

CARDINAL HEALTH INC
Form SC 13G/A
March 28, 2003

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

SCHEDULE 13G

Under the Securities exchange Act of 1934

(AMENDMENT NO. 3) *

CARDINAL HEALTH INC

(NAME OF ISSUER)

COM

(TITLE OF CLASS OF SECURITIES)

14149Y108

(CUSIP NUMBER)

December 31, 2002

(Date of event which requires filing of this Statement)

NOTE: A MAJORITY OF THE SHARES REPORTED IN THIS SCHEDULE 13G ARE HELD BY UNAFFILIATED THIRD-PARTY CLIENT ACCOUNTS MANAGED BY ALLIANCE CAPITAL MANAGEMENT L.P., AS INVESTMENT ADVISER. (ALLIANCE CAPITAL MANAGEMENT L.P. IS A MAJORITY-OWNED SUBSIDIARY OF AXA FINANCIAL, INC.)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

- X Rule 13d-1(b)
- Rule 13d-1(c)
- Rule 13d-1(d)

* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be 'filed' for the purpose of Section 18 of the Securities Exchange Act of 1934 ('Act') or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

(CONTINUED ON FOLLOWING PAGE(S))

Edgar Filing: CARDINAL HEALTH INC - Form SC 13G/A

CUSIP NO. 14149Y108

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1. NAME OF REPORTING PERSON

S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

AXA Assurances I.A.R.D. Mutuelle

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP *

(A)

(B)

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

France

NUMBER OF SHARES BENEFICIALLY OWNED AS OF December 31, 2002 BY EACH REPORTING PERSON WITH:	5. SOLE VOTING POWER	17,997,432
	6. SHARED VOTING POWER	8,264,356
	7. SOLE DISPOSITIVE POWER	40,451,253
	8. SHARED DISPOSITIVE POWER	6,777

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 40,458,030
(Not to be construed as an admission of beneficial ownership)

10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES * | |

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9 9.1%

12. TYPE OF REPORTING PERSON *
IC

* SEE INSTRUCTIONS BEFORE FILLING OUT!

CUSIP NO. 14149Y108

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Page 3 of 13 Pages

1. NAME OF REPORTING PERSON

S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

AXA Assurances Vie Mutuelle

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP *

(A)

(B)

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

France

NUMBER OF SHARES BENEFICIALLY OWNED AS OF December 31, 2002	5. SOLE VOTING POWER	17,997,432
	6. SHARED VOTING POWER	8,264,356

Edgar Filing: CARDINAL HEALTH INC - Form SC 13G/A

BY EACH REPORTING PERSON WITH:	7.	SOLE DISPOSITIVE POWER	40,451,253
	8.	SHARED DISPOSITIVE POWER	6,777

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 40,458,030
(Not to be construed as an admission of beneficial ownership)

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11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9 9.1%

12. TYPE OF REPORTING PERSON *
IC
* SEE INSTRUCTIONS BEFORE FILLING OUT!

CUSIP NO. 14149Y108 13G Page 4 of 13 Pages

1. NAME OF REPORTING PERSON
S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON
AXA Conseil Vie Assurance Mutuelle

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP * (A) [X]
(B) []

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION
France

NUMBER OF SHARES BENEFICIALLY OWNED AS OF December 31, 2002	5.	SOLE VOTING POWER	17,997,432
	6.	SHARED VOTING POWER	8,264,356
BY EACH REPORTING PERSON WITH:	7.	SOLE DISPOSITIVE POWER	40,451,253
	8.	SHARED DISPOSITIVE POWER	6,777

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 40,458,030
(Not to be construed as an admission of beneficial ownership)

10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES * | |

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9 9.1%

12. TYPE OF REPORTING PERSON *
IC
* SEE INSTRUCTIONS BEFORE FILLING OUT!

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Edgar Filing: CARDINAL HEALTH INC - Form SC 13G/A

1. NAME OF REPORTING PERSON
S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

AXA Courtage Assurance Mutuelle

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP * (A)
(B)

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION
France

NUMBER OF SHARES	5. SOLE VOTING POWER	17,997,432
BENEFICIALLY		
OWNED AS OF	6. SHARED VOTING POWER	8,264,356
December 31, 2002		
BY EACH	7. SOLE DISPOSITIVE POWER	40,451,253
REPORTING		
PERSON WITH:	8. SHARED DISPOSITIVE POWER	6,777

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 40,458,030
(Not to be construed as an admission of beneficial ownership)

10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES *

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9 9.1%

12. TYPE OF REPORTING PERSON *
IC

* SEE INSTRUCTIONS BEFORE FILLING OUT!

CUSIP NO. 14149Y108

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1. NAME OF REPORTING PERSON
S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

AXA

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP * (A)
(B)

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION
France

NUMBER OF SHARES	5. SOLE VOTING POWER	17,997,432
BENEFICIALLY		
OWNED AS OF	6. SHARED VOTING POWER	8,264,356
December 31, 2002		
BY EACH	7. SOLE DISPOSITIVE POWER	40,451,253
REPORTING		

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PERSON WITH: 8. SHARED DISPOSITIVE POWER 6,777

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 40,458,030
(Not to be construed as an admission of beneficial ownership)

10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES * | |

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9 9.1%

12. TYPE OF REPORTING PERSON *
IC

* SEE INSTRUCTIONS BEFORE FILLING OUT!

