

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-QSB

(Mark One)

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

For the quarterly period ended January 31, 2006

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

For the transition period from _____ to _____

Commission file number 000-50346

COUNTERPATH SOLUTIONS, INC.

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

Nevada

20-0004161

(State or other jurisdiction of incorporation or organization)

(IRS Employer Identification No.)

8th Floor, 100 West Pender Street, Vancouver, British Columbia, Canada V6B 1R8

(Address of principal executive offices)

604.320.3344

(Issuer's telephone number)

Not Applicable

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

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

37,915,462 common shares issued and outstanding as of March 13, 2006.

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

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

Item 1. Financial Statements.

PART I - FINANCIAL INFORMATION
COUNTERPATH SOLUTIONS, INC.

(formerly Xten Networks, Inc.)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2006

(Stated in US Dollars)

(Unaudited)

COUNTERPATH SOLUTIONS, INC.
(formerly Xten Networks, Inc.)
INTERIM CONSOLIDATED BALANCE SHEETS
January 31, 2006 and April 30, 2005
(Stated in US Dollars)
(Unaudited)

	January 31, <u>2006</u>	April 30, <u>2005</u>
<u>ASSETS</u>		
Current		
Cash	\$2,871,396	\$1,244,906
Accounts receivable	412,276	347,163
Prepaid expenses and deposits	87,710	41,713
	3,371,382	1,633,782
Equipment	293,870	266,403
Deposits	-	6,510
Trademarks	8,001	1,780
	\$3,673,253	\$1,908,475
<u>LIABILITIES</u>		
Current		
Accounts payable and accrued liabilities	\$640,627	\$301,635
Due to related parties – Note 5	15,217	26,130
Advances payable	2,000	2,000
Unearned revenue	224,900	66,400
Customer deposits	63,477	88,000
Warranty payable	64,428	58,394
	1,010,649	542,559
Convertible debenture – Note 6	2,000,000	-
	3,010,649	542,559
<u>STOCKHOLDERS' EQUITY</u>		
Common stock, \$0.001 par value – Notes 7, 10 and 11		
415,384,500 shares authorized		
37,915,462 shares issued (April 30, 2005: 37,915,462)	37,915	37,915
Additional paid-in capital – Note 7	2,714,290	2,403,855
Deficit	(2,033,405)	(1,035,936)
Accumulated other comprehensive loss	(56,196)	(39,918)
	662,604	1,365,916
	\$3,673,253	\$1,908,475

SEE ACCOMPANYING NOTES

COUNTERPATH SOLUTIONS, INC.
(formerly Xten Networks, Inc.)
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
for the three and nine months ended January 31, 2006 and 2005
(Stated in US Dollars)
(Unaudited)

	Three months ended January 31,		Nine months ended January 31,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues				
Software sales	\$1,033,610	\$838,163	\$2,475,452	\$1,958,432
Consulting fees	204,322	90,445	675,877	134,691
	<hr/>	<hr/>	<hr/>	<hr/>
	1,237,932	928,608	3,151,329	2,093,123
Expenses				
Amortization	64,602	30,425	174,448	71,363
Bad debts (recovery)	8,324	(6,140)	2,497	1,660
Computer expenses	2,968	2,792	7,669	5,079
Consulting fees	171,781	126,880	372,795	272,521
Finance fees – Note 6	147,500	-	147,500	-
Foreign exchange loss	1,866	14,391	9,092	2,201
Gain on forgiveness of debt	-	(10,895)	-	(10,895)
Interest on convertible debenture – Notes 5 and 6	13,333	-	13,333	-
Lawsuit settlement	-	-	5,097	-
Licenses and permits	70,462	657	101,888	85,712
Office and miscellaneous	28,403	35,545	64,953	87,873
Professional fees	29,854	14,810	172,981	64,559
Public relations	11,488	35,616	37,558	74,570
Rent – Note 5	51,698	33,726	149,114	69,657
Stock-based compensation	46,537	25,100	162,935	77,967
Telephone and internet	23,704	24,359	63,691	34,963
Travel and promotion	51,435	46,526	226,321	198,432
Wages, commissions and benefits – Note 5	941,913	620,661	2,430,298	1,500,427
Warranty expense	1,004	22,982	6,034	43,793
Write-off of trademark	-	-	594	-
	<hr/>	<hr/>	<hr/>	<hr/>
	1,666,872	1,017,435	4,148,798	2,579,882
Loss from continuing operations	(428,940)	(88,827)	(997,469)	(486,759)
Income from discontinued operations				
Gain on disposal of subsidiary – Note 4	-	-	-	8,524
	<hr/>	<hr/>	<hr/>	<hr/>
Net loss for the period	(428,940)	(88,827)	(997,469)	(478,235)
Other comprehensive loss:				
Foreign currency adjustments	(10,643)	(16,650)	(16,278)	(36,392)
	<hr/>	<hr/>	<hr/>	<hr/>
Comprehensive loss	\$(439,583)	\$(105,477)	\$(1,013,747)	\$(514,627)
Basic and diluted loss per share – continuing Operations	<hr/>	<hr/>	<hr/>	<hr/>
	\$(0.01)	\$(0.00)	\$(0.03)	\$(0.01)
Basic and diluted income per share discontinued operations	<hr/>	<hr/>	<hr/>	<hr/>
	\$0.00	\$0.00	\$0.00	\$0.00
Weighted average number of shares outstanding	<hr/>	<hr/>	<hr/>	<hr/>
	37,915,462	37,638,462	37,915,462	37,330,491

SEE ACCOMPANYING NOTES

COUNTERPATH SOLUTIONS, INC.
(formerly Xten Networks, Inc.)
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
for the nine months ended January 31, 2006 and 2005
(Stated in US Dollars)
(Unaudited)

