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TRANSAX INTERNATIONAL LTD  
Form 10QSB/A  
October 13, 2006

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

Form 10-QSB/A  
Amendment No. 3

(Mark One)

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

For the quarterly period ended September 30, 2005

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

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

Commission File Number: 0-27845

TRANSAX INTERNATIONAL LIMITED  
(Exact name of small business issuer as specified in charter)

COLORADO  
-----  
(State or other jurisdiction of  
incorporation or organization)

84-1304106  
-----  
(I.R.S. Employer I.D. No.)

8th Floor, 5201 Blue Lagoon Drive  
Miami, FL, 33126  
-----  
(Address of principal executive offices) (Zip Code)

(305) 629-3090  
-----  
(Issuer's telephone number, including area code)

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

Yes \_\_\_\_\_ No  X

Applicable only to issuers involved in bankruptcy proceedings during  
the preceding five years.

N/A

Check whether the Registrant filed all documents required to be filed  
by Section 12, 13 and 15(d) of the Exchange Act after the distribution of  
securities under a plan confirmed by a court.

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Yes \_\_\_\_\_ No \_\_\_\_\_

Applicable only to corporate issuers

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

Class	Outstanding as of November 10, 2005
-----	-----
Common Stock, \$0.00001 par value	31,200,949

## EXPLANATORY NOTE REGARDING AMENDMENT NO. 3

Transax International Limited (the "Company") is amending this Quarterly Report on Form 10-QSB for the period ended September 30, 2005 in response to the U.S. Securities & Exchange Commission's Comment Letter to the Company dated August 25, 2006 (the "Comment Letter"). In particular, the Company has added language in the Section entitled "Item 3. Controls & Procedures" in accordance with the Comment Letter as well as the disclosure of certain negative covenants in the Section entitled "Item 2 - Management's Discussion & Analysis or Plan of Operation" with respect to the Securities Purchase Agreement, dated April 1, 2005, by and between the Company and Scott and Heather Grimes. The remaining Items contained in this report consist of all other Items originally contained in Amendment No. 2 to our Quarterly Report on Form 10-QSB for the period ended September 30, 2005 as filed on July 10, 2006. This report does not reflect events occurring after the filing of the original Quarterly Report on Form 10-QSB, nor modify or update those disclosures in any way other than as required to reflect the comments of the SEC in the Comment Letter.

TRANSAX INTERNATIONAL LIMITED  
FORM 10-QSB/A  
QUARTERLY PERIOD ENDED SEPTEMBER 30, 2005

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TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
September 30, 2005  
(As Restated - See Note 8)  
(Unaudited)

ASSETS

CURRENT ASSETS:

Cash .....	\$ 12,261
Accounts receivable (Net of allowance for doubtful accounts of \$0) .....	379,286
Prepaid expenses and other current assets .....	144,351
	-----

TOTAL CURRENT ASSETS .....	535,898
----------------------------	---------

SOFTWARE DEVELOPMENT COSTS, net .....	292,035
PROPERTY AND EQUIPMENT, net .....	694,762
DEFERRED DEBT OFFERING COSTS .....	228,697
OTHER ASSETS .....	2,400
	-----

TOTAL ASSETS .....	\$ 1,753,792
	=====

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES:

Current portion of capital lease obligation .....	\$ 48,122
Current portion of loan payable .....	433,852
Accounts payable and accrued expenses .....	1,482,131
Due to related parties .....	179,953
Loan payable - related party .....	205,836
Convertible loans from related party .....	197,578
	-----

TOTAL CURRENT LIABILITIES .....	2,547,470
---------------------------------	-----------

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DEBENTURE PAYABLE, NET OF UNAMORTISED DISCOUNT OF \$187,500 .....	62,500
CONVERSION FEATURE LIABILITY .....	317,690
ACCOUNTS PAYABLE AND ACCRUED EXPENSES, net of current portion .....	427,430
	-----
TOTAL LIABILITIES .....	3,355,092
	-----
STOCKHOLDERS' DEFICIT:	
Preferred stock \$.0001 par value; 20,000,000 shares authorized; No shares issued and outstanding .....	-
Common stock \$.00001 par value; 100,000,000 shares authorized; 31,200,949 shares issued and outstanding .....	312
Paid-in capital .....	7,537,567
Accumulated deficit .....	(9,063,577)
Deferred compensation .....	(17,500)
Other comprehensive loss - Cumulative foreign currency adjustment .....	(58,102)
	-----
TOTAL STOCKHOLDERS' DEFICIT .....	(1,601,300)
	-----
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT .....	\$ 1,753,792
	=====

The accompanying notes are an integral part of these  
unaudited consolidated financial statements.

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TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(As Restated - See Note 8)  
(Unaudited)

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE SEPTEMBER
	2005	2004	2005
	-----	-----	-----
REVENUES .....	\$ 948,993	\$ 322,377	\$ 2,450,424
	-----	-----	-----
OPERATING EXPENSES:			
Cost of product support services .....	298,251	145,412	895,247
Payroll and related benefits .....	111,797	104,638	318,897
Software maintenance costs .....	47,704	29,846	137,726
Professional fees .....	63,966	108,647	135,111
Management and consulting fees - related parties .....	41,250	99,058	116,215
Stock based compensation and consulting .....	-	265,011	80,042
Investor relations .....	54,815	90,660	70,449
Depreciation and amortization .....	73,050	8,280	176,654
General & administrative .....	267,832	113,259	624,646
	-----	-----	-----
TOTAL OPERATING EXPENSES .....	958,665	964,811	2,554,987
	-----	-----	-----
LOSS FROM OPERATIONS .....	(9,672)	(642,434)	(104,563)
	-----	-----	-----

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OTHER INCOME (EXPENSES):			
Other income (expense) .....	-	(10,424)	10,514
Foreign exchange gains .....	428	197	26,862
Loss on derivative liability .....	(51,886)	-	(67,690)
Interest expense .....	(146,646)	(31,176)	(282,482)
Interest expense - related party .....	(110,004)	(24,727)	(166,281)
	-----	-----	-----
TOTAL OTHER EXPENSES .....	(308,108)	(66,130)	(479,077)
	-----	-----	-----
NET LOSS .....	(317,780)	(708,564)	(583,641)
OTHER COMPREHENSIVE INCOME:			
Unrealized foreign currency translation gain (loss) .....	(4,324)	-	4,550
	-----	-----	-----
COMPREHENSIVE LOSS .....	\$ (322,104)	(708,564)	\$ (579,091)
	=====	=====	=====
NET LOSS PER COMMON SHARE:			
BASIC AND DILUTED .....	\$ (0.01)	\$ (0.04)	\$ (0.02)
	=====	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING -			
BASIC AND DILUTED .....	30,296,894	16,665,608	29,596,231
	=====	=====	=====

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(As Restated - See Note 8)  
(Unaudited)

	FOR THE NINE MONTHS ENDING SEPTEMBER 30,
	2005
	-----
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss .....	\$ (583,641)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Depreciation and amortization .....	176,654
Amortization of software maintenance costs .....	106,590
Beneficial interest .....	31,250
Stock-based compensation and consulting .....	102,166
Grant of warrants .....	129,745
Gain on sale of fixed assets .....	-
Amortization of deferred debt issuance costs .....	9,566
Amortization of debt discount.....	62,500
Derivative loss.....	67,690

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Changes in assets and liabilities:	
Accounts receivable .....	(209,088)
Prepaid expenses and other current assets .....	(92,804)
Other assets .....	(2,400)
Accounts payable and accrued expenses .....	391,390
Accrued interest payable, related party .....	17,929
Accrued interest payable .....	5,237
Due to related parties .....	42,744
Accrued payroll and related expenses .....	-
Debt settlement by issuance of shares and exercise of options .....	-
Accounts payable and accrued expenses - long-term .....	34,365
	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES .....	289,893
	-----
CASH FLOWS FROM INVESTING ACTIVITIES:	
Capitalized software development costs .....	(155,581)
Proceeds from disposal of property and equipment .....	-
Acquisition of property and equipment .....	(428,100)
	-----
NET CASH USED IN INVESTING ACTIVITIES .....	(583,681)
	-----
CASH FLOWS FROM FINANCING ACTIVITIES:	
Advances from related party .....	-
Advances from non-related company .....	-
Repayment of advances from related party .....	(35,000)
Repayments under capital lease obligations .....	(43,891)
Proceeds from convertible debenture .....	336,738
Proceeds from loan payable .....	117,704
Proceeds from loan - related party .....	60,000
Repayment of from loan - related party .....	(15,084)
	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES .....	420,467
	-----
EFFECT OF EXCHANGE RATE CHANGES ON CASH .....	(118,508)
	-----
NET INCREASE (DECREASE) IN CASH .....	8,171
CASH, BEGINNING OF PERIOD .....	4,090
	-----
CASH, END OF PERIOD .....	\$ 12,261
	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid for interest .....	\$ 20,188
	=====
Cash paid for income taxes .....	\$ -
	=====
NON-CASH INVESTING AND FINANCING ACTIVITIES:	
Common stock issued for debt and accrued interest .....	\$ 256,717
	=====
Common stock issued for services .....	\$ 102,166
	=====

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Grant of common stock warrants in connection debt conversion ..... \$ 129,745  
=====

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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TRANSAX INTERNATIONAL LIMITED  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2005

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

-----

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Item 310(b) of Regulation S-B. Accordingly, the financial statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary to make the interim financials not misleading have been included and such adjustments are of a normal recurring nature. These consolidated financial statements should be read in conjunction with the financial statements for the year ended December 31, 2004 and notes thereto contained in the Report on Form 10-KSB of Transax International Limited ("our Company" or the "Company") as filed with the Securities and Exchange Commission (the "Commission"). The results of operations for the nine months ended September 30, 2005 are not necessarily indicative of the results for the full fiscal year ending December 31, 2005.

