

Consolidated Financial Statements of



CardioComm Solutions, Inc.

Years ended December 31, 2007 and 2006

ABCD

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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of CardioComm Solutions, Inc. as at December 31, 2007 and 2006 and the consolidated statements of loss, comprehensive loss 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Victoria, Canada
April 25, 2008

CARDIOCOMM SOLUTIONS, INC.

Consolidated Balance Sheets
(Expressed in Canadian Dollars)

December 31, 2007 and 2006

	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 211,597	\$ 244,065
Accounts receivable	195,649	149,037
Inventory	2,442	4,122
Prepaid expenses and deposits	5,738	8,836
	<u>415,426</u>	<u>406,060</u>
Property and equipment (note 3)	21,751	21,335
	<u>\$ 437,177</u>	<u>\$ 427,395</u>
Liabilities and Shareholders' Deficiency		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 312,860	\$ 437,444
Promissory notes	20,000	30,000
Due to related parties (note 4)	289,107	1,321,436
Software development liability (note 5)	550,000	-
Convertible note (note 6)	-	377,429
Deferred revenue	160,002	571,258
	<u>1,331,969</u>	<u>2,737,567</u>
Liability to be settled by share issuance (note 7)	100,000	-
Shareholders' deficiency:		
Share capital (note 8)	21,544,003	18,682,915
Contributed surplus (note 8)	545,492	415,620
Other paid-in capital (note 8)	631,050	130,319
Deficit	(23,715,337)	(21,539,026)
	<u>(994,792)</u>	<u>(2,310,172)</u>
Continuing operations (note 1)		
Commitments (note 12)		
Subsequent events (note 15)		
	<u>\$ 437,177</u>	<u>\$ 427,395</u>

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"Jay Hayden"

Director

"Etienne Grima"

Director

CARDIOCOMM SOLUTIONS, INC.

Consolidated Statements of Loss, Comprehensive Loss and Deficit
(Expressed in Canadian Dollars)

Years ended December 31, 2007 and 2006

	2007	2006
Sales	\$ 960,395	\$ 1,761,871
Operating expenses:		
General and administrative	1,209,127	761,375
Sales and marketing	531,727	536,394
Product development	651,111	1,011,619
	2,391,965	2,309,388
Loss before the following	(1,431,570)	(547,517)
Foreign exchange gain (loss)	(15,685)	6,431
Interest	(32,586)	(84,042)
Writeoff of acquired software (note 9)	(696,470)	-
Loss and comprehensive loss for the year	(2,176,311)	(625,128)
Deficit, beginning of year	(21,539,026)	(20,913,898)
Deficit, end of year	\$(23,715,337)	\$(21,539,026)
Basic and diluted loss per share	\$ (0.19)	\$ (0.08)
Weighted average number of shares outstanding	11,529,583	8,155,612

See accompanying notes to consolidated financial statements.

CARDIOCOMM SOLUTIONS, INC.

Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

Years ended December 31, 2007 and 2006

	2007	2006
Cash provided by (used for):		
Operations:		
Loss for the year	\$ (2,176,311)	\$ (625,128)
Items which do not involve cash:		
Amortization of property and equipment	13,855	21,423
Stock-based compensation expense	48,168	48,508
Unrealized foreign exchange loss (gain)	(34,594)	2,612
Accretion of convertible notes	-	9,945
Accrued interest on convertible note	12,983	19,847
Wages to be paid in shares	100,000	-
Writeoff of acquired software	696,470	-
Changes in non-cash working capital balances (note 10)	(594,144)	398,113
	(1,933,573)	(124,680)
Investing:		
Purchase of property and equipment	(14,271)	(8,081)
Financing:		
Issuance of mandatorily convertible note (note 8)	231,513	-
Issuance of common shares	930,184	260,000
Advances from related parties	320,620	364,358
Repayments of advances from related parties	(106,941)	(184,000)
Software development funds received	550,000	-
Issuance of promissory notes	-	50,000
Repayment of promissory notes	(10,000)	(128,000)
	1,915,376	362,358
Increase (decrease) in cash and cash equivalents	(32,468)	229,597
Cash and cash equivalents, beginning of year	244,065	14,468
Cash and cash equivalents, end of year	\$ 211,597	\$ 244,065

Supplementary information (note 10)

See accompanying notes to consolidated financial statements.

