

**U.S. SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-QSB**

(Mark One)

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

**For the quarterly period ended January 31, 2007**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission file number 000-50346**

**COUNTERPATH SOLUTIONS, INC.**

(Name of small business issuer as in its charter)

**Nevada**

**20-0004161**

(State or other jurisdiction of incorporation or  
organization)

(IRS Employer Identification No.)

**Suite 300, One Bentall Centre, 505 Burrard Street, Vancouver, British Columbia, Canada V7X 1M3**

(Address of principal executive offices)

**(604) 320-3344**

(Issuer's telephone number)

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

**APPLICABLE ONLY TO CORPORATE REGISTRANTS**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). (Check one): Yes  No

As of March 9, 2007, there were 37,940,983 shares of the issuer's common stock and outstanding, par value \$0.001.

Transitional Small Business Disclosure Format (Check one): Yes  No

**COUNTERPATH SOLUTIONS, INC.**  
**JANUARY 31, 2007 QUARTERLY REPORT ON FORM 10-QSB**

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**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**COUNTERPATH SOLUTIONS, INC.  
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JANUARY 31, 2007**

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**COUNTERPATH SOLUTIONS, INC.**  
**INTERIM CONSOLIDATED BALANCE SHEETS**  
(Stated in U.S. Dollars)

	<u>January 31,</u> <u>2007</u>	<u>April 30,</u> <u>2006</u>
	(Unaudited)	
<b>Assets</b>		
Current assets:		
Cash	\$ 2,141,673	\$ 2,369,021
Accounts receivable (net of allowance for doubtful accounts of \$56,121 and \$38,646, respectively)	2,174,592	477,814
Prepaid expenses and deposits	<u>155,089</u>	<u>104,927</u>
Total current assets	4,471,354	2,951,762
Deposits – Note 7	70,413	-
Equipment (net of accumulated depreciation of \$568,971 and \$383,975, respectively)	270,430	300,077
Other assets	<u>22,730</u>	<u>8,165</u>
Total Assets	<u>\$ 4,834,927</u>	<u>\$ 3,260,004</u>
 <b>Liabilities and Stockholders' Equity (Capital Deficit)</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,093,830	\$ 754,589
Due to related parties – Note 3	25,833	34,929
Unearned revenue	319,915	115,214
Customer deposits	55,100	138
Warranty payable	<u>88,273</u>	<u>71,011</u>
Total current liabilities	1,582,951	975,881
Convertible debentures – Note 4	<u>3,284,707</u>	<u>1,887,582</u>
Total liabilities	<u>4,867,658</u>	<u>2,863,463</u>
Stockholders' equity (capital deficit):		
Common stock, \$0.001 par value – Note 5		
Authorized: 415,384,500		
Issued and outstanding:		
January 31, 2007 – 37,940,983; April 30, 2006 – 37,915,462	37,941	37,915
Additional paid-in capital	4,403,264	2,750,494
Accumulated deficit	(4,377,426)	(2,317,589)
Accumulated other comprehensive loss – currency translation adjustment	<u>(96,510)</u>	<u>(74,279)</u>
Total stockholders' equity (capital deficit)	<u>(32,731)</u>	<u>396,541</u>
Liabilities and Stockholders' Equity (Capital Deficit)	<u>\$ 4,834,927</u>	<u>\$ 3,260,004</u>

*See accompanying notes to the consolidated financial statements*

**COUNTERPATH SOLUTIONS, INC.**  
**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS**  
**AND COMPREHENSIVE LOSS**  
(Stated in U.S. Dollars)  
(Unaudited)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>January 31,</b>		<b>January 31,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Revenue:				
Software	\$ 653,332	\$ 1,033,610	\$ 3,339,116	\$ 2,475,452
Service	354,250	204,322	1,102,140	675,877
Total revenue	<u>1,007,582</u>	<u>1,237,932</u>	<u>4,441,256</u>	<u>3,151,329</u>
Cost of revenue:				
Software	179,212	156,833	637,453	335,736
Service	157,797	76,472	497,768	193,301
Total cost of revenue	<u>337,009</u>	<u>233,305</u>	<u>1,135,221</u>	<u>529,037</u>
Gross profit	<u>670,573</u>	<u>1,004,627</u>	<u>3,306,035</u>	<u>2,622,292</u>
Operating expenses:				
Sales and marketing	409,856	121,523	1,164,793	494,923
Research and development	647,664	671,747	1,942,508	1,722,617
General and administrative	581,446	482,925	1,806,663	1,245,326
Total operating expenses	<u>1,638,966</u>	<u>1,276,195</u>	<u>4,913,964</u>	<u>3,462,866</u>
Loss from operations	<u>(968,393)</u>	<u>(271,568)</u>	<u>(1,607,929)</u>	<u>(840,574)</u>
Interest and other income (expense), net				
Interest income	17,485	3,492	38,087	4,777
Interest expense	(105,717)	(160,866)	(191,506)	(161,672)
Loss on extinguishment of convertible debenture (Note 4)	(289,252)	-	(289,252)	-
Loss on sale of assets	(1,169)	-	(9,237)	-
Net loss	<u>\$ (1,347,046)</u>	<u>\$ (428,942)</u>	<u>\$ (2,059,837)</u>	<u>\$ (997,469)</u>
Other comprehensive income (loss):				
Foreign currency translation adjustments	<u>(31,462)</u>	<u>(10,643)</u>	<u>(22,231)</u>	<u>(16,278)</u>
Comprehensive loss	<u>\$ (1,378,508)</u>	<u>\$ (439,585)</u>	<u>\$ (2,082,068)</u>	<u>\$ (1,013,747)</u>
Net loss per share:				
Basic and diluted	<u>\$ (0.04)</u>	<u>\$ (0.01)</u>	<u>\$ (0.06)</u>	<u>\$ (0.03)</u>
Weighted average common shares outstanding:	37,940,983	37,915,462	37,936,135	37,915,462

*See accompanying notes to the consolidated financial statements*

**COUNTERPATH SOLUTIONS, INC.**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Stated in U.S. Dollars)  
(Unaudited)

	<b>Nine Months Ended January 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities:</b>		
Net loss for the period	\$ (2,059,837)	\$ (997,469)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	207,141	174,448
Stock-based compensation (Note 5)	653,215	162,935
Accretion of convertible debenture discount (Note 4)	97,500	8,766
Loss on extinguishment of convertible debenture (Note 4)	289,252	-
Write-off of trademark	-	594
Financing fees	-	138,734
Changes in assets and liabilities:		
Accounts receivable	(1,696,778)	(63,950)
Prepaid expenses and deposits	(50,162)	(38,717)
Accounts payable and accrued liabilities	339,241	315,880
Unearned revenue	204,701	158,500
Customer deposits	54,962	(24,523)
Warranty payable	17,262	6,034
Net cash used in operating activities	(1,943,503)	(158,768)
<b>Cash flows from investing activities:</b>		
Purchase of equipment, net of disposals	(177,494)	(201,915)
Deposits	(70,413)	-
Increase in other assets	(14,565)	(6,815)
Net cash used in investing activities	(262,472)	(208,730)
<b>Cash flows from financing activities:</b>		
Common stock issued	9,954	-
Convertible debenture issued (Note 4)	2,000,000	2,000,000
Decrease in due to related parties	(9,096)	(11,652)
Net cash provided by financing activities	2,000,858	1,988,348
Foreign currency translation effect on cash	(22,231)	5,640
Decrease in cash during the period	(227,348)	1,626,490
Cash, beginning of the period	2,369,021	1,244,906
Cash, end of the period	\$ 2,141,673	\$ 2,871,396
Supplemental disclosure of cash flow information		
Cash paid for:		
Interest	\$ 64,483	\$ 8,333

*See accompanying notes to the consolidated financial statements*

**COUNTERPATH SOLUTIONS, INC.**  
**INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (CAPITAL DEFICIT)**  
**for the Nine Months Ended January 31, 2007**  
(Stated in U.S. Dollars)  
(Unaudited)

	Number Of Shares	Par Value	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance, May 1, 2006	37,915,462	\$ 37,915	\$ 2,750,494	\$ (2,317,589)	\$ (74,279)	396,541
Shares issued for cash:						
Exercise of stock options - at \$0.39	25,521	26	9,928	-	-	9,954
Stock-based compensation (Note 5)	-	-	653,215	-	-	653,215
Discount on convertible debenture – share purchase warrants (Note 4)	-	-	553,421	-	-	553,421
Discount on convertible debenture – beneficial conversion feature (Note 4)			436,206			436,206
Net loss for the period	-	-	-	(2,059,837)	-	(2,059,837)
Foreign currency translation adjustment	-	-	-	-	(22,231)	(22,231)
Balance, January 31, 2007	<u>37,940,983</u>	<u>\$ 37,941</u>	<u>\$ 4,403,264</u>	<u>\$ (4,377,426)</u>	<u>\$ (96,510)</u>	<u>\$ (32,731)</u>

*See accompanying notes to the consolidated financial statements*

**COUNTERPATH SOLUTIONS, INC.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
(Stated in U.S. Dollars)  
(Unaudited)

**Note 1**      **Nature of Operations**

CounterPath Solutions, Inc. was incorporated in the State of Nevada on April 18, 2003. The Company's common shares are quoted for trading on the NASD Over-The-Counter Bulletin Board in the United States of America.

The Company provides Voice over Internet Protocol software and related services to customers in North America, South America, Europe, Asia and other areas of the world including Australia, New Zealand and Africa.

