
Versatile Mobile Systems (Canada) Inc.

Consolidated Financial Statements

September 30, 2005

(Unaudited - Prepared by Management)

Consolidated Balance Sheets	Statement 1
Consolidated Statements of Operations and Deficit	Statement 2
Consolidated Statements of Cash Flows	Statement 3
Notes to Consolidated Financial Statements	

Versatile Mobile Systems (Canada) Inc.**Consolidated Balance Sheets**

(Unaudited - Prepared by Management)

	<u>September 30, 2005</u> (unaudited)	<u>June 30, 2005</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,303,328	\$ 183,598
Accounts receivable	9,760,630	13,559,290
Current portion of deferred contract costs	3,827,349	3,415,850
Work in progress	133,939	216,066
Prepaid expenses	802,689	517,092
Inventory	1,050,777	1,552,906
	<u>16,878,712</u>	<u>19,444,802</u>
Deferred contract costs	361,304	381,375
Capital Assets	374,077	450,621
Intangible assets	3,782,314	4,076,042
Future income tax asset	469,288	-
Goodwill	12,595,561	12,595,561
	<u>\$ 34,461,256</u>	<u>\$ 36,948,401</u>
LIABILITIES		
Current Liabilities		
Line of credit and bank overdraft	\$ -	520,626
Accounts payable and accrued liabilities	11,168,695	\$ 13,718,838
Current portion of deferred revenue	5,534,732	5,257,654
Bank term loan (note 3)	3,192,169	3,369,497
Promissory notes (note 4)	5,650,687	5,964,587
Current portion of capital lease obligations	6,586	6,952
	<u>25,552,869</u>	<u>28,838,154</u>
Bank Loan	203,193	214,480
Deferred Revenue	424,394	447,969
Capital Lease Obligations	11,399	13,689
	<u>26,191,855</u>	<u>29,514,292</u>
SHAREHOLDERS' EQUITY		
Common Shares (note 5)	59,696,239	59,779,153
Warrants (note 6)	360,111	458,715
Contributed surplus	3,081,250	2,481,183
Deficit	(54,757,957)	(54,716,914)
Foreign currency translation adjustment	(110,242)	(568,028)
	<u>8,269,401</u>	<u>7,434,109</u>
	<u>\$ 34,461,256</u>	<u>\$ 36,948,401</u>

APPROVED BY THE DIRECTORS:

DIRECTOR: *John Hardy*DIRECTOR: *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 September 30	
	2005	2004
SALES	\$ 16,783,309	\$ 3,811,909
COST OF SALES	13,320,024	2,936,290
	<u>3,463,285</u>	<u>875,619</u>
EXPENSES		
General and administrative	1,329,984	683,977
Selling and marketing	1,631,190	592,409
Research and development	467,040	167,160
	<u>3,428,214</u>	<u>1,443,546</u>
NET EARNINGS (LOSS) BEFORE OTHER ITEMS	35,071	(567,927)
Interest	132,513	857
Amortization of capital assets	65,013	53,792
Amortization of intangible assets	326,553	15,277
Stock-based compensation	34,409	3,198
NET EARNINGS (LOSS) BEFORE INCOME TAXES	(523,417)	(641,051)
Current income tax expense	(3,215)	(1,046)
Future income tax benefit	485,589	-
NET EARNINGS (LOSS) FOR THE PERIOD	(41,043)	(642,097)
DEFICIT, BEGINNING OF PERIOD	(54,716,914)	(53,090,939)
DEFICIT, END OF PERIOD	<u>\$ (54,757,957)</u>	<u>\$ (53,733,036)</u>
NET EARNINGS (LOSS) PER SHARE:	<u>(\$0.00)</u>	<u>(\$0.01)</u>

See Notes to Consolidated Financial Statements

Versatile Mobile Systems (Canada) Inc.
Consolidated Statements of Cash Flows

(Unaudited - Prepared by Management)