CARDIOCOMM SOLUTIONS, INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)

Years ended December 31, 2007 and 2006

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., and to CardioComm Solutions, Inc. effective November 26, 2007. 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 Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities in the normal course of business. There is significant doubt about the appropriateness of the use of the going concern assumption because the Company has incurred significant losses and had negative cash flows since inception, including a loss of \$2,176,311 for the year ended December 31, 2007. The Company has a cumulative deficit of \$23,715,337 and a shareholders' deficiency of \$994,792 as at December 31, 2007. The application of the going concern concept is dependant on the Company's ability to generate positive cash flow from operations and / or to obtain additional financing. Management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company's liabilities and commitments as they become payable.

These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary to the carrying value of assets, the reported expenses, and the balance sheet classifications used.

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 subsidiaries, Harley Street Software Inc., (USA), and CardioView Inc. Harley was incorporated under the laws of the State of Delaware, USA November 17, 1994 and has been inactive to the date of this report. The newly acquired subsidiary, CardioView, Inc., has had no activities since acquisition. All intercompany transactions and balances have been eliminated on consolidation.

CARDIOCOMM SOLUTIONS, INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)

Years ended December 31, 2007 and 2006

2. Significant accounting policies (continued):

(b) Cash and cash equivalents:

Cash and cash equivalents include 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 cost. Cost is determined on a first-in, first-out (FIFO) basis. Inventory is recorded net of any obsolescence provisions.

(d) Property and equipment:

Property and equipment is 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 and customer acceptance is established. 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.

CARDIOCOMM SOLUTIONS, INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)

Years ended December 31, 2007 and 2006

2. Significant accounting policies (continued):

(e) Revenue recognition (continued):

Multiple-element arrangements:

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

(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.

CARDIOCOMM SOLUTIONS, INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)

Years ended December 31, 2007 and 2006

2. Significant accounting policies (continued):

(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.

(j) Stock-based compensation:

The Company has a stock-based compensation plan, which is described in note 8(e). 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 loss, comprehensive loss and deficit and is included in the determination of income.

CARDIOCOMM SOLUTIONS, INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)

Years ended December 31, 2007 and 2006

2. Significant accounting policies (continued):

(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.

(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) Adoption of new accounting standards:

Effective January 1, 2007 the Company adopted the recommendations of CICA Handbook Section 1530, Comprehensive Income ("Section 1530"); Section 3855, Financial Instruments – Recognition and Measurement ("Section 3855"); Section 3861, Financial Instruments – Disclosure and Presentation; and Section 3250, Equity. These sections provide standards for recognition, measurement, disclosure and presentation of financial assets, liabilities and non-financial derivatives. Section 1530 provides standards for the reporting and presentation of comprehensive income, which represents the change in equity, from transactions and other events and circumstances from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with Canadian GAAP.

CARDIOCOMM SOLUTIONS, INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)

Years ended December 31, 2007 and 2006

2. Significant accounting policies (continued):

(n) Adoption of new accounting standards (continued):

Upon adoption of the new standards on January 1, 2007, the Company designated all cash equivalents as held-for-trading investments measured at fair value and the resulting gain or loss is recognized in the consolidated statement of loss, comprehensive loss and deficit. The effect of the change in accounting for cash equivalents is not material. Any marketable securities that are not cash equivalents will be classified as available-for-sale securities measured at fair value and the resulting gain or loss will be recognized in other comprehensive income until the financial asset is derecognized at which point all related cumulative gains or losses will be recognized in the consolidated statement of loss, comprehensive loss and deficit.

Accounts receivable are classified as loans and receivables and are carried at amortized cost.

Accounts payable, accrued liabilities, promissory notes and the convertible note payable are classified as other financial liabilities.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities are accounted for as part of the respective asset or liability's carrying value at inception.

As a result of adopting Section 3855, there was no impact on the Company's deficit as of January 1, 2007.