**Note 2**      **Significant Accounting Policies**

These interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America and are stated in U.S. dollars except where disclosed. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for the period necessarily involves the use of estimates, which have been made using careful judgement. Actual results may vary from these estimates.

These interim consolidated financial statements have been prepared on a going concern basis, which implies the Company will continue to realize its assets and discharge its liabilities and commitments in the normal course of business. The continuation of the Company as a going concern is dependent upon the continued financial support from its stockholders, the ability of the Company to obtain necessary equity financing to continue operations and to generate sustainable significant revenue. There is no guarantee that the Company will be able to raise any equity financing or generate profitable operations. As at January 31, 2007, the Company has not yet achieved profitable operations and has generated an accumulated deficit of \$4,377,426 since incorporation. These factors raise substantial doubt regarding the Company's ability to continue as a going concern. Realizable values may be substantially different from carrying values as shown in these financial statements should the Company be unable to continue as a going concern. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The interim consolidated financial statements have, in management's opinion, been properly prepared within the framework of the significant accounting policies summarized below:

a)    **Basis of Presentation**

These interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, CounterPath Solutions R&D Inc., a company incorporated by the Company on May 10, 2004 in British Columbia, Canada. All inter-company transactions and balances have been eliminated.

b)    **Interim Reporting**

The information presented in the accompanying interim three months and nine months consolidated financial statements are without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the 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.

**COUNTERPATH SOLUTIONS, INC.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (cont’d)**  
(Stated in U.S. Dollars)  
(Unaudited)

**Note 2**      **Significant Accounting Policies – (cont’d)**

b) **Interim Reporting – (cont’d)**

These statements reflect all adjustments, which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented in accordance with accounting principles generally accepted in the United States of America. Except where noted, these interim financial statements follow the same accounting policies and methods of their application as the Company’s April 30, 2006 annual consolidated financial statements. All adjustments are of a normal recurring nature. It is suggested that these interim financial statements be read in conjunction with the Company’s April 30, 2006 annual consolidated financial statements.

Operating results for the three and nine months ended January 31, 2007 are not necessarily indicative of the results that can be expected for the year ending April 30, 2007.

c) **Change in Accounting Policy**

Beginning May 1, 2006, the Company adopted the recommendations of the Statement of Financial Accounting Standards (“SFAS”) No. 123R, “Accounting for Stock-based Compensation”, and has applied the recommendations of this standard using the modified prospective method. Under this application, the Company is required to record compensation expense, based on the fair value of the awards, for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding as at the date of adoption.

The adoption of SFAS 123R had a significant impact on the consolidated statement of operations, although it had no material impact on the Company’s overall financial position. During the three and nine months ended January 31, 2007, the Company recognized \$155,921 and \$625,547 respectively, related to employee stock-based compensation. The amounts classified in the Company’s unaudited consolidated statements of operations are as follows:

	<b><u>Three Months Ended</u></b> <b><u>January 31, 2007</u></b>	<b><u>Nine Months Ended</u></b> <b><u>January 31, 2007</u></b>
Cost of revenue	\$ 10,660	\$ 44,314
Sales and marketing	17,347	37,783
Research and development	46,793	207,110
General and administrative	<u>81,121</u>	<u>336,340</u>
Total stock-based compensation	<u>\$ 155,921</u>	<u>\$ 625,547</u>

Prior to the adoption of SFAS 123R, the Company elected to apply the intrinsic value method of Accounting Principles Board (“APB”) No. 25, “Accounting for Stock Issued to Employees” and related interpretations in accounting for stock options granted to employees and directors. Under APB No. 25, compensation expense is only recorded to the extent that the exercise price is less than the market value of the underlying stock on the measurement date, which is usually the date of grant. Any stock-based compensation for employees was recognized on a straight-line basis over the vesting period of the individual options.

Stock options granted to non-employees were accounted for under SFAS No. 123 “Accounting for Stock-Based Compensation” and were measured at the fair value of the options as determined by an option pricing model on the measurement date and recognized as the related services are provided and the options earned.

**COUNTERPATH SOLUTIONS, INC.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (cont'd)**  
(Stated in U.S. Dollars)  
(Unaudited)

**Note 2**      **Significant Accounting Policies – (cont'd)**

c) **Change in Accounting Policy – (cont'd)**

The Company did not record compensation expense on the granting of stock options to employees or directors prior to April 30, 2006 as none of the options granted to employees during that time had exercise prices less than the market value of the underlying common stock on the grant date. In accordance with SFAS 148, “*Accounting for Stock-Based Compensation - Transition and disclosure and amendment of FASB Statement No. 123*” the following table illustrates the effect on net loss and net loss per share as if the Company had applied the fair value provisions of SFAS 123 to all options prior to May 1, 2006:

	<b>Three Months Ended January 31, 2006</b>	<b>Nine Months Ended January 31, 2006</b>
Net loss for the period, as reported	\$ (428,942)	\$ (997,469)
Stock based employee compensation expense included in reported net loss	-	-
Stock based compensation expense determined using the fair value based method for all awards	(151,748)	(427,725)
Pro forma loss for the period	\$ (580,690)	\$ (1,425,194)
Basic and diluted loss per share, as reported	\$ (0.01)	\$ (0.03)
Basic and diluted loss per share, pro-forma	(0.02)	(0.04)

The fair value of the share purchase options outstanding at January 31, 2006 was determined using the Black-Scholes option pricing model with the following weighted average assumptions:

	<b>January 31, 2006</b>
Risk-free interest rate	4.2%
Expected volatility	73.1%
Expected life (years)	9.5
Dividend yield	0%

d) **New Accounting Pronouncements**

In February 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 155, “Accounting for Certain Hybrid Financial Instruments – an Amendment of FASB Statements No. 133 and 140.” Among other things, the SFAS No. 155 permits the election of fair value measurement for certain hybrid financial instruments that would otherwise require bifurcation under Statement 133, “Accounting for Derivative Instruments and Hedging Activities”. These hybrid financial instruments would include both assets and liabilities. SFAS No. 155 is effective for fiscal years beginning after September 15, 2006. The Company is currently evaluating the impact of the provisions of SFAS No. 155.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements”. SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of SFAS 157 are effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of the provisions of SFAS 157.

**COUNTERPATH SOLUTIONS, INC.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (cont'd)**  
(Stated in U.S. Dollars)  
(Unaudited)

**Note 2**      **Significant Accounting Policies – (cont'd)**

d) **New Accounting Pronouncements – (cont'd)**

In June 2006, FASB issued interpretation No. 48, “*Accounting for Uncertainty in Income Taxes— an interpretation of FASB Statement No. 109 (FAS No. 109)*” (“FIN 48”). This interpretation prescribes a recognition threshold and measurement attribute for tax positions taken or expected to be taken in a tax return. This interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The evaluation of a tax position in accordance with this interpretation is a two-step process. In the first step, recognition, the Company determines whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The second step addresses measurement of a tax position that meets the more-likely-than-not criteria. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Differences between tax positions taken in a tax return and amounts recognized in the financial statements will generally result in a) an increase in a liability for income taxes payable or a reduction of an income tax refund receivable, b) a reduction in a deferred tax asset or an increase in a deferred tax liability or c) both a and b. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be de-recognized in the first subsequent financial reporting period in which that threshold is no longer met. Use of a valuation allowance as described in FAS No. 109 is not an appropriate substitute for the de-recognition of a tax position. The requirement to assess the need for a valuation allowance for deferred tax assets based on sufficiency of future taxable income is unchanged by this interpretation. This Interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact FIN 48 will have on the Company’s consolidated balance sheet and statement of operations.

On September 13, 2006, the Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin (“SAB”) No. 108 which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB 108 is effective for fiscal years ending after November 15, 2006. The Company is currently evaluating the effect, if any, that this pronouncement will have on its financial results.

e) **Comparative Figures**

Certain comparative figures have been reclassified to conform to the current period’s presentation.

**COUNTERPATH SOLUTIONS, INC.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (continued)**  
(Stated in U.S. Dollars)  
(Unaudited)

**Note 3**      **Related Party Transactions**

During the three and nine months ended January 31, 2007 and 2006, the Company incurred the following expenses to a company with a director in common with the Company and to a company controlled by the spouse of a significant shareholder of the Company:

	<b>Three Months Ended</b>		<b>Nine months Ended</b>	
	<b>January 31, 2007</b>		<b>January 31, 2007</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Interest on convertible debenture	\$ 34,167	\$ 13,333	\$ 85,278	\$ 13,333
Rent	-	-	-	18,777
	<u>\$ 34,167</u>	<u>\$ 13,333</u>	<u>\$ 85,278</u>	<u>\$ 32,210</u>

The above transactions are in the normal course of operations and are recorded at amounts established and agreed to between the related parties. The amounts due to these related parties at January 31, 2007 and April 30, 2006 are unsecured, non-interest bearing and have no stated terms of repayment.

**Note 4**      **Convertible Debenture**

On December 13, 2005, the Company completed the issuance of a convertible debenture in the principal amount of \$2,000,000 to a company controlled by the spouse of a significant shareholder of the Company. The convertible debenture was unsecured, bearing interest at 5% per annum with interest payable at maturity or on such other date as agreed to by the Company and the investor and was to mature on November 21, 2007 and was convertible in whole or in part into common shares of the Company at a conversion price of \$0.40 per share. Included with the issuance of the convertible debenture were 2,500,000 share purchase warrants entitling the holder to purchase one common share for each warrant held at \$0.80 per share until November 21, 2007.

