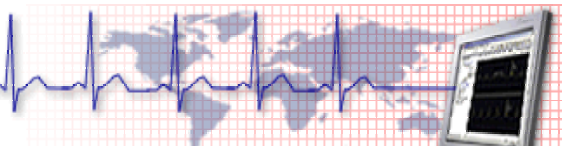


 **CardioComm Solutions Inc.**

Global leaders in Arrhythmia, Pacemaker & ICD Management Software



# CardioComm Solutions Inc.

## Management's Discussion and Analysis

**For the period ended March 31, 2006**  
(Unaudited – Prepared by Management)



## **Management's Discussion and Analysis**

### **Financial Condition and Results of Operations**

The following discussion of our consolidated financial condition and results of operations, as of March 31, 2006, has been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and all amounts are expressed in Canadian dollars. The Management's Discussion & Analysis (MD&A) should be read in conjunction with the consolidated financial statements and accompanying notes to the consolidated financial statements for the three months ended March 31, 2006, included hereafter, as well as the audited consolidated financial statements and MD&A for the fiscal year ended December 31, 2005.

The Company is a reporting issuer in British Columbia, Alberta, and Ontario, and trades on the TSX Venture Exchange under the symbol CCG.

The public documents of the Company can be viewed at the SEDAR website ([www.sedar.com](http://www.sedar.com)).

#### **Overall Performance**

Financial Condition:

- Q1 2006 revenue of \$269,810, an increase of 23% as compared to \$219,911 in Q1 2005,
- Q1 2006 net loss of \$344,161, a 17% decreased loss as compared to Q1 2005 loss of \$413,037
- Net working capital of \$(2,255,542), down from \$(2,028,229) at 2005 year end

For the first quarter of 2006, CardioComm's financial results were improved from Q1 2005 results. Revenue was up 23% and yet costs decreased by 3%. The Company's revenue also continues to be negatively impacted by the decline of the US dollar, as the average US exchange rate for Q1 2006 was 1.15 as compared to 1.23 for Q1 2005. Considering that 68% of the Company's revenue is derived from the United States, the \$0.08 average decrease in the exchange rate results in approximately \$16,000 decline in reported revenue.

Revenue increased by 23% overall, despite the lack of custom development work in 2006,

which accounted for \$88,000 of the \$219,911 Q1, 2005 revenue. Software sales increased by \$87,267 in 2006.

The Company expects that the diversification of products that was initiated in 2004 and 2005 will position the company for continued growth in product sales throughout 2006.

#### **Company Overview**

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.

CardioComm's patented and proprietary technology is used in products for the recording, viewing, analyzing and storing of electrocardiograms (ECGs), for diagnosis and management of cardiac patients. CardioComm has achieved its technical goals of improved access and communication through the development of a real-time ECG viewer. CardioComm is the first company to provide a real-time means of viewing ECGs over a network (LAN, WAN or Internet). This tool enables ECGs to be viewed and controlled live, by physicians, over a global virtual healthcare network. This technology is marketed as Global ECG Management System (GEMS™) and GlobalCardio™. The U.S. Food and Drug Administration have cleared CardioComm's software products for sale in the United States. The Company has both ISO 9001:2000 and ISO 13485:2003 certifications.

## Selected Annual Information

(in thousands of Canadian dollars)

Years ended	2005	2004	2003
Revenue	\$1,016	\$2,746	\$1,718
Net earnings (loss)	(1,542)	(404)	(990)
Loss per share	(0.04)	(0.01)	(0.03)
Total assets	203	686	930
Long-term liabilities	-	-	1

## Results of Operations

### For the Three Months ended March 31, 2006 compared to Three Months ended March 31, 2005

#### Operating results expressed as a percentage of revenue:

Three months ended Mar 31,	2006	2005
Revenue	100%	100%
Expenses		
Administration	82	94
Sales and marketing	47	63
Product development	99	129
	<u>(228)</u>	<u>(286)</u>
Earnings (loss) from operations	(128)	(186)
Other income (loss)	(1)	(2)
Net earnings (loss)	<u>(129)%</u>	<u>(188)%</u>