(o) Future accounting changes:

The following Handbook Sections have not yet been adopted by the Company:

Section 1535, Capital Disclosures, becomes effective for the Company beginning January 1, 2008. This section establishes standards for the disclosure of qualitative information about the Company's objectives, policies and processes for managing capital. This includes, but is not limited to what is managed as capital, how the Company is meeting its objectives for capital management and the details regarding the nature of any externally imposed capital requirements and how these requirements are incorporated into the management of capital.

Section 3862, Financial Instruments – Disclosure, becomes effective for the Company beginning January 1, 2008. This section requires disclosure, by class of financial instruments, which will enable users to evaluate the significance of financial instruments for the Company's financial position and performance, including disclosures about fair value.

CARDIOCOMM SOLUTIONS, INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)

Years ended December 31, 2007 and 2006

2. Significant accounting policies (continued):

(o) Future accounting changes (continued):

In addition, disclosure is required of risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk, and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of financial market risk to which an entity is exposed, showing how net earnings and other comprehensive income would have been affected by reasonable possible changes in the relevant risk variable.

Section 3863, Financial Instruments – Presentation, becomes effective for the Company beginning January 1, 2008. Under this new section, the existing requirements on presentation of financial instruments are carried forward unchanged and, accordingly, the Company does not expect application of this section to have any impact on the financial statements.

3. Property and equipment:

December 31, 2007	Amortization period (years)	Cost	Accumulated amortization	Net book value
Computer hardware	3 - 5	\$ 223,584	\$ 207,394	\$ 16,190
Computer software	2	142,691	137,131	5,560
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
		\$ 602,433	\$ 580,682	\$ 21,751

CARDIOCOMM SOLUTIONS, INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)

Years ended December 31, 2007 and 2006

3. Property and equipment (continued):

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

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. During 2007, \$1,246,008 of the promissory notes and other advances were settled by the issuance of 4,153,361 shares at \$0.30 per share. Of the remaining advances outstanding at December 31, 2007, all amounts are due on demand and are non-interest bearing and, except for \$52,857 in expense reimbursement, are to be settled with share capital at a later date (note 15), as follows:

	2007	2006
Promissory notes	\$ -	\$ 983,000
Other advances	289,107	338,436
	\$ 289,107	\$ 1,321,436

5. Software development liability:

During the year, the Company received \$550,000 from MD Primer Inc. ("MD Primer"), a company controlled by a shareholder and director of CardioComm Solutions, Inc. The payments are in respect to an agreement to provide software development services. The funds received are recorded as a liability to recognize that the arrangement provides for an acquisition by the Company of the developed software license and rights for the amount of the funding received.

CARDIOCOMM SOLUTIONS, INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)

Years ended December 31, 2007 and 2006

6. 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, unpaid, on June 5, 2006.

Biomedical Systems Corporation accepted the Company's offer and agreed to settle this outstanding debt and all interest accrued to August 31, 2007 in exchange of the Company's common shares. The transaction was completed on November 27, 2007. 1,423,272 post-consolidation common shares were issued at \$0.25 per share to settle outstanding amount of US \$335,678 (CDN \$355,818).

7. Liability to be settled by share issuance:

An employee of the Company is to receive an agreed wage amount by issuance of common shares. At December 31, 2007, \$100,000 of this liability remains to be settled.

8. Share capital:

(a) Issued and outstanding:

	Common shares	
	Issued and outstanding	Amount
Balance, December 31, 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
Common shares issued for cash on private placement at \$0.06 per share	2,600,000	107,385
Share issue cost on private placements	-	(26,000)
Balance, December 31, 2006	42,067,376	18,682,915
Common shares issued for cash on private placement at \$0.06 per share	11,000,000	418,035
Share issue costs on private placements	-	(79,816)
Common shares issued for acquisition of CardioView (note 8)	10,000,000	680,000
	63,067,376	19,701,134
Share consolidation	(50,453,937)	-
Balance, post-consolidation	12,613,439	19,701,134
Common shares issued for secured debt at \$0.25 per share	1,423,272	355,818
Common shares issued for other debts at \$0.30 per share (note 4)	4,153,361	1,246,008
Common shares issued for cash on private placement at \$0.175 per share	2,000,000	241,043
Balance, December 31, 2007	20,190,072	\$ 21,544,003

CARDIOCOMM SOLUTIONS, INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)

Years ended December 31, 2007 and 2006

8. Share capital (continued):

(a) Issued and outstanding (continued):

Effective November 26, 2007, the Company completed a one-for-five (1:5) consolidation of outstanding shares. All share information presented in these financial statements is on a post-consolidation basis, unless otherwise indicated.

