
Versatile Mobile Systems (Canada) Inc.
Consolidated Financial Statements
March 31, 2005
(Unaudited - Prepared by Management)

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Versatile Mobile Systems (Canada) Inc.
Consolidated Balance Sheets
(Unaudited - Prepared by Management)

	<u>March 31, 2005</u> <u>(unaudited)</u>	<u>June 30, 2004</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 312,124	\$ 2,030,248
Accounts receivable	1,812,656	3,155,283
Prepaid expenses	457,848	25,263
Inventory	1,590,837	1,894,592
	<u>4,173,465</u>	<u>7,105,386</u>
Capital Assets		
Intangible assets	86,868	156,848
Goodwill	32,289	105,278
	<u>3,644,508</u>	<u>3,644,508</u>
	<u>\$ 7,937,130</u>	<u>\$ 11,012,020</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 2,058,603	\$ 3,375,588
Deferred revenue	80,684	101,948
Current portion of capital lease obligations	6,849	7,589
	<u>2,146,136</u>	<u>3,485,125</u>
Capital Lease Obligations	<u>15,397</u>	<u>22,563</u>
	<u>2,161,533</u>	<u>3,507,688</u>
SHAREHOLDERS' EQUITY		
Common Shares (note 3)	58,412,949	58,378,832
Warrants (note 4)	288,730	321,619
Contributed surplus	2,228,530	2,186,046
Deficit	(54,692,890)	(53,090,939)
Foreign currency translation adjustment	(461,722)	(291,226)
	<u>5,775,597</u>	<u>7,504,332</u>
	<u>\$ 7,937,130</u>	<u>\$ 11,012,020</u>

APPROVED BY THE DIRECTORS:

DIRECTOR: [signed] John Hardy

DIRECTOR: [signed] Fraser Atkinson

See Notes to Consolidated Financial Statements

Versatile Mobile Systems (Canada) Inc.
Consolidated Statements of Operations and Deficit
(Unaudited - Prepared by Management)

	Three months ended March 31		Nine months ended March 31	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
SALES	\$ 3,232,765	\$ 4,467,967	\$ 9,909,985	\$ 14,733,209
COST OF SALES	\$ 2,402,800	\$ 2,983,965	7,341,602	\$ 9,903,315
	829,965	1,484,002	2,568,383	4,829,894
EXPENSES				
General and administrative	544,688	621,969	1,710,918	1,921,211
Selling and marketing	586,250	674,112	1,818,219	1,952,821
Research and development	129,403	274,509	471,691	822,294
Amortization of capital and intangible assets	31,105	79,716	158,910	247,649
Stock-based compensation	3,199	7,970	9,595	7,970
Recovery of premise costs		(97,640)		(195,280)
	1,294,645	1,560,636	4,169,333	4,756,665
NET EARNINGS (LOSS) BEFORE INCOME TAXES	(464,680)	(76,634)	(1,600,950)	73,229
INCOME TAX EXPENSE	(10)	-	1,001	1,119
NET EARNINGS (LOSS) FOR THE PERIOD	(464,670)	(76,634)	(1,601,951)	72,110
DEFICIT, BEGINNING OF PERIOD	(54,228,220)	(52,289,503)	(53,090,939)	(52,438,247)
DEFICIT, END OF PERIOD	(54,692,890)	(52,366,137)	(54,692,890)	(52,366,137)
NET EARNINGS (LOSS) PER SHARE: Basic and diluted	(\$0.01)	\$0.00	(\$0.02)	\$0.00

See Notes to Consolidated Financial Statements

Versatile Mobile Systems (Canada) Inc.
Consolidated Statements of Cash Flows
(Unaudited - Prepared by Management)

	Three months ended March 31		Nine months ended March 31	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES				
Net earnings (loss) for the period	\$ (464,670)	\$ (76,634)	\$ (1,601,951)	\$ 72,110
Items not affecting cash				
Amortization of capital and intangible assets	31,105	79,716	158,910	247,649
Stock-based compensation	3,199	7,970	9,595	7,970
Unrealized foreign exchange	172,347	(76,804)	(170,496)	(87,466)
Other		13,643	-	8,006
	(258,019)	(52,109)	(1,603,942)	248,269
Net change in non-cash working capital items	(246,258)	(781,062)	(87,249)	(1,261,710)
	(504,277)	(833,171)	(1,691,191)	(1,013,441)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES				
Additions to capital assets	(10,230)	(18,554)	(25,608)	(69,587)
	(10,230)	(18,554)	(25,608)	(69,587)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES				
Proceeds from Units issued on a private placement		870,000		870,000
Share issue costs		(7,457)		(7,457)
Proceeds from shares issued on exercised stock option		6,667	6,667	6,667
Capital lease obligations	(1,564)	(5,185)	(7,993)	(7,575)
	(1,564)	864,025	(1,326)	861,635
INCREASE (DECREASE) IN CASH and cash equivalents	(516,070)	12,300	(1,718,124)	(221,393)
CASH and cash equivalents, beginning of period	828,194	831,909	2,030,248	1,152,287
CASH and cash equivalents, end of period	\$ 312,124	\$ 844,209	\$ 312,124	\$ 930,894
Supplementary information				
Cash paid for interest expense	1,093	2,891	2,465	4,846
Cash paid for income taxes	-	1,119	973	1,119
Non cash items				
Shares issued pursuant to Financial Services Agreement			27,450	

See Notes to Consolidated Financial Statements

Versatile Mobile Systems (Canada) Inc.
Notes to Consolidated Financial Statements
For the period ended March 31, 2005
(Unaudited - Prepared by Management)

1. Consolidated financial statement presentation:

These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's annual financial statements for the year ended June 30, 2004. These financial statements have not been audited or reviewed by the Company's auditors.

