
Versatile Systems Inc.
Consolidated Financial Statements
(unaudited - prepared by management)
March 31, 2007

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Versatile Systems Inc.
Consolidated Balance Sheets

(Unaudited - prepared by management)

Expressed in U.S. dollars

March 31, 2007 June 30, 2006
 (Restated - Note 2)

ASSETS

Current Assets

Cash and cash equivalents	\$ 207,808	\$ 99,010
Accounts receivable (note 3)	7,041,410	10,658,843
Current portion of deferred contract costs	3,420,980	3,117,610
Work in progress	22,665	28,050
Prepaid expenses	978,930	845,556
Inventory	1,695,730	938,229
Future income tax benefits (note 8)	933,211	900,546
	<u>14,300,734</u>	<u>16,587,844</u>
Long term accounts receivable (note 3)	581,648	-
Deferred contract costs	297,191	461,793
Capital Assets	500,014	325,067
Intangible assets	1,525,769	2,207,665
Future income tax benefits (note 8)	4,025,585	3,529,635
Goodwill	9,914,350	9,914,350
	<u>\$ 31,145,291</u>	<u>\$ 33,026,354</u>

LIABILITIES

Current Liabilities

Line of credit	\$ 1,683,619	\$ 370,760
Bank overdraft	446,756	757,968
Accounts payable and accrued liabilities	6,604,797	10,428,436
Current portion of deferred revenue	4,986,278	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	6,429	6,422
	<u>16,652,142</u>	<u>16,608,889</u>
Deferred Revenue	345,130	533,733
Capital Lease Obligations	-	4,748
Bank Term Loan (note 4)	-	2,749,263
Term Loan	-	175,000
	<u>16,997,272</u>	<u>20,071,633</u>

SHAREHOLDERS' EQUITY

Share Capital (note 5)	47,532,703	44,473,680
Shares to be issued (note 5)	-	2,502,079
Warrants (note 6)	496,244	538,144
Contributed surplus	2,680,950	2,392,030
Deficit	(36,255,792)	(36,642,671)
Foreign currency translation adjustment	(306,086)	(308,541)
	<u>14,148,019</u>	<u>12,954,721</u>
	<u>\$ 31,145,291</u>	<u>\$ 33,026,354</u>

Subsequent Events (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 March 31		Nine months ended March 31	
	2007	2006	2007	2006
	(Restated - Note 2)		(Restated - Note 2)	
SALES	\$ 12,391,840	\$ 15,534,379	44,037,108	\$ 44,632,492
COST OF SALES	9,029,838	11,959,654	33,743,710	35,280,546
	3,362,002	3,574,725	10,293,398	9,351,946
EXPENSES				
General and administrative	1,179,582	1,135,408	3,344,241	3,241,911
Selling and marketing	1,578,391	1,471,623	4,914,234	4,076,061
Research and development	254,565	445,581	728,847	1,253,827
Stock-based compensation	129,571	30,845	290,548	91,789
	3,142,109	3,083,457	9,277,870	8,663,588
Earnings before interest, taxes and amortization	219,893	491,268	1,015,528	688,358
Amortization of capital assets	61,780	72,846	198,040	146,383
Amortization of intangible assets	187,782	237,362	682,096	792,033
Interest	56,907	101,030	231,682	272,569
EARNINGS (LOSS) BEFORE INCOME TAXES	(86,576)	80,030	(96,290)	(522,627)
Current income tax (expense) recovery	(11,064)	-	(60,386)	(13,804)
Future income tax benefit	168,111	789,896	543,555	2,007,200
NET EARNINGS FOR THE PERIOD	70,471	869,926	386,879	1,470,769
DEFICIT, BEGINNING OF PERIOD	(36,326,263)	(40,100,384)	(36,642,671)	(40,701,227)
DEFICIT, END OF PERIOD	(36,255,792)	(39,230,458)	\$ (36,255,792)	\$ (39,230,458)
EARNINGS PER SHARE (basic and fully diluted):	\$0.00	\$0.01	\$0.00	\$0.02

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		Nine months ended	
	March 31		March 31	
	2007	2006	2007	2006
	(Restated - Note 2)		(Restated - Note 2)	
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES				
Net earnings for the period	\$ 70,471	\$ 869,926	\$ 386,879	\$ 1,470,769
Items not affecting cash				
Amortization of capital and intangible assets	249,562	310,208	880,136	938,416
Gain on sale of capital assets	-	-	400	-
Stock-based compensation	129,571	30,845	290,548	91,789
Future income tax benefit	(168,111)	(789,896)	(543,555)	(2,007,200)
Cash flow from (used in) operations before other items	281,493	421,083	1,014,408	493,774
Net change in non-cash working capital items	(1,450,083)	1,876,859	(2,039,793)	1,979,137
	(1,168,590)	2,297,942	(1,025,385)	2,472,911
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES				
Proceeds from disposition of capital assets	-	-	1,940	-
Additions to capital assets	(36,058)	(33,843)	(391,313)	(94,924)
	(36,058)	(33,843)	(389,373)	(94,924)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES				
Proceeds from issuance of shares, net of costs	319,923	-	513,417	337,990
Repayment of (proceeds from) line of credit	685,486	(17,156)	1,312,859	(307,000)
Repayment of (proceeds from) the bank overdraft	12,010	(711,111)	(311,212)	(117,793)
Repayment of the Quarterly Payments	-	(68,750)	-	(206,250)
Repayment of VAC Notes	-	-	-	(666,667)
Repayment of capital lease obligations	(2,114)	(2,247)	(5,226)	(4,534)
	1,015,305	(799,264)	1,509,838	(964,254)
Effect of foreign exchange rate on cash	(713)	2,058	13,718	8,316
Increase in cash and cash equivalents	(190,056)	1,466,892	108,798	1,422,048
CASH and cash equivalents, beginning of period	397,864	104,959	99,010	149,803
CASH and cash equivalents, end of period	\$ 207,808	\$ 1,571,852	\$ 207,808	\$ 1,571,852
Supplementary information				
Cash paid for interest expense	83,377	59,316	234,144	\$ 189,455
Cash paid for income taxes	75,110	128	167,045	13,932