On November 30, 2006, the Company completed the issuance of convertible debentures in the principal amount of \$4,000,000 to a group of investors including a company controlled by the spouse of a significant shareholder of the Company. The debentures are unsecured, bear interest at 5% per annum with interest payable quarterly and mature on November 30, 2008. The investors may convert the debentures at any time, and from time to time, in whole or in part into common shares of the Company at a conversion price of \$0.40 per share. Consideration for \$2,000,000 of the new convertible debenture was the cancellation of the existing \$2,000,000 debenture. In addition, the outstanding share purchase warrants for the purchase of up to 2,500,000 shares of common stock at a price of \$0.80 per share, which were issued in connection with the December 2005 debenture were cancelled on closing. The new debentures rank senior to the Company's other existing and future indebtedness as long as they remain outstanding. Under the terms of the private placement, the investors also received share purchase warrants for the purchase of up to 5,000,000 shares of the Company's common stock, exercisable for three years at a price of \$0.80 per share.

Due to the cancellation of the existing convertible debenture and share purchase warrants, for accounting purposes, the new convertible debenture was accounted for as an extinguishment of the original debt with the issuance of new convertible debt in accordance with EITF 96-19 "Debtor's Accounting for a Modification or Exchange of Debt Instruments: ("EITF 96-19") and EITF Issue No. 06-6 "Debtor's Accounting for a Modification (or Exchange) of Convertible Debt Instruments ("EITF 06-6"). As a result, the difference between the fair value of the new convertible debenture and the carrying value of the original debt was recorded as a loss on extinguishment of convertible debt of \$72,036 in the Consolidated Statement of Operations and a corresponding entry to the debt discount. In consideration for the holder's agreement to extend the maturity date of the original convertible debt

**COUNTERPATH SOLUTIONS, INC.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (cont'd)**  
(Stated in U.S. Dollars)  
(Unaudited)

**Note 4**      **Convertible Debenture – (cont'd)**

from November 21, 2007 to November 30, 2008, the Company cancelled the original 2,500,000 warrants issued in connection with the December 2005 convertible debenture and replaced them with 2,500,000 warrants with a term of 3 years. The difference between the fair value of the new warrants and the fair value of the original warrants immediately prior to cancellation, in the amount of \$217,216, was determined to be part of the consideration given for the reacquisition on the debt extinguishment date and was recorded as an additional loss on extinguishment.

The new convertible debenture was recorded on the date of issuance at its fair value which is estimated to approximate its face value with the proceeds raised allocated between the convertible debenture, share purchase warrants (based on their relative fair values) and beneficial conversion feature on the basis of their relative fair values in accordance with EITF 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments" ("EITF 00-27"). The Company used the Black-Scholes option pricing model to determine the fair value of the share purchase warrants using the Company's historical prices and the following assumptions (i) risk-free interest rate of 4.52%, (ii) expected volatility of 82.02%, (iii) expected life of 3 years, and (iv) a dividend yield of Nil. At the date of issuance of the new debenture, the Company allocated \$3,227,590 to the convertible debenture \$336,205 to the share purchase warrants and \$436,206 to the beneficial conversion feature. The amounts allocated to the share purchase warrants and beneficial conversion feature represents a discount on the debt financing which is accreted to income over the term of the debt.

The convertible debenture and debt discount are summarized as follows:

	<b>Face Amount</b>	<b>Discount</b>	<b>Carrying Value</b>
Convertible debenture at May 1, 2006	\$ 2,000,000	\$ 112,418	\$ 1,887,582
Accretion of debt discount to November 2006	-	(40,382)	40,382
Balance before extinguishment	2,000,000	72,036	1,927,964
Extinguishment of original debenture	(2,000,000)	(72,036)	(1,927,964)
Issuance of convertible debenture	4,000,000	772,410	3,227,590
Accretion of debt discount	-	(57,117)	57,117
Convertible debenture at January 31, 2007	<u>\$ 4,000,000</u>	<u>\$ 715,293</u>	<u>\$ 3,284,707</u>

During the three and nine months ended January 31, 2007, the Company recorded an accretion expense of \$62,907 (2006 - \$8,766) and \$97,500 (2006 - \$8,766) respectively on this discount.

**Note 5**      **Common Stock**

During the nine months ended January 31, 2007, the Company issued 25,521 shares of common stock at \$0.39 per share for cash proceeds of \$9,954 pursuant to the exercise of stock purchase options.

**Stock Options**

The Company has a stock option plan under which options to purchase common shares of the Company may be granted to employees, directors and consultants. Stock options entitle the holder to purchase common stock at a subscription price determined by the Board of Directors at the time of the grant. The options vest in the amount of 12.5% on the date which is six months from the date of grant and then beginning in the seventh month at 1/42 per month for 42 months, at which time the options are fully vested. The maximum number of shares of common stock authorized by the stockholders and reserved for issuance by the Board of Directors under the stock option plan is 16,000,000.

**COUNTERPATH SOLUTIONS, INC.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (cont'd)**  
(Stated in U.S. Dollars)  
(Unaudited)

**Note 5      Common Stock – (cont'd)**

Stock Options – (cont'd)

As discussed in note 2(c) the Company adopted SFAS No. 123R starting in its fiscal first quarter of 2007, which began on May 1, 2006. Effective with the adoption of SFAS No. 123R, the Company has elected to use the Black-Scholes option pricing model to determine the fair value of stock options granted. In accordance with SFAS No. 123R for employees, the compensation expense is amortized on a straight-line basis over the requisite service period which approximates the vesting period. Compensation expense for stock options granted to non-employees is amortized over the contract services period or, if none exists, from the date of grant until the options vest. Compensation associated with unvested options granted to non-employees is remeasured on each balance sheet date using the Black-Scholes option pricing model.

The expected volatility of options granted has been determined using the method described under SFAS No. 123R using the historical stock price. The expected term of options granted to employees in the current fiscal year has been determined utilizing the “simplified” method as prescribed by SAB No. 107, Share-Based Payment. For non-employees, the expected term of the options approximates the full term of the options. The risk-free interest rate is based on a treasury instrument whose term is consistent with the expected term of the stock options. The Company has not paid and does not anticipate paying dividends on its common stock; therefore, the expected dividend yield is assumed to be zero. In addition, SFAS No. 123R requires companies to utilize an estimated forfeiture rate when calculating the expense for the period, whereas prior to the adoption of SFAS No. 123R the Company recorded forfeitures based on actual forfeitures and recorded in the period when the awards were forfeited. As a result, based on the Company’s experience, the Company applied an estimated forfeiture rate of 15% in the first nine months of fiscal 2007 in determining the expense recorded in the accompanying consolidated statement of operations.

The weighted-average fair value of options granted during the three and nine months ended January 31, 2007 were \$nil and \$0.35 respectively. The weighted-average assumptions utilized to determine such values are presented in the following table:

	<u>Nine Months Ended</u> <u>January 31, 2007</u>	<u>Year Ended</u> <u>April 30, 2006</u>
Risk-free interest rate	4.85%	4.24%
Expected volatility	83.2%	73.1%
Expected term	5.8 yrs	9.5 yrs
Dividend yield	0%	0%
Weighted average fair value	\$ 0.35	\$ 0.34
Total options outstanding	14,063,100	11,145,000

**COUNTERPATH SOLUTIONS, INC.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (cont'd)**  
(Stated in U.S. Dollars)  
(Unaudited)

**Note 5      Common Stock – (cont'd)**

Stock Options – (cont'd)

The following is a summary of the status of the Company's stock options as of January 31, 2007 and the stock option activity during the nine months ended January 31, 2007:

	<b>Number of Options</b>	<b>Weighted-average Exercise Price per Share</b>
Outstanding at April 30, 2006	11,145,000	\$0.45
Granted	3,678,100	\$0.49
Forfeited	(596,146)	\$0.39
Cancelled	(138,333)	\$0.39
Exercised	(25,521)	\$0.39
Outstanding at January 31, 2007	14,063,100	\$0.46
Exercisable at April 30, 2006	1,919,861	\$0.61
Exercisable at January 31, 2007	3,802,612	\$0.56

The following table summarizes information regarding stock purchase options outstanding as of January 31, 2007.

<b>Exercise Price</b>	<b>Number of Options Outstanding</b>	<b>Expiry Date</b>	<b>Number of Options Exercisable</b>
\$0.30	255,000	August 1, 2016	-
\$0.38	740,000	October 1, 2011	-
\$0.39	9,335,000	Sept. 7, 2010 to February 1, 2016	2,872,303
\$0.43	1,200,000	September 7, 2016	-
\$0.56	250,000	February 20, 2016	57,292
\$0.59	300,000	July 26, 2016	37,500
\$0.61	983,100	May 23, 2016	163,850
\$0.67	275,000	June 13, 2010 to July 11, 2016	100,000
\$0.68	100,000	April 10, 2016	18,750
\$0.75	50,000	March 3, 2016	10,417
\$1.07	150,000	March 29, 2010	135,000
\$1.17	175,000	February 22, 2010	157,500
\$1.58	150,000	October 24, 2009	150,000
\$1.87	100,000	July 21, 2009	100,000
	14,063,100		3,802,612

**COUNTERPATH SOLUTIONS, INC.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (cont'd)**  
(Stated in U.S. Dollars)  
(Unaudited)

**Note 5**      **Common Stock – (cont'd)**

**Stock Options – (cont'd)**

The following table summarizes information regarding the non-vested stock purchase options outstanding as of January 31, 2007.

