
Versatile Systems Inc.
Consolidated Financial Statements
(unaudited - prepared by management)
December 31, 2006

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 Systems Inc.
Consolidated Balance Sheets

(Unaudited - prepared by management)

Expressed in U.S. dollars

 December 31, 2006 June 30, 2006
 (Restated - Note 2)
ASSETS

Current Assets

Cash and cash equivalents	\$ 397,864	\$ 99,010
Accounts receivable (note 3)	10,456,547	10,658,843
Current portion of deferred contract costs	2,724,294	3,117,610
Work in progress	59,749	28,050
Prepaid expenses	944,572	845,556
Inventory	1,137,538	938,229
Future income tax benefits (note 8)	896,999	900,546
	<u>16,617,563</u>	<u>16,587,844</u>
Long term accounts receivable (note 3)	186,844	-
Deferred contract costs	372,860	461,793
Capital Assets	541,724	325,067
Intangible assets	1,713,576	2,207,665
Future income tax benefits (note 8)	3,882,584	3,529,635
Goodwill	9,914,350	9,914,350
	<u>\$ 33,229,501</u>	<u>\$ 33,026,354</u>

LIABILITIES

Current Liabilities

Line of credit	\$ 998,133	\$ 370,760
Bank overdraft	434,746	757,968
Accounts payable and accrued liabilities	10,422,349	10,428,436
Current portion of deferred revenue	4,400,728	4,937,709
Current portion of bank term loan (note 4)	2,749,263	-
Term loan	175,000	-
Convertible debenture	-	107,594
Current portion of capital lease obligations	6,423	6,422
	<u>19,186,642</u>	<u>16,608,889</u>
Deferred Revenue	430,048	533,733
Capital Lease Obligations	1,636	4,748
Bank Term Loan (note 4)	-	2,749,263
Term Loan	-	175,000
	<u>19,618,326</u>	<u>20,071,633</u>

SHAREHOLDERS' EQUITY

Share Capital (note 5)	47,170,880	44,473,680
Shares to be issued (note 5)	-	2,502,079
Warrants (note 6)	538,144	538,144
Contributed surplus	2,551,380	2,392,030
Deficit	(36,326,263)	(36,642,671)
Foreign currency translation adjustment	(322,966)	(308,541)
	<u>13,611,175</u>	<u>12,954,721</u>
	<u>\$ 33,229,501</u>	<u>\$ 33,026,354</u>

Subsequent Event (note 10)

APPROVED BY THE DIRECTORS:

DIRECTOR: *John Hardy*DIRECTOR: *Fraser Atkinson*

See Notes to Consolidated Financial Statements

Versatile Systems Inc.
Consolidated Statements of Operations and Deficit

(Unaudited - prepared by management)

<i>Expressed in U.S. dollars</i>	Three months ended		Six months ended	
	December 31		December 31	
	2006	2005	2006	2005
	(Restated - Note 2)		(Restated - Note 2)	
SALES	\$ 17,140,576	\$ 15,128,708	31,645,268	\$ 29,098,113
COST OF SALES	13,187,863	12,234,114	24,713,872	23,320,892
	3,952,713	2,894,594	6,931,396	5,777,221
EXPENSES				
General and administrative	1,180,790	1,012,790	2,164,659	2,106,503
Selling and marketing	1,807,753	1,246,735	3,335,843	2,604,438
Research and development	262,261	419,510	474,282	808,246
Stock-based compensation	134,916	32,304	160,977	60,944
	3,385,720	2,711,339	6,135,761	5,580,131
Earnings before interest, taxes and amortization	566,993	183,255	795,635	197,090
Amortization of capital assets	87,336	19,425	136,260	73,537
Amortization of intangible assets	222,489	282,868	494,314	554,671
Interest	80,321	61,243	174,775	171,539
EARNINGS (LOSS) BEFORE INCOME TAXES	176,847	(180,281)	(9,714)	(602,657)
Current income tax expense	(48,522)	(11,128)	(49,322)	(13,804)
Future income tax benefit	50,503	813,129	375,444	1,217,304
NET EARNINGS FOR THE PERIOD	178,828	621,720	316,408	600,843
DEFICIT, BEGINNING OF PERIOD	(36,505,091)	(40,722,104)	(36,642,671)	(40,701,227)
DEFICIT, END OF PERIOD	(36,326,263)	(40,100,384)	\$ (36,326,263)	\$ (40,100,384)
EARNINGS PER SHARE (basic and fully diluted):	\$0.00	\$0.01	\$0.00	\$0.01