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP"). The consolidated financial statements of the Company include the Company and its subsidiaries. All material intercompany balances and transactions have been eliminated.

Organization

-----

Transax International Limited was incorporated in the State of Colorado in 1999. The Company, primarily through its wholly-owned subsidiary, TDS Telecommunication Data Systems Ltda. ("TDS"), is an international provider of information network solutions specifically designed for healthcare providers and health insurance companies. The Company's MedLink Solution (TM) enables the real time automation of routine patient eligibility, verification, authorizations, claims processing and payment functions. The Company has offices located in Miami, Florida and Rio de Janeiro, Brazil.

Use of estimates

-----

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Estimates used in the preparation of the accompanying financial statements include the allowance for

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doubtful accounts receivable, the useful lives of property, equipment and software development costs and variables used to determine stock-based compensation.

### Fair Value of Financial Instruments

-----

The fair value of our cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate carrying values due to their short maturities. The fair values of our debt instruments approximate their carrying values based on rates currently available to us.

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### TRANSAX INTERNATIONAL LIMITED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2005

#### NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Concentrations of Credit Risk

-----

Financial instruments that potentially subject us to significant concentrations of credit risk consist principally of cash and accounts receivable.

The Company performs certain credit evaluation procedures and does not require collateral for financial instruments subject to credit risk. The Company believes that credit risk is limited because the Company routinely assesses the financial strength of its customers, and based upon factors surrounding the credit risk of its customers, establishes an allowance for uncollectible accounts and, as a consequence, believes that its accounts receivable credit risk exposure beyond such allowances is limited.

##### Revenue recognition

-----

Revenue from the sale of software products, which do not require any significant production, modification or customization for the Company's targeted customers and do not have multiple elements, is recognized when: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the Company's fee is fixed and determinable, and; (4) collectibility is probable.

##### Foreign Currency Translation

-----

The assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars at the year-end exchange rates, equity is converted historically and all revenue and expenses are translated into U.S. dollars at the average exchange rates prevailing during the periods in which these items arise. Translation gains and losses are deferred and accumulated as a component of other comprehensive income or loss in stockholders' deficit. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency (TDS - Brazilian Real, Transax Australia, - Australian dollar and Transax and the Company - USD) are included in the Statement of Operations as incurred.

##### Comprehensive Loss

-----

Other comprehensive loss, which currently includes only foreign currency



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translation adjustments, is shown in the Statement of Changes in Stockholders' Deficit.

### Stock-based compensation

-----

The Company accounts for stock options issued to employees in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, compensation cost is measured on the date of grant as the excess of the current market price of the underlying stock over the exercise price. Such compensation amounts are amortized over the respective vesting periods of the option grant. The Company adopted the disclosure provisions of Statement of Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation" and SFAS 148, "Accounting for Stock-Based Compensation -Transition and Disclosure", which permits entities to provide pro forma net income (loss) and pro forma earnings (loss) per share disclosures for employee stock option grants as if the fair-valued based method defined in SFAS No. 123 had been applied. The Company accounts for stock options and stock issued to non-employees for goods or services in accordance with the fair value method of SFAS 123.

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TRANSAX INTERNATIONAL LIMITED  
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2005

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
 (CONTINUED)

### Stock-based compensation (continued)

-----

The exercise prices of all options granted by the Company exceeded the market price at the dates of grant. No compensation expense has been recognized. Had compensation cost for the stock option plan been determined based on the fair value of the options at the grant dates consistent with the method of SFAS 123, "Accounting for Stock Based Compensation", the Company's net income and income per share would have been changed to the pro forma amounts indicated below for the nine months ended September 30, 2005 and 2004:

	Nine months ended September 30,	
	2005	2004
Net loss as reported .....	\$ (583,641)	\$ (1,252,948)
Less: total stock-based employee compensation expense determined under fair value based method, net of related tax effect .....	(50,871)	(265,011)
Pro forma net loss .....	\$ (634,512)	\$ (1,517,959)
Basic and diluted loss per share:		
As reported .....	\$ (.02)	\$ (.08)
Pro forma .....	\$ (.02)	\$ (.09)

The option grants are estimated as of the date of grant using the Black-Scholes

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option-pricing model with the following assumptions used for grants as of September 30, 2005: expected volatility of 205%; risk free interest rate of 3.25%; expected life of 5 years and annual dividend rate of 0%.

Loss per common share  
-----

Basic income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted income per share is computed by dividing net income by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during each period. At September 30, 2005, there were options and warrants to purchase 13,526,070 shares of common stock, which could potentially dilute future earnings per share, but which are anti-dilutive for the periods presented above.

Recent accounting pronouncements  
-----

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123R, "Share-Based Payment, an Amendment of FASB Statement No. 123" ("SFAS No. 123R"). SFAS No. 123R requires companies to recognize, in the statement of operations, the grant-date fair value of stock options and other equity-based compensation issued to employees. FAS No. 123R is effective for the Company on January 1, 2006. We are in process of evaluating the impact of this pronouncement on our financial position.

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### TRANSAX INTERNATIONAL LIMITED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2005

#### NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent accounting pronouncements (continued)  
-----

In May 2005, FASB issued FASB Statement 154, "Accounting Changes and Error Corrections -- a replacement of APB Opinion No. 20 and FASB Statement No. 3" ("SFAS 154"). SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. The provisions of SFAS 154 require, unless impracticable, retrospective application to prior periods' financial statements of (1) all voluntary changes in principles and (2) changes required by a new accounting pronouncement, if a specific transition is not provided. SFAS 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate, which requires prospective application of the new method. SFAS 154 is effective for all accounting changes made in fiscal years beginning after December 15, 2005.

Management does not believe that any recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying financial statements.

#### NOTE 2 - RELATED PARTY TRANSACTIONS

Convertible Loans Payable  
-----

At December 31, 2004, the Company had loans payable for \$200,000 and \$100,000 to

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a related party whose officer is an officer of the Company. On March 23, 2005, the Company modified the terms of its convertible loans to this related party. Under the modified terms, \$200,000 of principal due under the convertible loans is due on March 31, 2007 and is convertible into the Company's common stock at \$.125 per share. The remaining principal of \$100,000 is due on April 30, 2007 and is convertible into the Company's common stock at \$.125 per share. For each common share received upon conversion of the principal balance, the related party is entitled to receive one warrant to purchase the Company's common stock at \$.25 per share for a period of two years from the conversion date. The interest rate of the loan is 12% per annum compounded monthly.

On June 28, 2005, the holder of the notes partially exercised the conversion feature. Accordingly, the Company issued 400,000 shares and 400,000 warrants to purchase common stock of the Company at \$.25 per share for the conversion of principal balance of \$50,000. The Company also issued 35,770 shares of common stock to settle \$4,471 in interest due on these loans. The fair value of these warrant grants were estimated at \$0.078 per warrant on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of -0- percent; expected volatility of 206%; risk-free interest rate of 3.25% and an expected holding period of 2 years. In connection with these warrants, the Company recorded interest expense of \$31,200.

On September 30, 2005, the holder of the notes partially exercised the conversion feature. Accordingly, the Company issued 600,000 shares and 600,000 warrants to purchase common stock of the Company for the conversion of principal balance of \$75,000. The Company also issued 77,968 shares of common stock to settle \$9,746 in interest due on these loans. The fair value of these warrant grants were estimated at \$0.164 per warrant on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of -0- percent; expected volatility of 218%; risk-free interest rate of 3.75% and an expected holding period of 2 years. In connection with these warrants, the Company recorded interest expense of \$98,545.

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### TRANSAX INTERNATIONAL LIMITED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2005

#### NOTE 2 - RELATED PARTY TRANSACTIONS (CONTINUED)

##### Convertible Loans Payable (continued)

-----  
At September 30, 2005, interest due on these two loans amounted to \$22,578 and the aggregate principal amount due is \$175,000. During the nine months ended September 30, 2005 and 2004, the Company incurred \$155,084 (including the fair value of warrants granted upon conversion of \$129,745) and \$60,052, respectively, in interest expense related to these two loans. In 2005, the Company did not incur beneficial conversion charges on these convertible loans because the conversion price was equivalent to the average offering price for equity when these loans became convertible.

##### Due to Related Parties

-----  
As of September 30, 2005 the Company had \$20,905 of advances payable and accrued interest due to a related party whose officer is an officer of the Company.

For the nine months ended September 30, 2005 and 2004, the Company incurred

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\$123,750 and \$99,000, respectively, in management fees to an officer/director of the Company. On January 14, 2005, the board of directors voted to increase the compensation paid to this officer/director from \$11,000 per month to \$13,750 per month, effective January 1, 2005. On March 28, 2005, the Company issued 400,000 shares of common stock at \$.126 per share to this officer/director for settlement of \$50,500 of this debt. The fair market value of these shares was based on the average price of the Company's shares traded between March 14 and March 27, 2005. On June 28, 2005, the Company issued 300,000 shares of common stock at \$.11 per share to this officer/director for settlement of \$33,000 of this debt. The fair market value of these shares was based on the average price of the Company's shares traded between June 14 and June 27, 2005. On September 27, 2005, the Company issued 200,000 shares of common stock at \$.17 per share to this officer/director for settlement of \$34,000 of this debt. The fair market value of these shares was based on the average price of the Company's shares traded between August 29 and September 26, 2005. At September 30, 2005, \$152,928 in management fees and other expenses were outstanding to this officer/director and are included in due to related parties on the accompanying balance sheet. The amounts due are unsecured, non-interest bearing and are payable on demand. At September 30, 2005, \$6,121 in management fees and expenses payable was due to a director of the Company and is included in due to related parties on the accompanying balance sheet. The amounts due are unsecured, non-interest bearing and are payable on demand.