	<u>Number of Options</u>	<u>Weighted Average Grant-Date Fair Value</u>
Non-vested options at April 30, 2006	9,225,139	\$0.31
Granted	3,678,100	\$0.35
Vested	(2,046,605)	\$0.32
Forfeited	(596,146)	\$0.30
Non-vested options at January 31, 2007	<u>10,260,488</u>	\$0.32

As of January 31, 2007, there was \$3,416,173 of total unrecognized compensation cost related to unvested share-based compensation awards. This unrecognized compensation cost is expected to be recognized over a weighted-average period of 3.1 years.

The stock-based compensation amounts classified in the Company's unaudited consolidated statements of operations for the three and nine months ended January 31, 2007 and 2006 are as follows:

	<u>Three Months Ended January 31,</u>		<u>Nine Months Ended January 31,</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Cost of revenue	\$ 10,660	\$ -	\$ 41,609	\$ -
Sales and marketing	18,358	1,884	60,316	2,512
Research and development	42,697	1,318	196,513	3,314
General and administrative	<u>86,782</u>	<u>43,335</u>	<u>354,777</u>	<u>157,109</u>
Total stock-based compensation	<u>\$ 158,497</u>	<u>\$ 46,537</u>	<u>\$ 653,215</u>	<u>\$ 162,935</u>

**COUNTERPATH SOLUTIONS, INC.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (cont'd)**  
(Stated in U.S. Dollars)  
(Unaudited)

**Note 6**      **Segmented Information**

Revenue by geographic region for the three and nine months ended January 31, 2007 and 2006 are as follows:

	<b>Three Months Ended January 31,</b>		<b>Nine Months Ended January 31,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
North America	\$ 396,299	\$ 695,736	\$ 1,837,566	\$ 2,083,113
Europe	464,372	206,232	2,043,514	350,444
Asia	21,680	24,044	302,759	207,429
South America	35,504	222,755	156,089	403,941
Other	89,727	89,165	101,328	106,402
	<u>\$ 1,007,582</u>	<u>\$ 1,237,932</u>	<u>\$ 4,441,256</u>	<u>\$ 3,151,329</u>

Revenue from significant customers for the three and nine months ended January 31, 2007 and 2006 is summarized as follows:

	<b>Three Months Ended January 31,</b>		<b>Nine months Ended January 31,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Customer A	27%	-%	22%	-%
Customer B	24%	-%	-%	10%
Customer C	14%	-%	-%	-%
Customer D	-%	-%	10%	-%
Customer E	-%	19%	-%	-%
Customer F	-%	10%	-%	-%
Customer G	-%	-%	-%	11%
	<u>65%</u>	<u>29%</u>	<u>32%</u>	<u>21%</u>

Accounts receivable balances for Customers A , B were \$471,429 and \$428,657 as at January 31, 2007 as compared with \$nil and \$100,000, at April 30, 2006, respectively. Accounts receivable balances for Customers C and E were \$146,960 and \$nil as at January 31, 2007 as compared with \$nil and \$71,200, at April 30, 2006, respectively

**COUNTERPATH SOLUTIONS, INC.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (cont'd)**  
(Stated in U.S. Dollars)  
(Unaudited)

**Note 7**      **Commitments**

On July 10, 2006, the Company entered into a lease for office premises which commenced on December 1, 2006 and expires on September 29, 2011 for which a deposit of \$70,413 was made. Rent paid for the three and nine months ended January 31, 2007 was \$48,922 (2006 – \$48,057) and \$161,056 (2006 - \$112,457), respectively Total rent payable over the term of the lease for the years ended April 30 is as follows:

2007	\$ 82,259
2008	205,098
2009	210,582
2010	225,937
2011	236,904
2012	98,710
	<u>\$ 1,059,490</u>

**Note 8**      **Contingent Liability**

On February 17, 2006, a competitor filed a statement of claim in the Supreme Court of British Columbia claiming among other things, general, punitive and aggravated damages of unspecified amounts with respect to alleged business ethics matters. Management of the Company believes that the claim is without foundation or merit.

## **Item 2. Management's Discussion and Analysis or Plan of Operation.**

*The following discussion and analysis should be read in conjunction with the financial statements and related notes and the other financial information appearing elsewhere in this quarterly report. This discussion and analysis contains forward-looking statements that involve risk, uncertainties and assumptions. In some cases, you can identify forward-looking statements by terminology such as "may", "will", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "continue" or the negative of these terms or other comparable terminology. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including those identified below, in "Risk Factors" and elsewhere in this report. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.*

*Our financial statements are stated in United States dollars and are prepared in accordance with United States Generally Accepted Accounting Principles. All references to "common shares" refer to our shares of common stock. As used in this quarterly report, the terms "we", "us" and "our" means CounterPath Solutions, Inc., unless otherwise indicated.*

### **Overview**

#### ***Background***

We were incorporated under the laws of the State of Nevada on April 18, 2003. Following incorporation, we commenced the business of operating an entertainment advertising website.

On April 30, 2004, we changed our business following the merger of our company with Xten Networks, Inc., a private Nevada company. Xten Networks was incorporated under the laws of the State of Nevada on October 28, 2002. As a result of the merger, we acquired all of the 9,000,000 issued and outstanding shares in Xten Networks in exchange for agreeing to issue 18,000,000 shares of our common stock to the stockholders of Xten Networks. The stockholders of Xten Networks were entitled to receive two shares of our common stock for each one share of Xten Networks.

On August 26, 2005, we entered into an agreement and plan of merger with Ineen, Inc., our wholly-owned subsidiary, whereby Ineen merged with and into our company, with our company carrying on as the surviving corporation under the name CounterPath Solutions, Inc.

#### ***Business of CounterPath Solutions***

Our business focuses on the design, development and sale of multimedia application software. Our software applications are based on session initiation protocol (SIP) which is the recognized standard for interactive end points that involve multimedia elements such as voice, video, instant messaging, presence (the ability to monitor a person's availability), online games and virtual reality. Users of our software in combination with voice over internet protocol (VoIP) service are able to communicate and make voice and video calls from a device running our software. Our software has been designed to run in multiple operating environments such as Windows 2000, Windows XP, Mac OS X, Linux and Windows Mobile 5 (used for personal digital assistants or PDA's).

We are focused on the development of technology that takes advantage of the market known as the voice over internet protocol (VoIP) market. Voice over internet protocol (VoIP) is a general term for technologies that use internet protocol for transmission of packets of data which include voice, video, text, fax, and other forms of information that have traditionally been carried over the dedicated circuit-switched connections of the public switched telephone network (PSTN). General industry and analyst consensus shows that the voice over internet protocol (VoIP) market is being adopted by the public and growing at a considerable rate. Our strategy is to sell our software to our customers to allow such customers to deliver session initiation protocol (SIP) and voice over internet protocol (VoIP) services. Customers that we are targeting include large global incumbent telecom providers, cable carriers, large equipment providers, internet telephone service providers (ITSP's) and content providers. Our software enables voice communication from the end user through the network to another end user and enables the service provider to deliver other streaming content to end users such as video, radio or the weather.

## ***Revenue***

We derive revenue from the sale of software licenses and software development kits (SDKs) and services associated with software such as technical support services, implementation and training. We recognize software and services revenue at the time of delivery, provided all other revenue recognition criteria have been met.

We offer our products and services directly through our sales force and indirectly through distribution partners. Our distribution partners include networking and telecommunications equipment vendors throughout the world. Our distribution partners generally purchase our products after they have received a purchase order from their customers and do not maintain an inventory of our products in anticipation of sales to their customers.

The amount of product configuration and customization, which reflects the requested features, determines the price for each sale. The number of software licenses purchased will have a direct impact on the average selling price. Services may vary depending upon a customer's requirements for technical support, implementation and training.

We believe that our revenue and results of operations may vary significantly from quarter to quarter as a result of long sales and deployment cycles, new product introductions and variations in customer ordering patterns.

## ***Cost of Revenue***

Cost of product revenue primarily consists of (a) payments to third party vendors for compression/decompression software known as codecs, (b) salaries and benefits related to personnel, (c) related overhead and (d) amortization of capitalized software that is implemented into our products.

Cost of service revenue primarily consists of (a) salaries and benefits related to professional services and technical support personnel, (b) billable and non-billable travel, lodging, and other out-of-pocket expenses, (c) related overhead, and (d) warranty expense.

## ***Gross Profit***

Our gross profit has been, and will be, affected by many factors, including (a) the demand for our products and services, (b) the average selling price of our products, which in turn depends in part on the type and volume of products sold, (c) new product introductions, (d) the costs of our software products and (e) the costs of our professional services and technical support.

## ***Operating Expenses***

Operating expenses consist of sales and marketing, research and development, and general and administrative expenses. Personnel-related costs are the most significant component of each of these expense categories. We expect to continue to hire significant numbers of new employees to support our growth.

Sales and marketing expense consists primarily of (a) salaries and related personnel costs including stock-based compensation, (b) commissions, (c) travel, lodging and other out-of-pocket expenses, (d) marketing programs such as trade shows, and (e) other related overhead. Commissions are recorded as expense when earned by the employee. We expect increases in sales and marketing expense for the foreseeable future as we further increase the number of sales professionals and increase our marketing activities with the intent to grow our revenue. We expect sales and marketing expense to decrease as a percentage of total revenue, however, as we leverage our current sales and marketing personnel as well as our distribution partnerships.