CUSIP NO. 14149Y108 13G Page 7 of 13 Pages

1. NAME OF REPORTING PERSON
S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON
AXA Financial, Inc. 13-3623351

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP * (A) []
(B) []

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION
State of Delaware

NUMBER OF SHARES 5. SOLE VOTING POWER 17,969,508
BENEFICIALLY OWNED AS OF 6. SHARED VOTING POWER 8,264,356
December 31, 2002 BY EACH 7. SOLE DISPOSITIVE POWER 40,424,729
REPORTING PERSON WITH: 8. SHARED DISPOSITIVE POWER 4,077

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 40,428,806
(Not to be construed as an admission of beneficial ownership)

10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES * | |

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9 9.1%

12. TYPE OF REPORTING PERSON *
HC

* SEE INSTRUCTIONS BEFORE FILLING OUT!

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Item 1(a) Name of Issuer:
CARDINAL HEALTH INC

Item 1(b) Address of Issuer's Principal Executive Offices:
7000 Cardinal Place
Dublin, OH 43017

Item 2(a) and (b)
Name of Person Filing and Address of Principal Business Office:

AXA Conseil Vie Assurance Mutuelle,
AXA Assurances I.A.R.D Mutuelle, and
AXA Assurances Vie Mutuelle,
370, rue Saint Honore
75001 Paris, France

AXA Courtage Assurance Mutuelle
26, rue Louis le Grand
75002 Paris, France

as a group (collectively, the 'Mutuelles AXA').

AXA
25, avenue Matignon
75008 Paris, France

AXA Financial, Inc.
1290 Avenue of the Americas
New York, New York 10104

(Please contact Patrick Meehan at (212) 314-5644 with any questions.)

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Item 2(c) Citizenship:
Mutuelles AXA and AXA - France
AXA Financial, Inc. - Delaware

Item 2(d) Title of Class of Securities:

COM

Item 2(e) Cusip Number:
14149Y108

Item 3. Type of Reporting Person:
AXA Financial, Inc. as a parent holding company,
in accordance with 240.13d-1(b)(ii)(G).

The Mutuelles AXA, as a group, acting as a parent holding company.

AXA as a parent holding company.

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Item 4. Ownership as of December 31, 2002

(a) Amount Beneficially Owned:

40,458,030 shares of common stock beneficially owned including:

	No. of Shares

The Mutuelles AXA, as a group	0
AXA	0
AXA Entity or Entities	
Common Stock acquired solely for investment purposes:	
AXA Investment Managers UK Ltd	25,000
AXA Konzern AG (Germany)	1,524
AXA Rosenberg Investment Management LLC	2,700
AXA Financial, Inc.	0
Subsidiaries:	
Alliance Capital Management L.P.	
acquired solely for investment purposes on	
behalf of client discretionary investment	
advisory accounts:	
Common Stock	39,838,756
The Equitable Life Assurance Society of the United States	
acquired solely for investment purposes:	
Common Stock	590,050

Total	40,458,030
	=====

Each of the Mutuelles AXA, as a group, and AXA expressly declares that the filing of this Schedule 13G shall not be construed as an admission that it is, for purposes of Section 13(d) of the Exchange Act, the beneficial owner of any securities covered by this Schedule 13G.

Each of the above subsidiaries of AXA Financial, Inc. operates under independent management and makes independent decisions.

(b) Percent of Class: 9.1%
=====

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ITEM 4. Ownership as of December 31, 2002 (CONT.)

(c) Deemed Voting Power and Disposition Power:

(i)	(ii)	(iii)	(iv)
Deemed	Deemed	Deemed	Deemed
to have	to have	to have	to have
Sole Power	Shared Power	Sole Power	Shared Power
to Vote	to Vote	to Dispose	to Dispose
or to	or to	or to	or to
Direct	Direct	Direct the	Direct the
the Vote	the Vote	Disposition	Disposition
-----	-----	-----	-----

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The Mutuelles AXA, as a group	0	0	0	0
AXA	0	0	0	0
AXA Entity or Entities:				
AXA Investment Managers UK Ltd	25,000	0	25,000	0
AXA Konzern AG (Germany)	1,524	0	1,524	0
AXA Rosenberg Investment Management LLC	1,400	0	0	2,700
AXA Financial, Inc.	0	0	0	0
Subsidiaries:				
----- Alliance Capital Management L.P.	17,722,708	8,264,356	39,834,679	4,077
The Equitable Life Assurance Society of the United	246,800	0	590,050	0
	-----	-----	-----	-----
	17,997,432	8,264,356	40,451,253	6,777
	=====	=====	=====	=====

Each of the above subsidiaries of AXA Financial, Inc. operates under independent management and makes independent voting and investment decisions.