### Loan Payable - Related Party

-----

On March 5, 2004, the Company borrowed Euro 115,000 (\$138,552 at September 30, 2005) from an officer of the Company for working capital purposes. The loan accrues 0.8% compounded interest per month, had an initial term of twelve months, and the debt is repayable quarterly in arrears. The officer agreed to extend this loan for an additional twelve months until March 2006. Additionally, on August 23, 2005, the Company borrowed \$60,000 from this officer. This loan accrues interest at 9.6% per annum and is payable on demand. During the nine months ended September 30, 2005 and 2004, the Company incurred \$11,197 and \$7,707, respectively, in interest related to these loans. As at September 30, 2005, \$7,284 in interest was accrued on these loans and the aggregate principal amount due is \$198,552 and is included in loan payable - related party on the accompanying balance sheet.

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TRANSAX INTERNATIONAL LIMITED  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2005

### NOTE 3 - FINANCING ARRANGEMENTS

#### Loan Payable

-----

On October 25, 2004, the Company and Cornell Capital Partners entered into a Securities Purchase Agreement, pursuant to which Cornell Capital Partners purchased two 5% secured convertible debentures. The initial convertible debenture in the original principal amount of \$125,000 was dated October 25, 2004 and the second convertible debenture in the original principal amount of \$125,000 was dated January 4, 2005 (collectively, the "Original Debentures"). In connection with the terms of the original debentures, for the nine months ended September 30, 2005, the Company recorded a beneficial conversion amount of \$31,250 as interest expense since the debentures were immediately convertible. On May 17, 2005, the Company and Cornell Capital Partners entered into a \$255,237 Promissory Note (the "Note"), whereby the Original Debentures were terminated. This Note represents the outstanding principal balance of \$250,000

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on the Original Debentures, plus accrued but unpaid interest through April 30, 2005 equal to \$5,237. The Note bears interest at a rate of 12% per annum and is secured by stock pledged by certain shareholders of the Company. As of September 30, 2005, the Company has accrued interest payable of \$2,552 related to this note which is included in accounts payable and accrued expenses on the accompanying balance sheet.

### Debenture Payable

-----

On April 1, 2005, the Company entered into a Securities Purchase Agreement with Scott and Heather Grimes, Joint Tenants - with Rights of Survivorship (the "Investor"). Pursuant to the Securities Purchase Agreement, the Company issued convertible debentures to the Investor in the original principal amount of \$250,000. The debentures are convertible at the holder's option any time up to maturity at a conversion price equal to the lower of (i) 120% of the closing bid price of the common stock on the date of the debentures or (ii) 80% of the lowest closing bid price of the common stock for the five trading days immediately preceding the conversion date. The debentures have a two-year term and accrue interest at 5% per year. At maturity, the debentures will automatically convert into shares of common stock at a conversion price equal to the lower of (i) 120% of the closing bid price of the common stock on the date of the debentures or (ii) 80% of the lowest closing bid price of the common stock for five trading days immediately preceding the conversion date.

The Company determined that the conversion feature of the convertible debentures represents an embedded derivative since upon conversion the debentures are convertible into a variable number of shares. Accordingly, the convertible debentures are not considered to be conventional debt under EITF 00-19 and the embedded conversion feature must be bifurcated from the debt host and accounted for as a derivative liability in accordance with SFAS 133 and EITF 00-19. The change in the fair value of the liability for derivative contracts will be credited to other income/(expense) in the consolidated statements of operations.

The embedded derivative included in this debenture resulted in an initial debt discount of \$250,000 and an initial loss on the valuation of derivative liabilities of \$44,299. The debt discount is being amortized over the term of the debenture. At the end of each reporting period, the Company revalues this derivative liability. For the nine months ended September 30, 2005, after adjustment, the Company recorded a loss on valuation of derivative liability of \$67,690.

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TRANSAX INTERNATIONAL LIMITED  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2005

### NOTE 3 - FINANCING ARRANGEMENTS (CONTINUED)

#### Debenture Payable (continued)

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The amount allocated as a discount on the debenture for the value of the conversion option is being amortized to interest expense, using the effective interest method, over the term of the debenture. Additionally, the Company paid fees of \$38,262 in connection with this debenture. These fees are recorded as deferred offering costs on the balance sheet and are being amortized over the debenture term.

Amortization expense for the nine months ended September 30, 2005 for both the discount on the debenture and the deferred offering costs was approximately

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\$72,100 and is included in interest expense.

At the date of inception and at the valuation date of September 30, 2005, the following assumptions were applied to the convertible debt:

	At Inception -----	At September 30, 2005 -----
Market Price: .....	\$ 0.140	\$ 0.190
Exercise Price: .....	\$ 0.104	\$ 0.128
Term: .....	2 Years	1.5 Years
Volatility: .....	203%	218%
Risk-free interest rate: .....	3.25%	3.75%

The convertible debenture liability is as follows at September 30, 2005:

Convertible debentures payable .....	\$ 250,000
Less: unamortized discount on debentures ...	(187,500)
	-----
Convertible debentures, net .....	\$ 62,500
	=====

### Standby Equity Distribution Agreement

-----

On October 25, 2004, the Company entered into a Standby Equity Distribution Agreement with Cornell Capital Partners. Pursuant to the Standby Equity Distribution Agreement, the Company could, at its discretion, periodically sell to Cornell Capital Partners shares of common stock for a total purchase price of up to \$5.0 million.

On May 17, 2005, the Company entered into a Termination Agreement with Cornell Capital Partners, whereby that certain Standby Equity Distribution Agreement, dated October 25, 2004, and the related Registration Rights Agreement, Placement Agent Agreement and Escrow Agreement of even date therewith were terminated.

Upon execution of the Termination Agreement, the Company entered into a new Standby Equity Distribution Agreement with Cornell Capital Partners on May 17, 2005. Pursuant to the Standby Equity Distribution Agreement, the Company may, at its discretion, periodically sell to Cornell Capital Partners shares of common stock for a total purchase price of up to \$5.0 million. For each share of common stock purchased under the Standby Equity Distribution Agreement, Cornell Capital Partners will pay the Company 97% of or a 3% discount to, the lowest closing bid price of the Company's common stock on the Over-the-Counter Bulletin Board or other principal market on which the Company's common stock is traded for the five days immediately following the notice date. Cornell Capital Partners will also retain 5% of each advance under the Standby Equity Distribution Agreement. Cornell Capital Partner's obligation to purchase shares of the Company's common stock under the Standby Equity Distribution Agreement is subject to certain conditions, including the Company obtaining an effective registration statement for shares of common stock sold under the Standby Equity Distribution Agreement and is limited to \$200,000 per weekly advance and \$1,000,000 per 30 days.

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TRANSAX INTERNATIONAL LIMITED  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2005

NOTE 3 - FINANCING ARRANGEMENTS (CONTINUED)

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Standby Equity Distribution Agreement (continued)

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Under the now-terminated Standby Equity Distribution Agreement (SEDA) originally dated October 25, 2004 and the terminated compensation debenture in December 2004, Cornell Capital Partners received a one-time commitment fee in the form of 1,201,779 shares of common stock in the amount of \$200,000. In December 2004, the Company valued the common shares issued to Cornell at the fair market value on the dates of grant or \$0.1664 per share or \$200,000 based on the quoted trading price for the stock. From December 2004 through May 27, 2005, the Company renegotiated the terms of the SEDA and the related agreements and did not amortize the commitment fee. At September 30, 2005, the commitment fee was deemed to be a deferred debt offering cost on the accompanying balance sheet to be amortized as a financing expense over the effective period of 24 months or less if funded earlier. Since as of September 30, 2005, the Company's registration was not yet declared effective, the Company has not begun to amortize the commitment fee. In October 2005, the Company's registration was withdrawn. The Company and Cornell Capital Partners are in discussions regarding a restructuring of this arrangement.

### NOTE 4 - STOCKHOLDERS' DEFICIT

#### Common Stock

-----

On January 14, 2005, the Company entered into a six-month consulting contract for business development services. In connection with the agreement, the Company issued 400,000 shares of common stock. On May 10, 2005, the Company cancelled this contract and cancelled 200,000 shares that were due on this contract. The Company valued these common shares at the fair market value on the date of grant of \$0.16 based on the quoted trading price and recorded stock-based consulting expense of \$42,667 through the date of cancellation.

On January 14, 2005, the Company entered into a consulting contract for business development services. In connection with the agreement, the Company issued 100,000 shares of common stock. The Company valued these common shares at the fair market value on the date of grant of \$0.16 based on the quoted trading price and recorded stock-based consulting expense of \$16,000.

On March 21, 2005, the Company entered into a consulting contract for business development services. In connection with the agreement, the Company issued 150,000 shares of common stock. The Company valued these common shares at the fair market value on the dates of grant or \$0.14 or \$21,000 based on the quoted trading price and recorded stock-based consulting expense of \$11,375 and deferred consulting expense of \$9,625 to be amortized over the remaining service period.

On March 28, 2005, the Company issued 400,000 shares of common stock to settle \$50,500 in debt due to an officer/director of the Company (see note 2). The Company valued these common shares at the fair market value on the date of grant of \$0.126.

On June 28, 2005, the holder of the related party loans exercised the conversion feature. Accordingly, the Company issued 400,000 shares and the conversion price of \$.125 per share and 400,000 warrants to purchase common stock of the Company at \$.25 per share (see note 2) for the conversion of principal balance of \$50,000. The Company also issued 35,770 shares of common stock to settle \$4,471 in interest due on these loans.