Research and development expense consists primarily of (a) salaries and related personnel costs including stock-based compensation, (b) payments to suppliers for design and consulting services, (c) costs relating to the design and development of new products and enhancement of existing products, (d) quality assurance and testing, and (e) other related overhead. To date, all of our research and development expense has been expensed as incurred. We intend to continue to invest in our research and development efforts, which we believe are essential to maintaining our competitive position. We expect research and development expense to increase for the foreseeable future and to decrease as a percentage of total revenue in the future.

General and administrative expense consists primarily of (a) salaries and personnel costs including stock-based compensation related to our executive, finance, human resource and information technology organizations, (b) accounting, legal and regulatory fees, and (c) other related overhead. We expect general and administrative expense to continue to increase for the foreseeable future as we invest in personnel to support continued growth and incur expenses related to being a publicly traded company.

### **Application of Critical Accounting Policies and Use of Estimates**

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ significantly from these estimates under different assumptions or conditions. There have been no material changes to these estimates for the periods presented in this quarterly report.

We believe that of our significant accounting policies, which are described in note 2 to our annual financial statements, the following accounting policies involve a greater degree of judgment and complexity. Accordingly, these are the policies we believe are the most critical to aid in fully understanding and evaluating our financial condition and results of operations.

#### ***Revenue Recognition***

We recognize revenue in accordance with SOP 97-2 and related interpretations.

In all of our arrangements, we do not recognize any revenue until we can determine that persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and we deem collection to be probable. If any of these criteria are not met, revenue is deferred until such time that all criteria have been met.

A substantial percentage of our revenue is generated by multiple-element arrangements, such as products, maintenance, professional services and training. When arrangements include multiple elements, we allocate the total fee among the various elements using the residual method. Under the residual method, revenue is recognized when vendor-specific objective evidence, or VSOE, of fair value exists for all of the undelivered elements of the arrangement, but does not exist for one or more of the delivered elements of the arrangement. Each arrangement requires us to analyze the individual elements in the transaction and to estimate the fair value of each undelivered element, which typically includes maintenance and services. Revenue is allocated to each of the undelivered elements based on its respective fair value, with the fair value determined by the price charged when that element is sold separately.

Maintenance and support services include telephone support, return and repair services, and unspecified rights to product upgrades and enhancements, and are recognized ratably over the term of the service period, which is generally 12 months. Maintenance and support revenue generally is deferred until the related product has been accepted and all other revenue recognition criteria have been met. Professional services and training revenue is recognized as the related service is performed.

We provide a one year warranty on software products. We have set up a warranty provision in the amount of 2% of software sales, which is amortized over a 12-month term. We recognize this deferred revenue evenly over a twelve-month period from the date of the sale.

Our products and services are distributed indirectly through distribution partners and directly through our sales force. Revenue arrangements with distribution partners are recognized when the above criteria are met and only when we receive evidence that the distribution partner has an order from an end-user customer.

### ***Stock-Based Compensation***

Stock options granted are accounted for under SFAS No. 123R "Share-Based Payment" and are recognized at the fair value of the options as determined by an option pricing model as the related services are provided and the options earned. SFAS No.123R replaces existing requirements under FAS 123 and APB 25, and requires public companies to recognize the cost of employee services received in exchange for equity instruments, based on the fair value of those instruments on the measurement date which generally is the grant date, with limited exceptions. We have adopted SFAS No. 123R as of May 1, 2006 using the modified prospective method of adoption. The adoption of SFAS No. 123R did not have a material effect on our financial position or cash flow for any period.

Stock-based compensation represents the cost related to stock-based awards granted to employees and non-employee consultants. We measure stock-based compensation cost at measurement date, based on the estimated fair value of the award, and generally recognize the cost as expense on a straight-line basis (net of estimated forfeitures) over the employee requisite service period or the period during which the related services are provided by the non-employee consultants and the options are earned. We estimate the fair value of stock options using a Black-Scholes option valuation model.

The expected volatility of options granted has been determined using the volatility of our company's stock. The expected volatility for options granted during the nine months ended January 31, 2007 was between 71.0% and 83.4%. The expected life of options granted after April 30, 2006 has been determined utilizing the "simplified" method as prescribed by the SEC's Staff Accounting Bulletin No. 107, *Share-Based Payment*. The expected term of options granted during the nine months ended January 31, 2007 was between 3.7 and 6.2 years. For the nine months ended January 31, 2007, the weighted-average risk free interest rate used was 4.83%. The risk-free interest rate is based on a treasury instrument whose term is consistent with the expected term of the stock options. We have not paid and do not anticipate paying cash dividends on our shares of common stock; therefore, the expected dividend yield is assumed to be zero. In addition, SFAS No. 123R requires companies to utilize an estimated forfeiture rate when calculating the expense for the period. We applied an estimated forfeiture rate of 15.0% in the nine months ended January 31, 2007 in determining the expense recorded in our consolidated statement of operations.

Cost of revenue and operating expenses include stock-based compensation expense. For the nine months ended January 31, 2007, we recorded an expense of \$653,215 in connection with share-based payment awards. A future expense of non-vested options of \$3,416,173 is expected to be recognized over a weighted-average period of 3.1 years. Results for the prior period have not been restated.

### ***Research and Development Expense for Software Products***

Research and development expense includes costs incurred to develop intellectual property. The costs for the development of new software and substantial enhancements to existing software are expensed as incurred until technological feasibility has been established, at which time any additional costs would be capitalized. We have determined that technological feasibility is established at the time a working model of software is completed. Because we believe our current process for developing software will be essentially completed concurrently with the establishment of technological feasibility, no costs have been capitalized to date.

### ***Foreign Currency Translation***

Our functional and reporting currency is the United States of America dollar. These consolidated financial statements are remeasured to United States dollars in accordance with FAS No. 52, "Foreign Currency Translation". Monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate prevailing at the balance sheet date and capital accounts are translated at historical rates. Income statement accounts are translated at the average rates of exchange prevailing during the year and are included in the comprehensive income account in stockholders' equity, if applicable. Gains and losses arising on remeasurement or settlement of foreign currency denominated transactions or balances are included in the determination of income. Foreign currency transactions are primarily undertaken in Canadian dollars. We have not, to the date of these financials statements, entered into derivative instruments to offset the impact of foreign currency fluctuations.

## Results of Operations

Our operating activities during the three and nine months ended January 31, 2007 consisted primarily of selling our IP telephony software to telephone companies and IP telephony service providers, which provide IP telephony services to end users, and the continued development of our IP telephony software products.

### Revenue

	Three Months Ended January 31,				Period-to-Period Change	
	2007		2006		Amount	Percent Increase / (Decrease)
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue		
<b>Revenue by Type</b>						
Software	\$653,332	65%	\$1,033,610	83%	(\$380,278)	(37%)
Service	354,250	35%	204,322	17%	149,928	73%
Total revenue	\$1,007,582	100%	\$1,237,932	100%	(\$230,350)	(19%)
<b>Revenue by Region</b>						
International	\$611,283	61%	\$542,196	44%	\$69,087	13%
North America	396,299	39%	695,736	56%	(299,437)	(43%)
Total revenue	\$1,007,582	100%	\$1,237,932	100%	(\$230,350)	(19%)

For the three months ended January 31, 2007, we generated \$1,007,582 in revenue compared to \$1,237,932 for the three months ended January 31, 2006. This represents a decrease of \$230,350 or 19% from the same period last year. We generated \$653,332 in software revenue for the three months ended January 31, 2007 compared to \$1,033,610 for the three months ended January 31, 2006, representing a decrease of \$380,278 or 37%. Delays in customer deployment and delays in a new product launch contributed to the decrease in software revenue in the period. For the three months ended January 31, 2007, service revenue was \$354,250 compared to \$204,322 for the three months ended January 31, 2006. The increase of \$149,928 in service revenue reflects the increase in services we provide to primarily our larger customers to support their deployed software. International revenue outside of North America grew by 13% during the quarter ended January 31, 2007 compared to the quarter ended January 31, 2006, driven by European software sales. North American revenue contracted by 43%, compared to the quarter ended January 31, 2006, as a result of both lower software sales and service revenues in this region. Our total number of customers (not including those through internet sales), increased by 23 over the current quarter to 259 as at January 31, 2007.

	Nine months Ended January 31,				Period-to-Period Change	
	2007		2006		Amount	Percent Increase / (Decrease)
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue		
<b>Revenue by Type</b>						
Software	\$3,339,116	75%	\$2,475,452	79%	\$863,664	35%
Service	1,102,140	25%	675,877	21%	426,263	63%
Total revenue	\$4,441,256	100%	\$3,151,329	100%	\$1,289,927	41%
<b>Revenue by Region</b>						
International	\$2,603,690	59%	\$1,068,216	34%	\$1,535,474	144%
North America	1,837,566	41%	2,083,113	66%	(\$245,547)	(12%)
Total revenue	\$4,441,256	100%	\$3,151,329	100%	\$1,289,927	41%

For the nine months ended January 31, 2007, we generated \$4,441,256 in revenue compared to \$3,151,329 for the nine months ended January 31, 2006. This represents an increase of \$1,289,927 or 41% over the same period last year. We generated \$3,339,116 in software revenue for the nine months ended January 31, 2007 compared to \$2,475,452 for the nine months ended January 31, 2006, representing an increase of \$863,664, or 35%. The increase in software revenue was attributable to an increase in both the number of customers we sell to and the average revenue per customer. For the nine months ended January 31, 2007, service revenue was \$1,102,140 compared to \$675,877 for the nine months ended January 31, 2006. The increase of \$426,263 in service revenue reflects the increase in services we provide to primarily our larger customers to enable them to deploy our software. International revenue outside of North America grew by 144% during the nine months ended January 31, 2007 compared the same period in 2006 reflecting strong revenue growth primarily from European customers, while North American fell by 12%, reflecting lower sales to new customers and delayed deployment by existing customers.