On February 23, 2004 the Company received a certificate of Continuance under the Yukon Business Corporations Act effecting the change of the corporate jurisdiction of the Company from British Columbia to the Yukon.

2. Changes in accounting policies:

The accounting policies applied in these interim financial statements are consistent with those applied in the Annual financial statements. The following changes in accounting policies have been made in the past year.

(a) Stock-based compensation:

Prior to July 1, 2003, the Company applied the intrinsic method of accounting prescribed by CICA Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments" ("HB 3870") to employee stock options. Under the intrinsic method, deferred stock-based compensation is recorded if, on the date of grant of the stock option to an employee, the current market value of the underlying common share exceeds the exercise price per share.

The CICA Accounting Standards Board has amended HB3870 to require entities to account for employee stock options using the fair value based method, beginning January 1, 2004. The Company has adopted the fair value method on a prospective basis for all grants made subsequent to June 30, 2003.

Under the fair value based method, compensation cost is measured at fair value at the date of each grant and is expensed over the award's vesting period. The Company has applied the fair value based method to all employee stock options granted on or after July 1, 2003. The quarterly results prior to January 1, 2004 have not be amended, as the amounts were insignificant as the total expense for the 2004 fiscal year amounted to \$31,686.

(b) Intangible assets:

Intangible assets acquired individually or with a group of assets are initially recognized and measured at cost. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair values.

Intangible assets with finite useful life relate to acquired software licenses and are amortized over their estimated useful life. The amortization methods and estimated useful lives of intangible assets are reviewed annually.

During the 2004 fiscal year the Company reviewed the estimated useful lives of the intangible assets. After the review, the Company increased the estimated useful lives of the intangible assets from three years to four years.

3. Common Shares

Authorized

500,000,000 common shares without par value

Issued and outstanding

	Number		Amount
Issued and outstanding - June 30, 2004	90,672,134	\$	58,378,832
Shares issued pursuant to a Financial Services Agreement	78,428		27,450
Shares issued on exercised stock options	66,666		6,667
Issued and outstanding - March 31, 2005	90,817,228	\$	58,412,949

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4. Warrants

Issued and outstanding

	Exercise Price	Expiry Date	Number of Warrants	Amount
Warrants issued on private placement	\$0.40	4-Jun-05	2,485,713	\$ 124,286
Warrants issued on private placement	\$0.40	17-Sep-05	4,111,110	164,444
Broker warrants	\$0.37	17-Mar-05	822,222	32,889
Less Expiry of Warrants			(822,222)	(32,889)
Balance - March 31, 2005			6,596,823	\$ 288,730

During the quarter 822,222 warrants expired.

5. Stock Options

	Number of Shares	Weighted average exercise price
Balance - December 31, 2004	5,661,668	
Expired during the period	(725,000)	
Forfeited during the period	(200,000)	
Exercised during the period	-	
Balance - March 31, 2005	4,736,668	\$ 0.22

Distribution of Stock Options

	Number of Shares	Exercise Price	Expiry Date
Directors & Employees	1,385,000	\$ 0.50	April 11, 2005
Directors & Employees	3,141,668	0.10	April 17, 2007
Employees	125,000	0.11	August 18, 2007
Directors & Employees	85,000	0.32	December 6, 2007
	4,736,668		

6. Subsequent Events

(a) On April 22, 2005 the Company completed a non-brokered private placement of 5,135,413 Units for gross proceeds of \$1,540,625. Each Unit consists of one common share and one common share purchase warrant. Each common share purchase warrant will entitle the holder to purchase one common share of the Company for a period of twenty-four months after the Closing Date at a price of \$0.35 per common share. The common shares and warrants are subject to a four-month hold period. Three of the officers and directors of the Company participated in this placement subscribing for 968,749 Units for gross proceeds of \$290,625

(b) On April 26, 2005 the Company completed its acquisition of Perfect Order, Inc. and Perfect Order Manufacturing, Inc. (collectively "Perfect Order"). On closing, the Company paid the Vendors U.S. \$2,000,000 and will pay an additional U.S. \$1,000,000 in the current fiscal year. Additional payments will include four quarterly payments of U.S. \$68,750 on June 10, 2005, September 10, 2005, December 10, 2005 and March 10, 2006. Versatile, through its wholly owned subsidiary Perfect Order Acquisition Corporation ("POAC") also issued secured Promissory Notes for U.S. \$4,200,000 bearing interest at the rate of 3.1% per annum, payable 12 months after the Closing Date.

The Vendors may convert up to one-half of their Promissory Notes, within 10 months of the Closing Date, into shares of the Company at the rate of one common share for each U.S. \$0.34 (CDN \$0.425) of the Promissory Note. In addition, Versatile issued 750,000 Common Share Purchase warrants ("Warrant") to the Vendors on the Closing Date. One Warrant entitles the holder thereof to purchase one Common Share at \$0.345 per share, for a period expiring 24 months after the Closing Date.

Versatile, along with POAC also completed its banking facilities with a U.S. based financial institution for a secured term loan of U.S. \$2,800,000 as well as a secured demand loan of up to U.S. \$3,000,000 based on a percentage of eligible accounts receivable. The term loan was used to repay U.S. \$2,739,332 for a term loan that Perfect Order had previously had with another financial institution.

Martin Wolf Securities LLC advised the Company on this acquisition and will be paid a cash fee of approximately U.S. \$290,000 plus 235,285 common shares at a deemed price of \$0.35 per share. These shares were issued on May 2, 2005.