On June 28, 2005, the Company issued 300,000 shares of common stock at \$.11 per share, the fair market value on the date of grant, to an officer/director for settlement of \$33,000 of this debt.

TRANSAX INTERNATIONAL LIMITED  
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2005

NOTE 4 - STOCKHOLDERS' DEFICIT (CONTINUED)

Common Stock (continued)

On July 15, 2005, the Company entered into a one-year consulting contract for public relations services. For services rendered, the Company shall pay \$5,000 per month payable in cash and/or free-trading common stock. In connection with this agreement, the Company issued 200,000 shares of common stock. The Company valued these common shares at the fair market value on the date of grant of \$0.15 per share or \$30,000 based on the quoted trading price and recorded stock-based consulting expense of \$12,500 and deferred consulting expense of \$17,500 to be amortized over the service period.

On September 27, 2005, the Company issued 200,000 shares of common stock at \$.17 per share, the average fair market value on the date of grant, to an officer/director for settlement of \$34,000 of debt.

On September 30, 2005, the holder of the related party loans (see note 2) exercised the conversion feature. Accordingly, the Company issued 600,000 shares and the conversion price of \$.125 per share and 600,000 warrants to purchase common stock of the Company at \$.25 per share for the conversion of principal balance of \$75,000. The Company also issued 77,968 shares of common stock to settle \$9,746 in interest due on these loans.

Stock Options

On January 14, 2005, the board of directors elected to extend the expiration date of 373,570 warrants from December 31, 2004 to December 31, 2005.

On November 28, 2004, the Company adopted a 2004 Incentive Stock Option Plan (the "Plan"). The Plan provides options to be granted, exercisable for a maximum of 2,500,000 shares of common stock. Both incentive and nonqualified stock options may be granted under the Plan. The exercise price of options granted, the expiration date, and the vesting period, pursuant to this plan is determined by a committee.

On May 5, 2005, the Company granted options to purchase an aggregate of 1,000,000 shares of common stock to employees, officers and directors of the Company. The options are exercisable at \$0.15 per share, which exceeds the fair market value of the common stock at the grant date. Accordingly, under APB 25, no compensation expense was recognized. The options expire on May 5, 2010.

A summary of the status of the Company's outstanding stock options as of September 30, 2005 and changes during the period then ended is as follows:

	Shares	Weighted Average Exercise Price
	-----	-----
Outstanding at December 31, 2004 .....	2,425,000	0.41
Granted .....	1,000,000	0.15
Exercised .....	-	-



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Forfeited .....	-	-
	-----	-----
Outstanding at September 30, 2005 .....	3,425,000	\$ 0.33
	=====	=====
Options exercisable at end of period .....	3,425,000	\$ 0.33
	=====	=====
Weighted-average fair value of options granted during the period .....	2005	
	-----	
	\$ 0.15	

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TRANSAX INTERNATIONAL LIMITED  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2005

NOTE 4 - STOCKHOLDERS' DEFICIT (CONTINUED)

Stock Options (continued)

The following information applies to options outstanding at September 30, 2005:

Range of Exercise Prices	Shares	Options Outstanding		Options Exercisable	
		Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
\$0.50	1,675,000	3.62	\$ 0.50	1,675,000	\$ 0.50
\$0.20	750,000	5.00	\$ 0.20	750,000	\$ 0.20
\$0.15	1,000,000	4.80	\$ 0.15	1,000,000	\$ 0.15

Stock Warrants

A summary of the status of the Company's outstanding stock warrants as of September 30, 2005 and 2004 and changes during the period then ended is as follows:

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2004 .....	9,101,070	0.61
Granted .....	1,000,000	0.25
Exercised .....	-	-
Forfeited .....	-	-
	-----	-----
Outstanding at September 30, 2005 .....	10,101,070	\$ 0.58
	=====	=====
Warrants exercisable at end of period .....	10,101,070	\$ 0.58
	=====	=====

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2005

Weighted-average fair value of warrants  
granted during the period ..... \$ 0.25

The following information applies to all warrants outstanding at September 30, 2005:

Range of Exercise Prices	Warrants Outstanding			Warrants Exercisable	
	Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
\$1.00	4,325,000	2.90	\$ 1.00	4,325,000	1.00
\$0.50	373,570	0.25	\$ 0.50	373,570	0.50
\$0.30	2,000,000	1.25	\$ 0.30	2,000,000	0.30
\$0.20	2,402,500	4.00	\$ 0.20	2,402,500	0.20
\$0.25	1,000,000	1.90	\$ 0.25	1,000,000	0.25

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TRANSAX INTERNATIONAL LIMITED  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2005

NOTE 5 - LITIGATION

An action has been brought against the Company by its former stock transfer agent who alleges, among other items, that the Company breached its contract with the transfer agent. The Company has filed an answer to the action and a portion of the action has been dismissed by the court. The Company intends to vigorously defend itself against the remainder of the action. Counsel has advised the Company that there is a better than fifty percent chance that a potential loss will be incurred. Accordingly, as of September 30, 2005, an accrual of \$50,000 is recorded and is included in accounts payable and accrued expenses on the accompanying balance sheet.

NOTE 6 - FOREIGN OPERATIONS

The Company identifies its operating segments based on its business activities and geographical locations. The Company operates within a single operating segment, being a provider of information network solutions specifically designed for healthcare providers and health insurance companies. The Company operates in Brazil, Australia and Mauritius, and has a registered mailing address in Singapore and in the USA. All of the Company's assets are located in Brazil.

	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Net sales to Unaffiliated Customers:		
Brazil .....	\$ 2,450,424	\$ 772,576
USA .....	-	-
Singapore .....	-	-
Australia .....	-	-
Mauritius .....	-	-
Total Sales .....	2,450,424	772,576

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	-----	-----
Operating Expenses:		
Brazil .....	1,955,458	1,049,166
USA .....	540,163	739,435
Singapore .....	-	-
Australia .....	9,131	32,429
Mauritius .....	50,235	34,359
	-----	-----
Total Operating Expenses .....	2,554,987	1,855,389
	-----	-----
Loss from operations .....	(104,563)	(1,082,813)
	-----	-----
Other income (expenses):		
Brazil .....	(155,857)	(90,763)
USA .....	(331,391)	(82,808)
Australia .....	8,171	3,436
	-----	-----
	(479,077)	(170,135)
	-----	-----
Net loss as reported in the accompanying statements .....	\$ (583,641)	\$ (1,252,948)
	=====	=====

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TRANSAX INTERNATIONAL LIMITED  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2005

NOTE 7 - GOING CONCERN

Since inception, the Company has incurred cumulative net losses of \$9,063,577, has a stockholders' deficit of \$1,601,300 at September 30, 2005 and has a working capital deficit of \$2,011,574. Since its inception, the Company has funded operations through short-term borrowings and equity investments in order to meet its strategic objectives. The Company's future operations are dependent upon external funding and its ability to increase revenues and reduce expenses. Management believes that sufficient funding will be available from additional related party borrowings and private placements to meet its business objectives, including anticipated cash needs for working capital, for a reasonable period of time. Additionally, under the current roll out schedules with its clients, the Company expects to increase its revenues significantly during 2005 with the expectation of the Company becoming a profitable entity. However, there can be no assurance that the Company will be able to obtain sufficient funds to continue the development of its software products and distribution networks. Further, since fiscal 2000, the Company has been deficient in the payment of Brazilian payroll taxes and Social Security taxes. At September 30, 2005, these deficiencies (including interest and fines) amounted to approximately \$620,800. This payroll liability is included as part of the accounts payable and accrued expenses (short-term and long-term) within the consolidated balance sheet.

As a result of the foregoing, there exists substantial doubt about the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 8 - RESTATEMENT

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After reviewing certain accounting principles the Company has applied in previously issued financial statements, management has determined that the Company's accounting for the embedded derivative option related to the Company's debenture payable should have been classified as a liability on the accompanying balance sheet and revalued at the end of each period in accordance with SFAS No. 133 and EITF 00-19. Consequently, management is restating its quarterly financial statements as of September 30, 2005 and for the three and nine months then ended. The change in presentation of the Company's embedded derivative feature associated with its debenture payable has the effect of increasing total assets by \$28,697, increasing liabilities by \$158,888, increasing the stockholders' deficit by \$130,191 as of September 30, 2005, and increasing the Company's net loss by \$83,136 and \$67,691 for the three and nine months ended September 30, 2005, respectively. This change in presentation of the Company's embedded derivative feature affected some of the items within the Company's consolidated statement of cash flows for the nine months ended September 30, 2005 but did not impact cash at the end of the period. Accordingly, the adjustments to the balance sheet, statement of operations, and statement of cash flows are summarized as follows:

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TRANSAX INTERNATIONAL LIMITED  
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2005

NOTE 8 - RESTATEMENT (CONTINUED)

CONSOLIDATED BALANCE SHEET  
 SEPTEMBER 30, 2005  
 (UNAUDITED)

	INITIAL FILING	RESTATEMENT
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash .....	\$ 12,261	\$ -
Accounts receivable (Net of allowance for doubtful accounts of \$0)	379,286	-
Prepaid expenses and other current assets .....	144,351	-
	-----	-----
TOTAL CURRENT ASSETS .....	535,898	-
SOFTWARE DEVELOPMENT COSTS, net .....	292,035	-
PROPERTY AND EQUIPMENT, net .....	694,762	-
DEFERRED DEBT OFFERING COSTS .....	200,000	28,697
OTHER ASSETS .....	2,400	-
	-----	-----
TOTAL ASSETS .....	\$ 1,725,095	\$ 28,697
	=====	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Current portion of capital lease obligation .....	\$ 48,122	\$ -
Current portion of loan payable .....	433,852	-
Accounts payable and accrued expenses .....	1,482,129	2
Due to related parties .....	179,953	-