### Cost of Revenue and Gross Profit

	Three Months Ended January 31,				Period-to-Period Change	
	2007		2006		Amount	Percent Increase / (Decrease)
	Amount	Percent of Related Revenue	Amount	Percent of Related Revenue		
<b>Cost of Revenue</b>						
Software	\$179,212	27%	\$156,833	15%	\$22,379	14%
Service	157,797	45%	76,472	37%	81,325	106%
Total cost of revenue	\$337,009	33%	\$233,305	19%	\$103,704	44%
<b>Gross Profit</b>						
Software	\$474,120	73%	\$876,777	85%	(\$402,657)	(46%)
Service	196,453	55%	127,850	63%	68,603	54%
Total gross profit	\$670,573	67%	\$1,004,627	81%	(\$334,054)	(33%)

Cost of revenue was \$337,009 for the three months ended January 31, 2007 compared to \$233,305 recorded for the three months ended January 31, 2006. The total gross profit margin was 67% for the quarter ended January 31, 2007 compared to 81% for the quarter ended January 31, 2006 as current period costs increased at a greater rate than revenue growth. Cost of software was \$179,212 for the quarter ended January 31, 2007, resulting in a gross profit margin on software of 73% compared to 85% for the quarter ended January 31, 2006 as current period costs increased at a greater rate than revenue growth. Cost of service was \$157,797 during the quarter, resulting in a gross profit margin on service of 55% compared to 63% for the quarter ended January 31, 2006.

	Nine months Ended January 31,				Period-to-Period Change	
	2007		2006		Amount	Percent Increase / (Decrease)
	Amount	Percent of Related Revenue	Amount	Percent of Related Revenue		
<b>Cost of Revenue</b>						
Software	\$637,453	19%	\$335,736	14%	\$301,717	90%
Service	\$497,768	45%	193,301	29%	304,467	158%
Total cost of revenue	\$1,135,221	26%	\$529,037	17%	\$606,184	115%
<b>Gross Profit</b>						
Software	\$2,701,663	81%	\$2,139,716	86%	\$561,947	26%
Service	604,372	55%	482,576	71%	121,796	25%
Total gross profit	\$3,306,035	74%	\$2,622,292	83%	\$683,743	26%

Cost of revenue was \$1,135,221 for the nine months ended January 31, 2007 compared to \$529,037 recorded for the nine months ended January 31, 2006. The total gross profit margin was 74% for the nine months ended January 31, 2007 compared to 83% for the nine months ended January 31, 2006. Cost of software grew by \$301,717 to \$637,453 during the nine months ended January 31, 2007 resulting in a gross profit margin of 81% compared to 86% in the prior period. Cost of service grew by \$304,467 to \$497,768 during the nine months ended January 31, 2007, resulting from costs associated with adding service personnel and providing professional services to carrier customers. The gross profit margin on service revenue was 55% during the nine months ended January 31, 2007 compared to 71% for the nine months ended January 31, 2006.

## Operating Expenses

### Sales and Marketing

Sales and marketing expenses for the three and nine months ended January 31, 2007 and 2006 were as follows:

	January 31, 2007		January 31, 2006		Period-to-Period Change	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent Increase / (Decrease)
Three months ended	\$409,856	41%	\$121,523	10%	\$288,333	237%
Nine months ended	\$1,164,793	26%	\$494,923	16%	\$669,870	135%

Sales and marketing expenses were \$409,856 for the three months ended January 31, 2007 compared to \$121,523 recorded for the three months ended January 31, 2006. The increase of \$288,333 was primarily attributable to significant increases in sales and marketing personnel and associated wages, commissions, consulting fees, overhead and the expensing of employee stock-based compensation which began at the beginning of the current fiscal year. Sales and marketing expenses grew to \$1,164,793 for the nine months ended January 31, 2007 compared to \$494,923 recorded for the nine months ended January 31, 2006. The increase of \$669,870 was primarily attributable to significant increases in sales and marketing personnel and associated wages and commissions, consulting fees, overhead and the expensing of employee stock-based compensation which began at the beginning of the current fiscal year.

### Research and Development

Research and development expenses for the three and nine months ended January 31, 2007 and 2006 were as follows:

	January 31, 2007		January 31, 2006		Period-to-Period Change	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent Increase / (Decrease)
Three months ended	\$647,664	64%	\$671,747	54%	(\$24,083)	(4%)
Nine months ended	\$1,942,508	44%	\$1,722,617	55%	\$219,891	13%

Research and development expenses were \$647,664 for the three months ended January 31, 2007 compared to \$671,747 for the three months ended January 31, 2006. Research and development expenses in the current period were partially offset by a development grant totalling \$32,218. Research and development expenses were \$1,942,508 for the nine months ended January 31, 2007 compared to \$1,722,617 recorded for the nine months ended January 31, 2006. The increase of \$219,891 was primarily attributable to increases in engineering development personnel and associated costs as well as the expensing of employee stock-based compensation which began at the beginning of the current fiscal year.

### General and Administrative

General and administrative expenses for the three and nine months ended January 31, 2007 and 2006 were as follows:

	January 31, 2007		January 31, 2006		Period-to-Period Change	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent Increase / (Decrease)
Three months ended	\$581,446	58%	\$482,925	39%	\$98,521	20%
Nine months ended	\$1,806,663	41%	\$1,245,326	40%	\$561,337	45%

General and administrative expenses for the three months ended January 31, 2007 were \$581,446 compared to \$482,925 for the three months ended January 31, 2006. The increase of \$98,521 in general and administrative expenses quarter over quarter related to the hiring of additional personnel as well as the expensing of employee stock-based compensation which began at the beginning of the current fiscal year. General and administrative expenses for the nine months ended January 31, 2007 were \$1,806,663 compared to \$1,245,326 for the nine months ended January 31, 2006. The increase of \$561,337 in general and administrative expenses related to the hiring of additional personnel, the expensing of stock-based compensation and additional professional fees.

#### *Interest and Other Income*

Interest income for the three and nine months ended January 31, 2007 was \$17,485 and \$38,087, respectively compared to \$3,492 and \$4,777 for the same respective periods in 2006 and relates to interest earned on cash deposits. Interest expense for the three and nine months ended January 31, 2007 was \$105,717 and \$191,506, respectively compared to \$160,866 and \$161,672 for the same respective periods in 2006. Interest expense during fiscal 2007 includes both a cash interest component and a non-cash component relating to the accretion of the discount on the convertible debenture. Loss on extinguishment of convertible debenture for the three and nine months ended January 31, 2007 was \$289,252 compared to \$nil for the three and nine months ended January 31, 2006. The loss on extinguishment of convertible debenture is related to the convertible debenture financing of November 30, 2006 and is comprised of the difference between the fair value of the new warrants provided to an existing investor for cancellation of that investor's original warrants and the fair value of original warrants immediately prior to cancellation in the amount of \$217,216. The remaining \$72,036 of the loss relates to the difference between the fair value of the new convertible debenture and the carrying value of the original debt at the date of extinguishment.

#### **Liquidity and Capital Resources**

As of January 31, 2007, we had \$2,141,673 in cash compared to \$2,369,021 at April 30, 2006, representing a decrease of \$227,348. Our working capital was \$2,888,403 at January 31, 2007 compared to \$1,975,881 at April 30, 2006, representing an increase of \$912,522 over the nine month period.

#### *Operating Activities*

Our operating activities resulted in a net cash outflow of \$1,943,503 for the nine months ended January 31, 2007. This compares with a net cash outflow of \$158,768 for the same period last year and represents a \$1,784,735 increase in the use of cash from operations compared to the same period last year. The net cash outflow from operating activities for the nine months ended January 31, 2007 was primarily a result of a net loss of \$2,059,837 and an increase in accounts receivable of \$1,696,778, offset by an increase in accounts payable and accrued liabilities of \$339,241 and adjustments for non-cash expenses including \$653,215 for stock-based compensation and \$207,141 for depreciation and amortization. The increase in accounts receivable is attributable to growing sales and the use of extended payment terms with certain of our larger customers.

#### *Investing Activities*

Investing activities resulted in a net cash outflow of \$262,472 for the nine months ended January 31, 2007 resulting primarily from purchases of equipment and deposits. This compares with a net cash outflow from investing activities of \$208,730 for the same period last year which was primarily for purchases of equipment. At January 31, 2007, we did not have any material commitments for future capital expenditures.

#### *Financing Activities*

Financing activities resulted in a net cash inflow of \$2,000,858 for the nine months ended January 31, 2007 compared to a net cash inflow of \$1,988,348 for the same period last year. During the nine months ended January 31, 2007, we issued 25,521 common shares at \$0.39 per share for cash proceeds of \$9,954 pursuant to the exercise of stock purchase options.

