

BULLDOG TECHNOLOGIES INC
Form 10QSB
April 19, 2006
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended February 28, 2006

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission file number 000-50321

Bulldog Technologies Inc.

(Exact name of small business issuer as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

98-0377543

(I.R.S. Employer Identification No.)

Riverside Place, Suite 301 11120 Horseshoe Way, Richmond, B.C., Canada V7A 5H7

(Address of principal executive offices)

604.271.8656

(Issuer's telephone number)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

BULLDOG TECHNOLOGIES INC.

(A Development Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

February 28, 2006 and August 31, 2005

(Unaudited Amounts Stated in US Dollars)

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BULLDOG TECHNOLOGIES INC.

(A Development Stage Company)

CONSOLIDATED BALANCE SHEETS

(Amounts Stated in US Dollars)

	(Unaudited) February 28, <u>2006</u>	August 31, <u>2005</u>
<u>ASSETS</u>		
Current		
Cash	\$ 156,027	\$ 150,263
Short-term investments (Note 4)	1,282,000	464,834
Amounts receivable	76,781	26,526
Prepayment to trade suppliers	122,583	172,196
Inventory (Note 5)	677,473	329,465
Prepaid expenses (Note 8)	193,780	240,483
Total current assets	2,508,644	1,383,767
Property, plant and equipment	575,969	574,075
Deferred financing costs (Note 10)	1,995,090	-
Total Assets	\$ 5,079,703	\$ 1,957,842
<u>LIABILITIES</u>		
Current		
Accounts payable and accrued liabilities	\$ 495,312	\$ 243,163
Deposit from customer	39,000	-
Liability for warrants subject to registration (Notes 8 and 10)	4,632,862	499,026
Total current liabilities	5,167,174	742,189
Long-term Liabilities		
Convertible notes payable (Note 10)	296,252	-
Total Liabilities	5,463,426	742,189
<u>STOCKHOLDERS EQUITY (CAPITAL DEFICIT)</u>		
Capital Stock (Note 8)		
Preferred stock, par value \$0.001 per share 10,000,000 authorized, none issued		
Common stock, par value \$0.001 per share 100,000,000 authorized 24,655,288 issued (August 31, 2005: 24,047,317 issued)	24,655	24,047
Additional paid-in capital	9,230,052	7,201,210
Accumulated other comprehensive loss - cumulative translation adjustment	298,921	184,999
Deficit accumulated during the development stage	(9,937,351)	(6,194,603)

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Total Stockholders' Equity (Capital Deficit)	(383,723)	1,215,653
Total Liabilities and Stockholders' Equity (Capital Deficit)	\$ 5,079,703	\$ 1,957,842

SEE ACCOMPANYING NOTES

BULLDOG TECHNOLOGIES INC.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited Amounts Stated in US Dollars)

	Three Months Ended February 28, <u>2006</u>	Three Months Ended February 28, <u>2005</u>	Six Months Ended February 28, <u>2006</u>	Six Months Ended February 28, <u>2005</u>	Cumulative from September 23, 1998 (Date of Inception) to February 28, <u>2006</u>
Revenue	\$ 80,479	\$ -	\$ 80,479	\$ -	\$ 80,479
Cost of revenue	55,603	-	55,603	-	55,603
Gross profits	24,876	-	24,876	-	24,876
Consulting revenue	-	59,810	-	59,810	322,924
Expenses					
General and administrative					
Consulting fees (Note 9)	84,579	122,943	166,500	338,602	1,586,259
Depreciation	45,716	21,168	91,572	36,323	239,533
Office and general	202,959	162,337	402,106	243,806	1,464,841
Professional fees	96,269	88,502	152,831	137,789	719,227
Rent	37,438	32,762	71,963	41,683	299,759
Salaries and wages	573,110	644,957	1,020,074	1,010,635	5,179,718
Trade shows, travel and marketing	86,419	114,964	237,190	244,587	1,030,007
Research and development	239,972	142,918	451,557	242,887	1,638,049
Loss from operations	(1,366,462)	(1,330,551)	(2,593,793)	(2,296,312)	(12,157,393)
Other income (expenses)					
(Loss) /Gain on revaluation of liability for warrants (Note 8(a))	(212,653)	606,527	(720,192)	411,197	3,180,292
Interest income	2,931	18,383	13,882	39,289	71,255
Interest expense	(217,050)	-	(387,827)	-	(425,437)
Loss on settlement of accounts payable	-	-	-	-	(954,000)
Foreign exchange gain (loss) and other	(17,634)	(90,618)	(40,900)	(90,618)	39,106
Amortization of deferred financing cost	(19,397)	-	(38,794)	-	(38,974)
Net loss for the period	\$ (1,805,389)	\$ (736,449)	\$ (3,742,748)	\$ (1,876,634)	\$ (9,937,351)
Basic and diluted loss per share	\$ (0.08)	\$ (0.03)	\$ (0.16)	\$ (0.08)	
Weighted average shares outstanding	24,340,241	23,746,817	24,034,585	23,452,410	