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Loan payable - related party .....	205,836	-
Convertible loans from related party .....	197,578	-
	-----	-----
TOTAL CURRENT LIABILITIES .....	2,547,470	2
DEBENTURE PAYABLE, NET .....	221,304	(158,804)
Conversion feature on convertible debenture .....	-	317,690
ACCOUNTS PAYABLE AND ACCRUED EXPENSES, net of current portion .....	427,430	-
	-----	-----
TOTAL LIABILITIES .....	3,196,204	158,888
	-----	-----
STOCKHOLDERS' DEFICIT:		
Preferred stock \$.0001 par value; 20,000,000 shares authorized; No shares issued and outstanding .....	-	-
Common stock \$.00001 par value; 100,000,000 shares authorized; 31,200,949 shares issued and outstanding .....	312	-
Paid-in capital .....	7,600,067	(62,500)
Accumulated deficit .....	(8,995,886)	(67,691)
Deferred compensation .....	(17,500)	-
Other comprehensive loss - Cumulative foreign currency adjustment .	(58,102)	-
	-----	-----
TOTAL STOCKHOLDERS' DEFICIT .....	(1,471,109)	(130,191)
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT .....	\$ 1,725,095	\$ 28,697
	=====	=====

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TRANSAX INTERNATIONAL LIMITED  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2005

NOTE 8 - RESTATEMENT (continued)

CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

	For the Three Months ended September 30, 2005	
	INITIAL FILING	RESTATEMENT
	-----	-----
LOSS FROM OPERATIONS .....	\$ (9,671)	\$ (1)
	-----	-----
OTHER INCOME (EXPENSES):		
Foreign exchange gains .....	428	-
Loss on derivative liability .....	-	(51,886)
Interest expense .....	(115,397)	(31,249)
Interest expense - related party .....	(110,004)	-
	-----	-----
TOTAL OTHER EXPENSES .....	(224,973)	(83,135)
	-----	-----

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NET LOSS .....	(234,644)	(83,136)
OTHER COMPREHENSIVE INCOME:		
Unrealized foreign currency translation gain (loss) .....	(4,324)	-
COMPREHENSIVE LOSS .....	\$ (238,968)	\$ (83,136)
NET LOSS PER COMMON SHARE: BASIC AND DILUTED .....	\$ (0.01)	
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED ....	30,296,894	
		For the Nine Months ended September 30, 2005
LOSS FROM OPERATIONS .....	\$ (104,563)	\$ (1)
OTHER INCOME (EXPENSES):		
Other income (expense) .....	10,514	-
Foreign exchange gains .....	26,862	-
Loss on derivative liability .....	-	(67,690)
Interest expense .....	(282,482)	-
Interest expense - related party .....	(166,281)	-
TOTAL OTHER EXPENSES .....	(411,387)	(67,690)
NET LOSS .....	(515,950)	(67,691)
OTHER COMPREHENSIVE INCOME:		
Unrealized foreign currency translation gain (loss) .....	4,550	-
COMPREHENSIVE LOSS .....	\$ (511,400)	\$ (67,691)
NET LOSS PER COMMON SHARE: BASIC AND DILUTED .....	\$ (0.02)	
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED ....	29,596,231	

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TRANSAX INTERNATIONAL LIMITED  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2005

NOTE 8 - RESTATEMENT (continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

INITIAL

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	FILING -----	RESTATEMENT -----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss .....	\$ (515,950)	\$ (67,691)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization .....	176,654	-
Amortization of software maintenance costs .....	106,590	-
Beneficial interest .....	93,750	(62,500)
Stock-based compensation and consulting .....	102,166	-
Grant of warrants .....	129,745	-
Loss on derivative liability .....	-	67,690
Amortization of deferred debt issuance costs .....	9,566	62,500
Changes in assets and liabilities:		
Accounts receivable .....	(209,088)	-
Prepaid expenses and other current assets .....	(92,804)	-
Other assets .....	(2,400)	-
Accounts payable and accrued expenses .....	391,388	1
Accrued interest payable, related party .....	17,929	-
Accrued interest payable .....	5,237	-
Due to related parties .....	42,744	-
Accounts payable and accrued expenses - long-term ....	34,365	-
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES .....	289,893	-
	-----	-----

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

This report on Form 10-QSB/A contains forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those discussed in the forward-looking statements and from historical results of operations. Among the risks and uncertainties which could cause such a difference are those relating to our dependence upon certain key personnel, our ability to manage our growth, our success in implementing the business strategy, our success in arranging financing where required, and the risk of economic and market factors affecting us or our customers. Many of such risk factors are beyond the control of the Company and its management.

GENERAL

Transax International Limited, a Colorado corporation (the "Company"), currently trades on the OTC Bulletin Board under the symbol "TNSX". Transax International Limited is referred to in this Form 10-QSB/A as "we".

Through our wholly-owned subsidiary TDS Telecommunication Data Systems LTDA ("TDS"), we are an international provider of health information management products (collectively, the "Health Information Management Products"), which are specifically designed for the healthcare providers and health insurance companies. We are dedicated to improving healthcare delivery by providing to hospitals, physician practices and health insurance companies with innovative health information management systems to manage coding, compliance, abstracting and record management processes. We have developed a proprietary software trademarked (Brazil only) "MedLink Solution", which was specifically designed and developed for the healthcare and health insurance industry enabling the real time automation of routine patient eligibility, verifications, authorizations, claims processing and payment functions that are currently performed manually

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(the "MedLink Solution").

### RESULTS OF OPERATIONS

NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2005 COMPARED TO NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2004

Our net losses during the nine-month period ended September 30, 2005 were \$583,641 compared to a net loss of \$1,252,948 during the nine-month period ended September 30, 2004. During the nine month period ended September 30, 2005, we generated \$2,450,424 in net revenues compared to \$772,576 in net revenues for the nine months ended September 30, 2004, an increase of \$1,677,848, or 217.2%. The significant increase in revenues is due to the continued rollout of software contracts in Brazil. We undertook approximately 4.75 million "real-time" transactions during the nine month period ended September 30, 2005 compared to 3.1 million "real-time" transactions during the same period in 2004. We installed a record 1393 Point of Sales (POS) solutions during the nine months ended September 30, 2005. At the end of September 2005 we had 5,000 solutions operational in Brazil, including 2,500 Point of Sales solutions.

During the nine-month period ended September 30, 2005, we incurred operating expenses of \$2,554,988 compared to operating expenses of \$1,855,389 incurred during the nine-month period ended September 30, 2004, an increase of \$699,599 or 37.7%. The increase in operating expenses during the nine-month period ended September 30, 2005 from the same period in 2004 resulted from: (i) an increase of \$502,986, or approximately 128.2%, in cost of product support services resulting from the increase in net revenues; (ii) an increase of \$49,046, or approximately 18.2%, in payroll and related benefits due to an increase in employees needed to handle our increased operations; (iii) an increase of \$326,621, or 109.6%, in general and administrative expenses resulting from increased operating costs associated with increased operations; (iv) an increase of \$133,623, or approximately 310.5%, in depreciation and amortization expense as a result of an increase in property and equipment acquired for our TDS operations, and (v) an increase in software maintenance costs of \$59,899, or 77%, related to increased amortization of software maintenance costs associated with our software.

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### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (CONTINUED)

Certain operating expenses, however, decreased during the nine-month period ended September 30, 2005 from the same period in 2004 as follows: (i) a decrease of \$140,643, or 54.8%, in management and consulting fees, which is attributable to a decrease in the use of consultants; (ii) a decrease of \$184,969, or 69.8%, in stock-based compensation and consulting fees as a result of a decrease in stock issuances to employees, officers and consultants; (iii) a decrease of \$39,847, or approximately, 36.1%, in investor relation fees attributable to a decrease in the use of investor relations services, and (vi) a decrease in professional fees of \$7,117 related to our SEC filings and filing of a registration statement of form SB-2.

We reported a loss from operations of \$104,564 for the nine-month period ended September 30, 2005 as compared to a loss from operations of \$1,082,813 for the nine-month period ended September 30, 2004.

Total other expenses increased \$308,942, or approximately 181.6%, for nine months ended September 30, 2005 as compared to the nine months ended September 30, 2004. Included in this change is: (i) an increase in other income of \$40,141 due to the income recognized upon settlement of accounts payable balances which were settled for less than the original obligation.; (ii) an increase of



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\$307,177 or approximately 217%, in interest expense for the nine months ended September 30, 2005 as compared to the nine months ended September 30, 2004, which reflects an increase in our borrowings during nine months ended September 30, 2005, the recording of beneficial interest of \$31,250 and interest expense recorded in connection with the grant of warrants upon debt conversion of \$129,745, (iii) an increase of \$25,784 in foreign exchange rate gains due to a favorable fluctuation in the exchange rate between Brazil and the United States and (iv) a \$67,690 loss on the valuation of the derivative liability.

For the nine months ended September 30, 2005, our net loss was \$583,641 or \$0.02 per common share compared to a net loss of \$1,252,948 or \$0.08 per common share for the nine month period ended September 30, 2004.

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2005 COMPARED TO THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2004

Our net losses during the three-month period ended September 30, 2005 were \$317,780 compared to a net loss of \$708,564 during the three-month period ended September 30, 2004. During the three-month period ended September 30, 2005, we generated \$948,993 in net revenues compared to \$322,377 in net revenues for the three-months ended September 30, 2004, an increase of \$626,616, or 194.3%. The significant increase in revenues is due to the continued rollout of software contracts in Brazil as discussed above.