See Notes to Consolidated Financial Statements

Versatile Systems Inc.
Notes to Consolidated Financial Statements
For the period ended March 31, 2007

(Unaudited - Prepared by Management)

1. Consolidated financial statement presentation:

These unaudited interim consolidated financial statements at March 31, 2007 and the consolidated statements of operations and deficit and cash flows for the three and nine month periods ended March 31, 2007 and 2006, 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 March 31, 2007 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, which commenced on January 31, 2007 and is supported by a Promissory Note and a security agreement. The total amount of the receivable is \$1,013,636 of which \$431,988 has been classified as current.

4. Bank term loan

The Company has a term loan in the amount of \$2,749,263 from the Commerce Bank, which 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 March 31, 2007

(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	2,287,750	231,768
Shares issued for exercised warrants	1,041,666	312,866
Warrant cost for exercised warrants		41,900
Contributed surplus related to the exercised stock options		1,626
Issued and outstanding - March 31, 2007	109,512,743	\$ 47,532,703

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	4,093,747	\$ 164,508
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 - March 31, 2007		10,725,171	\$ 496,244

During the quarter the Company received proceeds of \$312,866 (CDN \$364,583) for 1,041,666 exercised warrants.

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	(83,750)	\$ 0.25
Exercised during the period	(2,287,750)	\$ 0.11
Balance - March 31, 2007	9,431,400	\$ 0.57

Versatile Systems Inc.
Notes to Consolidated Financial Statements
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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>March 31, 2007</u>	<u>June 30, 2006</u> (Restated - Note 2)
Future income tax assets		
Tax losses and deductions	\$ 10,184,212	\$ 10,578,268
Capital assets	404,092	409,827
Share issuance costs	655,835	148,990
Other	257,160	260,020
	<hr/>	<hr/>
Future income tax assets	11,501,299	11,397,105
Valuation allowance	(5,867,791)	(6,269,277)
	<hr/>	<hr/>
Net Future income tax asset	5,633,508	5,127,828
Future income tax liabilities - Goodwill	(674,712)	(697,647)
	<hr/>	<hr/>
Net Future income tax asset	4,958,796	4,430,181
Less current portion	(933,211)	(900,546)
Non-current portion of net future income tax asset	<hr/>	<hr/>
	4,025,585	3,529,635

During the nine months ended March 31, 2007 the Company recorded a \$543,555 (March 31, 2006 - \$2,007,200) 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 March 31, 2007
(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:

	<u>March 31, 2007</u>	<u>June 30, 2006</u>	Nine months ended March 31	
			<u>2007</u>	<u>2006</u>
	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	\$ 9,115,500	\$ 9,668,800	\$ 35,157,662	\$ 37,125,262
Spain	-	-	24,908	14,312
Canada	-	-	2,127	6,460
Netherlands	-	-	348,540	152,533
<i>Versatile Mobile Systems, Inc., Versatile Mobile Systems (Europe) Ltd. and Versatile Systems Inc.</i>				
United States	2,814,851	2,760,449	8,031,167	7,172,813
United Kingdom	5,454	6,716	472,704	161,112
Canada	4,328	11,117	-	-
	<u>11,940,133</u>	<u>12,447,082</u>	<u>44,037,108</u>	<u>44,632,492</u>

During the nine months ended March 31, 2007 and 2006, the company did not have any customers with revenue exceeding 10% of the total revenue for the period.

During the nine months ended March 31, 2007 the company purchased products and services from one vendor for \$20,697,965 (March 31, 2006 - \$25,930,575) representing 61.3% (March 31, 2006 - 73.5%) of the cost of sales.

10. Subsequent Events

(a) On April 16, 2007 the Company listed its shares on AIM of the London Stock Exchange and issued 7,241,380 common shares for gross proceeds of \$4,170,390. The share issue costs amounted to \$1,131,963 and included a commission of 4% and fees of \$278,026 paid to the agent. The Company also issued 583,770 brokers warrants. Each warrant entitles the holder to acquire one common share at CDN \$0.6636 per share up to April 16, 2011.

(b) On April 20, 2007 the Company issued 2,755,320 common shares for gross proceeds of U.S. \$911,619 and CDN \$193,229 for warrants that were exercised that were due to expire on April 22, 2007.

(c) On April 23, 2007 the Company issued 750,000 common shares for gross proceeds of U.S. \$228,739 for warrants that were exercised that were due to expire on April 25, 2007.