SEE ACCOMPANYING NOTES

BULLDOG TECHNOLOGIES INC.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited Amounts Stated in US Dollars)

	Three Months Ended February 28, <u>2006</u>	Three Months Ended February 28, <u>2005</u>	Six Months Ended February 28, <u>2006</u>	Six Months Ended February 28, <u>2005</u>	Cumulative from September 23, 1998 (Date of Inception) to February 28, <u>2006</u>
Net loss	\$ (1,805,389)	\$ (736,449)	\$ (3,742,748)	\$ (1,876,634)	\$ (9,937,351)
Foreign currency translation	56,807	(46,181)	113,922	267,225	298,922
Comprehensive loss	\$ (1,748,582)	\$ (782,630)	\$ (3,628,826)	\$ (1,609,409)	\$ (9,638,429)

SEE ACCOMPANYING NOTES

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BULLDOG TECHNOLOGIES INC.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited - Stated in US Dollars)

	Six Months Ended February 28 <u>2006</u>	Six Months Ended February 28 <u>2005</u>	Cumulative from September 23, 1998 (Date of Inception) to February 28, <u>2006</u>
Cash flows used in operating activities:			
Net loss	\$ (3,742,748)	\$ (1,876,634)	\$ (9,937,351)
Adjustments to reconcile net loss to net cash used in			
operating activities:			
Depreciation	91,572	36,323	239,533
Expenses paid by affiliates	-	-	301,303
Amortization of beneficial conversion option	324,985		324,985
Amortization of deferred financing costs	38,794		38,794
Loss (gain) on revaluation of liability for warrants	720,192	(411,197)	(3,180,292)
Issuance of common stock for services	3,428	-	1,600,507
Issuance of common stock for interest expense	41,709	-	41,709
Stock option compensation	64,332	226,685	845,943
Loss on settlement of accounts payable	-	-	954,000
(Increase) decrease in assets			
Amounts receivable	(50,255)	(66,496)	(75,777)
Deposit from customer	39,000	-	39,000
Prepayment to suppliers	49,613	(97,457)	(122,583)
Inventory	(368,873)	(4,955)	(680,270)
Prepaid expenses	46,557	49,043	(95,910)
Increase in accounts payable and accrued liabilities	267,460	132,806	996,194
Net cash used in operating activities	(2,476,934)	(2,011,882)	(8,712,245)
Cash flows provided by (used in) investing			
activities			
Purchase of property, plant and equipment	(118,531)	(223,432)	(802,645)
Short term investments	(827,537)	1,173,899	(1,160,461)
Net cash provided by (used in) investing activities	(946,068)	950,467	(1,963,106)
Cash flows provided by (used in) financing			
activities			
Loans payable	-	-	54,500
Shares repurchased	-	-	(20,000)
Issuance of common shares	15,625	1,073,287	7,493,690
Proceeds from issuance of convertible notes	3,408,000	-	3,408,000
Net cash provided by financing activities	3,423,625	1,073,287	10,936,190
Effect of foreign exchange rate changes on cash	5,141	3,755	(57,292)

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Net increase in cash	5,764	15,627	156,027
Cash, beginning of period	150,263	46,021	-
Cash, end of period	\$ 156,027	\$ 61,648	\$ 156,027
Supplemental disclosure of cash flow information:			
Cash paid for:			
Interest	\$ -	\$ -	\$ 18,383
Income taxes	\$ -	\$ -	\$ -
Non-cash Investing and Financing Activities			
Issuance of shares in settlement of accounts payable	\$ 45,137	\$ 212,000	\$ 1,624,187
Issuance of shares in settlement of loans payable	\$ -	\$ 52,930	\$ 54,500
Issuance of shares upon conversion of convertible notes	351,470	-	351,470
Issuance of shares for services included in prepaid	\$ -	\$ -	\$ 252,000
Issuance of shares on recapitalization (Note 3)	\$ -	\$ -	\$ 796