#### Revenue by product:

Three months ended Mar 31,	2006	2005
Revenue by product		
Software	58%	68%
Support	27	28
Other	15	4
	<u>100%</u>	<u>100%</u>

#### Revenue by geographical region:

Three months ended Mar 31,	2006	2005
Revenue by region		
United States	68%	79%
Canada	21	13
Other	11	8
	<u>100%</u>	<u>100%</u>

#### Revenue

Revenue for the first quarter ended March 31, 2006 was \$269,810 compared to \$219,911 for the first quarter ended March 31, 2005, an increase of 23%. The increase in revenue is primarily due to significant increases in software sales, being somewhat offset by reduced custom solutions development work in Q1 2006 as compared to Q1 2005. Revenue is also negatively affected by the continued decline in the US dollar in Q1 2006 compared to Q1 2005.

#### Cost of sales

Cost of sales increased by 123% in the first quarter of 2006 as compared to the first quarter of 2005. The increase is largely due to Q1 2006 revenue being mostly comprised of software sales, which have higher sales costs due to product costs and training and installation costs, whereas Q1 2005 was largely comprised of custom development work, which didn't have such costs associated with it. Costs of sales expenses are included in sales and marketing expenses. Q1 2006 amounts for cost of sales were \$27,588 as compared to \$12,355 for Q1 2005.

#### General and administrative

General and administrative expenses were \$220,413 for the first quarter of 2006, compared to \$207,010 for the first quarter of 2005; an increase of 6% in Q1 2006, as compared to Q1 2005. The increase in costs in Q1 2006 is due to an increase in financing costs and stock compensation costs in 2006, being somewhat offset by decreases in travel and amortization costs in 2006.

#### Sales and marketing

Sales and marketing expenses were \$125,534 for the first quarter of 2006, compared to \$137,622 for the first quarter of 2005; a decrease of 10% for Q1 2006 compared to Q1 2005. The decrease in sales and marketing costs are largely due to decreased wages due to changes in marketing staff and travel costs in Q1 2006 compared to Q1 2005, which offset rising costs of sales in 2006.

#### Product development

Product development expenses were \$266,530 in the first quarter of 2006, compared to \$283,635 for the first quarter of 2005, a decrease of 6% for Q1 2006 compared to Q1 2005. The decrease in product developments costs are due

to slightly less staff in product development in Q1 2006 compared to Q1 2005.

#### *Net earnings*

CardioComm recorded a net loss of \$344,160 or \$(0.01) loss per share in the first quarter of 2006, compared to a net loss of \$413,037 or \$(0.01) loss per share in Q1 2005. The decreased loss for Q1 2006 was mainly attributable to a substantial increase in sales of \$49,899 or 23%. The weighted average number of shares outstanding increased to 37,531,820 in Q1 2006 from 36,684,376 in Q1 2005 due to private placement of February, 2006.

### **Liquidity**

#### *Operating Activities*

Cash used for operations was \$267,212 in the first quarter of 2006, compared to \$60,570 in the first quarter of 2005. Q1 2006 had a loss of \$344,160 compared to a loss of \$413,038 in Q1 2005. The large increase of accounts receivable in Q1 2005 compared to decrease in Q1 2006 resulted in the increase in the use of cash in Q1 2006.

#### *Investing Activities*

Cash used by investing activities was nil in the first quarter of 2006, compared to \$1,956 in the first quarter of 2005. Investing activities in Q1 2005 were entirely capital expenditures consisting of mainly computer equipment and software.

#### *Financing Activities*

Cash provided by financing activities was \$287,000 in the first quarter of 2006, compared to nil in the first quarter of 2005. The provision of cash in Q1 2006 was due to; \$104,000 private placement; an increase of \$68,000 in advances from related parties; and an increase of \$115,000 of promissory notes.