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Item 5. Ownership of Five Percent or Less of a Class:

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following.
()

Item 6. Ownership of More than Five Percent on behalf of Another Person. N/A

Item 7. Identification and Classification of the Subsidiary which Acquired the Security Being Reporting on by the Parent Holding Company:

This Schedule 13G is being filed by AXA Financial, Inc.; AXA, which owns AXA Financial, Inc.; and the Mutuelles AXA, which as a group control AXA:

- (X) in the Mutuelles AXAs' capacity, as a group, acting as a parent holding company with respect to the holdings of the following AXA entity or entities:
- (X) in AXA's capacity as a parent holding company with respect to the holdings of the following AXA entity or entities:
 - AXA Investment Managers UK Ltd
 - AXA Konzern AG (Germany)
 - AXA Rosenberg Investment Management LLC
- (X) in AXA Financial, Inc.'s capacity as a parent holding company with respect to the holdings of the following subsidiaries:

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- (X) Alliance Capital Management L.P.
(13-3434400), an investment adviser registered under Section 203 of
the Investment Advisers Act of 1940.
- (X) The Equitable Life Assurance Society of the United States
(13-5570651), an insurance company and an investment adviser
registered under Section 203 of the Investment Advisers Act of 1940.

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Item 8. Identification and Classification of Members of the Group. N/A

Item 9. Notice of Dissolution of Group: N/A

Item 10. Certification:

By signing below I certify that to the best of my knowledge and belief, the securities referred to above were acquired in the ordinary course of business and were not acquired for the purpose of and do not have the effect of changing or influencing the control of the issuer of such securities and were not acquired in connection with or as a participant in any transaction having such purposes or effect.

Signature

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Date: March 28, 2003

AXA FINANCIAL, INC.*

/s/ Alvin H. Fenichel

Alvin H. Fenichel
Senior Vice President
and Controller

*Pursuant to the Joint Filing Agreement with respect to Schedule 13G attached hereto as Exhibit I, among AXA Financial, Inc., AXA Conseil Vie Assurance Mutuelle, AXA Assurances I.A.R.D Mutuelle, AXA Assurances Vie Mutuelle, AXA Courtage Assurance Mutuelle, and AXA, this statement Schedule 13G is filed on behalf of each of them.

the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have

the effect of reducing the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities.

DIVIDEND POLICY

We have not declared or paid any cash dividends since inception. We intend to retain future earnings, if any, for use in the operation and expansion of our business and do not intend to pay any cash dividends in the foreseeable future. Although there are no restrictions that limit our ability to pay dividends on our common stock, we intend to retain future earnings for use in our operations and the expansion of our business. Pursuant to a news release dated August 17, 2005, we effected a stock dividend where shareholders of record at the close of business on August 26, 2005 received an additional share of our common stock for each share that they owned on the record date, effective at the open of business on August 29, 2005.

EXECUTIVE COMPENSATION

Officer Compensation

The following table summarizes the compensation during the fiscal years ended December 31, 2006 and 2005 to the following persons:

- our principal executive officer,
 - each of our two most highly compensated executive officers who were serving as executive officers at the end of the year ended December 31, 2006, and
 - up to two additional individuals for whom disclosure would have been provided above but for the fact that the individual was not serving as our executive officer at the end of the most recently completed financial year,
- who we will collectively refer to as the named executive officers, of our year ended December 31, 2006, is set out in the following summary compensation table:

SUMMARY COMPENSATION TABLE									
Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Robert Knight President & CEO	2006 2005	\$60,000 \$60,000	\$0 \$0	\$0 \$0	\$47,450 \$244,921	\$0 \$0	\$0 \$0	\$0 \$0	\$107,450 \$304,921
Joel Strickland(1) Former President & CEO Navitrak Engineering Inc.	2006 2005	\$159,375 \$151,849(2)	\$0 \$41,263	\$0 \$0	\$216,933 \$161,209	\$0 \$0	\$0 \$0	\$1,983 \$0	\$376,308 \$354,321
Richard Brown CFO & Director	2006 2005	\$0 \$0	\$0 \$0	\$0 \$0	\$35,587 \$183,691	\$0 \$0	\$0 \$0	\$0 \$0	\$35,587 \$183,691
Herbert Lustig(3) General Manager VECTr Systems Inc.	2006 2005	\$219,250 \$122,792	\$737,500 \$125,000	\$0 \$0	\$420,202 \$550,724	\$0 \$0	\$0 \$0	\$0 \$0	\$1,376,950 \$798,516

(1) Mr. Strickland resigned from all of his positions with our company and our wholly-owned subsidiary, VECTr Engineering Inc., effective May 18, 2006 pursuant to an Agreement and Mutual Release. Pursuant to the agreement, among other things, the stock options held by Mr. Strickland will continue to be available to him until they expire on December 31, 2010. Additional stock option compensation of \$157,621 has been recognized for the year ended December 31, 2006.

(2) This amount includes a car allowance of \$7,428 paid in 2005.

(3) Pursuant to the employment agreement, Mr. Lustig was entitled to receive 5,000 bonus shares at June 30, 2006. These shares have not been issued yet but compensation expense of \$737,500 related to these bonus shares has been recognized during the year ended December 31, 2006.