SEE ACCOMPANYING NOTES

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BULLDOG TECHNOLOGIES INC.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (CAPITAL DEFICIT)

for the period from September 23, 1998 (Date of Inception) to February 28, 2006

(Unaudited - Amounts Stated in US Dollars)

	Common Stock <u>Shares</u>	Stock ^(a) <u>Par Value</u>	Additional Paid-in <u>Capital</u>	Cumulative Translation <u>Adjustment</u>	Deficit Accumulated During the Development <u>Stage</u>	<u>Total</u>
On inception of Bulldog BC, September 23, 1998	465,000	\$ 465	\$ (138)	\$ -	\$ -	\$ 327
Issuance of stock in Bulldog BC						
for cash - at \$0.34	20,000	20	6,683	-	-	6,703
- at \$0.67	125,000	125	83,663	-	-	83,788
- at \$1.34	22,500	23	30,140	-	-	30,163
Issuance of stock in Bulldog BC						
for services	8,000	8	16,079	-	-	16,087
Foreign exchange translation adjustment	-	-	-	(12)	-	(12)
Net loss	-	-	-	-	(114,968)	(114,968)
Balance, August 31, 1999 (Bulldog BC)	640,500	641	136,427	(12)	(114,968)	22,088
Issuance of stock in Bulldog BC						
for cash - at \$0.68	25,000	25	16,965	-	-	16,990
- at \$1.02	8,000	8	8,147	-	-	8,155
- at \$1.36	2,500	2	3,398	-	-	3,400
Issuance of stock in Bulldog BC						
for services	34,000	34	9,494	-	-	9,528
On inception of Bulldog Nevada						
- at \$0.001	7,035,000	7,035	-	-	-	7,035
Issuance of stock in Bulldog Nevada						
for cash - at \$1.00	613,727	614	613,113	-	-	613,727
Foreign exchange translation adjustment	-	-	-	289	-	289
Net loss	-	-	-	-	(531,252)	(531,252)
	8,358,727	8,359	787,544	277	(646,220)	149,960

Balance, August 31, 2000
(combined)

SEE ACCOMPANYING NOTES

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BULLDOG TECHNOLOGIES INC.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (CAPITAL DEFICIT)

for the period from September 23, 1998 (Date of Inception) to February 28, 2006

(Unaudited - Amounts Stated in US Dollars)

	Common Stock ^(a)		Additional	Cumulative	Deficit	
	<u>Shares</u>	<u>Par Value</u>	<u>Paid-in</u>	<u>Translation</u>	<u>Accumulated</u>	
			<u>Capital</u>	<u>Adjustment</u>	<u>During the</u>	<u>Total</u>
					<u>Development</u>	
					<u>Stage</u>	
Balance, August 31, 2000						
(combined, balance forward)	8,358,727	8,359	787,544	277	(646,220)	149,960
Issuance of stock in Bulldog Nevada						
for	245,000	245	130	-	-	375
cash						
- at \$0.002						
- at \$0.24	95,833	96	22,904	-	-	23,000
- at \$0.50	80,000	80	39,920	-	-	40,000
- at \$1.00	155,623	156	155,467	-	-	155,623
Issuance of stock in Bulldog Nevada						
for services	304,830	305	230,125	-	-	230,430
Redeemed and cancelled for						
Nil consideration	(861,000)	(861)	861	-	-	-
Shares issued as commission for						
private placements	91,120	91	(91)	-	-	-
Foreign exchange translation						
Adjustment	-	-	-	26,357	-	26,357
Net loss	-	-	-	-	(424,417)	(424,417)
Balance, August 31, 2001 (combined)	8,470,133	8,471	1,236,860	26,634	(1,070,637)	201,328

SEE ACCOMPANYING NOTES

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BULLDOG TECHNOLOGIES INC.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (CAPITAL DEFICIT)

for the period from September 23, 1998 (Date of Inception) to February 28, 2006

(Unaudited - Amounts Stated in US Dollars)