#### *Cash Requirements*

Short-term cash requirements are primarily related to funding of operations and the only outstanding contractual obligation (Biomedical convertible note) matures in June of 2006. The Company will be seeking financing in 2006.

### **Related Party Transactions**

The Company has financing agreements with directors and officers of the Company. The amounts due to related parties consists of past wages and promissory notes that are due on demand, which are unsecured and non-interest bearing. The Company issued \$68,000 of promissory notes to related parties in the first quarter of 2006.

### **Outstanding Share Data**

#### *Common shares*

The total issued and outstanding common shares of the Company at March 31, 2006 are 39,467,376.

#### *Options*

The following options were outstanding at March 31, 2006; each option entitles the holder to purchase one common share of the Company:

<u>Exercise Price</u>	<u>Outstanding</u>	<u>Expiry Date</u>	<u>Exercisable</u>
\$0.18	190,000	9/18/2007	190,000
\$0.15	370,000	5/08/2008	370,000
\$0.25	300,000	5/08/2008	300,000
\$0.40	300,000	5/08/2008	300,000
\$0.17	140,000	11/05/2008	140,000
\$0.17	915,000	12/18/2008	915,000
\$0.12	300,000	8/23/2010	150,000
	<u>2,515,000</u>		<u>2,365,000</u>

### **Disclosure Controls and Procedures**

Disclosure controls and procedures have been designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President and Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), on a timely basis so that appropriate decisions can be made affecting public disclosure. As at March 31, 2006 the Company’s management has evaluated the effectiveness of the Company’s disclosure controls and procedures as defined by Multilateral Instrument 52-109 of the Canadian Securities Administrators. Based on the evaluation, the CEO and CFO have concluded that the design and operation of these disclosure controls and procedures are effective.

## Quarterly Results of Operations

The following tables contain unaudited consolidated statements of operations for each of the eight most recent quarters that have been prepared on a basis consistent with the audited consolidated financial statements contained in our fiscal 2005 Annual Report.

	Quarter Ended			
	Mar 31, 2006	Dec 31, 2005	Sep 30, 2005	Jun 30, 2005
Revenue	\$ 269,810	\$ 187,542	\$ 191,495	\$ 417,345
Expenses:				
General and administrative	220,413	209,370	215,619	252,026
Sales and marketing	125,534	133,947	148,856	175,291
Product development	266,530	241,353	264,403	285,910
	612,477	584,670	628,878	713,227
Earnings (loss) before undernoted	(342,667)	(397,128)	(437,383)	(295,882)
Other expenses:				
Foreign exchange gain (loss)	(1,494)	(1,721)	12,106	(8,473)
Earnings (loss)	\$ (344,161)	\$ (398,849)	\$ (425,277)	\$ (304,355)
Basic and fully diluted loss per share	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)
Weighted average number of shares	37,531,820	36,867,376	36,867,376	36,867,376

	Quarter Ended			
	Mar 31, 2005	Dec 31, 2004	Sep 30, 2004	Jun 30, 2004
Revenue	\$ 219,911	\$ 475,531	\$ 629,040	\$ 854,601
Expenses:				
General and administrative	207,010	316,750	306,379	270,096
Sales and marketing	137,622	188,169	178,392	260,356
Product development	283,635	274,665	281,903	283,871
	628,267	779,584	766,674	814,323
Earnings (loss) before undernoted	(408,356)	(304,053)	(137,634)	40,278
Other expenses:				
Foreign exchange gain (loss)	(4,681)	(13,064)	(5,993)	(15,452)
Earnings (loss)	\$ (413,037)	\$ (317,117)	\$ (143,627)	\$ 24,826
Basic and fully diluted loss per share	\$ (0.01)	\$ (0.00)	\$ (0.00)	\$ 0.00
Weighted average number of shares	36,867,376	36,901,941	35,516,480	35,491,305