policy, the following are the specific revenue recognition policies for each major category of revenue.

Software:

Revenue from the sale of proprietary software is recognized when title is transferred to the customer. Shipping and handling costs paid by the customer to the Company are included in revenue.

Service:

Revenues derived from ongoing service and maintenance contracts are recognized over the term of the contract on a straight-line basis and are net of discounts. Other service revenue is recognized at the time the service is performed.

Multi-element arrangements:

The Company also has multiple-element sales arrangements where software licenses, the associated post-contract services ("PCS") and services are sold together.

The Company has established vendor-specific objective evidence ("VSOE") of the fair value of PCS for specific customer classes based on the value of PCS when sold separately as an optional renewal after the expiry of the initial maintenance term or based on contracted prices for optional PCS renewals included in the original multiple element sales arrangement.

The Company uses the residual method to determine the fair value of the services and software license if VSOE of the fair value of all undelivered elements exists. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is recognized as revenue. In such cases, when vendor-specific objective evidence of fair value exists for all of the undelivered elements (most commonly PCS), the residual amount is recognized as revenue and the PCS is recognized ratably over the PCS term, which is typically 12 months.

CARDIOCOMM SOLUTIONS INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)

Years ended December 31, 2006 and 2005

2. Significant accounting policies (continued):

(f) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be reversed or settled. The effect on future tax assets and liabilities of future changes in tax rates is recognized in income in the period that includes the date of substantive enactment. To the extent that it is not more likely than not that a future tax asset will be realized, a valuation allowance is provided.

(g) Investment tax credits:

Investment tax credits ("ITC's") earned from scientific research and experimental development activities are recorded when recovery of the credits is reasonably assured. The Company accounts for ITC's using the cost-reduction method. No ITC's have been recognized in the current reporting periods.

(h) Research and development expenditures:

Research costs are expensed as incurred. Development costs are expensed as incurred unless they meet certain criteria for deferral and amortization. The Company assesses whether it has met the relevant criteria for deferral and amortization at each reporting date. No such expenditures meet these criteria in the current reporting periods.

(i) Foreign currency transactions:

The Company's functional currency is the Canadian dollar. Monetary assets and liabilities denominated in foreign currency are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. Non-monetary items are translated at rates of exchange in effect when the amounts were acquired or obligations incurred. Revenues and expenses are translated at an average exchange rate for the period. Foreign exchange gains and losses resulting from these translation adjustments are included in income.

CARDIOCOMM SOLUTIONS INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)

Years ended December 31, 2006 and 2005

2. Significant accounting policies (continued):

(j) Stock-based compensation:

The Company has a stock-based compensation plan, which is described in note 6(d). The Company accounts for all stock-based payments and awards under the fair value based method. Under the fair value based method, stock-based payments to non-employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measurable. The fair value of stock-based payments to non-employees is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the period and in the same manner as if the Company had paid cash instead of paying with or using equity instruments. The cost of stock-based payments to non-employees that are fully vested and non-forfeitable at the grant date is measured and recognized at that date.

Under the fair value based method, compensation costs attributable to awards to employees is measured at fair value at the grant date and recognized over the vesting period. Compensation costs attributable to awards to employees that call for settlement in cash or other assets is measured at intrinsic value and recognized over the vesting period. Changes in intrinsic value between the grant date and the measurement date result in a change in the measure of compensation cost. Compensation cost is generally recognized on a straight-line basis over the vesting period. The Company accounts for the fair value of the granted options on the consolidated statements of operations and deficit and is included in the determination of income.

(k) Measurement uncertainty:

The presentation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the period. Significant areas requiring the use of estimates include the measurement of deferred revenue related to future services, the estimation of warranty provisions, valuation of stock compensation, and the estimation of future income tax asset valuation allowances. Actual results could differ from those estimates.

CARDIOCOMM SOLUTIONS INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)

Years ended December 31, 2006 and 2005

2. Significant accounting policies (continued):

(l) Loss per share:

Net loss per common share has been computed by dividing the loss applicable to common shareholders by the weighted average number of shares of common stock outstanding during the respective years.

(m) Impairment of long-lived assets:

The Company monitors the recoverability of long-lived assets, including equipment and patents, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company reviews factors such as current market value, future asset utilization and business climate and compares the carrying value of the assets to the future undiscounted cash flows expected to result from the use of the related asset. If such cash flows are less than the carrying value, the impairment charge to be recognized equals the amount by which the carrying amount of the assets exceeds the fair value of the asset. Fair value, where not otherwise determinable, is based on the estimated future discounted net cash flows from the asset or assets.

(n) Comparative figures:

Certain 2005 comparative figures have been reclassified to conform to the basis of presentation adopted for the current year.