	<u>2006</u>	<u>2005</u>
Cash flows used in operating activities		
Net loss for the period	\$(997,469)	\$(478,235)
Items not involving cash:		
Amortization	174,448	71,363
Gain on forgiveness of debt	-	(10,895)
Gain on disposal of subsidiary	-	(8,524)
Stock based compensation	162,935	77,967
Finance fees	147,500	-
Write-off of trademark	594	-
Changes in non-cash working capital items:		
Accounts receivable	(63,950)	(74,397)
Prepaid expenses and deposits	(38,717)	(40,657)
Accounts payable and accrued liabilities	315,880	254,297
Unearned revenue	158,500	46,170
Customer deposits	(24,523)	103,000
Warranty payable	6,034	43,793
	<u>(158,768)</u>	<u>(16,118)</u>
Cash flows from financing activities		
Common stock issued	-	1,000,000
Convertible debenture	2,000,000	-
Advances payable	-	13,060
Decrease in due to related parties	(11,652)	(52,566)
	<u>1,988,348</u>	<u>960,494</u>
Cash flows used in investing activities		
Purchase of equipment	(201,915)	(265,613)
Trademark costs	(6,815)	(335)
	<u>(208,730)</u>	<u>(265,948)</u>
Increase in cash from continuing operations	1,620,850	677,533
Increase in cash from discontinued operations	-	1,724
Foreign currency translation effect on cash	5,640	(37,287)
Increase in cash during the period	1,626,490	642,865
Cash, beginning of the period	1,244,906	944,285
Cash, end of the period	<u>\$2,871,396</u>	<u>\$1,587,150</u>
Supplemental disclosure of cash flow information		
Cash paid for:		
Interest	\$8,333	\$-
Income taxes	\$-	\$-

SEE ACCOMPANYING NOTES

COUNTERPATH SOLUTIONS, INC.
(formerly Xten Networks, Inc.)
INTERIM CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY
for the period from April 30, 2004 to January 31, 2006
(Stated in US Dollars)
(Unaudited)

	<u>Number of Shares</u>	<u>Par Value</u>	<u>Additional Paid-in Capital</u>	<u>Deficit</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total</u>
Balance, April 30, 2004	37,138,462	\$37,138	\$951,895	\$(255,528)	\$-	\$733,505
Shares issued for cash on the exercise of warrants						
- at \$2.00	500,000	500	999,500	-	-	1,000,000
Shares issued for debt						
- at \$1.00	290,000	290	289,710	-	-	290,000
Shares cancelled						
- at \$0.001	(13,000)	(13)	-	-	-	(13)
Stock-based compensation	-	-	162,750	-	-	162,750
Net loss for the year	-	-	-	(780,408)	-	(780,408)
Other comprehensive loss for the year	-	-	-	-	(39,918)	(39,918)
Balance, April 30, 2005	37,915,462	37,915	2,403,855	(1,035,936)	(39,918)	1,365,916
Stock-based compensation	-	-	162,935	-	-	162,935
Finance fees	-	-	147,500	-	-	147,500
Net loss for the period	-	-	-	(997,469)	-	(997,469)
Other comprehensive loss for the period	-	-	-	-	(16,278)	(16,278)
Balance, January 31, 2006	37,915,462	\$37,915	\$2,714,290	\$(2,033,405)	\$(56,196)	\$662,604

SEE ACCOMPANYING NOTES

COUNTERPATH SOLUTIONS, INC.
(formerly Xten Networks, Inc.)
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
January 31, 2006
(Stated in US Dollars)
(Unaudited)

Note 1 Interim Reporting

While the information presented in the accompanying interim nine months consolidated financial statements is unaudited, it includes 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. These interim financial statements follow the same accounting policies and methods of their application as the Company's April 30, 2005 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, 2005 annual financial statements.

Operating results for the nine months ended January 31, 2006 are not necessarily indicative of the results that can be expected for the year ended April 30, 2006.

Note 2 Nature of Operations

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

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

Note 3 Significant Accounting Policies

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

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.

Note 3 Significant Accounting Policies – (cont'd)

Pursuant to an Agreement and Plan of Merger dated August 26, 2005, the Company and a wholly-owned subsidiary, Ineen, Inc. were merged, with the Company being the surviving entity. This transaction was effective September 16, 2005 and had no effect on the Company's consolidated financial statements. In conjunction with the merger, the Company changed its name to CounterPath Solutions, Inc.

b) Revenue Recognition

The Company receives revenues consisting of software sales and consulting fees. The Company recognizes revenues when persuasive evidence of an arrangement exists, the product is delivered or the services are rendered and collection is reasonably assured. A one-year warranty on software products is provided by the Company. The Company records a warranty provision in the amount of 2% of software sales, which is amortized over a 12-month term. The Company has also set up unearned revenue on software sales to compensate for the cost of providing support services to customers. The Company recognizes this deferred revenue evenly over a twelve month period from the date of the sale. The Company will review these policies annually.

c) Stock-based Compensation

The Company has elected to apply the intrinsic value method of APB No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations in accounting for its stock options on options granted to employees and directors. Under APB 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. Stock-based compensation for employees is recognized on an accelerated basis over the vesting period of the individual options. Stock options granted to non-employees are accounted for under Statement of Financial Accounting Standards ("FAS") No. 123 "Accounting for Stock-Based Compensation" 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. Pro forma fair value information with respect to options granted to employees and directors is disclosed in accordance with FAS 123.

d) Foreign Currency Translation

The Company's wholly-owned subsidiary, CounterPath Solutions R&D Inc., translates amounts from its functional currency, Canadian dollars, to the reporting currency, United States dollars, in accordance with FAS No. 52, "Foreign Currency Translation". At each balance sheet date, recorded balances that are denominated in a currency other than US dollars are adjusted to reflect the current exchange rate which may give rise to a foreign currency translation adjustment accounted for as a separate component of stockholders' deficiency and included in comprehensive loss.

Monetary assets and liabilities are translated into the functional currency at the exchange rate in effect at the end of the period. Non-monetary assets and liabilities are translated at the exchange rate prevailing when the assets were acquired or the liabilities assumed. Revenues and expenses are translated at the rate approximating the rate of exchange on the transaction date. All exchange gains and losses are included in the determination of net loss for the year.

Note 3 Significant Accounting Policies – (cont'd)

e) Comprehensive Loss

The Company has adopted FAS No. 130 “Reporting Comprehensive Income”. Comprehensive loss is comprised of foreign currency translation adjustments.

f) New Accounting Standards

In December 2004, the Financial Accounting Standards Board issued FAS 123R “Share-Based Payment”, a revision to FAS 123. FAS 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 grant-date fair value of those instruments, with limited exceptions. FAS 123R also affects the pattern in which compensation cost is recognized, the accounting for employee share purchase plans, and the accounting for income tax effects of share-based payment transactions. For small business filers, FAS 123R will be effective for interim or annual periods beginning after December 15, 2005. Early adoption is permitted in periods in which financial statements have not yet been issued. The Company expects to adopt FAS 123R on May 1, 2006. As permitted by FAS 123, the Company currently accounts for share-based payments to employees using APB 25’s intrinsic value method. Accordingly, the adoption of FAS 123R’s fair value method will have a significant impact on the statement of operations, although it will have no impact on the overall financial position. The impact of adoption of FAS 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had the Company adopted FAS 123R in prior periods, the impact of that standard would have approximated the impact of FAS 123 as described in the disclosure of pro forma net income and earnings per share in Note 8 to the consolidated financial statements.