During the three-month period ended September 30, 2005, we incurred operating expenses of \$958,665 compared to operating expenses of \$964,811 incurred during the three-month period ended September 30, 2004, a decrease of \$6,146, or 1%. The decrease in operating expenses during the three-month period ended September 30, 2005 from the same period in 2004 resulted from: (i) an increase of \$152,839, or approximately 105%, in cost of product support services resulting from the increase in net revenues; (ii) an increase of \$7,159, or approximately 6.8%, in payroll and related benefits due to an increase in employees needed to handle our increased operations; (iii) an increase of \$154,573, or 136.5%, in general and administrative expenses resulting from increased operating costs associated with increased operations; (iv) an increase of \$64,770, or approximately 782.2%, in depreciation and amortization expense as a result of an increase in property and equipment acquired for our TDS operations, and (v) an increase in software maintenance costs of \$17,858 related to increased amortization of software maintenance costs associated with our software.

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### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (CONTINUED)

Certain operating expenses, however, decreased during the three-month period ended September 30, 2005 from the same period in 2004 as follows: (i) a decrease of \$57,808, or 58.4%, in management and consulting fees, which is attributable to a decrease in the use of consultants; (ii) a decrease of \$35,845, or approximately 39.5%, in investor relation fees attributable to a decrease in the use of investor relations services. (iii) a decrease 265,011, or 100%, in stock-based compensation and consulting fees as a result of a decrease in stock issuances to employees, officers and consultants; and (iv) a decrease in professional fees of \$44,681, or 41%, related to a decrease in fees associated with our SEC filings and the filing of a registration statement, Form SB-2.

We reported a loss from operations of \$9,672 for the three-month period ended September 30, 2005 as compared to a loss from operations of \$642,434 for the three-month period ended September 30, 2004.

Total other expenses increased \$241,978, or approximately 365.9%, for three months ended September 30, 2005 as compared to three months ended September 30,

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2004. Included in this change is: (i) a decrease in other expense of \$10,424 as reported for the three months ended September 30, 2004.; (ii) an increase of \$200,747, or approximately 359.1%, in interest expense for the three months ended September 30, 2005 as compared to the three months ended September 30, 2004 which reflects an increase in our borrowings during three months ended September 30, 2005 and interest expense recorded in connection with the grant of warrants upon debt conversion of \$98,545 and \$31,249 of amortized debt discount; (iii) an increase of \$231 in foreign exchange rate gains due to a favorable fluctuation in exchange rate between Brazil and the United States and (iv) a \$51,886 loss on the valuation of the derivative liability.

Therefore, our net loss during the three month period ended September 30, 2005 was \$317,780 or \$0.01 per common share compared to a net loss of \$708,564 or \$0.04 per common share for the three month period ended September 30, 2004.

### LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2005, our current assets were \$535,898 and our current liabilities were \$2,547,472, which resulted in a working capital deficit of \$2,011,574. As of September 30, 2005, our total assets were \$1,753,792 consisting of: (i) \$12,261 in cash; (ii) \$144,351 in prepaid expenses and other assets; (iii) \$379,286 in accounts receivable; (iv) \$292,035 in net software development costs; (v) \$694,762 in net valuation of property and equipment; (vi) deferred debt offering costs of \$228,697 which will be amortized into interest expense over time and (vii) \$2,400 in other assets.

As of September 30, 2005, our total liabilities were \$3,355,092 consisting of: (i) \$1,909,561 in long-term and current portion of accounts payable and accrued expenses; (ii) \$179,953 due to related parties; (iii) \$197,578 in convertible loans to related parties; (iv) \$205,836 in loan payable to related parties; (v) \$48,122 in current portion of capital lease obligation; (vi) \$62,500 in net convertible debenture payable; (ix) \$433,852 in of loans payable and (x) \$317,690 in conversion feature liability related to the convertible debenture,. As at September 30, 2005, our current liabilities were \$2,865,162 compared to \$2,121,551 at December 31, 2004. The increase in current liabilities is due primarily to an increase in accounts payable and accrued expenses, additional loans to fund operations and the recording of a conversion feature liability on our convertible debenture.

Stockholders' deficit decreased from \$1,742,087 for fiscal year ended December 31, 2004 to \$1,601,300 for the nine-month period ended September 30, 2005.

For the nine months ended September 30, 2005, net cash flow provided by operating activities was \$289,893 compared to net cash provided by operating activities of \$15,108 for the nine months ended September 30, 2004. The change in cash flows provided by operating activities is mainly due to the decrease in operating loss for the period.

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### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (CONTINUED)

Net cash flows used in investing activities amounted to \$583,681 for the nine months ended September 30, 2005 compared to \$237,092 for the nine months ended September 30, 2004, an increase in cash used in investing activities of \$346,589. The increase is primarily attributable to an increase in the acquisition of property and equipment in order to facilitate our growth in revenues.

Net cash flow provided by financing activities for the nine months ended September 30, 2005 was \$420,467 resulting primarily from net proceeds from a

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convertible debenture, loans payable, and related party loans of \$464,358 offset by the payment of capital lease obligations of \$43,891 compared to \$228,323 for the nine months ended September 30, 2004 resulting from proceeds from related party loans of \$141,806 and net advances from related and non-related parties of \$124,000 offset by the payment of capital lease obligations of \$37,483.

In summary, based upon the cash flow activities as previously discussed, for the nine months ended September 30, 2005, our overall cash position increased by \$8,171.

### PLAN OF OPERATION

Since our inception, we have funded operations through short-term borrowings and equity investments in order to meet our strategic objectives. Our future operations are dependent upon external funding and our ability to increase revenues and reduce expenses. Management believes that sufficient funding will be available from additional related party borrowings and private placements to meet our business objectives including anticipated cash needs for working capital, for a reasonable period of time. However, there can be no assurance that we will be able to obtain sufficient funds to continue the development of our software products and distribution networks.

As of the date of this quarterly report, there is substantial doubt regarding our ability to continue as a going concern as we have not generated sufficient cash flow to fund our business operations and material commitments. Our future success and viability, therefore, are dependent upon our ability to develop, provide and market our information network solutions to healthcare providers, health insurance companies and other end-users, and the continuing ability to generate capital financing. We are optimistic that we will be successful in our business operations and capital raising efforts; however, there can be no assurance that we will be successful in generating revenue or raising additional capital. The failure to generate sufficient revenues or raise additional capital may have a material and adverse effect upon us and our shareholders.

We anticipate an increase in operating expenses over the next three years to pay costs associated with such business operations. We may need to raise additional funds. We may finance these expenses with further issuances of our common stock. We believe that any anticipated private placements of equity capital and debt financing, if successful, may be adequate to fund our operations over the next twelve months. Thereafter, we expect we will need to raise additional capital to meet long-term operating requirements. If we raise additional funds through the issuance of equity or convertible debt securities other than to current shareholders, the percentage ownership of our current shareholders would be reduced, and such securities might have rights, preferences or privileges senior to our existing common stock. In addition, additional financing may not be available upon acceptable terms, or at all. If adequate funds are not available, or are not available with acceptable terms, we may not be able to conduct our business operations successfully. This eventuality could significantly and materially restrict our overall business operations.

Based upon a twelve-month work plan proposed by management, it is anticipated that such a work plan would require approximately \$2,000,000 to \$5,000,000 of financing designed to fund current debt commitments and business operations. We entered into a financing agreement with Scott and Heather Grimes, Joint Tenants with Right of Survivorship (the "Investor"). Under the terms of the financing arrangement with the Investor, we issued convertible debentures to the Investor in the original principal amount of \$250,000. The debentures are convertible at the Investor's option any time up to maturity at a conversion price equal to the lower of: (i) 120% of the closing bid price of our Common Stock on the date of

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### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (CONTINUED)

the debentures, or (ii) 80% of the lowest closing bid price of our Common Stock for the five trading days immediately preceding the conversion date. The debentures have a two-year term and accrue interest at 5% per year. At maturity, the debentures will automatically convert into shares of our Common Stock at a conversion price equal to the lower of: (i) 120% of the closing bid price of our Common Stock on the date of the debentures, or (ii) 80% of the lowest closing bid price on our Common Stock for five trading days immediately preceding the conversion date. Additionally, we entered into a new Standby Equity Distribution Agreement with Cornell Capital Partners on May 17, 2005. Pursuant to the Standby Equity Distribution Agreement, we were, at our discretion, to periodically sell to Cornell Capital Partners shares of common stock for a total purchase price of up to \$5.0 million. In October 2005, we withdrew our registration statement to register shares issuable under the Standby Equity Distribution Agreement and are seeking alternative funding sources and a restructuring of current arrangements with Cornell Capital Partners. Since we withdrew the Standby Equity Distribution Agreement, we will need to raise additional capital from other sources to provide funds for repayment of debt and working capital. There are no assurances that such capital will be available to us when needed or upon terms and conditions which are acceptable to us. If we are able to secure additional working capital through the sale of equity securities, the ownership interests of our current stockholders will be diluted. If we raise additional working capital through the issuance of debt or additional dividend paying securities, our future interest and dividend expenses will increase. If we are unable to secure additional working capital as needed, our ability to grow our sales, meet our operating and financing obligations as they become due and continue our business and operations could be in jeopardy.

We believe that we can satisfy our cash requirements for the next twelve months based on our ability to enter into additional financing arrangement as necessary. Our future success and viability are primarily dependent upon our current management to generate revenues from business operations and raise additional capital through further private offerings of our stock or loans from private investors. There can be no assurance, however, that we will be able to raise additional capital. Our failure to successfully raise additional capital will have a material and adverse affect upon us and our shareholders.