CARDIOCOMM SOLUTIONS INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)

Years ended December 31, 2006 and 2005

3. Property and equipment:

| December 31, 2006 | Amortization period (years) | Cost | Accumulated amortization | Net book value |
|------------------------|--------------------------------|------------|-----------------------------|-------------------|
| Computer hardware | 3 - 5 | \$ 254,843 | \$ 234,137 | \$ 20,706 |
| Computer software | 2 | 135,821 | 135,193 | 628 |
| Equipment | 3 - 5 | 74,596 | 74,596 | - |
| Furniture and fixtures | 5 | 56,574 | 56,574 | - |
| Leasehold improvements | 5 | 77,584 | 77,584 | - |
| Patent costs | 5 | 27,403 | 27,403 | - |
| Technology rights | 5 | 1 | - | 1 |
| | | \$ 626,822 | \$ 605,487 | \$ 21,335 |

| December 31, 2005 | Amortization period (years) | Cost | Accumulated amortization | Net book value |
|------------------------|--------------------------------|------------|-----------------------------|-------------------|
| Computer hardware | 3 - 5 | \$ 435,337 | \$ 410,080 | \$ 25,257 |
| Computer software | 2 | 154,163 | 146,056 | 8,107 |
| Equipment | 3 - 5 | 129,864 | 129,246 | 618 |
| Furniture and fixtures | 5 | 58,516 | 57,822 | 694 |
| Leasehold improvements | 5 | 77,584 | 77,584 | - |
| Patent costs | 5 | 27,403 | 27,403 | - |
| Technology rights | 5 | 1 | - | 1 |
| | | \$ 882,868 | \$ 848,191 | \$ 34,677 |

4. Due to related parties:

The Company has entered into financing arrangements with shareholders who are directors and officers of the Company, including immediate family, as follows:

| | 2006 | 2005 |
|------------------|--------------|--------------|
| Promissory notes | \$ 983,000 | \$ 815,000 |
| Other advances | 338,436 | 326,078 |
| | \$ 1,321,436 | \$ 1,141,078 |

All amounts are due on demand, unsecured and non-interest bearing, except for a \$95,000 promissory note bearing interest at 6%. Interest and financing fees paid to related parties include \$13,634 paid to an immediate family member of a director and officer of the Company.

CARDIOCOMM SOLUTIONS INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)

Years ended December 31, 2006 and 2005

5. Convertible note:

In June 2003, the Company issued a convertible promissory note in the amount of US \$250,000 (Cdn. \$347,500) to Biomedical Systems Corporation. The note is secured by a second charge over all of the present and after-acquired personal property of the Company in accordance with the terms of a General Security Agreement executed by the Company and bears interest at 7% per annum with interest payable at maturity. The note matured on June 5, 2006 but has not yet been repaid. The note continues to bear interest and retains its convertible features as described below.

Under Canadian generally accepted accounting principles, the issuer of a financial instrument containing both a liability and an equity element must measure and report the instrument's component parts separately on the balance sheet. The Company determined the carrying amount of the financial liability by discounting the stream of future payments of interest and principal at the Company's best estimate of the prevailing market rate for a similar liability that does not have a conversion feature. The carrying amount of the equity instrument represented by the holder's option to convert the instrument into common shares has been determined by deducting the carrying amount of the financial liability from the amount of the compound instrument as a whole. This amount has been included in other paid-in capital. The carrying value of the financial liability was accreted to its maturity value over the three-year term of the note with a corresponding charge to income.

The convertible note may be converted into common shares of the Company at the rate of one common share per \$0.40 of principal outstanding, except that in no case shall the exercise price be less than 90% of the 10 day average of the closing price of the Company's shares on the date notice of conversion is given.

| | Equity element | Debt element |
|--------------------------------|-------------------|-----------------|
| At December 31, 2004 | \$ 81,704 | \$ 305,860 |
| Interest accrued in 2005 | - | 21,215 |
| Accretion recorded during 2005 | - | 20,805 |
| Foreign exchange adjustment | - | (2,855) |
| At December 31, 2005 | 81,704 | 345,025 |
| Interest accrued in 2006 | - | 19,847 |
| Accretion recorded during 2006 | - | 9,945 |
| Foreign exchange adjustment | - | 2,612 |
| At December 31, 2006 | \$ 81,704 | \$ 377,429 |

CARDIOCOMM SOLUTIONS INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)

Years ended December 31, 2006 and 2005

6. Share capital:

(a) Issued and outstanding:

| | Common shares | |
|--|------------------------|---------------|
| | Issued and outstanding | Amount |
| Balance, December 31, 2004 and 2005 | 36,867,376 | \$ 18,471,530 |
| Common shares issued for cash on private placement at \$0.05 per share | 2,600,000 | 130,000 |
| Share issue cost on private placements | - | (26,000) |
| Common shares issued for cash on private placement at \$0.06 per share | 2,600,000 | 156,000 |
| Balance, December 31, 2006 | 42,067,376 | \$ 18,731,530 |

Total authorized common shares were 100,000,000 at December 31, 2006 and 2005.