Note 4 Discontinued Operations

During the nine months ended January 31, 2005, the Company disposed of its wholly-owned subsidiary, Broad Scope Entertainment, Inc. (“Broad Scope”) to a former director of the Company in consideration of Broad Scope forgiving all amounts owed by the Company.

The gain on disposal was determined as follows:

Net asset deficiency of Broad Scope:

Cash	\$6,391
Equipment	4,000
Accounts payable	(2,021)
Due to related parties	(16,894)
	<hr/>
	\$(8,524)

Broad Scope had no operations from May 1, 2004 to the date of disposal. Broad Scope advanced the Company \$1,724 during the period from May 1, 2004 to the date of disposal.

Note 5 Related Party Transactions – Notes 4 and 7

During the three and nine months ended January 31, 2006 and 2005, the Company was charged the following expenses by directors of the Company or by companies with directors of the Company in common:

	Three months ended January 31,		Nine months ended January 31,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Interest on convertible debenture	\$13,333	\$-	\$13,333	\$-
Rent	-	-	18,777	15,334
Wages, commissions and benefits	40,004	81,295	231,580	209,918
	<u>\$53,337</u>	<u>\$81,295</u>	<u>\$263,690</u>	<u>\$225,252</u>

These charges were measured by the exchange amount which is the amount agreed upon by the transacting parties.

The amounts due to related parties are unsecured, non-interest bearing and have no specific terms of repayment. The amounts due to related parties are advances and rent due to directors of the Company and to a company with directors of the Company in common.

Note 6 Convertible Debenture

On December 13, 2005, the Company completed the sale 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 is unsecured, bears 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 matures on November 21, 2007. The debenture is senior to the Company's other existing and future indebtedness as long as 25% of the principal amount is outstanding. The Company can prepay the outstanding principal and accrued interest at any time with the consent of the investor. The investor may convert the debenture and accrued interest 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. The Company is currently paying interest monthly on the debenture.

Included with the sale 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. The Company used the Black Scholes option pricing model to determine the fair value of these warrants. The fair value of these warrants is \$147,500, which was recorded during the nine months ended January 31, 2006.

Note 7 Common Stock – Notes 10 and 11

During the year ended April 30, 2005:

- a) The Company issued 500,000 common shares at \$2.00 per share for cash proceeds of \$1,000,000 pursuant to the exercise of share purchase warrants.
- b) The Company issued 290,000 common shares at \$1.00 per share pursuant to a debt settlement agreement with a significant shareholder of the Company.

Note 7 Common Stock – Notes 10 and 11 (continued)

Commitments:

Stock Purchase Options

The Company has a stock-based compensation plan whereby stock options are granted in accordance with the policies of regulatory authorities at an exercise price equal to the market price of the Company's stock on the date of the grant. A summary of the status of the plan is as follows:

	<u>Number</u>	<u>Weighted Average Exercise Price</u>
Balance, April 30, 2004	-	-
Granted – Employees ⁽¹⁾	800,000	\$1.50
Cancelled – Employees ⁽¹⁾	(125,000)	\$1.50
Granted – Consultants ⁽²⁾	100,000	\$1.87
Granted – Employees ⁽³⁾	350,000	\$1.80
Cancelled – Employees ⁽³⁾	(350,000)	\$1.80
Granted – Consultants ⁽⁴⁾	150,000	\$1.58
Granted – Employees ⁽⁵⁾	900,000	\$1.58
Cancelled – Employees ⁽⁵⁾	(300,000)	\$1.58
Granted – Employees ⁽⁶⁾	495,000	\$1.06
Cancelled – Employees ⁽⁶⁾	(50,000)	\$1.06
Granted – Employees ⁽⁷⁾	60,000	\$1.15
Granted – Employees ⁽⁸⁾	115,000	\$1.10
Granted – Employees ⁽⁹⁾	380,000	\$1.06
Granted – Consultants ⁽¹⁰⁾	175,000	\$1.17
Granted – Employees ⁽¹¹⁾	20,000	\$1.18
Granted – Consultants ⁽¹²⁾	150,000	\$1.07
	<hr/>	
Balance, April 30, 2005	2,870,000	\$1.34
Granted – Employees ⁽¹³⁾	1,082,659	\$0.70
Granted – Consultants ⁽¹⁴⁾	33,333	\$0.70
Cancelled – Consultants ⁽¹⁴⁾	(33,333)	\$0.70
Granted – Employees ⁽¹⁵⁾	500,000	\$0.72
Granted – Consultants ⁽¹⁶⁾	75,000	\$0.67
Granted – Employees ⁽¹⁷⁾	1,500,000	\$0.74
Cancelled – Employees ⁽¹⁷⁾	(1,500,000)	\$0.74
Granted – Consultants ⁽¹⁸⁾	50,000	\$0.39
Granted – Employees ⁽¹⁹⁾	1,200,000	\$0.61
Granted – Employees ⁽²⁰⁾	510,000	\$0.39
Cancelled – Employees ^(1,5,6,7,8,9,11,13,15,19,20)	(5,187,659)	\$0.96
Granted – Consultants ⁽²¹⁾	170,000	\$0.39
Granted – Employees ⁽²²⁾	6,940,000	\$0.39
Granted – Employees ⁽²³⁾	250,000	\$0.39
Granted – Employees ⁽²⁴⁾	2,085,000	\$0.39
	<hr/>	
Balance, January 31, 2006	<u>10,545,000</u>	<u>\$0.45</u>

⁽¹⁾ During the nine months ended January 31, 2006, 675,000 employee stock options exercisable at \$1.50 per share were cancelled.

Note 7 Common Stock – Notes 10 and 11 (continued)

Commitments:

Stock Purchase Options

- (2) At January 31, 2006, there were 100,000 consultant stock options outstanding entitling the holder thereof the right to purchase one common share for each option held at \$1.87 per share. These options expire on July 21, 2009.