Pursuant to an Agreement and Mutual Release, effective May 18, 2006, we agreed to pay Mr. Strickland the sum of approximately \$147,500 (\$147,500 CDN) in a number of payments over time in connection with his resignation from all of his positions with our company and our wholly-owned subsidiary, VECTr Engineering Inc. The first of these payments, in the amount of approximately \$10,000 (\$10,000 CDN), was to be paid to Mr. Strickland within two

business days of the effective date of the agreement. Five subsequent payments, each in the amount of approximately \$7,500 (\$7,500 CDN), were to be paid on May 31, 2006, June 30, 2006, July 31, 2006, August 31, 2006 and September 30, 2006. We were to make a final payment of approximately \$100,000 (\$100,000 CDN) on December 31, 2006, unless prior to that date we close a sale of debt or equity (except a sale of debt or equity to the Atlantic Canada Opportunities Agency) in which event we have agreed to make earlier payments on account of this \$100,000 payment, each in the amount of approximately \$25,000 (\$25,000 CDN), for each approximately \$500,000 (\$500,000 CDN) (in the aggregate) that we raise through such sale. We have paid the initial payment of approximately \$10,000 (\$10,000 CDN), the payments due for May 31, 2006, June 30, 2006, July 31,

2006, August 31, 2006 and September 30, 2006, and one payment of \$25,000 (\$25,000 CDN) resulting from a sale of equity and are in default on the remaining payments. To date, we have not received any demand from Mr. Strickland for payments that are due to him. Also, pursuant to the Agreement, the stock options held by Mr. Strickland will continue to be available to him until they expire on December 31, 2010. The Agreement contains a mutual release of claims whereby each of Mr. Strickland and our company release the other from any claims either had against the other except those arising under the Agreement and Mutual Release dated effective May 18, 2006.

Director Compensation

Directors may be paid their expenses for attending each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated salary as Director. We have not determined what such fixed sum may be, if any. No payment precludes any Director from serving our company in any other capacity and being compensated for the service. Members of special or standing committees may be allowed like reimbursement and compensation for attending committee meetings, should we elect to do so in the future. The particulars of compensation paid to our Directors for our year ended December 31, 2006, is set out in the following Director compensation table:

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation (\$)	Total (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Robert Knight	\$60,000	\$0	\$47,450	\$0	\$0	\$0	\$107,450
Richard Brown	\$0	\$0	\$35,587	\$0	\$0	\$0	\$35,587
Randle Barrington-Foote	\$0	\$0	\$35,587	\$0	\$0	\$0	\$35,587

Outstanding Equity Awards at Fiscal Year-End

The particulars of unexercised options, stock that has not vested and equity incentive plan awards for the following persons:

our principal executive officer,

each of our two most highly compensated executive officers who were serving as executive officers at the end of the year ended December 31, 2006, and

up to two additional individuals for whom disclosure would have been provided under (b) but for the fact that the individual was not serving as our executive officer at the end of the most recently completed financial year,

who we will collectively refer to as the named executive officers, as of our year ended December 31, 2006, is set out in the following outstanding equity awards table:

Name	Options Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Robert Knight President & CEO	4,000	\$0	\$0	\$42.50	December 6, 2014	\$0	N/A	N/A	N/A
Joel Strickland(1) Former President & CEO VECTR Engineering Incorporated	5,000	\$0	\$0	\$42.50	December 6, 2014	\$0	N/A	N/A	N/A
Richard Brown CFO & Director	3,000	\$0	\$0	\$42.50	December 6, 2014	\$0	N/A	N/A	N/A
Herbert Lustig(2) General Manager VECTr Systems Incorporated	7,500	7,500	\$0	\$96	May 31, 2015	10,000	\$550,000(3)	N/A	N/A

(1) Mr. Strickland resigned from all of his positions with our company and our wholly-owned subsidiary, VECTR Engineering Incorporated, effective May 18, 2006 pursuant to an Agreement and Mutual Release

(2) These options vest such that Mr. Lustig received an additional 1,250 options on each of March 1, 2007, June 1, 2007 and September 1, 2007 and will receive an additional 1,250 options on each of December 1, 2007, March 1, 2008 and June 1, 2008. Pursuant to the employment agreement, Mr. Lustig is also entitled to receive 5,000 bonus shares of common stock on each of June 30, 2006, June 30, 2007 and June 30, 2008 so long as he continues to be employed by us at those dates. As at December 31, 2006, 5,000 bonus shares had vested and 10,000 shares remained unvested.

(3) As calculated using the closing market price on December 29, 2006 of \$55 for a share of our common stock as quoted by the Pink Sheets LLC and adjusted to account for our May 21, 2007 100:1 reverse-stock split. On December 6, 2004, our Board of Directors granted an aggregate of 28,300 stock options with an exercise price of \$42.50 to various of our Directors, officers and consultants of our company. All of these stock options will expire on December 6, 2014. The options granted vested in four equal bi-annual installments between December 6, 2004 and June 6, 2006.

On September 27, 2005, our Board of Directors approved the issuance of an aggregate of 8,200 stock options to various employees, Directors, officers and consultants of our company at an exercise price of \$85 per share for a period of five years with an effective grant date of September 1, 2005. These options were granted pursuant to our 2005 Stock Option Plan and pursuant to stock option agreements on our

form of stock option agreement. The options granted vested in four equal bi-annual installments between September 1, 2005 and March 1, 2007.

On November 10, 2005, our Board of Directors approved and we signed an employment agreement dated as of June 1, 2005 with Mr. Lustig, the terms of which provided for the issuance, as at June 1, 2005, of 15,000 stock options to Herbert Lustig with an exercise price of \$96 per share. These options were not actually granted until November 10, 2005 because, although Mr. Lustig began his employment with our company on June 1, 2005, our Board would not grant the options until all of the terms of Mr. Lustig's written employment agreement had been finalized and the agreement had been signed. 1,250 of these share purchase options vested on November 10, 2005, and the remainder vested or will vest in quarterly installments of 1,250 beginning on December 1, 2005 and ending on June 1, 2008.