	Common Stock ^(a)		Additional	Cumulative	Deficit	
	<u>Shares</u>	<u>Par Value</u>	<u>Paid-in</u>	<u>Translation</u>	<u>Accumulated</u>	<u>Total</u>
			<u>Capital</u>	<u>Adjustment</u>	<u>During the</u>	
					<u>Development</u>	
					<u>Stage</u>	
Balance, August 31, 2001						
(combined, balance forward)	8,470,133	8,471	1,236,860	26,634	(1,070,637)	201,328
Shares in Bulldog Nevada						
issued as commission for	1,500	2	(2)	-	-	-
private placements						
Issuance of stock in Bulldog						
Nevada for cash - at	104,167	104	24,896	-	-	25,000
\$0.24						
- at \$0.50	87,200	87	43,513	-	-	43,600
Issuance of stock in Bulldog						
Nevada for services	168,500	168	68,832	-	-	69,000
Foreign exchange translation						
adjustment	-	-	-	2,402	-	2,402
Net loss	-	-	-	-	(209,920)	(209,920)
Balance, August 31, 2002						
(combined)	8,831,500	8,832	1,374,099	29,036	(1,280,557)	131,410
Issuance of stock in Bulldog						
Nevada for cash - at	183,000	183	45,567	-	-	45,750
\$0.25						
Issuance of stock for services						
to	10,000	10	1,863	-	-	1,873
Bulldog Nevada						
Shares of Bulldog Nevada						
issued as	8,000	8	(8)	-	-	-
commission for private						
placements						

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Foreign exchange translation adjustment	-	-	-	(128,899)	-	(128,899)
Net loss	-	-	-	-	(312,840)	(312,840)
Balance, August 31, 2003 (combined)	9,032,500	9,033	1,421,521	(99,863)	(1,593,397)	(262,706)

SEE ACCOMPANYING NOTES

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BULLDOG TECHNOLOGIES INC.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (CAPITAL DEFICIT)

for the period from September 23, 1998 (Date of Inception) to February 28, 2006

(Unaudited - Amounts Stated in US Dollars)

	Common Stock ^(a)		Additional	Cumulative	Deficit	
	Shares	Par Value	Paid-in	Translation	Accumulated	Total
			Capital	Adjustment	During the	
					Development	
					Stage	
Balance, August 31, 2003 (combined, carried forward)	9,032,500	9,033	1,421,521	(99,863)	(1,593,397)	(262,706)
Issuance of stock in Bulldog Nevada for cash - at \$0.25	448,000	448	111,552	-	-	112,000
Issuance of stock of Bulldog Nevada for services and debt	391,000	391	97,359	-	-	97,750
settlement Redemption and cancellation of shares in Bulldog Nevada	(80,000)	(80)	(19,920)	-	-	(20,000)
for cash - at \$0.25	9,791,500	9,792	1,610,512	(99,863)	(1,593,397)	(72,956)
Adjustment to the stockholders' equity of the Company at the recapitalization date	9,591,400	9,591	(8,795)	-	-	796
Issuance of stock for cash on private placement - at \$1.00	520,000	520	519,480	-	-	520,000
Issuance of stock on debt settlement - at \$1.84	600,000	600	1,103,400	-	-	1,104,000
Issuance of stock for services \$1.50	at 35,500	35	53,215	-	-	53,250
Issuance of stock for services	500,000	500	999,500	-	-	1,000,000
Stock option compensation	-	-	492,269	-	-	492,269
Issuance of stock for cash on						

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private placement - at \$2.25

(net of \$299,647 finder's fee)	2,219,611	2,220	-	-	-	2,220
Issuance of stock for services at \$1.50	69,000	69	103,431	-	-	103,500
Issuance of stock for services at \$1.69	15,000	15	25,335	-	-	25,350
Cancellation of shares	(500,000)	(500)	500	-	-	-
Net loss	-	-	-	-	(1,014,759)	(1,014,759)
Foreign exchange translation Adjustment	-	-	-	(72,642)	-	(72,642)
Balance, August 31, 2004	22,842,011	22,842	4,898,847	(172,505)	(2,608,156)	2,141,028

SEE ACCOMPANYING NOTES

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BULLDOG TECHNOLOGIES INC.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (CAPITAL DEFICIT)

for the period from September 23, 1998 (Date of Inception) to February 28, 2006

(Unaudited - Amounts Stated in US Dollars)