On November 30, 2006, we completed a non-brokered private placement of convertible debentures in the principal amount of \$4,000,000 to a group of investors including a company controlled by the spouse of a significant shareholder of our company. Consideration for \$2,000,000 of the new convertible debentures was the cancellation of the existing \$2,000,000 debenture. In addition, the outstanding share purchase warrants for the purchase of up to 2,500,000 shares of common stock at a price of \$0.80 per share, which were issued in connection with the December 2005 debenture were cancelled on closing. The new debentures are unsecured, bear interest at 5% per annum with interest payable quarterly and mature on November 30, 2008. The debentures rank senior to our company's other existing and future indebtedness as long as they remain outstanding. The investors may convert the debentures at any time, and from time to time, in whole or in part into common shares of our company at a conversion price of \$0.40 per share. Under the terms of the private placement, the investors also acquired share purchase warrants for the purchase of up to five million shares of our company's common stock, exercisable for three years at a price of \$0.80 per share.

The \$4,000,000 of new debentures were recorded net of discounts of \$553,421 for the fair value of the detachable warrants, \$50,000 for the incremental beneficial conversion feature value on the date of modification, and \$386,205 for the beneficial conversion value of the embedded conversion option. As a result of the issuance of new debentures and the cancellation of the existing debenture, we recorded a loss on extinguishment of the existing debenture of \$289,252.

We believe that our current working capital and anticipated revenue will be sufficient to fund our operations for the next twelve months. However, our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement that involves risks and uncertainties, and actual results could vary materially. If we are unable to raise additional capital when required or on acceptable terms, we may have to significantly delay product development, and scale back operations.

We intend to seek additional funding through public or private financings, but our business and shareholders' investment are at risk if we are unable to obtain additional financing on acceptable terms or at all.

### **Long Term Obligations**

On July 10, 2006, we entered into a lease for office premises commencing on December 1, 2006 and ending on September 29, 2011 for which a deposit of \$70,413 was made. Total rent payable over the term of the lease for the fiscal years ended April 30, is as follows:

2007	\$ 82,259
2008	205,098
2009	210,582
2010	225,937
2011	236,904
2012	98,710
	\$ 1,059,490

### **Off-Balance Sheet Arrangements**

We do not have, and do not have any present plans to implement, any off-balance sheet arrangements.

### **RISK FACTORS**

Much of the information included in this quarterly report includes or is based upon estimates, projections or other "forward looking statements". Such forward looking statements include any projections or estimates made by us and our management in connection with our business operations. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumption or other future performance suggested herein.

Such estimates, projections or other "forward looking statements" involve various risks and uncertainties as outlined below. We caution the reader that important factors in some cases have affected and, in the future, could materially affect actual results and cause actual results to differ materially from the results expressed in any such estimates, projections or other "forward looking statements".

*We will require significant additional financing, the availability of which cannot be assured.*

Since inception, our company has had negative cash flows from operations. Our business plan calls for continued research and development of our products and expansion of our market share. We may require additional financing to finance working capital and pay for operating expenses and capital requirements until we achieve a positive cash flow. However, there is no assurance that actual cash requirements will not exceed our estimates. In particular, additional capital may be required in the event that:

- we incur delays and additional expenses as a result of technology failure;
- we are unable to create a substantial market for our products; or
- we incur any significant unanticipated expenses.

The occurrence of any of the aforementioned events could adversely affect our ability to meet our proposed business plans.

We do not have any current arrangement for financing our company. We depend on a mix of revenue and outside capital to pay for the continued development of our technology and the marketing of our products. Such outside capital may include the sale of additional stock and/or commercial borrowing. There can be no assurance that capital will continue to be available if necessary to meet these continuing development costs or, if the capital is available, that it will be on terms acceptable to us. The issuance of additional equity securities by us would result in a dilution, possibly a significant dilution, in the equity interests of our current stockholders. Obtaining commercial loans, assuming those loans would be available, will increase our liabilities and future cash commitments.

If we are unable to obtain financing in the amounts and on terms deemed acceptable to us, our business and future success may be adversely affected.

*A decline in the price of our common stock could affect our ability to raise further working capital and adversely impact our operations.*

A prolonged decline in the price of our common stock could result in a reduction in the liquidity of our common stock and a reduction in our ability to raise capital. Because our operations have been primarily financed through the sale of equity securities, a decline in the price of our common stock could be especially detrimental to our liquidity and our continued operations. Any reduction in our ability to raise equity capital in the future would force us to reallocate funds from other planned uses and would have a significant negative effect on our business plans and operations, including our ability to develop new products and continue our current operations. If our stock price declines, there can be no assurance that we can raise additional capital or generate funds from operations sufficient to meet our obligations.

*If we issue additional shares of common stock in the future this may result in dilution to our existing stockholders.*

We are authorized to issue 415,384,500 shares of common stock. Our board of directors has the authority to issue additional shares of common stock up to the authorized capital stated in the certificate of incorporation. Our board of directors may choose to issue some or all of such shares to acquire one or more businesses or to provide additional financing in the future. The issuance of any such shares may result in a reduction of the book value or market price of the outstanding shares of our common stock. If we do issue any such additional shares, such issuance will cause a reduction in the proportionate ownership and voting power of all other stockholders. Further, any such issuance may result in a change of control of our corporation.

*We face larger and better-financed competitors, which may affect our ability to operate our business and achieve profitability.*

Management is aware of similar products which compete directly with our products and some of the companies developing these similar products are larger and better-financed than us and may develop products superior to those of our company. Such competition will potentially affect our chances of achieving profitability, and ultimately adversely affect our ability to continue as a going concern.

*Penny stock rules will limit the ability of our stockholders to sell their shares of common stock.*

The Securities and Exchange Commission has adopted regulations which generally define "penny stock" to be any equity security that has a market price (as defined) less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. Our securities are covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and "accredited investors". The term "accredited investor" refers generally to institutions with assets in excess of \$5,000,000 or individuals with a net worth in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 jointly with their spouse. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the Securities and Exchange Commission which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investor interest in and limit the marketability of our common stock.

*The Sales Practice Requirements of the National Association of Securities Dealers Inc., or NASD, may also limit a stockholder's ability to buy and sell our stock.*

In addition to the "penny stock" rules described above, the NASD has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives and other information. Under interpretations of these rules, the NASD believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. The NASD requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our stock and have an adverse effect on the market for its shares.

*Some of our directors and officers are located outside the United States, with the result that it may be difficult for investors to enforce within the United States any judgments obtained against us or some of our directors or officers.*

Some of our directors and officers are nationals and/or residents of countries other than the United States, and all or a substantial portion of such persons' assets are located outside the United States. As a result, it may be difficult for investors to enforce within the United States any judgments obtained against us or our officers or directors, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof. Consequently, you may be effectively prevented from pursuing remedies under United States federal securities laws against some of our directors or officers.

*We could lose our competitive advantages if we are not able to protect any proprietary technology and intellectual property rights against infringement, and any related litigation could be time-consuming and costly.*

Our success and ability to compete depends to a significant degree on our proprietary technology incorporated in our software. Other than registering the domain names: www.counterpath.com, www.xten.com, www.xten.net, www.myphonebooth.com, www.youread.com, www.roundhead.com, www.sipindex.com, www.xtunnels.org, www.videoblog.com, www.videoblog.net and www.videoblog.info, and applying to register the trademark CounterPath™, eyeBeam™, we have not taken any action to protect our proprietary technology. If any of our competitors' copy or otherwise gain access to our proprietary technology or develop similar technologies independently, we would not be able to compete as effectively. We also consider our service marks, particularly our family of unregistered trademarks including CounterPath, eyeBeam, X-Pro, X-Lite, X-Web, X-Tunnels, X-Look, X-Cipher and X.Net, invaluable to our ability to continue to develop and maintain the goodwill and recognition associated with our brand. The measures we take to protect the proprietary technology software, and other intellectual property rights, which presently are based upon a combination of copyright, trade secret and trademark laws, may not be adequate to prevent their unauthorized use. Further, the laws of foreign countries may provide inadequate protection of such intellectual property rights.

We may need to bring legal claims to enforce or protect such intellectual property rights. Any litigation, whether successful or unsuccessful, could result in substantial costs and diversions of resources. In addition, notwithstanding any rights we have secured in our intellectual property, other persons may bring claims against us that we have infringed on their intellectual property rights, including claims based upon the content we license from third parties or claims that our intellectual property right interests are not valid. Any claims against us, with or without merit, could be time consuming and costly to defend or litigate, divert our attention and resources, result in the loss of goodwill associated with our service marks or require us to make changes to our website or other of our technologies.

*Our products may become obsolete and unmarketable if we are unable to respond adequately to rapidly changing technology and customer demands.*

Our industry is characterized by rapid changes in technology and customer demands. As a result, our products may quickly become obsolete and unmarketable. Our future success will depend on our ability to adapt to technological advances, anticipate customer demands, develop new products and enhance our current products on a timely and cost-effective basis. Further, our products must remain competitive with those of other companies with substantially greater resources. We may experience technical or other difficulties that could delay or prevent the development, introduction or marketing of new products or enhanced versions of existing products. Also, we may not be able to adapt new or enhanced services to emerging industry standards, and our new products may not be favourably received.

*Unless we can establish significant sales of our current products, our potential revenue may be significantly reduced.*

We expect that a substantial portion of our future revenue will be derived from the sale of our software products. We expect that these product offerings and their extensions and derivatives will account for a majority our revenue for the foreseeable future. Broad market acceptance of our VoIP and IP Telephony products is, therefore, critical to our future success and our ability to continue to generate revenue. Failure to achieve broad market acceptance of our software products, as a result of competition, technological change, or otherwise, would significantly harm our business. Our future financial performance will depend primarily on the continued market acceptance of our current software product offerings, and on the development, introduction and market acceptance of any future enhancements. There can be no assurance that we will be successful in marketing our current product offerings or any new product offerings, applications or enhancements, and any failure to do so would significantly harm our business.