Since the end of our most recent fiscal year ended on December 31, 2006, we have granted new stock options to our Directors, officers, consultants and employees. On May 21, 2007, our Board of Directors granted 2,175,000 options to purchase shares of our common stock to an aggregate of twelve of our Directors, officers, consultants and employees. These options are exercisable at a purchase price of \$0.25 and expire in May 2017. Of these options, 543,750 options vested immediately, and the remainder vest in three installments of 543,750 options once every six months thereafter. Of these options, we granted 1,500,000 options to Herbert Lustig, our General Manager, and 250,000 to Robert Knight, our President and one of our Directors.

On May 30, 2007, our Board of Directors granted 2,865,000 incentive stock options to an aggregate of 21 Directors, officers, consultants and employees of our company. Included in these grants are:

the grant of 100,000 options to each of our three Directors, Rick Brown, Randle Barrington-Foote and Robert Knight, at an exercise price of \$1.10,

the grant of 1,500,000 options to our General Manager, Herbert Lustig, at an exercise price of \$1.10,

the grant of 250,000 options to our President, Robert Knight, at an exercise price of \$1.10.

Of the aggregate total granted, 2,495,000 options were granted at an exercise price of \$1.10 and the balance of 490,000 options was granted at an exercise price of \$1.00. All of the options were granted pursuant to our newly adopted 2007 Stock Option Plan and vest in four installments, with the first installment of 25% vesting at the date of grant, the second installment of 25% vesting November 30, 2007, the third installment of 25% vesting May 30, 2008 and the last installment of 25% vesting November 30, 2008.

Stock Option and Other Award Plans

2004 Officer, Director, Employee, Consultant and Advisor Stock Compensation Plan

On December 6, 2004, our Board of Directors approved the 2004 Officer, Director, Employee, Consultant and Advisor Stock Compensation Plan which they or any committee that they appoint administer. Under our 2004 Officer, Director, Employee, Consultant and Advisor Stock Compensation Plan, Directors, officers, consultants, employees of our company may receive options, restricted stock or other awards. Awards under this plan will be awarded as determined by our Board of Directors and as established in agreements to be entered into between us and each participant receiving an award. A total of 40,000 common shares may be issued under this plan.

2005 Incentive Plan

On September 27, 2005, our Board of Directors approved our 2005 Incentive Plan which they or any committee that they appoint administer. It will continue in effect until the earlier of the date that we have granted all of the securities that can be issued pursuant to its terms or September 27, 2015. Our Board of Directors or its appointed committee may grant an aggregate of up to 40,000 common shares or options to purchase common shares under our 2005 Incentive Plan to employees, consultants or Directors of our company or of any of our subsidiaries. Awards under our 2005 Incentive Plan will vest as determined by our Board of Directors and as established in stock option agreements to be entered into between our company and each participant receiving an award. Options granted under the 2005 Incentive Plan will have a term of 10 years from the date of grant but are subject to earlier termination in the event of death, disability or the termination of the employment or consulting relationship.

The exercise price of options granted under our 2005 Incentive Plan shall be determined by our Board of Directors but shall not be less than 85% of the fair market value of our common stock on the grant date or, in the case of options granted to a holder of more than 10% of our common stock, the option price shall not be less than 110% of the market value of the common stock on the grant date. Stock options become exercisable at dates determined by the Board of Directors at the time of granting the option.

2007 Stock Option Plan

On May 21, 2007, our Board of Directors adopted our 2007 Stock Option Plan which they or any committee that they appoint administer. Under our 2007 Stock Option Plan, options to acquire common shares and issuances of common shares underlying options may be made to Directors, officers, consultants and employees of our company. We may issue a total of 6,000,000 common shares under our 2007 Stock Option Plan. Stock options under our 2007 Stock Option Plan will vest as determined by our Board of Directors and as established in stock award agreements to be entered into between our company and each participant receiving a stock award. Options granted under the 2007 Stock Option Plan must become exercisable within five years of the grant and will have a term of up to 10 years from the date of grant (five years for a holder of more than 10% of our company's common stock) but are subject to earlier termination in the event of death, disability or the termination of the employment or consulting relationship.

Our Board of Directors shall determine the exercise price of options granted under our 2007 Stock Option Plan, but it shall not be less than the fair market value of our common stock on the grant date or, in the case of options granted to a holder of more than 10% of our common stock, the option price shall not be less than 110% of the market value of the common stock on the grant date

2007 Equity Compensation Plan

On May 21, 2007, our Board of Directors adopted our 2007 Equity Compensation Plan which they or any committee that they appoint administer. Under our 2007 Equity Compensation Plan, Directors, officers, consultants, employees of our company may receive options, restricted stock, stock appreciation rights, stock granted as a bonus or in lieu of our other cash obligations, other stock-based awards or other cash payments. Awards under our 2007 Equity Compensation Plan will be awarded as determined by our Board of Directors and as established in award agreements to be entered into between us and each participant receiving an award. We may issue a total of 3,500,000 common shares under our 2007 Equity Compensation Plan.