	Common Stock ^(a)		Additional	Cumulative	Deficit	
	<u>Shares</u>	<u>Par Value</u>	<u>Paid-in</u>	<u>Translation</u>	<u>Accumulated</u>	<u>Total</u>
			<u>Capital</u>	<u>Adjustment</u>	<u>During the</u>	
					<u>Development</u>	
					<u>Stage</u>	
Balance, August 31, 2004 (carried forward)	22,842,011	22,842	4,898,847	(172,505)	(2,608,156)	2,141,028
Issuance of stock for cash on						
exercise of warrants - at \$1.00	520,000	520	519,480	-	-	520,000
Issuance of stock for cash on						
exercise of warrants						
- at \$1.90	309,806	310	552,978	-	-	553,288
(net of \$35,317 finder's fee)						
Adjustment arising on exercise of warrants	-	-	292,738	-	-	292,738
Issuance of shares for services						
at \$2.16	150,000	150	323,850	-	-	324,000
Issuance of shares for services						
at \$1.50	183,000	183	274,317	-	-	274,500
Issuance of shares as settlement	12,500	12	12,488	-	-	12,500

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- at \$1.00

Issuance of shares for
services

at \$1.24	30,000	30	37,170	-	-	37,200
Stock option compensation	-	-	289,342	-	-	289,342
Net loss	-	-	-	-	(3,586,447)	(3,586,447)
Foreign exchange translation adjustment	-	-	-	357,504	-	357,504
Balance, August 31, 2005	24,047,317	24,047	7,201,210	184,999	(6,194,603)	1,215,653

SEE ACCOMPANYING NOTES

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BULLDOG TECHNOLOGIES INC.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (CAPITAL DEFICIT)

for the period from September 23, 1998 (Date of Inception) to February 28, 2006

(Unaudited - Amounts Stated in US Dollars)

	Common Stock ^(a)		Additional	Cumulative	Deficit	
	<u>Shares</u>	<u>Par Value</u>	<u>Paid-in</u>	<u>Translation</u>	<u>Accumulated</u>	<u>Total</u>
			<u>Capital</u>	<u>Adjustment</u>	<u>During the</u>	
					<u>Development</u>	
					<u>Stage</u>	
Balance, August 31, 2005 (carried forward)	24,047,317	24,047	7,201,210	184,999	(6,194,603)	1,215,653
Beneficial conversion option on the August 2005 convertible debt						
(Note 10(a))	-	-	836,038	-	-	836,038
Issuance of stock on conversion of convertible notes - at \$1.06 per share (Note 8(e))	212,264	212	137,296	-	-	137,508
Stock option compensation (Note 9)	-	-	64,332	-	-	64,332
Issuance of stock for cash on exercise of warrants - at \$1.25 (Note 8(f))	12,500	13	15,612	-	-	15,625
Issuance of stock on conversion of convertible notes - at \$1.06 per share (Note 8(g))	350,000	350	213,612	-	-	213,962
Beneficial conversion option on the February 2006 convertible debt (Note 10(b))			591,850	-	-	591,850
Modification to conversion option (Note 10)			125,000	-	-	125,000
Issuance of shares as settlement for interest - \$1.39 (Note 8(i))	30,007	30	41,679	-	-	41,709
Issuance of shares for services at \$1.07 (Note 8(h))	3,200	3	3,423	-	-	3,426

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Net loss	-	-	-	-	(3,742,748)	(3,742,748)
Foreign exchange translation adjustment	-	-	-	113,922	-	113,922
Balance, February 28, 2006	24,655,288	\$ 24,655	\$ 9,230,052	\$ 298,921	\$ (9,937,351)	\$ (383,723)

(a) Prior to the recapitalization in November 2003, the stockholders' equity represents the combined shares and balances of Bulldog Nevada and Bulldog BC exchanged on a one for one basis on recapitalization (Note 3).
SEE ACCOMPANYING NOTES

BULLDOG TECHNOLOGIES INC.

(A Development Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

February 28, 2006 and August 31, 2005

(Amounts Stated in US Dollars)

Note 1 Description of Business and Accounting for Reverse Acquisition

The Company was incorporated under the laws of the State of Nevada on June 18, 2002 as Northward Ventures, Inc. ("Northward") and was previously involved in mineral exploration activity. In November 2003, the Company acquired control of Bulldog Technologies (BC) Inc. ("Bulldog BC") and Bulldog Technologies Inc. ("Bulldog Nevada"). Bulldog BC was incorporated under the laws of British Columbia on September 23, 1998 and carries on the business of developing and commercializing security systems for the cargo transportation industry. Bulldog Nevada was incorporated in the State of Nevada on January 18, 2000 primarily to raise financing for Bulldog BC. Prior to the share exchange, Bulldog BC and Bulldog Nevada were under common control. On November 7, 2003, the Company changed its name to Bulldog Technologies Inc. and merged with Bulldog Nevada such that after closing the consolidated entity consists of Bulldog Technologies Inc. (formerly Northward Ventures, Inc.) and its subsidiary, Bulldog BC.