### **Item 3. Controls and Procedures.**

As required by Rule 13a-15 under the Exchange Act, we have carried out an evaluation of the effectiveness of the design and operation of our company's disclosure controls and procedures as of the end of the period covered by this quarterly report, being January 31, 2007. This evaluation was carried out under the supervision and with the participation of our company's management, including our company's chief executive officer and chief financial officer. Based upon that evaluation, our company's chief executive officer and chief financial officer concluded that our company's disclosure controls and procedures are effective as at the end of the period covered by this report. There have been no significant changes in our internal controls over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our company's reports filed under the Exchange Act is accumulated and communicated to management, including our company's president as appropriate, to allow timely decisions regarding required disclosure.

## PART II

### Item 1. Legal Proceedings.

Except as set out below, we know of no material, active, or pending legal proceeding against our company, nor are we involved as a plaintiff in any material proceeding or pending litigation where such claims or action involves damages for a value of more than 10% of our assets as of January 31, 2007, or any proceeding in which any of our company's directors, officers, or affiliates, or any registered or beneficial shareholders, is an adverse party or has a material interest advance to our company's interest.

On February 17, 2006, Eyeball Networks Inc., filed a statement of claim in the Supreme Court of British Columbia (Action No. S-061080, Vancouver Registry) against our company, Mr. Mark Bruk, and two employees, alleging breach of (i) confidentiality, and (ii) previous employment agreements between the two employees (Dr. Joseph Vass and Mark Klagenberg) and Eyeball. Eyeball is seeking an injunction requiring our company, Mr. Bruk, and the two employees, to deliver to Eyeball any confidential information they have in their possession, power or control relating to Eyeball and its business, restraining our company from developing, manufacturing or marketing power meters, although we do not currently develop, manufacture or market power meters. Among other things, Eyeball is claiming general, punitive and aggravated damages of unspecified amounts. Management of our company has filed a Statement of Defence denying all allegations, and strongly believes that any allegations made by Eyeball in connection with our company's current business operations are without foundation or merit. We intend to continue to vigorously defend these proceedings.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

### Item 3. Defaults Upon Senior Securities.

None.

### Item 4. Submission of Matters to a Vote of Security Holders.

None.

### Item 5. Other Information.

None.

### Item 6. Exhibits.

*Exhibits Required by Item 601 of Regulation S-B*

#### (3) Articles of Incorporation and By-laws

- 3.1 Articles of Incorporation (incorporated by reference from our Registration Statement on Form SB-2 filed on July 16, 2003).
- 3.2 Bylaws (incorporated by reference from our Registration Statement on Form SB-2 filed on July 16, 2003).
- 3.3 Amended Bylaws (incorporated by reference from our Registration Statement on Form SB-2/A filed on September 3, 2003).
- 3.4 Articles of Merger (incorporated by reference from our Current Report on Form 8-K filed on September 15, 2005).

3.5 Amended Bylaws (incorporated by reference from our Current Report on Form 8-K filed on April 28, 2006).

**(4) Instruments defining the rights of security holders, including indentures**

4.1 2004 Stock Option Plan effective May 18, 2004 (incorporated by reference from our Registration Statement on Form S-8 filed on June 14, 2005).

4.2 Form of Stock Option Agreement for 2004 Stock Option Plan (incorporated by reference from our Registration Statement on Form S-8 filed on June 14, 2005).

4.3 2005 Stock Option Plan effective March 4, 2005 (incorporated by reference from our Registration Statement on Form S-8 filed on June 14, 2005).

4.4 Form of Stock Option Agreement for 2005 Stock Option Plan (incorporated by reference from our Registration Statement on Form S-8 filed on June 14, 2005).

4.5 Form of Amended & Restated Stock Option and Subscription Agreement (Canadian) (incorporated by reference from our Current Report on Form 8-K filed On October 14, 2005).

4.6 Form of Amended & Restated Stock Option and Subscription Agreement (US) (incorporated by reference from our Current Report on Form 8-K filed On October 14, 2005).

**(10) Material Contracts**

10.1 Domain Name Assignment Agreement, dated May 2, 2003, between Broad Scope Enterprises, Inc. and Hon Kit Ng (incorporated by reference from our Registration Statement on Form SB-2 filed on July 16, 2003).

10.2 Subscription Agreement, dated April 20, 2003, between Broad Scope Enterprises Inc. and Hon Kit Ng (incorporated by reference from our Registration Statement on Form SB-2 filed on July 16, 2003).

10.3 Subscription Agreement, dated May 1, 2003, between Broad Scope Enterprises Inc. and Hon Kit Ng (incorporated by reference from our Registration Statement on Form SB-2 filed on July 16, 2003).

10.4 Subscription Agreement, dated May 2, 2003, between Broad Scope Enterprises Inc. and Simon Au (incorporated by reference from our Registration Statement on Form SB-2 filed on July 16, 2003).

10.5 Form of Subscription Agreement between Broad Scope Enterprises Inc. and various private placement placees (incorporated by reference from our Registration Statement on Form SB-2 filed on July 16, 2003).

10.6 Agreement and Plan of Merger among Broad Scope Enterprises Inc., Xten Networks, Inc., Broad Scope Acquisition Corp. and Mark Bruk (incorporated by reference from our Current Report on Form 8-K filed on May 10, 2004).

10.7 Agreement and Plan of Merger between Broad Scope Enterprises Inc. and Xten Networks, Inc. (incorporated by reference from our Current Report on Form 8-K filed on May 10, 2004).

10.8 Software Development Agreement between Xten Networks, Inc. (formerly Evove, Inc.) and Xten Networks (Canada) Inc. (formerly Xten Networks Inc.) (incorporated by reference from our Current Report on Form 8-K filed on May 10, 2004).

10.9 Debt Settlement and Subscription Agreement dated April 19, 2005 between Xten Networks, Inc. and Steven Bruk (incorporated by reference from our Annual Report on Form 10-KSB filed on July 29, 2005).

10.10 Employment Agreement dated June 16, 2005 between Xten Networks R&D Inc. and Larry Timlick (incorporated by reference from our Annual Report on Form 10-KSB filed on July 29, 2005).

- 10.11 Settlement Agreement and Release dated June 29, 2005 between Xtend Communications Corp. and Xten Networks, Inc. (incorporated by reference from our Annual Report on Form 10-KSB filed on July 29, 2005).
- 10.12 Form of Amendment to Stock Option and Subscription Agreement (incorporated by reference from our Current Report on Form 8-K filed on January 17, 2006).
- 10.13 Form of Stock Option and Subscription Agreement for U.S. Persons (incorporated by reference from our Current Report on Form 8-K filed on January 17, 2006).
- 10.14 Form of Stock Option and Subscription Agreement for Non-U.S. Persons (incorporated by reference from our Current Report on Form 8-K filed on January 17, 2006).
- 10.15 Employment Agreement between CounterPath Solutions, Inc. and Jason Fischl dated August 29, 2005 (incorporated by reference from our Annual Report on Form 10-KSB filed on July 31, 2006).
- 10.16 Employment Agreement between CounterPath Solutions, Inc. and Donovan Jones dated June 1, 2005 (incorporated by reference from our Annual Report on Form 10-KSB filed on July 31, 2006).
- 10.17 Employment Agreement between CounterPath Solutions, Inc. and David Karp dated September 11, 2006 (incorporated by reference from our Quarterly Report on Form 10-QSB filed on September 14, 2006).
- 10.18 Form of Subscription Agreement dated November 30, 2006, between our company and various investors (incorporated by reference from our Current Report on Form 8-K filed on December 7, 2006).
- 10.19 Form of Subscription Agreement dated November 30, 2006, between our company and KMB Trac Two Holdings Ltd (incorporated by reference from our Current Report on Form 8-K filed on December 7, 2006).
- 10.20 Form of Convertible Note dated November 30, 2006 (incorporated by reference from our Current Report on Form 8-K filed on December 7, 2006).
- 10.21 Form of Warrant Certificate dated November 30, 2006 (incorporated by reference from our Current Report on Form 8-K filed on December 7, 2006).
- 10.22 Ammended Employment Agreement between Donovan Jones and CounterPath Solutions R&D Inc., a wholly owned subsidiary of CounterPath Solutions, Inc. dated January 1, 2007.
- 10.23 Employment Agreement between Mark Bruk and CounterPath Solutions R&D Inc., a wholly owned subsidiary of CounterPath Solutions, Inc. dated March 8, 2007.

**(21) Subsidiaries of CounterPath Solutions, Inc.**

CounterPath Solutions R&D Inc. (incorporated in the Province of British Columbia, Canada)

**(31) Section 302 Certification**

- 31.1 Section 302 Certification of Chief Executive Officer.
- 31.2 Section 302 Certification of Chief Financial Officer.

**(32) Section 906 Certification**

- 32.1 Section 906 Certification of Chief Executive Officer.
- 32.2 Section 906 Certification of Chief Financial Officer.

## SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### COUNTERPATH SOLUTIONS, INC.

By: /s/ Mark Bruk  
Mark Bruk, Chairman  
Chief Executive Officer & Director  
Date: March 9, 2007

By: /s/ David Karp  
David Karp  
Chief Financial Officer, Secretary & Treasurer  
Date: March 9, 2007