(b) Contributed surplus:

Contributed surplus consists of the cumulative stock compensation expenses that are recognized through the issuance of stock options.

| | 2006 | 2005 |
|----------------------------|------------|------------|
| Balance, beginning of year | \$ 367,112 | \$ 358,535 |
| Stock compensation expense | 48,508 | 8,577 |
| Balance, end of year | \$ 415,620 | \$ 367,112 |

CARDIOCOMM SOLUTIONS INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)

Years ended December 31, 2006 and 2005

6. Share capital (continued):

(c) Warrants:

The following warrants were outstanding at December 31, 2006. Each warrant entitles the holder to purchase one common share of the Company

| | Warrants issued and outstanding | Exercise price |
|----------------------------|---------------------------------------|-------------------|
| Balance, December 31, 2004 | 6,560,714 | \$ 0.17 |
| Expired | (6,560,714) | 0.17 |
| Balance, December 31, 2005 | - | - |
| Issued | 2,600,000 | 0.12-0.18 |
| Balance, December 31, 2006 | 2,600,000 | \$ 0.12-0.18 |

During the year 2,600,000 warrants were issued in conjunction with a private placement of 2,600,000 common shares. The exercise price is \$0.12 until May 15, 2007 and \$0.18 thereafter, until expiry on May 15, 2008.

(d) Stock options:

A summary of the status of the Company's stock option plan as of December 31, 2006 and 2005, and changes during the years then ending is presented below:

| Stock options | 2006 | | 2005 | |
|-----------------------------------|-----------|------------------------------------|-------------|------------------------------------|
| | Shares | Weighted average exercise price | Shares | Weighted average exercise price |
| Outstanding, beginning of year | 2,570,000 | \$ 0.21 | 3,615,000 | \$ 0.34 |
| Granted | 1,550,000 | 0.10 | 300,000 | 0.12 |
| Expired | (260,000) | 0.29 | (1,345,000) | 0.17 |
| Outstanding, end of year | 3,860,000 | \$ 0.16 | 2,570,000 | \$ 0.21 |

CARDIOCOMM SOLUTIONS INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)

Years ended December 31, 2006 and 2005

6. Share capital (continued):

(d) Stock options (continued):

The following table summarizes information about the stock options outstanding at December 31, 2006:

| Exercise price | Number outstanding at December 31, 2006 | Expiry date | Number exercisable at December 31, 2006 |
|----------------|---|--------------------|---|
| \$ 0.18 | 145,000 | September 18, 2007 | 145,000 |
| 0.15 | 370,000 | May 8, 2008 | 370,000 |
| 0.25 | 300,000 | May 8, 2008 | 300,000 |
| 0.40 | 300,000 | May 8, 2008 | 300,000 |
| 0.17 | 140,000 | November 5, 2008 | 140,000 |
| 0.17 | 755,000 | December 18, 2008 | 755,000 |
| 0.12 | 300,000 | August 23, 2010 | 225,000 |
| 0.10 | 1,550,000 | May 15, 2011 | 775,000 |
| | 3,860,000 | | 3,010,000 |

The total number of common shares reserved for issuance under the Company's stock option plan is 5,623,172. Options vest 25% within the first six months and 25% each six months thereafter. Under the plan, the exercise price of each option equals the market price of the Company's stock on the date of grant and an option's maximum term is five years.

The compensation costs reflected in the consolidated statements of operations and deficit were calculated using the Black-Scholes option pricing model using the following weighted average assumptions:

| | 2006 | 2005 |
|--------------------------|---------|---------|
| Risk free interest rate | 4% | 3% |
| Expected dividend yield | 0% | 0% |
| Stock price volatility | 342% | 293% |
| Expected life of options | 5 years | 5 years |

The weighted average fair value of options granted during the year ended December 31, 2006 is \$0.10 (2005 - \$0.12) each.

CARDIOCOMM SOLUTIONS INC.

Notes to Consolidated Financial Statements
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Years ended December 31, 2006 and 2005

6. Share capital (continued):

(e) Software development agreements:

The Company has entered into an agreement whereby the Company has the option to acquire certain software in exchange for the issuance of 5,000,000 common shares. In addition, the Company has the option to acquire certain additional software in exchange for 5,000,000 units - each unit consisting of one common share and one common share purchase warrant, exercisable between \$0.10 and \$0.13 per share.