In accordance with provisions governing the accounting for reverse acquisitions, the accounts are presented as a continuation of Bulldog BC and Bulldog Nevada, combined.

In September 2005, Bulldog BC incorporated a wholly owned subsidiary in Mexico, Bulldog Technologies Mexico, S.A. de C.V., to conduct business in Mexico. As at February 28, 2006 Bulldog Technologies Mexico, S.A. de C.V. was inactive.

Note 2 Summary of Significant Accounting Policies

Principles of Consolidation and Ability to Continue as Going Concern

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, and include the accounts of the Company and its subsidiaries, Bulldog Technologies (BC) Inc. and Bulldog Technologies Mexico, S.A. de C.V. All significant inter-company transactions have been eliminated on consolidation. The Company is currently in the development stage and presents its financial statements in accordance with Statement of Financial Accounting Standard ("SFAS") No. 7, "Accounting and Reporting by Development Stage Enterprises".

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These accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. As at February 28, 2006, the Company has accumulated consolidated operating losses since inception of \$9,937,351. The continuation of the Company is dependent upon the successful completion of development and marketing of its security systems, the continuing support of creditors and stockholders as well as achieving a profitable level of operations. At February 28, 2006, the Company has entered into agreements with ten investors to raise \$2.0 million through the issuance of convertible notes. Management anticipates that it requires approximately \$4.59 million over the next twelve months to continue operations. To the extent that cash needs are not achieved from operating cash flow and existing cash on hand, the Company plans to raise necessary cash through equity issuances and/or debt financing. Amounts raised will be used to continue the development of the Company's products, roll out the Company's products to market and for general working capital purposes.

These conditions raise substantial doubt about the Company's ability to continue as a going concern. Although there are no assurances that management's plans will be realized, management believes that the Company will be able to continue operations in the future. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or the amounts of and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

Interim Financial Statements

The interim financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

These statements reflect all adjustments, consisting of normal recurring adjustments, which in the opinion of management, are necessary for fair presentation of the information contained therein. It is suggested that these interim financial statements be read in conjunction with the audited financial statements of the Company for the years ended August 31, 2005 and 2004 included in the Company's 10-KSB Annual Report. The Company follows the same accounting policies in the preparation of interim reports.

Results of operations for the interim periods are not indicative of annual results.

Revenue Recognition

Revenue from the sale of products is recognized when products are shipped, the title and risk of loss has passed to the customer, the sales price is fixed or determinable and collectibility is reasonable assured. Revenue generated through the provision of consulting services is recognized as the services are provided.

Stock Option Compensation

The Company has adopted SFAS No. 123, "Accounting for Stock-Based Compensation" to account for stock options granted to non-employees using the fair value based method prescribed in SFAS 123. Stock option compensation for non-employees is re-measured on each balance sheet date until options vest.

The Company has elected to continue to measure compensation cost for employees under Accounting Principles Board ("APB") Opinion No. 25, including interpretations provided in Interpretation ("FIN") No. 44. Generally, under APB No. 25 compensation expense is recognized for options granted to employees and directors (for their services as directors) only if the option price is less than the market price of the underlying common stock on the date of the grant.

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SFAS No. 123 requires the Company to provide pro forma information regarding net loss and loss per share as if compensation cost for the Company's stock options granted to employees had been determined in accordance with the fair value based method prescribed in SFAS 123.

The Company has not adopted the fair value method of accounting under SFAS No. 148 for stock-based compensation to employees. Consequently, related pro forma information as required under SFAS No. 123 has been disclosed below in accordance with SFAS No. 148.

	Three months ended February 28		Six months ended February 28	
	2006	2005	2006	2005
Net loss, as reported	\$ (1,805,389)	\$ (736,449)	\$ (3,742,748)	\$ (1,876,634)
Deduct: Total stock-based employee compensation expense determined under fair-value based method	(760,520)	(771,811)	(1,220,612)	(1,262,844)
Pro-forma net loss	\$ (2,565,909)	\$ (1,508,260)	\$ (4,963,360)	\$ (3,139,478)
Loss per share:				
Basic and diluted as reported	\$ (0.08)	\$ (0.03)	\$ (0.16)	\$ (0.08)
Basic and diluted pro-forma	\$ (0.11)	\$ (0.06)		