Our Board of Directors shall determine the exercise price of options granted under our 2007 Equity Compensation Plan, but with limited exceptions, it shall not be less than the fair market value of our company's common stock on the grant date or, in the case of options granted to a holder of more than

10% of our company's common stock, the option price shall not be less than 110% of the market value of the common stock on the grant date. Awards granted under the 2007 Equity Compensation Plan may be granted either in addition to or in substitution for any other award granted under this or any other of our plans. The exercise price of any additional or substitute awards:

granted in substitution for an outstanding award, shall be not less than the lesser of the fair market value of a share of our common stock at the date the substitute award is granted or the fair market value at the date of the substitution, reduced to reflect the fair market value at that date of the award that is being substituted, or

retroactively granted in tandem with an outstanding award, shall not be less than the lesser of the fair market value of a share of our common stock at the date of grant of the later award or at the date of grant of the earlier award.

Pension, Retirement or Similar Benefit Plans

There are no arrangements or plans in which we provide pension, retirement or similar benefits for Directors or executive officers, except that our Directors and executive officers may receive stock options at the discretion of our Board of Directors. Other than the employment agreements and our long-term incentive and award plans, we do not have any material bonus or profit sharing plans pursuant to which cash or non-cash compensation is or may be paid to our Directors or executive officers, except that stock options may be granted at the discretion of our Board of Directors.

Employment/Consulting Agreements

We entered into a written employment agreement with Herbert M. Lustig, dated as of June 1, 2005, pursuant to which Mr. Lustig agreed to serve as our General Manager for a period of 36 months from June 1, 2005. In the employment agreement, we agreed to pay Mr. Lustig a salary of \$200,000 per year in cash, a stock bonus of 5,000 common shares per year, a stipend equal to \$7,800 to cover the costs of health insurance and a stipend equal to \$4,500 per year to cover the cost of long-term disability insurance. In addition, we agreed to grant to Mr. Lustig options to purchase 15,000 of our common shares under the terms of our 2005 Incentive Plan. These share purchase options have an exercise price of \$96 (equal to the 10 trading-day average before June 1, 2005). Although we had orally agreed to grant these options to Mr. Lustig on June 1, 2005 (the date that his employment with our company actually commenced), these share purchase options were not actually granted by our Board until November 10, 2005, which is the day that we signed Mr. Lustig's written employment agreement. 1,250 of these share purchase options vested on November 10, 2005, and the remainder vested or will vest in quarterly installments of 1,250 beginning on December 1, 2005 and ending on June 1, 2008. Effective June 1, 2006, we increased Mr. Lustig's annual base salary from \$200,000 per year to \$215,000.

On January 14, 2006, we entered into a consulting services agreement with AD Butler & Associates, Inc. whereby AD Butler & Associates, Inc. agreed to assist our company in expanding our product sales, especially to the U.S. Department of Defense and other U.S. government agencies. The consultant agreed to associate General Richard Potter and Mr. Thomas Hause, and that it, together with these two gentlemen, would provide at least 10 days service per month to our company. In return, we agreed to pay AD Butler & Associates a monthly sum of \$10,000 plus a performance fee equal to 5% of the gross revenue earned by our company from sales to organizations on the consultant's 'protected list' (as attached as an exhibit to the agreement and subject to updates from time-to-time). We also agreed to grant to AD Butler & Associates options to purchase 600 common shares of our company on terms to be determined by our Board of Directors. We have recently amended our agreement with A.D. Butler & Associates to

change the terms of their compensation. Under the current arrangement, we have agreed to

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pay to A.D. Butler & Associates A. D. Butler & Associates a consulting fee of \$1,000 per day plus expenses for each day that they work for us and we have agreed to pay a commission for any sales generated by or through their network of contacts.

We entered into a written employment letter with Randall Cohn dated May 22, 2006, pursuant to which Mr. Cohn has agreed to serve as our Vice President of Marketing and Program Management effective June 12, 2006. In the employment agreement, we agreed to pay Mr. Cohn a salary of \$160,000 per year, subject to a cost-of-living adjustment which we will address in his first annual review. We also agreed to pay Mr. Cohn a minimum cash bonus of \$40,000 on July 2, 2007. Our agreement requires that Mr. Cohn relocate to the Washington, D.C. area at our expense.

Effective September 11, 2006, we retained Advance Systems Marketing International Inc. to market our products in Canada for a term of six months subject to automatic renewal unless terminated by either party. We have agreed to pay Advanced Systems Marketing International Inc. a consulting fee of \$6,250 per month, plus expenses and an incentive fee equal to 5% for non-direct to government contracts.

On September 15, 2007, we entered into a Consulting Agreement with G.M. Capital Partners, Ltd. that replaced a prior Consulting Agreement. As previously discussed, G.M. Capital Partners, Ltd. agreed to provide corporate counseling and advice in exchange for a monthly payment of \$10,000, the receipt of four series of warrants to acquire up to 3,500,000 shares of our common stock at exercise prices ranging from \$1.00 to \$2.50 and success fees upon certain corporate financings or restructurings. The term of this agreement is for two years.

WHERE YOU CAN FIND MORE INFORMATION

We file annual reports, quarterly reports, current reports, proxy statements and other information with the SEC. You may read or obtain a copy of these reports at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the public reference room and their copy charges by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains registration statements, reports, proxy information statements and other information regarding registrants that file electronically with the SEC. The address of the website is <http://www.sec.gov>. You may also read a copy of our electronic filings on the SEC's website.