	Three months ended September 30	
	2005	2004
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net earnings (loss) for the period	\$ (41,043)	\$ (642,097)
Items not affecting cash		
Amortization of capital and intangible assets	391,566	53,792
Stock-based compensation	34,409	3,198
Future income tax benefit	(485,589)	-
Cash flow used in operations before the undernoted	(100,657)	(585,107)
Unrealized foreign exchange	457,786	(117,017)
Net change in non-cash working capital items	878,821	230,475
	<u>1,235,950</u>	<u>(471,649)</u>
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Deferred contract costs	20,071	-
Additions to capital assets	(58,145)	(12,962)
	<u>(38,074)</u>	<u>(12,962)</u>
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Proceeds from Units issued on a private placement	411,500	-
Share issue costs	(4,560)	-
Repayment of line of credit	(376,259)	-
Deferred revenue	(23,575)	-
Payment of Quarterly Payment	(82,596)	-
Repayment of capital lease obligations	(2,656)	(3,738)
	<u>(78,146)</u>	<u>(3,738)</u>
INCREASE (DECREASE) IN CASH and cash equivalents	1,119,730	(488,349)
CASH and cash equivalents, beginning of period	183,598	2,030,248
CASH and cash equivalents, end of period	<u>\$ 1,303,328</u>	<u>\$ 1,541,899</u>
Supplementary information		
Cash paid for interest expense	\$ 77,364	\$ 1,371
Cash paid for income taxes	3,215	1,046
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 three months ended September 30, 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, 2005. 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 two years.

(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 were not amended, as the amounts were insignificant.

(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.

Versatile Mobile Systems (Canada) Inc.
Notes to Consolidated Financial Statements
For the three months ended September 30, 2005

(Unaudited - Prepared by Management)

During the 2005 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. Bank term loan

On April 26, 2005 the Company obtained a term loan in the amount of U.S. \$2,749,263 from the Commerce Bank. The term loan is repayable on April 26, 2006, bears interest at the State of New York prime rate plus 1% and is secured with a first charge on the company's assets. Monthly repayments consist of interest only with the principal due at the end of the term.

4. Promissory notes

On April 26, 2005, as part of the consideration for the acquisition of Perfect Order, the company issued unsecured promissory notes to pay U.S. \$1,000,000 bearing interest at the rate of 3% per annum and due within the current fiscal year (the "POAC Notes") and secured promissory notes to pay U.S. \$4,200,000 bearing interest at the rate of 3.1% per annum and due on April 25, 2006 (the "Promissory Notes"). The Company repaid U.S. \$333,333 of the POAC Notes on June 30, 2005. The Vendors may convert up to one-half of their Promissory Notes on or before February 25, 2006, into shares of Versatile at the rate of one common share for each \$0.425 (U.S. \$0.34) of the Promissory Note.

5. Common Shares

Authorized

500,000,000 common shares without par value

Issued and outstanding

	Number		Amount
Issued and outstanding - June 30, 2005	96,187,926	\$	59,779,153
Shares issued pursuant to a private placement	1,646,000		345,660
Less share issue costs	-		(4,560)
Cancellation of the shares held in trust	(690,000)		(424,014)
	97,143,926	\$	59,696,239

On August 10, 2005, the Company completed a non-brokered private placement for 1,646,000 Units at a price of \$0.25 per Unit for gross proceeds of \$411,500. Each Unit consisted of one common share and one common share purchase warrant. Each common share purchase warrant entitles 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 \$0.30 per common share. The Company assigned a value of \$0.21 to each common share and \$0.04 to each warrant. The common shares and warrants are subject to a four-month hold period.

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Notes to Consolidated Financial Statements
For the three months ended September 30, 2005
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5. Common Shares (continued)

On August 19, 2005 Computershare Trust Company released the 690,000 common shares, held in trust for employees of VMS-Europe pursuant to a trust agreement dated in 1993, to the transfer agent who subsequently cancelled these shares, the effect of which reduces the issued common shares.

6. Warrants

Issued and outstanding:

Expiry date	Exercise Price	Number of Warrants	Amount
April 22, 2007	\$ 0.35	5,135,413	\$ 256,771
April 25, 2007	\$ 0.345	750,000	37,500
August 10, 2007	\$ 0.30	1,646,000	65,840
Balance - September 30, 2005		7,531,413	\$ 360,111

During the quarter 4,111,110 warrants expired.

7. Stock Options

	Number of Shares	Weighted average exercise price
Balance - June 30, 2005	7,271,668	\$ 0.21
Granted during the period	600,000	\$ 0.30
Balance - September 30, 2005	7,871,668	\$ 0.22

8. Income taxes

During the quarter the Company reduced its valuation allowance against a portion of its unused tax losses and income tax deductions available to be taken against future income tax returns by \$1,387,397 and based on an effective tax rate of 35% this resulted in an income tax benefit of \$485,589. Previously the Company has recorded a full valuation allowance against all of its unused tax losses and deductions.