#### MATERIAL COMMITMENTS

##### CONVERTIBLE LOANS

A significant and estimated material liability for us for fiscal year 2005 is the aggregate amount of loans payable for \$200,000 and \$100,000, respectively, to a related party whose officer is one of our officers (collectively, the "Convertible Loans"). On March 23, 2005, we modified the terms of Convertible Loans. Under the modified terms, \$200,000 of principal is due on March 31, 2007 and is convertible into shares of our restricted common stock at \$.0125 per share. The remaining principal amount of \$100,000 is due on April 30, 2007 and is convertible into our shares of restricted common stock at \$0.125 per share. In addition, for each share of common stock received upon conversion, the related party is entitled to receive one warrant to purchase our common stock at \$0.25 per share for a period of two years from the conversion date. The interest rate of the Convertible Loans is 12% per annum compounded monthly.

On June 28, 2005, we issued 400,000 shares of our restricted common stock and 400,000 warrants to the related party in accordance with the exercise of the conversion right relating to \$50,000 of the principal amount due and owing. We also issued 35,770 shares of our common stock to settle \$4,471 in interest due on the Convertible Loans. On September 30, 2005, we issued an additional 600,000 shares of our restricted common stock and 600,000 warrants to the related party

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in accordance with the exercise of the conversion right relating to \$75,000 of the principal amount due and owing. We also issued 77,968 shares of our common stock to settle \$9,746 in interest due on the Convertible Loans.

As of September 30, 2005, interest due and owing on the Convertible Loans is \$22,578 and the aggregate principal amount due and owing is \$175,000. See "Part II. Other Information. Item 2. Change in Securities and Use of Proceeds."

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### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (CONTINUED)

#### LOAN

A significant and estimated material liability for us for fiscal year 2005 is the aggregate principal amount of \$198,552 and accrued interest in the amount of \$7,284 due and owing to an officer who loaned us the money for working capital purposes (the "Loan"). The Loan accrues 0.8% compounded interest per month and has a term of twelve months with repayable quarterly in arrears. As of September 30, 2005, interest due and owing on the Loan is \$7,284 and the aggregate principal amount due and owing is \$198,552. The term of the Loan has been extended for an additional twelve months until March 2006.

#### PROMISSORY NOTE

A significant and estimated material liability for us for fiscal year 2005 is the aggregate amount of \$255,237, which amount represents the outstanding principal balance of \$250,000 due and owing on certain debentures plus accrued interest (the "Promissory Note"). On October 25, 2004, we entered into a securities purchase agreement with Cornell Capital Partners (the "CCP Agreement"), pursuant to which we issued certain debentures. On May 17, 2005, we issued the Promissory Note to Cornell Capital Partners pursuant to which these certain debentures were terminated. The Promissory Note bears interest at a rate of 12% per annum and is secured by stock pledged by certain of our shareholders.

#### SECURITIES PURCHASE AGREEMENT

A significant and estimated material liability for us for fiscal year 2005 is the aggregate amount of \$250,000, which amount represents certain debentures issued to Scott and Heather Grimes (collectively, the "Investor"). On April 1, 2005, we entered into a securities purchase agreement with the Investor (the "Agreement"), pursuant to which we issued convertible debentures to the Investor in the principal amount of \$250,000. The debentures are convertible at the Investor's option any time up to maturity at a conversion price equal to the lower of (i) 120% of the closing bid price of our common stock on the date of the debentures, or (ii) 80% of the lowest closing bid price of our common stock for the five trading days immediately preceding the conversion date. The debentures have a two-year term and accrue interest at 5% per year.

Certain negative covenants in the Securities Purchase Agreement could substantially impact our ability to raise funds from alternative sources in the future. For example, for as long as the convertible debenture remains outstanding and without the written consent of the debenture holder, the Company (a) shall not directly or indirectly consummate any merger, reorganization, restructuring, reverse stock split consolidation, sale of all or substantially all of the Company's assets or any similar transaction or related transactions; (b) shall not issue or sell shares of common stock or preferred stock without consideration or for a consideration per share less than the bid price of the common stock determined immediately prior to its issuance or issue any warrant, option, right, contract, call, or other security or instrument granting the holder thereof the right to acquire common stock without consideration or for a

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consideration per share less than the bid price of the common stock determined immediately prior to the issuance of such convertible security; (c) shall not enter into any security instrument granting the holder a security interest in

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### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (CONTINUED)

any or all assets of the Company; (d) shall not file any registration statement on Form S-8 except the Company may file one registration statement on Form S-8 for up to 2,500,000 shares of common stock and provided however, anyone receiving shares pursuant to such permitted Form S-8 registration shall be restricted from selling such shares for a period of ninety (90) days after the registration statement becomes effective and (e) shall not, and shall cause each of its subsidiaries not to, enter into, amend, modify or supplement, or permit any subsidiary to enter into, amend, modify or supplement any agreement, transaction, commitment, or arrangement with any of its or any of its subsidiary's officers, directors, person who were officers or directors at any time during the previous two years, stockholders who beneficially own five percent (5%) or more of the Company's common stock, or Affiliates (as defined in the Securities Purchase Agreement) or with any individual related by blood, marriage, or adoption to any such individual or with any entity in which any such entity or individual owns a five percent (5%) or more beneficial interest, except for (i) customary employment arrangements and benefit programs on reasonable terms, (ii) any investment in an Affiliate of the Company, (iii) any agreement, transaction, commitment, or arrangement on an arms-length basis on terms no less favorable than terms which would have been obtainable from a person other than such related party and (iv) any agreement transaction, commitment, or arrangement which is approved by a majority of the disinterested directors of the Company.

### CONSULTING AGREEMENT

A significant and estimated material liability for us for fiscal year 2005 is the aggregate amount of \$152,928 due and owing to Stephen Walters, our President. In accordance with the terms of an agreement, we pay monthly to Mr. Walters an aggregate amount of \$13,750 as compensation for managerial and consulting services provided by Mr. Walters. On March 28, 2005, we issued 400,000 shares of our restricted common stock at \$0.126 per share to Mr. Walters in settlement of \$50,500 due and owing. On June 28, 2005, we issued an additional 300,000 shares of our restricted common stock at \$0.11 per share to Mr. Walters in settlement of \$33,000 due and owing. On September 27, 2005, we issued an additional 200,000 shares of our restricted common stock at \$0.17 per share to Mr. Walters for settlement of \$34,000 due and owing. Therefore, as of September 25, 2005, we owe an aggregate of \$152,928 to Mr. Walters in management fees.

### CRITICAL ACCOUNTING POLICIES

Our financial statements and accompanying notes are prepared in accordance with generally accepted accounting principles in the United States. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and assumptions are affected by management's applications of accounting policies. Critical accounting policies for Transax International Limited includes the useful life of property and equipment and accounting for stock based compensation.

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### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (CONTINUED)

Under the criteria set forth in SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed," capitalization of software development costs begins upon the establishment of technological feasibility of the software. The establishment of technological feasibility and the ongoing assessment of the recoverability of these costs require considerable judgment by management with respect to certain external factors, including, but not limited to, anticipated future gross product revenues, estimated economic life, and changes in software and hardware technology. Capitalized software development costs are amortized utilizing the straight-line method over the estimated economic life of the software not to exceed three years. We regularly review the carrying value of software development assets and a loss is recognized when the unamortized costs are deemed unrecoverable based on the estimated cash flows to be generated from the applicable software.

We review the carrying value of property and equipment for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparison of its carrying amount to the undiscounted cash flows that the asset or asset group is expected to generate. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the property, if any, exceeds its fair market value.

Accounting for Stock Based Compensation - We account for stock options issued to employees in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, compensation cost is measured on the date of grant as the excess of the current market price of the underlying stock over the exercise price. Such compensation amounts are amortized over the respective vesting periods of the option grant. The Company adopted the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" and SFAS 148, "Accounting for Stock-Based Compensation -Transition and Disclosure", which permits entities to provide pro forma net income (loss) and pro forma earnings (loss) per share disclosures for employee stock option grants as if the fair-valued based method defined in SFAS No. 123 had been applied. The Company accounts for stock options and stock issued to non-employees for goods or services in accordance with the fair value method of SFAS 123. We are required to comply with SFAS No. 123 (revised 2004) starting on the first day of our fiscal year 2006 for stock options issued to employees. We are currently evaluating the effect that the adoption of SFAS No. 123 (revised 2004) will have on our consolidated operating results and financial condition. No stock-based compensation cost is currently reflected in net loss for employee option grants as all options granted had an exercise price equal to or exceeding market value of the underlying common stock on the date of grant.

#### Revenue Recognition

Our revenues, which do not require any significant production, modification or customization for the Company's targeted customers and do not have multiple elements, is recognized when (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the Company's fee is fixed and determinable, and; (4) collectibility is probable.

Substantially all of our revenues are derived from the processing of applications by healthcare providers for approval of patients for healthcare services from insurance carriers. Our software or hardware devices containing our software are installed at the healthcare provider's location. We offer transaction services to authorize and adjudicate identity of the patient and obtain "real time" approval for any necessary medical procedure from the insurance carrier. Our transaction-based solutions provide remote access for

healthcare providers to connect with contracted insurance carriers. Transaction services are provided through contracts with insurance carriers and others, which specify the services to be utilized and the markets to be served. Our clients are charged for these services on a per transaction basis. Pricing varies depending type of transactions being processed under the terms of the contract for which services are provided. Transaction revenues are recognized in the period in which the transactions are performed.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION (CONTINUED)

OFF BALANCE SHEET ARRANGEMENTS

As of the date of this quarterly report, we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. The term "off-balance sheet arrangement" generally means any transaction, agreement or other contractual arrangement to which an entity unconsolidated with us is a party, under which we have: (i) any obligation arising under a guarantee contract, derivative instrument or variable interest; or (ii) a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity or market risk support for such assets.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued FASB Statement No. 123R, "Share-Based Payment, an Amendment of FASB Statement No. 123" ("SFAS No. 123R"). SFAS No. 123R requires companies to recognize, in the statement of operations, the grant-date fair value of stock options and other equity-based compensation issued to employees. FAS No. 123R is effective for the Company on January 1, 2006. We are in process of evaluating the impact of this pronouncement on our financial position.