At January 31, 2006, 80,000 of these options have vested with the balance vesting on June 30, 2006. The Company has recorded a stock-based compensation charge of \$69,167 in respect to these options.

- (3) During the year ended April 30, 2005, 350,000 employee stock options exercisable at \$1.80 per share were cancelled.
- (4) At January 31, 2006, there were 150,000 consultant stock options outstanding entitling the holder thereof the right to purchase one common share for each option held at \$1.58 per share. These options expire on October 24, 2009.

At January 31, 2006, 105,000 of these options have vested with the balance vesting as follows: 15,000 on March 31, 2006, 15,000 on June 30, 2006, and 15,000 on September 30, 2006. The Company has recorded a stock-based compensation charge of \$92,400 in respect to these options.

- (5) During the nine months ended January 31, 2006, 600,000 employee stock options exercisable at \$1.58 per share were cancelled.
- (6) During the nine months ended January 31, 2006, 445,000 employee stock options exercisable at \$1.06 per share were cancelled.
- (7) During the nine months ended January 31, 2006, 60,000 employee stock options exercisable at \$1.15 per share were cancelled.
- (8) During the nine months ended January 31, 2006, 115,000 employee stock options exercisable at \$1.10 per share were cancelled.
- (9) During the nine months ended January 31, 2006, 380,000 employee stock options exercisable at \$1.06 per share were cancelled.
- (10) At January 31, 2006, there were 175,000 consultant stock options outstanding entitling the holder thereof the right to purchase one common share for each option held at \$1.17 per share. These options expire on February 28, 2010.

At January 31, 2006, 105,000 of these options had vested with the balance vesting as follows: 17,500 on March 31, 2006, 17,500 on June 30, 2006, 17,500 on September 30, 2006 and 17,500 on December 31, 2006. The Company has recorded a stock-based compensation charge of \$74,258 in respect to these options.

- (11) During the nine months ended January 31, 2006, 20,000 employee stock options exercisable at \$1.18 per share were cancelled.

Note 7 Common Stock – Notes 10 and 11 – (cont'd)

Commitments: – (cont'd)

Stock Purchase Options – (cont'd)

- (12) At January 31, 2006, there were 150,000 consultant stock options outstanding entitling the holder thereof the right to purchase one common share for each option held at \$1.07 per share. These options expire on March 29, 2010.

At January 31, 2006, 75,000 of these options had vested with the balance vesting as follows: 15,000 on February 28, 2006, 15,000 on May 31, 2006, 15,000 on August 31, 2006, 15,000 on November 30, 2006 and 15,000 on February 28, 2007. The Company has recorded a stock-based compensation charge of \$52,700 in respect to these options.

- (13) During the nine months ended January 31, 2006, 1,082,659 employee stock options exercisable at \$0.70 per share were cancelled.
- (14) During the nine months ended January 31, 2006, 33,333 consultant stock options exercisable at \$0.70 per share were cancelled.

The Company has recorded a stock-based compensation charge of \$1,408 in respect to these options.

- (15) During the nine months ended January 31, 2006, 500,000 employee stock options exercisable at \$0.72 per share were cancelled.
- (16) At January 31, 2006, there were 75,000 consultant stock options outstanding entitling the holder thereof the right to purchase one common share for each option held at \$0.67 per share. These options expire on June 13, 2010.

These options vested 50,000 on June 13, 2005 and 25,000 on July 1, 2005. The Company has recorded a stock-based compensation charge of \$29,925 in respect to these options.

- (17) During the nine months ended January 31, 2006, 1,500,000 employee stock options exercisable at \$0.74 per share were cancelled.
- (18) At January 31, 2006, there were 50,000 consultant stock options outstanding entitling the holder thereof the right to purchase one common share for each option held at \$0.39 per share. These options were originally granted at \$0.61 per share but were re-priced during the quarter ended January 31, 2006. These options expire on September 12, 2010.

These options vest over four years, 1/48th each month until September 12, 2009. The Company has recorded a stock-based compensation charge of \$1,873 in respect to these options.

Note 7 Common Stock – Notes 10 and 11 – (cont'd)

Commitments: – (cont'd)

Stock Purchase Options – (cont'd)

⁽¹⁹⁾ On August 29, 2005, the Company granted 1,200,000 employee stock options entitling the holders thereof the right to purchase one common share for each option held at \$0.61 per share. On October 10, 2005, these options were cancelled.

⁽²⁰⁾ On September 7, 2005, the Company granted 510,000 employee and director stock options exercisable at \$0.61 per share. On October 10, 2005, the 110,000 employee options were cancelled. On January 10, 2006, the remaining 400,000 options were re-priced to \$0.39 per share.

At January 31, 2006, there were 400,000 director stock options outstanding entitling the holders thereof the right to purchase one common share for each option held at \$0.39 per share. These options expire on September 7, 2010.

These options vest over four years with 25% of the options vesting on September 7, 2006 and the remaining 75% vesting 1/36th each month until September 7, 2009.

⁽²¹⁾ At January 31, 2006, there were 170,000 consultant stock options outstanding entitling the holder thereof the right to purchase one common share for each option held at \$0.39 per share. These options expire on October 10, 2015.

These options vest over four years, 12.5% after six months with the remaining 87.5% vesting 1/42nd each month until October 10, 2009. The Company has recorded a stock-based compensation charge of \$3,954 in respect to these options.

⁽²²⁾ At January 31, 2006, there were 6,940,000 employee stock options outstanding entitling the holder thereof the right to purchase one common share for each option held at \$0.39 per share. These options expire on October 10, 2015.

These options vest over four years, 12.5% after six months with the remaining 87.5% vesting 1/42nd each month until October 10, 2009.

⁽²³⁾ On December 12, 2005, the Company granted 250,000 employee stock options entitling the holders thereof the right to purchase one common share for each option held at \$0.39 per share. These options expire on December 12, 2015.

These options vest over four years, 12.5% after six months with the remaining 87.5% vesting 1/42nd each month until December 12, 2009.

⁽²⁴⁾ On January 10, 2006, the Company granted 2,085,000 employee and director stock options entitling the holders thereof the right to purchase one common share for each option held at \$0.39 per share. These options expire on January 10, 2016.