Total authorized common shares were unlimited at December 31, 2007.

During 2006, the Company completed a private placement for 2,600,000 common shares at an issue price of \$0.05 per share for gross proceeds of \$130,000.

On May 15, 2006, the Company completed a private placement and raised gross proceeds of \$156,000 for issuance of 2,600,000 units, each unit consisting of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire an additional common share of the Company at the price of \$0.12 until May 15, 2007 and \$0.18 (\$0.90 post-consolidation) thereafter until expiry on May 15, 2008. \$48,615 was reclassified in 2007 from share capital to other paid-in capital in respect to the allocation of a portion of the proceeds to the warrants.

On February 14, 2007, the Company completed a private placement and raised gross proceeds of \$600,000. As part of this financing, the Company issued a total of 11,000,000 units, each unit consisting of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire an additional common share of the Company at the price of \$0.10 (\$0.50 post-consolidation) until expiry on February 14, 2009. \$241,965 of the proceeds was allocated to the warrants. Commissions and costs of \$79,816 were paid with 1,000,000 of the units issued and \$19,816 in cash.

On October 12, 2007, the Company issued 10,000,000 common shares valued at \$680,000 in exchange for all issued and outstanding CardioView shares.

On November 27, 2007, the Company issued 1,423,272 post-consolidation common shares to settle an outstanding convertible note of \$355,818.

During 2007, 4,153,361 common shares were issued to shareholders who are directors and officers of the Company, including immediate family to settle outstanding promissory notes of \$1,246,008.

CARDIOCOMM SOLUTIONS, INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)

Years ended December 31, 2007 and 2006

8. Share capital (continued):

(a) Issued and outstanding (continued):

In 2007, the Company entered into a private placement of \$1,400,000 to be issued in four tranches. On October 4, 2007, the first tranche was completed for gross proceeds of \$350,000 for 2,000,000 equity units. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire an additional common share of the Company at the price of \$0.25 until October 4, 2008 and \$0.35 thereafter until expiry on October 4, 2009. \$108,957 of the proceeds was allocated to the warrants. Gross proceeds of \$213,513 for the second tranche were received before December 31, 2007 and have been recorded in other paid-in capital. The receipts have been documented as convertible notes. The notes automatically convert to equity units four months subsequent to funding and therefore have been included in equity.

(b) Contributed surplus:

Contributed surplus consists of the cumulative stock compensation expenses that are recognized through the issuance of stock options and the equity component of matured unexercised convertible bonds.

	2007	2006
Balance, beginning of year	\$ 415,620	\$ 367,112
Stock compensation expense	48,168	48,508
Unexercised convertible bonds	81,704	-
Balance, end of year	\$ 545,492	\$ 415,620

(c) Other paid-in capital:

Other paid-in capital contains the equity portion of the convertible notes proceeds received on mandatorily convertible notes not yet converted, and an allocation of share issuance proceeds for amounts attributed to the value of the warrants.

	2007	2006
Balance, beginning of year	\$ 130,319	\$ 81,704
Warrants issued on closing of private placement	350,922	48,615
Receipts for mandatorily convertible note	231,513	-
Unexercised convertible bonds	(81,704)	-
Balance, end of year	\$ 631,050	\$ 130,319

CARDIOCOMM SOLUTIONS, INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)

Years ended December 31, 2007 and 2006

8. Share capital (continued):

(c) Other paid-in capital (continued):

During 2007, a \$350,000 convertible note was issued. \$118,487 was receivable at December 31, 2007. The note is not callable or redeemable, does not bear interest and automatically converts at \$0.20 per share four months after the date of issuance. Given the automatic conversion feature of the note, the note has been classified as an equity instrument, and the proceeds have been included in other paid-in capital.