In May 2005, FASB issued FASB Statement 154, "Accounting Changes and Error Corrections -- a replacement of APB Opinion No. 20 and FASB Statement No. 3" ("SFAS 154"). SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. The provisions of SFAS 154 require, unless impracticable, retrospective application to prior periods' financial statements of (1) all voluntary changes in principles and (2) changes required by a new accounting pronouncement, if a specific transition is not provided. SFAS 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate, which requires prospective application of the new method. SFAS 154 is effective for all accounting changes made in fiscal years beginning after December 15, 2005.

ITEM 3. CONTROLS AND PROCEDURES

We maintain "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"), that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. We conducted an evaluation (the "Evaluation"), under the supervision and with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer



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("CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures ("Disclosure Controls") as of the end of the period covered by this report pursuant to Rule 13a-15 of the Exchange Act.

We have implemented additional measures as part of changes to our internal controls to determine and ensure that information required to be disclosed in reports filed under the exchange Act was recorded, processed, summarized and reported within the time periods specified in the rules and forms including, but not limited to, the following: (i) engagement of a third party to assist us with documenting processes, performing testing and reviewing our internal control over financial reporting in connection with our assessment under Section 404 of the Sarbanes-Oxley Act; (ii) evaluation and implementation of improvements to our accounting and management information systems; and (iii) development and implementation of a remediation plan to address any perceived deficiencies identified by the Securities and Exchange Commission in our internal control over financial reporting. The costs of these additional measures did not have a material impact on our future results or operations liquidity.

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### ITEM 3. CONTROLS AND PROCEDURES (CONTINUED)

We maintain "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"), that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. We conducted an evaluation (the "Evaluation"), under the supervision and with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures ("Disclosure Controls") as of the end of the period covered by this report pursuant to Rule 13a-15 of the Exchange Act.

Our management, including our CEO and CFO, do not expect that our disclosure controls and internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving our objectives. Our certifying officers have concluded that our disclosure controls and procedures were ineffective as at September 30, 2005. However, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. It is our responsibility and that of our management to identify any deficiencies in internal controls over financial reporting. We discovered certain deficiencies in our internal control over financial reports, which resulted in the restatement of our financial statements as discussed below. The restatement was undertaken to properly reflect an embedded derivative conversion liability related to our debentures payable in accordance with SFAS No. 133 and EITF 00-19 after further consultation with our independent auditors.

We have implemented additional measures as part of changes to our internal controls to determine and ensure that information required to be disclosed in reports filed under the exchange Act was recorded, processed, summarized and reported within the time periods specified in the rules and forms including, but not limited to, the following: (i) documentation of processes, performing testing and reviewing our internal control over financial reporting in connection with our assessment under Section 404 of the Sarbanes-Oxley Act (although we are not currently subject to Section 404 and, as a consequence,

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neither management nor our auditors have examined or rendered a report concerning the effectiveness of our internal controls over financial reporting, and we undertake this assessment in preparation for the assessment we would be making at a later time when we become subject to the requirements of Section 404); (ii) evaluation and implementation of improvements to our accounting and management information systems; and (iii) development and implementation of a remediation plan to address any perceived deficiencies identified in our internal control over financial reporting. The costs of these additional measures did not have a material impact on our future results or operations liquidity.

On July 6, 2006, we announced that we were restating our Consolidated Balance Sheet at September 30, 2005 and our Consolidated Statement of Operations and Statement of Cash Flows as of and for the period ended September 30, 2005 to properly reflect an embedded derivative conversion liability related to our debenture payable in accordance with SFAS No. 133 and EITF 00-19. The change in presentation of the Company's embedded derivative feature associated with its debenture payable has the effect of increasing total assets by \$28,697, increasing liabilities by \$158,888, increasing the stockholders' deficit by \$130,191 as of September 30, 2005, and increasing the Company's net loss by \$83,136 and \$67,691 for the three and nine months ended September 30, 2005, respectively. This change in presentation of the Company's embedded derivative feature affected some of the items within the Company's consolidated statement of cash flows for the nine months ended September 30, 2005 but did not impact cash at the end of the period.

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Our certifying officers have concluded that our disclosure controls and procedures were ineffective as at September 30, 2005 related to the presentation of derivative liabilities. However, we believe that the implementation of changes to our internal controls and procedures as detailed above has corrected this deficiency.

Other than the changes related to the proper presentation and recording of derivative liabilities, there were no changes during our last fiscal quarter in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 under the Exchange Act with respect to the period ended September 30, 2005 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management or board override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

### PART II - OTHER INFORMATION

Item 1 - Legal Proceedings

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On March 14, 2005, X-Clearing Corp, a Colorado corporation ("X-Clearing"), our former transfer agent, initiated legal proceedings against us by filing a complaint and verified motion for replevin and for temporary order to preserve property in the District Court of the City and County of Denver, State of Colorado, civil action no. 05 CV 1980 (the "Complaint"). During September 2001, we had entered into an agreement with X-Clearing Corp. regarding engagement as our transfer agent, registrar and disbursing agent in connection with our shares of Common Stock (the "Transfer Agent Agreement"). The Complaint generally alleges that: (i) we have breached and wrongfully attempted to terminate the Transfer Agent Agreement; (ii) X-Clearing has a valid and perfected security interest in our books and records in accordance with the terms of the Transfer Agent Agreement; and (iii) X-Clearing is entitled to an order from the District Court replevining and preventing us from altering, destroying or otherwise interfering with the valid and perfected security interest and other liquidated damages.

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### Item 1 - Legal Proceedings (continued)

On April 5, 2005, we filed an answer to Complaint, counterclaims and jury demand (the "Answer"). The Answer generally denies that: (i) we breached and attempted to wrongfully terminate the Transfer Agent Agreement; (ii) X-Clearing Corp. has a valid and perfected security interest in our books and records; (iii) X-Clearing is entitled to an order of replevin and liquidated damages. Our Answer further states that: (i) X-Clearing Corp. has failed to take reasonable steps to minimize or mitigate its claimed damages; and (ii) X-Clearing Corp.'s claims are barred by the statute of frauds, doctrine of laches, doctrine of accord and satisfaction. Our Answer further counterclaims that: (i) despite X-Clearing Corp. being paid all administrative fees, share transfer fees and fees for new issuances, X-Clearing Corp. has refused to produce and provide us with our stock transfer records, which has caused us irreparable harm; (ii) X-Clearing Corp. has continued undertaking stock transfers on our behalf and illegally issuing fraudulent stock certificates; and (iii) X-Clearing Corp. has improperly and illegally used our records, which included stock certificates that X-Clearing Corp. has fraudulently created and issued to make stock transfers without notification to us.

On April 7, 2005, we filed a stipulated motion for testimony by telephone and for expedited ruling by court. A hearing was set for April 12, 2005, at which X-Clearing Corp.'s replevin action was dismissed by the District Court. As of the date of this Quarterly Report, we intend to aggressively pursue all such legal actions and review further legal remedies against X-Clearing Corp.

The parties through legal counsel are currently in negotiation for settlement by mutual agreement.

Other than as disclosed above, we are not aware of any legal proceedings contemplated by any governmental authority or other party involving us or our subsidiaries or our properties. None of our directors, officers or affiliates are: (i) a party adverse to us in any legal proceedings; or (ii) has an adverse interest to us in any legal proceedings. We are not aware of any other legal proceedings pending or that have been threatened against us, our subsidiaries or our properties.

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

On September 26, 2005, we entered into a settlement agreement with Stephen Walters (the "Settlement Agreement"), regarding the settlement of an aggregate amount of \$34,000 due and owing to Mr. Walters pursuant to managerial services performed. Pursuant to the terms and provisions of the Settlement Agreement: (i) we agreed to settle \$34,000 representing a partial amount of the aggregate amount due and owing to Mr. Walters by issuing 200,000 shares of our restricted common stock at \$0.17 per share (which amount is based upon the average of the open and close bid of our shares of common stock traded on the OTC Bulletin Board between September 15, 2005 and September 26, 2005); and (ii) Mr. Walters agreed to accept the issuance of an aggregate of 200,000 shares of our restricted common stock as full and complete satisfaction of the aggregate amount of \$34,000.

On September 30, 2005, the holder of the Convertible Loans exercised a conversion right. Accordingly, we issued 600,000 shares of our restricted common stock at the conversion price of \$.125 per share and 600,000 warrants to purchase shares of our restricted common stock at \$.25 per share for the conversion of principal balance of \$75,000. We also issued 77,968 shares of common stock to settle \$9,746 in interest due on the Convertible Loans.

The recipients are sophisticated investors who have such knowledge and experience in financial, investment and business matters that they are capable of evaluating the merits and risks of the prospective investment in our securities. The recipients are accredited investors. The issuance was exempt from registration under the Securities Act in reliance on an exemption provided by Section 4(2) of that act.

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### Item 3 - Defaults Upon Senior Securities

None.

### Item 4 - Submissions of Matters to a Vote of Security Holders

None

### Item 5 - Other Information

None

### Item 6 - Exhibits

- 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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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.

TRANSAX INTERNATIONAL LIMITED

Date: October 13, 2006

By: /s/Stephen Walters  
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Stephen Walters  
Chief Executive Officer

Date: October 13, 2006

By: /s/Adam Wasserman  
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Adam Wasserman  
Principal Financial and  
Accounting Officer

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