Note 7 Common Stock – Notes 10 and 11 – (cont'd)

Commitments: – (cont'd)

Stock Purchase Options – (cont'd)

⁽²⁴⁾ 390,000 of these options vest over four years, 12.5% after six months with the remaining 87.5% vesting 1/42nd each month until January 10, 2010.

1,695,000 of these options vest over four years, 25% after one year with the remaining 75% vesting 1/36th each month until January 10, 2010.

The Company does not record compensation expense on granting of stock options to employees or directors. Disclosure of pro forma loss and loss per share figures had the Company elected to follow the fair value method for employees for the three and nine months ended January 31, 2006 and 2005 are as follows:

	Three months ended January 31,		Nine months ended January 31,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Comprehensive loss as reported	\$ (439,583)	\$ (105,477)	\$ (1,013,747)	\$ (514,627)
Stock-based compensation	(151,748)	(95,607)	(427,725)	(167,895)
Pro forma loss	<u>\$ (591,331)</u>	<u>\$ (201,084)</u>	<u>\$ (1,441,472)</u>	<u>\$ (682,522)</u>
Pro forma basic and diluted loss per share	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>	<u>\$ (0.02)</u>

The fair value of the share purchase options outstanding at January 31, 2006 and April 30, 2005 was determined using the Company's historical stock prices and the Black-Scholes option pricing model with the following assumptions:

	January 31, <u>2006</u>	April 30, <u>2005</u>
Risk free rate	4.2%	2.0%
Dividend yield	0%	0%
Weighted average expected volatility	73.1%	58.3%
Weighted average expected option life	9.5 yrs	5 yrs
Weighted average fair value	\$0.33	\$0.68
Total options outstanding	10,545,000	2,870,000
Total fair value of options outstanding	\$3,460,700	\$1,943,750

Note 7 Common Stock – Notes 10 and 11 – (cont'd)

Commitments: – (cont'd)

Share Purchase Warrants

At January 31, 2006, there were 2,500,000 share purchase warrants outstanding entitling the holder to purchase one common share for each warrant held at \$0.80 per share until November 21, 2007.

Note 8 Segmented Information

Revenues by geographic segment are as follows:

	Three months ended January 31,		Nine months ended January 31,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
North America	\$695,736	\$697,133	\$2,083,113	\$904,901
South America	222,755	-	403,941	36,400
Europe	206,232	159,275	350,444	688,175
Asia	4,708	72,200	47,091	428,576
Other	108,501	-	266,740	35,071
	<u>\$1,237,932</u>	<u>\$928,608</u>	<u>\$3,151,329</u>	<u>\$2,093,123</u>

During the nine months ended January 31, 2005, four customers accounted for 74.5 % of revenues.

During the nine months ended January 31, 2006, four customers accounted for 35.7 % of revenues.

Note 9 Lease Commitments

The Company entered into three leases for office premises, which all expire on December 31, 2006 and require payments totalling \$181,405 to December 31, 2006.

Note 10 Employment Contract

On June 16, 2005, the Company entered into an employment contract with the former President of the Company to pay him an annual salary of CDN\$225,000 (US\$187,673). On September 7, 2005, the President resigned and the Company paid a severance payment in accordance with the terms of the employment contract, of CDN\$37,500 (US\$31,279). In addition, 1,500,000 (Note 7⁽¹⁷⁾) employee share purchase options were cancelled.

Note 11 Subsequent Events

- a) On February 1, 2006, the Company granted 200,000 employee stock options entitling the holders thereof the right to purchase one common share for each option held at \$0.39 per share. These options expire on February 1, 2016.

These options vest over four years, 12.5% after six months with the remaining 87.5% vesting 1/42nd each month until February 1, 2010.

- b) 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.

- c) On February 20, 2006, the Company granted 250,000 employee stock options entitling the holders thereof the right to purchase one common share for each option held at \$0.56 per share. These options expire on February 20, 2016.

These options vest over four years, 12.5% after six months with the remaining 87.5% vesting 1/42nd each month until February 20, 2010.

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

FORWARD-LOOKING STATEMENTS

This quarterly report contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These statements relate to future events or our future financial performance. 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. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled “Risk Factors”, that may cause our company’s or our industry’s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. 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.

In this quarterly report, unless otherwise specified, all dollar amounts are expressed in United States dollars and all references to “common shares” refer to our shares of common stock.

As used in this quarterly report, the terms “we”, “us” and “our” mean CounterPath Solutions, Inc., unless otherwise indicated.

Overview of Corporate History

We were incorporated under the laws of the State of Nevada on April 18, 2003. Until we acquired, by way of a merger, all of the shares of Xten Networks, a private Nevada company, the previous management, who resigned and were replaced as a result of the merger, were focused on operating an entertainment advertising website.

Effective April 30, 2004, we acquired, by way of a merger, all of the shares of Xten Networks, 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 our wholly-owned subsidiary, Ineen, Inc. whereby Ineen would merge with our company, with our company carrying on as the surviving corporation. The merger was completed effective September 16, 2005 and our company changed its name to CounterPath Solutions, Inc.

Business of CounterPath

We design, develop and market software, based upon session initiation protocol (SIP), which is used to make or receive phone calls from a computer (or softphone) running the Windows 2000, Windows XP, Mac OS X or Linux operating systems, or a personal digital assistant (PDA) running the Windows Mobile Pocket PC operating system. Using our software, in conjunction with an internet protocol (IP) telephony service, based upon session initiation protocol (SIP), people can make and receive calls to or from a telephone to any of these devices (personal computers and personal digital assistants).

We are a provider of high-quality session initiation protocol (SIP) software for IP telephony (otherwise known as Voice-over-IP or VoIP), which is a general term for the technologies that use the internet protocol's packet-switched connections to exchange 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). Using the internet, calls travel as packets of data on shared lines, avoiding the tolls of the public switched telephone network (PSTN).

On September 13, 2004, we launched version 1.0 of our fourth and most recent IP telephony product, eyeBeam, a video session initiation protocol (SIP) softphone. eyeBeam supports open standards video utilizing session initiation protocol (SIP) and the H.263 video codec, which supports video transmissions that are television-like in their quality. This enables service providers to easily deliver high-quality videoconferencing via IP to their customers. The eyeBeam feature set includes an array of robust session initiation protocol (SIP) telephony features offered in our award-winning X-PRO SIP softphone, including call transfer/forward, caller identification, and 10-point conferencing. eyeBeam enhances this feature set with the addition of acoustic echo cancellation, voice activity detection, adaptive jitter buffer and message waiting indicator. eyeBeam is also available as a software development kit that includes the following low-level APIs (application programming interfaces): Audio, Video, HTTP, STUN, SIP Stack, SIP Call Control, SDP, RTP, ICE and DNS. On December 24, 2004, we launched version 1.1 of eyeBeam, which added instant messaging (IM) and presence support.