(d) Warrants:

The following warrants, on a post-consolidation basis, were outstanding at December 31, 2007. Each warrant entitles the holder to purchase one common share of the Company at the prices indicated.

	Warrants issued and outstanding	Exercise price
Balance, December 31, 2005	-	\$ -
Issued	520,000	0.90
Balance, December 31, 2006	520,000	0.90
Issued	2,200,000	0.50
Issued	2,000,000	0.25
Balance, December 31, 2007	4,720,000	\$ 0.45

During 2007, 11,000,000 warrants (2,200,000 post-consolidation) were issued in conjunction with a private placement of common shares. The exercise price is \$0.10 (\$0.50 post-consolidation) until February 14, 2009.

An additional 2,000,000 post-consolidation warrants were issued in conjunction with a private placement of common shares. The exercise price is \$0.25 until October 4, 2008 and \$0.35 thereafter until expiry on October 4, 2009.

During 2006, 2,600,000 warrants (520,000 post-consolidation) were issued in conjunction with a private placement of common shares. The exercise price is \$0.18 (\$0.90 post-consolidation) until expiry on May 15, 2008.

CARDIOCOMM SOLUTIONS, INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)

Years ended December 31, 2007 and 2006

8. Share capital (continued):

(d) Warrants (continued):

Proceeds from the issuance of units, which consist of shares and warrants, are allocated to warrants, and included in other paid-in capital, using the Black-Scholes pricing model and the following weighted average assumptions:

	2007	2006
Risk free interest rate	4%	4%
Expected dividend yield	0%	0%
Stock price volatility	93%	123%
Expected life of options	2 years	2 years

(e) Stock options:

A summary of the status of the Company's stock option plan as of December 31, 2007 and 2006, and changes during the years then ending is presented below:

Stock options	2007		2006	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of year	772,000	\$ 0.80	514,000	\$ 1.05
Granted	150,000	0.25	310,000	0.50
Expired	(336,000)	0.75	(52,000)	1.45
Outstanding, end of year	586,000	\$ 0.55	772,000	\$ 0.80

The following table summarizes information about the stock options outstanding at December 31, 2007:

Exercise price	Number		Expiry date	Number	
	outstanding at December 31, 2007			exercisable at December 31, 2007	
\$0.75	54,000		May 8, 2008	54,000	
1.25	30,000		May 8, 2008	30,000	
2.00	30,000		May 8, 2008	30,000	
0.85	24,000		November 5, 2008	24,000	
0.85	78,000		December 18, 2008	78,000	
0.50	220,000		May 15, 2011	220,000	
0.50	150,000		January 25, 2012	75,000	
	586,000			511,000	

CARDIOCOMM SOLUTIONS, INC.

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8. Share capital (continued):

(e) Stock options (continued):

The maximum number of common shares to be reserved for issuance under the Company's stock option plan is 1,124,634. 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 loss were calculated using the Black-Scholes option pricing model using the following weighted average assumptions:

	2007	2006
Risk free interest rate	4%	4%
Expected dividend yield	0%	0%
Stock price volatility	170%	342%
Expected life of options	3.87 years	5 years

The weighted average fair value of options granted during the year ended December 31, 2007 is \$0.17 (2006 - \$0.50) each.

9. Acquisition of CardioView:

On October 12, 2007, the Company acquired CardioView, Inc. The Company issued an aggregate of 10,000,000 common shares of the Company valued at \$680,000 to CardioView's shareholders in exchange for all issued and outstanding CardioView shares.

CardioView is not an active business and consisted of \$16,470 of accounts payable and certain developed software. The purchase price of \$696,470 was allocated to intangible assets. In accordance with the Company's accounting policy to expense development costs, these amounts were charged to expense.

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10. Supplemental cash flow information:

Changes in non-cash working capital balances:

	2007	2006
Accounts receivable	\$ (46,612)	\$ (38,346)
Inventory	1,680	3,731
Prepaid expenses and deposits	3,098	26,438
Accounts payable and accrued liabilities	(141,054)	161,355
Deferred revenue	(411,256)	244,935
	<u>\$ (594,144)</u>	<u>\$ 398,113</u>
Supplementary information:		
Cash paid during the year for:		
Interest	\$ 13,868	\$ 323
Income taxes	-	-

Non-cash transactions in 2007 included:

Acquisition of CardioView valued at \$696,470 in exchange for 10,000,000 common shares and assumption of \$16,470 in accounts payable (notes 8 and 9).