In both of the above agreements, the software to be acquired is software that, on a contract basis, the Company assisted an arms-length party to develop.

7. Interest expense:

The Company incurred \$84,042 in 2006 (2005 - \$49,427) on interest related to debt obligations.

8. Future income taxes:

Temporary differences give rise to the following future tax assets at December 31:

| | 2006 | 2005 |
|---|-------------|-------------|
| Property and equipment | \$ 219,937 | \$ 221,851 |
| Share issue costs | 8,172 | 12,354 |
| Losses available for future periods | 2,957,522 | 3,157,806 |
| Unclaimed scientific research and experimental development expenditures | 722,979 | 738,871 |
| Gross future tax assets | 3,908,610 | 4,130,882 |
| Valuation allowance | (3,908,610) | (4,130,882) |
| Net future income tax assets | \$ - | \$ - |

The Company has non-capital losses available for deduction against future income expiring as follows:

| Expiry | Amount |
|--------|--------------|
| 2007 | \$ 1,947,000 |
| 2008 | 2,566,000 |
| 2009 | 1,294,000 |
| 2010 | 686,000 |
| 2014 | 185,000 |
| 2015 | 1,450,000 |
| 2026 | 540,000 |
| | \$ 8,668,000 |

CARDIOCOMM SOLUTIONS INC.

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8. Future income taxes (continued):

In addition to the above losses, the Company has unclaimed scientific research and experimental development expenditures of \$2,165,507 which may be carried forward indefinitely and used to reduce taxable income and income taxes payable in future years. The benefits of these unclaimed losses, deductions and tax credits have not been recorded in the accounts of the Company due to the uncertainty of such benefits being realized.

Income tax expense differs from the amount computed by applying the combined federal and provincial income tax rate to pretax income as a result of the following:

| | 2006 | 2005 |
|--|--------------|--------------|
| Income tax recovery at the applicable statutory rate of 34.12% (2005 - 34.87%) | \$ (213,294) | \$ (537,527) |
| Add (deduct) the effect of: | | |
| Permanent and other differences | 51,034 | 189,636 |
| Expiration of losses | 384,532 | 911,153 |
| Change in valuation allowance | (222,272) | (563,262) |
| Income tax expense | \$ - | \$ - |

9. Commitments:

The Company's premises lease expires on March 31, 2010. The future minimum lease payments are as follows:

| | |
|------|-----------|
| 2007 | \$ 88,994 |
| 2008 | 88,994 |
| 2009 | 88,994 |
| 2010 | 22,248 |

CARDIOCOMM SOLUTIONS INC.

Notes to Consolidated Financial Statements
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10. Segmented information:

Management has determined that the Company has one operating segment, which involves the development of advanced software for the cardiology field. Substantially all of the Company's operations, assets and employees are located in Canada. Export sales, primarily to the United States, totaled \$1,258,000 in 2006 (2005 - \$880,000).

Sales to the Company's major customers representing more than 10% of total sales for the year included \$411,000 (2005 - \$223,000) to one customer.

| | 2006 | 2005 |
|-----------------------------------|---------------------|---------------------|
| Revenue by product is as follows: | | |
| Software | \$ 1,354,577 | \$ 694,904 |
| Support | 291,142 | 266,463 |
| Other | 116,152 | 54,926 |
| | <u>\$ 1,761,871</u> | <u>\$ 1,016,293</u> |

11. Financial instruments:

(a) Fair value:

As at December 31, 2006 and 2005, the carrying amounts reported in the balance sheets for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, promissory notes and the convertible note approximate fair values due to the short time to maturity of these instruments.

The fair value of amounts due to related parties is not practical to determine due to their related party nature and the absence of a secondary market for such instruments.

(b) Concentrations of credit, foreign currency and interest risk:

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash equivalents and trade accounts receivable. To reduce credit risk, cash equivalents are only held at major financial institutions and management performs ongoing credit evaluations of its customers' financial condition. The Company maintains reserves for potential credit losses. It is management's opinion that the Company is not exposed to significant foreign currency or interest risk.

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Years ended December 31, 2006 and 2005

12. Subsequent events:

- (a) In January 2007, the Company announced that, subject to regulatory and shareholder approval, it will acquire all the issued and outstanding shares of CardioView, Inc. on a share for share exchange. Specifically, the Company will issue 10,000,000 common shares, to a maximum value of \$600,000 to the shareholders of record at closing in exchange for all the issued and outstanding shares of CardioView.
- (b) In February 2007, the Company completed a private placement for 11,000,000 units at \$0.06 per unit, for total gross proceeds of \$660,000. Each unit shall consist of one common share of the Company and one common share purchase warrant. Each warrant is exercisable into one additional common share at an exercise price of \$0.10 per share on or before 24 months after the date of closing.