Nine Months Ended January 31, 2006 Compared to Nine Months Ended January 31, 2005

The following presentation and discussion relates to our consolidated operations for the nine months ended January 31, 2006.

	Nine months ended January 31, 2006	Nine months ended January 31, 2005
Sales	\$3,151,329	\$2,093,123
Administration and Other	\$908,845	\$469,373
Consulting and Professional Fees and Wages	\$2,976,074	\$1,837,507
Public Relations	\$37,558	\$74,570
Travel and Promotion	\$226,321	\$198,432

Our operating activities during this period 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.

For the nine months ended January 31, 2006, we generated \$3,151,329 in revenue compared to \$2,093,123 for the nine months ended January 31, 2005. This represents an increase of \$1,058,206 or 50.6% increase from the same period last year.

For the nine months ended January 31, 2006, we generated \$2,475,452 in software sales revenue compared to \$1,958,432 for the nine months ended January 31, 2005. This is an increase of \$517,020 or 26.4% from the same period last year. The increase in software sales revenue consisted of fees paid to us by numerous small and medium sized IP telephony service providers. Four customers accounted for 35.7% of our revenues for the nine months ended January 31, 2006. Four customers accounted for 74.5% of our revenues for the nine months ended January 31, 2005.

For the nine months ended January 31, 2006, we generated \$675,877 in consulting fees revenue compared to \$134,691 for the nine months ended January 31, 2005. This is an increase of \$541,186 or 401.8% from the same period last year. The significant increase in consulting fees revenue is due to the fact that during the period in 2006, there was a significant increase in software sales, which directly affected consulting fees. CounterPath has continued to focus its efforts on professional services which has resulted in a significant revenue increase.

Total expenses for the nine months ended January 31, 2006 were \$4,148,798 compared to \$2,579,882 for the previous nine months ended January 31, 2005. This represents an increase of \$1,568,916 or 60.8% from the same period last year.

Administration and other fees for the nine months ended January 31, 2006 were \$908,845 compared to \$469,373 for the nine months ended January 31, 2005. This is an increase of \$439,472 or 93.6% from the same period last year. The increase in general and administration expenses was primarily due to the cost associated with the addition of engineering staff required for research and development related to the ongoing development of our IP telephony software products and the addition of administrative staff required to administer the larger organization.

Consulting fees, professional fees, wages, commissions and benefits for the nine months ended January 31, 2006 were \$2,976,074 compared to \$1,837,507 for the nine months ended January 31, 2005. This is an increase of \$1,138,567 or 62.0% from the same period last year. These expenses represented the majority of our cash expenses and the significant increase in consulting fees, professional fees, wages, commissions and benefits' expenses was primarily due to the addition of engineering staff required for research and development related to the ongoing development of our IP telephony software products and commissions which are paid to both the sales and development teams with respect to sales of our IP telephony software products.

Public relations' expenses for the nine months ended January 31, 2006 were \$37,558 compared to \$74,570 for the nine months ended January 31, 2005. This is a decrease of \$37,012 or 49.6% from the previous year. This decrease was primarily due to bringing public relations in-house at a lower cost and moving to a more cost effective investor relations consultant.

Travel and promotion expenses for the nine months ended January 31, 2006 were \$226,321 compared to \$198,432 for the nine months ended January 31, 2005. This is an increase of \$27,889 or 14.1% from the same period last year. The increase in travel and promotion expense was due to an increase in travel associated with sales activities and our active participation in industry tradeshow.

Three Months Ended January 31, 2006 Compared to Three Months Ended January 31, 2005

The following presentation and discussion relates to our consolidated operations for the three months ended January 31, 2006.

	Three months ended January 31, 2006	Three months ended January 31, 2005
Sales	\$1,237,932	\$928,608
Administration and Other	\$460,401	\$172,942
Consulting and Professional Fees and Wages	\$1,143,548	\$762,351
Public Relations	\$11,488	\$35,616
Travel and Promotion	\$51,435	\$46,526

Our operating activities during this period 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.

For the three months ended January 31, 2006, we generated \$1,237,932 in revenue compared to \$928,608 for the three months ended January 31, 2005. This represents an increase of \$309,324 or 33.3% increase from the same period last year.

For the three months ended January 31, 2006, we generated \$1,033,610 in software sales revenue compared to \$838,163 for the three months ended January 31, 2005. This is an increase of \$195,447 or 23.3% from the same period last year. The increase in software sales revenue consisted of fees paid to us by numerous small and medium sized IP telephony service providers.

For the three months ended January 31, 2006, we generated \$204,322 in consulting fees revenue compared to \$90,445 for the three months ended January 31, 2005. This is an increase of \$113,877 or 125.9% from the same period last year. The significant increase in consulting fees revenue is due to the fact that during the period in 2006, there was a significant increase in software sales, which directly affected consulting fees. CounterPath has continued to focus its efforts on professional services which has resulted in a significant revenue increase.

Total expenses for the three months ended January 31, 2006 were \$1,666,872 compared to \$1,017,435 for the previous three months ended January 31, 2005. This represents an increase of \$649,437 or 63.8% over the same period last year.

Administration and other fees for the three months ended January 31, 2006 were \$460,401 compared to \$172,942 for the three months ended January 31, 2005. This is an increase of \$287,459 or 166.2% from the same period last year. The increase in general and administration expenses was primarily due to the cost associated with the addition of engineering staff required for research and development related to the ongoing development of our IP telephony software products and the addition of administrative staff required to administer the larger organization. The Company also incurred a finance charge of \$147,500 associated with the issuance of warrants. This represented 32.0% of administration and other fees for the period.

Consulting fees, professional fees, wages, commissions and benefits for the three months ended January 31, 2006 were \$1,143,548 compared to \$762,351 for the three months ended January 31, 2005. This is an increase of \$381,197 or 50.0% from the same period last year. These expenses represented the majority of our cash expenses and the significant increase in consulting fees, professional fees, wages, commissions and benefits' expenses was primarily due to the addition of engineering staff required for research and development related to the ongoing development of our IP telephony software products and commissions which are paid to both the sales and development teams with respect to sales of our IP telephony software products.