Repayment of a \$355,818 note payable with the issuance of shares (note 6).

Wages of \$100,000 to be settled by share issuance (note 7).

Settlement of \$1,246,008 of indebtedness to related parties with the issuance of 4,153,361 common shares (note 4).

Share issuance costs of \$60,000 paid with shares (note 8).

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11. Future income taxes:

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

	2007	2006
Property and equipment	\$ 219,795	\$ 219,937
Share issue costs	33,046	8,172
Losses available for future periods	2,463,776	2,957,522
Unclaimed scientific research and experimental development expenditures	738,870	722,979
Gross future tax assets	3,455,487	3,908,610
Valuation allowance	(3,455,487)	(3,908,610)
Net future income tax assets	\$ -	\$ -

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

Expiry	Amount
2008	\$ 2,566,000
2009	1,294,000
2010	686,000
2014	168,000
2015	1,450,000
2026	564,000
2027	494,000
	\$ 7,222,000

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.

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11. Future income taxes (continued):

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:

	2007	2006
Income tax recovery at the applicable statutory rate of 34.12% (2006 - 34.12%)	\$ (742,122)	\$ (213,294)
Add the effect of:		
Permanent and other differences	562,374	51,034
Expiration of losses	657,105	384,532
Change in valuation allowance	(477,357)	(222,272)
Income tax expense	\$ -	\$ -

12. Commitments:

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

2008	\$ 67,258
2009	67,258
2010	16,814

13. 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 \$807,000 in 2007 (2006 - \$1,258,000).

	2007	2006
Revenue by product is as follows:		
Software	\$ 522,415	\$ 1,354,577
Support	325,571	291,142
Other	112,409	116,152
	\$ 960,395	\$ 1,761,871

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14. Financial instruments:

(a) Fair value:

As at December 31, 2007 and 2006, 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 term 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 rate 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 interest risk.

The majority of sales are concluded in U.S. dollars and, as such, the Company is exposed to exchange rate fluctuations in that currency. Foreign exchange losses recognized were \$15,685 (2006 - \$6,431 gain). The Company has not entered into any foreign exchange contracts to hedge this risk.

15. Subsequent events:

(a) On February 29, 2008, the Company completed the purchase of the GlobalCardio 12 Lead Software system as provided for in its three software development agreements with MD Primer. As part of the acquisition, CardioComm has granted MD Primer a royalty-free, non-exclusive license to use the software for its internal, non-commercial purposes.

To acquire the software, CardioComm issued 3,000,000 common shares and 2,000,000 common share purchase warrants. MD Primer received 750,000 shares on closing, and the remaining 2,250,000 common shares will be released to MD Primer in equal 750,000 share tranches on May 28, 2008, August 28, 2008 and November 28, 2008. Of the warrants issued, 1,000,000 will be exercisable for common shares of CardioComm at \$0.65 per share until November 15, 2008, while the remaining 1,000,000 warrants will be exercisable for common shares of CardioComm at \$0.40 per share until July 27, 2008 and at \$0.45 per share until July 27, 2009. The shares and warrants are subject to a four month hold period expiring June 29, 2008.

(b) Subsequent to year-end, CardioComm has negotiated outstanding debt of the Company in the aggregate amount of \$300,000 to be settled in exchange for the issuance of an aggregate of 1,000,000 common shares of the Company (at a deemed issue price of \$0.30 per share) to four creditors of the Company.

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15. Subsequent events (continued):

- (c) Subsequent to year-end, the Company adopted a new Omnibus Share Compensation Plan, which will provide additional types of awards that can be granted by the Company to eligible recipients. An aggregate of 4,000,000 common shares has been reserved for issuance under the plan.
- (d) Subsequent to year-end, the Company received additional proceeds of \$268,487 in regards to the second and third tranches of a private placement.