We have filed with the Securities and Exchange Commission a registration statement on Form SB-2, under the Securities Act with respect to the securities offered under this prospectus. This prospectus, which forms a part of that registration statement, does not contain all information included in the registration statement. Certain information is omitted and you should refer to the registration statement and its exhibits. With respect to references made in this prospectus to any contract or other document of VECTr Systems Inc., although material terms of material contracts are disclosed in this prospectus, the references are not necessarily complete and you should refer to the exhibits attached to the registration statement for copies of the actual contract or document. You may review a copy of the registration statement at the SEC's public reference room. Please call the SEC at 1.800.SEC.0330 for further information on the operation of the public reference rooms. Our filings and the registration statement can also be reviewed by accessing the SEC's website at <http://www.sec.gov>.

No finder, dealer, sales person or other person has been authorized to give any information or to make any representation in connection with this offering other than those contained in this prospectus and, if given or made, such information or representation must not be relied upon as having been authorized by VECTr Systems Inc. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or

solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. Neither the delivery of this prospectus nor any sale made hereunder shall, under any circumstances, create any implication that the information contained herein is correct as of any time subsequent to the date of this prospectus.

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FINANCIAL STATEMENTS

Our financial statements are stated in United States Dollars (US\$) and are prepared in conformity with United States Generally Accepted Accounting Principles. Subsequent to the completion of our audited financial statements for the years ended December 31, 2006 and 2005 and the Report of BDO Dunwoody LLP, an independent registered public accounting firm, we changed our name from “Navitrak International Corporation” to “VECTr Systems Inc.” and we enacted a 100:1 reverse-stock split of our common stock.

The following financial statements pertaining to our company are filed as part of this registration statement:

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VECTr SYSTEMS INC.
(Formerly Navitrak International Corporation)
CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US dollars)
DECEMBER 31, 2006 and DECEMBER 31, 2005

Report of Independent Registered Public Accounting Firm

**To the Directors and Stockholders of
VECTr Systems Inc. (Formerly Navitrak International Corporation)**

We have audited the accompanying consolidated balance sheets of VECTr Systems Incorporated (Formerly Navitrak International Corporation) as of December 31, 2006 and 2005 and the consolidated statements of operations, comprehensive loss, changes in capital deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects the financial position of VECTr Systems Incorporated (Formerly Navitrak International Corporation) as of December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company had an accumulated deficit of \$19,745,169 and negative working capital at December 31, 2006. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The consolidated financial statements as of December 31, 2005 and for the year then ended have been restated to correct errors in the accounting for the acquisition of the predecessor company, the presentation of long-term debt and for additional stock option compensation as described in Note 14.

/s/ BDO Dunwoody LLP

Chartered Accountants
Vancouver, Canada
March 2, 2007

VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)**CONSOLIDATED BALANCE SHEETS**

(Expressed in US dollars)

	December 31, 2006	December 31, 2005 (Restated)*
ASSETS		
Current		
Cash (Note 3)	\$ 54,624	\$ 521,987
Accounts receivable	24,417	-
Inventory (Note 3)	310,039	162,948
Prepaid expenses and deposits	84,736	74,220
	473,816	759,155
Property and equipment (Note 4)	213,897	241,612
Investment in Invisa, Inc. (Note 5)	16,875	37,500
Software acquired , net of accumulated amortization of \$2,178,339 and \$1,238,371, respectively	-	939,968
	\$ 704,588	\$ 1,978,235
LIABILITIES AND CAPITAL DEFICIT		
Current		
Accounts payable and accrued liabilities	\$ 331,772	\$ 319,797
Customer deposits	147,191	140,652
Advances payable (Note 6)	607,475	393,475
Bridge loans, shareholders	4,287	4,288
Payable to related parties (Note 7)	1,229,388	149,844
Current portion of long-term debt (Note 8)	1,910,418	295,447
	4,230,531	1,303,503
Long-term debt (Note 8)	214,190	1,454,186
	4,444,721	2,757,689
Capital deficit		
Capital stock (Note 9)		
Authorized		
100,000,000 common shares, each with par value of \$0.001		
10,000,000 preferred shares, each with a par value of \$0.001		
Issued		
31,952,430 (December 31, 2005 - 30,702,430) common shares	320	307
Additional paid-in capital	15,145,996	12,852,473
Shares to be issued (Note 9)	862,500	125,000
Accumulated other comprehensive loss - foreign currency translation	(3,780)	(18,734)
Accumulated deficit	(19,745,169)	(13,738,500)
	(3,740,133)	(779,454)

\$ 704,588 \$ 1,978,235

Prior periods have been restated to reflect the 1 for 100 reverse stock split on May 21, 2007.

*See Note 14

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

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VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Expressed in US dollars)

	Year Ended December 31, 2006	Year Ended December 31, 2005
(Restated)*		
SALES	\$ 199,195	\$ 73,314
OPERATING COSTS AND EXPENSES		
Cost of sales	202,722	83,678
General and administrative (Note 10)	3,873,453	6,329,411
Depreciation and amortization	1,028,699	1,148,588
Product development	873,289	682,795
Selling	198,866	355,317
	6,177,029	8,599,789
Loss from operations	(5,977,834)	(8,526,475)
OTHER ITEMS		
Interest income	1,207	1,518
Loss on settlement of advances payable (Note 9)	-	(142,611)
Write-down of Investment in Invisa, Inc. (Note 5)	(20,625)	(18,750)
Foreign exchange (loss) gain	(4,007)	30,872
Interest expense	(5,410)	(26,400)
	(28,835)	(155,371)
Net loss for the year	\$ (6,006,669)	\$ (8,681,846)
Loss per share - basic and diluted	\$ (19.31)	\$ (32.04)
Weighted average shares outstanding - basic and diluted	311,058	270,942