Public relations' expenses for the three months ended January 31, 2006 were \$11,488 compared to \$35,616 for the three months ended January 31, 2005. This is a decrease of \$24,128 or 67.7% from the previous year. This decrease was primarily due to bringing public relations in-house at a lower cost and moving to a more cost effective investor relations consultant.

Travel and promotion expenses for the three months ended January 31, 2006 were \$51,435 compared to \$46,526 for the three months ended January 31, 2005. This is an increase of \$4,909 or 10.6% from the same period last year. The increase in travel and promotion expense was due to an increase in travel associated with sales activities.

Liquidity and Capital Resources

As of January 31, 2006, we had \$2,871,396 in cash compared to \$1,244,906 at April 30, 2005. This represents an increase of \$1,626,490 or 130.7%. We had a working capital surplus of \$2,360,733 at January 31, 2006, compared to a surplus of \$1,091,223 at April 30, 2005. This represents an increase of \$1,269,510 or 116.3%.

Operating Activities

Our operating activities resulted in net cash outflows of \$158,768 for the nine months ended January 31, 2006. This compares with a net outflow of \$16,118 for the same period last year. This represents a \$142,650 increase in the use of cash compared to the same period last year. The operating cash outflows for the nine month period ended January 31, 2006 resulted from a net loss of \$997,469 with adjustments for non-cash expenses and changes in working capital balances. There was a decrease in customer deposits of \$24,523 in this period. Accounts receivable has increased by \$63,950, accounts payable and accrued liabilities increased by \$315,880, unearned revenue increase by \$158,500, prepaid and deposits increased by \$38,717, and warranty payable increased by \$6,034.

Investing Activities

Investing activities resulted in net cash outflows of \$208,730 for the nine months ended January 31, 2006. This compares with a net outflow of \$265,948 for the same period last year. This represents a \$57,218 or 21.5% decrease

in the use of cash compared to the same period last year. During the nine months ended January 31, 2006, we spent \$201,915 on property and equipment purchased during the period. This compares to equipment purchases of \$265,613 for the same period last year. At January 31, 2006, we did not have any material commitments for future capital expenditures.

Financing Activities

Financing activities resulted in net cash inflow of \$1,988,348 for the nine months ended January 31, 2006, compared to net cash inflows of \$960,494 for the same period last year. This represents a \$1,027,854 or 107.0% increase compared to the same period last year. Convertible debentures were issued for \$2,000,000 in the period ended January 31, 2006.

New Accounting Pronouncements

In June 2002, the Financial Accounting Standards Board (FASB) finalized Financial Accounting Standards (FAS) No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". FAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The principal difference between FAS 146 and EITF 94-3 relates to its requirements for recognition of a liability for a cost associated with an exit or disposal activity. FAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF 94-3, a liability for an exit cost, as defined in EITF 94-3, was recognized at the date of an entity's commitment to an exit plan. A fundamental conclusion reached by the Board in this Statement is that an entity's commitment to a plan, by itself, does not create a present obligation to others that meets the definition of a liability. Therefore, FAS 146 eliminates the definition and requirements for recognition of exit costs in EITF 94-3. FAS 146 also establishes that fair value is the objective for initial measurement of the liability. The adoption of FAS 146 is not expected to have a material impact on our financial position and results of operations. FAS 146 is effective for exit and disposal activities initiated after December 31, 2002.

In December 2002, the FASB issued FAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of FASB Statement No. 123". FAS 148 amends FAS 123, "Accounting for Stock Based Compensation" and provides alternative methods for accounting for a change by registrants to the fair value method of accounting for stock-based compensation. Additionally, FAS 148 amends the disclosure requirements of FAS 123 to require disclosure in the significant accounting policy footnote of both annual and interim financial statements of the method of accounting for stock-based compensation and the related pro-forma disclosures when the intrinsic value method continues to be used. FAS 148 is effective for fiscal years beginning after December 15, 2002, and disclosures are effective for the first fiscal quarter beginning after December 15, 2002.

In November 2002, the FASB issued FAS Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees and Indebtedness of Others, an interpretation of FASB Statements No. 5, 57, and 107 and Recession of FASB Interpretation No. 34". FIN No. 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN No. 45 does not prescribe a specific approach for subsequently measuring the guarantor's recognized liability over the term of the related guarantee. It also incorporates, without change, the guidance in FAS Interpretation No. 34, "Disclosure of Indirect Guarantees of Indebtedness of Others," which is being superseded. The disclosure provisions of FIN No. 45 are effective for financial statements of interim or annual periods that end after December 15, 2003 and the provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2003 irrespective of a guarantor's year-end. We do not expect the adoption of FIN No. 45 to have a material impact on our results of operations or financial position.

In May 2003, the FASB issued FAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." FAS 150 establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some

circumstances) because that financial instrument embodies an obligation of the issuer. FAS 150 is effective for financial instruments entered into or modified after March 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003 except for mandatory redeemable financial instruments of nonpublic entities. We do not expect that the adoption of this standard will have a material effect on our financial position or results of operations.

In January 2003, the FASB issued FAS Interpretation No. 46, "Consolidation of Variable Interest Entities". The objective of FIN 46 is to improve financial reporting by companies involved with variable interest entities. A variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights, or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. FIN 46 also requires disclosures about variable interest entities that the company is not required to consolidate but in which it has a significant variable interest. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure variable interest entity were established. As of June 30, 2004, we do not expect that the adoption of this standard will have a material effect on our financial position or results of operations.

In December 2004, the FASB issued FAS 123R "Share-Based Payment", a revision to FAS 123. FAS 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 grant-date fair value of those instruments, with limited exceptions. FAS 123R also affects the pattern in which compensation cost is recognized, the accounting for employee share purchase plans, and the accounting for income tax effects of share-based payment transactions. For small business filers, FAS 123R will be effective for interim or annual periods beginning after December 15, 2005. Early adoption is permitted in periods in which financial statements have not yet been issued. We expect to adopt FAS 123R May 1, 2006. As permitted by FAS 123, we currently account for share-based payments to employees using APB 25's intrinsic value method. Accordingly, the adoption of FAS 123R's fair value method will have a significant impact on our statement of operations, although it will have no impact on our overall financial position. The impact of adoption of FAS 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted FAS 123R in prior periods, the impact of that standard would have approximated the impact of FAS 123 as described in the disclosure of pro forma net income and earnings per share in Note 8 to our consolidated financial statements.