See Notes to Consolidated Financial Statements

Versatile Systems Inc.
Consolidated Statements of Cash Flows

(Unaudited - Prepared by Management)

<i>Expressed in U.S. dollars</i>	Three months ended		Six months ended	
	December 31		December 31	
	2006	2005	2006	2005
	(Restated - Note 2)		(Restated - Note 2)	
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES				
Net earnings for the period	\$ 178,828	\$ 621,720	\$ 316,408	\$ 600,843
Items not affecting cash				
Amortization of capital and intangible assets	309,825	302,293	630,574	628,208
Gain on sale of capital assets	400	-	400	-
Stock-based compensation	134,916	32,304	160,977	60,944
Future income tax benefit	(50,503)	(813,129)	(375,444)	(1,217,304)
Cash flow from (used in) operations before other items	573,466	143,188	732,915	72,691
Net change in non-cash working capital items	(2,213,273)	(1,153,752)	(589,710)	102,278
	(1,639,807)	(1,010,564)	143,205	174,969
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES				
Proceeds from disposition of capital assets	400	-	1,940	-
Additions to capital assets	(259,144)	(11,520)	(355,255)	(61,081)
	(258,744)	(11,520)	(353,315)	(61,081)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES				
Proceeds from issuance of shares	28,435	-	193,494	341,777
Share Issue Costs	-	-	-	(3,787)
Repayment of (proceeds from) line of credit	998,133	17,156	627,373	(289,844)
Repayment of (proceeds from) the bank overdraft	320,051	711,111	(323,222)	593,318
Repayment of the Quarterly Payments	-	(68,750)	-	(137,500)
Repayment of VAC Notes	-	(666,667)	-	(666,667)
Repayment of capital lease obligations	(1,580)	(1,016)	(3,112)	(2,287)
	1,345,039	(8,166)	494,533	(164,990)
Effect of foreign exchange rate on cash	15,651	12,715	14,431	6,258
Increase in cash and cash equivalents	(537,861)	(1,017,535)	298,854	(44,844)
CASH and cash equivalents, beginning of period	935,725	1,122,494	99,010	149,803
CASH and cash equivalents, end of period	\$ 397,864	\$ 104,959	\$ 397,864	\$ 104,959
Supplementary information				
Cash paid for interest expense	71,750	64,979	150,767	\$ 130,139
Cash paid for income taxes	50,122	11,128	91,935	13,804

See Notes to Consolidated Financial Statements

Versatile Systems Inc.
Notes to Consolidated Financial Statements
For the period ended December 31, 2006

(Unaudited - Prepared by Management)

1. Consolidated financial statement presentation:

These unaudited interim consolidated financial statements at December 31, 2006 and the consolidated statements of operations and deficit and cash flows for the three and six month periods ended December 31, 2006 and 2005, have been prepared in accordance with Canadian generally accepted accounting principles. These unaudited interim financial statements do not include all the disclosures required for annual financial statements and should be read in conjunction with the Company's annual audited consolidated financial statements and notes therein for the year ended June 30, 2006.

The results of operations for the period ended December 31, 2006 are not necessarily indicative of the results for the full year ending June 30, 2007. All amounts herein, including the comparative figures, have been expressed in United States dollars unless otherwise noted.

2. Accounting Changes:

The accounting policies applied in these interim financial statements are consistent with those applied in the Annual financial statements.

Change in functional and reporting currency:

Effective July 1, 2006, the functional currency of the Company changed to the U.S. dollar. Concurrent with the change in its functional currency, the Company adopted the U.S. dollar as its reporting currency. The consolidated financial statements of the Company for the comparative periods ended on or before June 30, 2006 which were based on a Canadian functional currency have been translated into the U.S. reporting currency using the current rate method as follows: assets and liabilities using the rate of exchange prevailing at the balance sheet date; shareholders' equity using the applicable historic rate; and revenue and expenses using a weighted average rate of exchange for the respective periods. Translation gains and losses have been included as part of the cumulative foreign currency translation adjustment which has been reported as a component of shareholders' equity.

In making this change in reporting currency, the Company followed the recommendations of the Emerging Issues Committee ("EIC") of the Canadian Institute of Chartered Accountants ("CICA"), set out in EIC-130, "Translation Method when the Reporting Currency Differs from the Measurement Currency or there is a Change in the Reporting Currency".

3. Accounts receivable

Included with accounts receivable is an amount that the Company has with a customer providing for monthly payments of \$45,111 commencing on January 31, 2007, which is supported by a Promissory Note and a security agreement. The total amount of the receivable is \$608,300 of which \$421,456 has been classified as current.

4. Bank term loan

On April 26, 2005 the Company obtained a term loan in the amount of \$2,749,263 from the Commerce Bank. The term loan is repayable on October 6, 2007, bears interest at the State of New York prime rate plus 1% and is secured with a first charge on the assets of certain U.S. subsidiaries. Monthly repayments consist of interest only with the principal due at the end of the term.

Versatile Systems Inc.
Notes to Consolidated Financial Statements
For the period ended December 31, 2006

(Unaudited - Prepared by Management)

5. Common Shares

Authorized

Unlimited common shares without par value

Issued and outstanding

	Number	Amount
Issued and outstanding - June 30, 2006	97,393,694	\$ 44,473,680
Shares issued on conversion of debenture, net of share issue costs	8,789,633	2,470,863
Shares issued for exercised stock options	2,255,150	224,711
Contributed surplus related to the exercised stock options		1,626
	108,438,477	\$ 47,170,880

On April 10, 2006 the company issued a convertible debenture for proceeds of \$3,617,700 from a U.S. based institution. As part of the consideration for this transaction, the company also issued 1,411,808 warrants expiring on March 31, 2009 with an exercise price of CDN \$0.38; 1,411,808 warrants expiring on March 31, 2009 with an exercise price of CDN \$0.414; and 1,411,808 warrants expiring on March 31, 2011 with an exercise price of CDN \$0.569. On June 30, 2006, \$3,000,000 of the debenture was converted into 8,789,633 common shares of the company leaving a balance of \$107,594, which has been repaid.

6. Warrants

Issued and outstanding:

Expiry date	Exercise Price (CDN)	Number of Warrants	Cost
April 22, 2007	\$ 0.35	5,135,413	\$ 206,408
April 25, 2007	\$ 0.345	750,000	30,145
August 10, 2007	\$ 0.30	1,646,000	54,684
March 31, 2009	\$ 0.38	1,411,808	107,627
March 31, 2009	\$ 0.414	1,411,808	75,971
March 31, 2011	\$ 0.569	1,411,808	63,309
Balance - December 31, 2006		11,766,837	\$ 538,144

7. Stock Options

	Number of Shares	Weighted average exercise price (CDN)
Balance - June 30, 2006	7,742,900	\$ 0.24
Granted during the period	4,060,000	\$ 0.94
Forfeited during the period	(62,150)	\$ 0.25
Exercised during the period	(2,255,150)	\$ 0.11
Balance - December 31, 2006	9,485,600	\$ 0.57

Versatile Systems Inc.
Notes to Consolidated Financial Statements
For the period ended December 31, 2006
(Unaudited - Prepared by Management)

8. Income taxes

Canadian GAAP requires a valuation allowance to be recorded against any future tax asset to the extent that it is more likely than not that the future income tax asset will not be realized. This is also the Company's stated accounting policy.