The adoption of these new pronouncements is not expected to have a material effect on our financial position or results of operations.

Application of Critical Accounting Policies

Website Development Costs

We recognize the costs associated with developing a website in accordance with the American Institute of Certified Public Accountants Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". Relating to website development costs, the company follows the guidance pursuant to EITF No. 00-2, "Accounting for Website Development Costs".

Costs associated with the website consist primarily of software purchased from a third party. These capitalized costs are amortized based on their estimated useful life over three years. Payroll and related costs are not capitalized, as the amounts principally relate to maintenance. Internal costs related to the development of website content are expensed as incurred.

Impairment of Long-lived Assets

In accordance with FAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the carrying value of intangible assets and other long-lived assets is reviewed on a regular basis for the existence of facts or circumstances that may suggest impairment. We recognize impairment when the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset. Impairment losses, if any, are measured as the excess of the carrying amount of the asset over its estimated fair value.

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 financial statements, entered into derivative instruments to offset the impact of foreign currency fluctuations.

Financial Instruments

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities, advances payable and due to related parties approximate fair value due to the short maturity of these instruments. Unless otherwise noted, it is management's opinion that our company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

Revenue Recognition

We receive revenues consisting of software sales and consulting fees. We recognize revenues when persuasive evidence of an arrangement exists, the product is delivered or the services are rendered and collection is reasonably assured. We provide a one year warranty on software products. Management has set up a warranty provision in the amount of 2% of software sales, which is amortized over a 12-month term. Management has also set up deferred revenue on software sales, which defers a portion of all software sales greater than \$10,000 to compensate for the cost of providing support services to customers. We recognize this deferred revenue evenly over a twelve-month period from the date of the sale. We will review these policies annually.

Stock-Based Compensation

We have elected to apply the intrinsic value method of Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its stock options on options granted to employees and directors. Under APB 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. Stock-based compensation for employees is recognized on an accelerated basis over the vesting period of the individual options. Stock options granted to non-employees are accounted for under FAS No. 123 "Accounting for Stock-Based Compensation" 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. Pro forma fair value information with respect to options granted to employees and directors is disclosed in accordance with FAS 123.

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”.

Our new business operations will be subject to a number of risks and uncertainties, including those set forth below:

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 development of our products, increased marketing and promotional activities and expanding our position in the market. 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 unexpected costs in completing the development of our current and new software or encounter any unexpected technical or other difficulties;
- 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 arrangements for financing. We will depend on a mix of revenues 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 the 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 have 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 also 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 do compete directly with our products and some of the companies developing these similar products are larger, better-financed companies and may develop products superior to those of our company. Such competition will potentially affect our chances of achieving profitability, and may ultimately adversely affect our ability to continue as a going concern.

If a market for our shares of common stock does not develop, stockholders may be unable to sell their shares.

There is currently a limited market for our shares of common stock, which trades on the OTCBB. Trading of stock on the OTCBB is frequently thin and highly volatile. There is no assurance that a market will develop in the stock after the corporate reorganization, in which case it will be difficult for stockholders to sell their stock.

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.

National Association of Securities Dealers Inc. sales practice requirements may also limit a stockholder’s ability to buy and sell our stock.

In addition to the “penny stock” rules described above, the National Association of Securities Dealers Inc. (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.

Almost all 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.

Almost all 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 U.S. 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.counterpath.net, www.sipindex.com, www.voipmobility.com, www.xtunnels.org, www.videoblog.com, www.videoblog.net and www.videoblog.info, and applying to register the trademarks COUNTERPATHTM and EYEBEAMTM, we have not taken any action to protect our proprietary technology. If any of our competitors copies or otherwise gains access to our proprietary technology or develops 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.

On June 29, 2005, we entered into a settlement agreement and release whereby we agreed to cease using the XTEN trademark by September 29, 2005 in consideration of Xtend Communications Corporation ceasing its lawsuit and releasing us from any further claims. We, in contemplation of this change, have developed a brand and identity consistent with our strategy, product and customers. We believe that this identity will better reflect the business of our company and allow us to continue to differentiate ourselves in the industry, providing additional momentum as we further roll out our business plan. We changed our name to CounterPath Solutions, Inc. effective September 16, 2005 and subsequently launched our new identity.

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 revenues may be significantly reduced.

We expect that a substantial portion, if not all, 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, if not all, of 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 revenues. 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, 2006. This evaluation was carried out under the supervision and with the participation of our company's management, including our company's president. Based upon that evaluation, our company's president 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 changes in our internal controls over financial reporting that occurred during the period covered by this report 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 - OTHER INFORMATION

Item 1. Legal Proceedings.

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 will vigorously defend these proceedings.

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

We did not sell any securities that were not registered under the Securities Act of 1933 that have not been previously reported in a Current Report on Form 8-K.

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).

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

4.6 Form of Amended and Restated Stock Option and Subscription Agreement (U.S. Residents) (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 Share Repurchase Agreement dated May 12, 2005 between Xten Networks, Inc. and Marty Hofmeister (incorporated by reference from our Quarterly Report on Form 10-QSB filed on September 14, 2005).

10.13 Agreement and Plan of Merger between Xten Networks, Inc. and Ineen, Inc. dated August 26, 2005 (incorporated by reference from our Current Report on Form 8-K filed on September 15, 2005).

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

10.15 Form of Amended and Restated Stock Option and Subscription Agreement (U.S. Residents) (incorporated by reference from our Current Report on Form 8-K filed on October 14, 2005).

10.16 Subscription Agreement dated November 22, 2005 between our company and KMB Trac Two Holdings Ltd. (incorporated by reference from our Current Report on Form 8-K filed on November 23, 2005).

10.17 Convertible Note dated November 21, 2005 (incorporated by reference from our Current Report on Form 8-K filed on November 23, 2005).

10.18 Warrant Certificate dated November 21, 2005 (incorporated by reference from our Current Report on Form 8-K filed on November 23, 2005).

10.19 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).

10.20 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).

10.21 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).

(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 (filed herewith).

(32) Section 906 Certification

32.1 Section 906 Certification (filed herewith).

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: _____
Mark Bruk, CEO
(Principal Executive, Financial, and Accounting Officer)

Date: March ____, 2006