Prior to the 2006 fiscal year the Company determined that it had not met this test so the Company recorded a full valuation allowance against the potential value of all of its tax losses and deductions available to be taken against future years' income tax returns. As a result there has been no future income tax asset.

During the 2006 fiscal year, the Company determined that the U.S. subsidiaries were generating sufficient profits that they were more likely than not to utilize the the losses and deductions attributable to these U.S. subsidiaries. Consequently, the Company concluded that the valuation allowance be reduced accordingly. The difference between the total value of these tax benefits less the valuation allowance is the amount of the future income tax asset that is recorded by the Company.

The tax effects of temporary differences that give rise to significant portions of future income tax assets and future income tax liabilities at the statutory enacted rates are as follows:

	<u>December 31, 2006</u>	<u>June 30, 2006</u> (Restated - Note 2)
Future income tax assets		
Tax losses and deductions	\$ 10,184,459	\$ 10,578,268
Capital assets	402,297	409,827
Share issuance costs	142,559	148,990
Other	256,264	260,020
	<u>10,985,579</u>	<u>11,397,105</u>
Future income tax assets	10,985,579	11,397,105
Valuation allowance	(5,538,463)	(6,269,277)
	<u>5,447,116</u>	<u>5,127,828</u>
Net Future income tax asset	5,447,116	5,127,828
Future income tax liabilities - Goodwill	(667,533)	(697,647)
	<u>4,779,583</u>	<u>4,430,181</u>
Net Future income tax asset	4,779,583	4,430,181
Less current portion	(896,999)	(900,546)
	<u>3,882,584</u>	<u>3,529,635</u>
Non-current portion of net future income tax asset	3,882,584	3,529,635

During the six months ended December 31, 2006 the Company recorded a \$375,444 (2005 - \$1,217,304) non-cash income tax benefit related to the recognition of future income tax assets.

Versatile Systems Inc.
Notes to Consolidated Financial Statements
For the period ended December 31, 2006
(Unaudited - Prepared by Management)

9. Segmented Information

The company's only reportable segment is the development and sales of computer software, hardware and system integration services.

The company's assets and sales by geographic area are as follows:

	December 31, 2006	June 30, 2006	Six months ended December 31	
			2006	2005
	Capital assets, intangible assets and goodwill	Capital assets, intangible assets and goodwill (Restated - Note 2)	Revenue	Revenue (Restated - Note 2)
<i>Versatile Systems, Inc., Versatile Acquisition Corporation and Perfect Order, Inc.</i>				
United States	\$ 9,339,406	\$ 9,668,800	\$ 26,049,739	\$ 24,651,491
Spain	-	-	24,908	-
Canada	-	-	2,127	-
Netherlands	-	-	301,162	-
<i>Versatile Mobile Systems, Inc., Versatile Mobile Systems (Europe) Ltd. and Versatile Systems Inc.</i>				
United States	2,816,629	2,760,449	5,050,451	4,339,177
United Kingdom	6,758	6,716	216,881	107,445
Canada	6,857	11,117	-	-
	<u>12,169,650</u>	<u>12,447,082</u>	<u>31,645,268</u>	<u>29,098,113</u>

During the six months ended December 31, 2006 and 2005, the company did not have any customers with revenue exceeding 10% of the total revenue for the period.

During the period ended December 31, 2006 the company purchased products and services from one vendor for \$14,791,939 (December 31, 2005 - \$14,553,460) representing 59.9% (2005 - 62.4%) of the cost of sales.

10. Subsequent Event

On January 5, 2007 the Company received proceeds of CDN \$364,583 for 1,041,666 exercised warrants.