Prior periods have been restated to reflect the 1 for 100 reverse stock split on May 21, 2007.*See Note 14

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

VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

(Expressed in US dollars)

	Year Ended December 31, 2006	Year Ended December 31, 2005
(Restated)*		
Net loss for the year	\$ (6,006,669)	\$ (8,681,846)
Foreign currency translation gain/(loss)	14,954	(72,306)
Comprehensive loss for the year	\$ (5,991,715)	\$ (8,754,152)

*See Note 14

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

VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)**CONSOLIDATED STATEMENT OF CHANGES IN CAPITAL DEFICIT**

(Expressed in US dollars)

Common Stock							
	Number of Shares	Amount	Additional Paid-in Capital	Shares to be issued	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance, January 1, 2005 - Restated *	245,596	\$ 246	\$ 5,345,474	\$ 98,528	\$ (5,056,654)	\$ 53,572	\$ 441,166
Shares issued to employees and management of predecessor company - accrued in November 2004 and issued in January 2005	1,500	2	74,998	(75,000)	-	-	-
Shares issued to directors of predecessor company - accrued in November 2004 and issued in January 2005	468	-	23,400	(23,400)	-	-	-
Shares issued for Blackstone acquisition - accrued in September 2004 and issued in March 2005	20	-	128	(128)	-	-	-
Shares to be issued for cash - June 2005 at \$0.50 per share (Note 9)	6,600	7	329,993	-	-	-	330,000
Shares issued for cash -August 2005 at \$0.50 per share (Note 9)	43,480	43	2,173,957	-	-	-	2,174,000
Share and warrants issued for settlement of advances payable at \$1.02 per share and fair value of \$0.40 per warrant in August 2005 (Note 9)	2,000	2	244,168	-	-	-	244,170
Shares issued for cash	7,360	7	367,993	-	-	-	368,000

-September 2005 at
\$0.50 per share (Note
9)

Shares to be issued to key employee (Note 9)	-	-	-	125,000	-	-	125,000
Stock-based compensation (Note 9)	-	-	4,579,562	-	-	-	4,579,562
Finders fee (Notes 10)	-	-	(287,200)	-	-	-	(287,200)
Net loss for the year	-	-	-	-	(8,681,846)	-	(8,681,846)
Foreign exchange translation	-	-	-	-	-	(72,306)	(72,306)
Balance, December 31, 2005 - Restated *	307,024	307	12,852,473	125,000	(13,738,500)	(18,734)	(779,454)
Shares issued for cash - August 2006 at \$0.75 per share (Note 9)	9,600	10	719,990	-	-	-	720,000
Shares issued for cash - December 2006 at \$0.75 per share (Note 9)	2,900	3	217,497	-	-	-	217,500
Stock-based compensation (Note 9)	-	-	1,449,786	-	-	-	1,449,786
Shares to be issued (Note 9)	-	-	-	737,500	-	-	737,500
Finders fees (Note 9)	-	-	(93,750)	-	-	-	(93,750)
Net loss for the year	-	-	-	-	(6,006,669)	-	(6,006,669)
Foreign exchange translation	-	-	-	-	-	14,954	14,954
Balance, December 31, 2006	319,524	\$ 320	\$ 15,145,996	\$ 862,500	\$ (19,745,169)	(3,780)	(3,740,133)

*See Note 14

The above schedule has been adjusted on a retroactive basis to reflect the 1 for 100 reverse stock split on May 21, 2007. The accompanying notes are an integral part of these consolidated financial statements.

VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Expressed in US dollars)

	Year Ended December 31, 2006	Year Ended December 31, 2005
(Restated)*		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	\$ (6,006,669)	\$ (8,681,846)
Adjustments to reconcile net loss for the year to cash used in operating activities		
Loss on settlement of advances payable	-	142,611
Accrued interest on advances (Note 6)	4,000	14,975
Write-down of investment	20,625	18,750
Loss on write-off of long-term asset	-	6,972
Depreciation and amortization	1,028,699	1,148,588
Stock-based compensation	1,449,786	4,579,562
Shares to be issued to one employee as per employment agreement	737,500	125,000
Increase in prepaid expenses and deposits	(10,516)	(52,499)
(Increase) decrease in accounts receivable	(24,417)	11,071
Decrease in refundable tax credit	-	111,603
Increase in inventory	(147,091)	(37,299)
Increase in accounts payable and accrued liabilities	11,975	(84,813)
Decrease in customer deposits	6,539	-
Cash used in operating activities	(2,929,569)	(2,697,325)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment to bridge loans / shareholders	-	(24,500)
Repayment of bank indebtedness	-	(90,818)
Repayment of long-term debt	(60,563)	(41,201)
Repayment of notes payable	-	(133,000)
Repayment of related party advances	(193,750)	(94,797)
Repayment of advances payable	-	(100,000)
Proceeds from advances payable	210,000	50,000
Proceeds from long-term debt	451,238	1,204,016
Proceeds from related party advances	1,273,294	-
Issuance of capital stock, net of finders fees	843,750	2,584,800
Cash provided by financing activities	2,523,969	3,354,500
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(61,016)	(167,881)
Cash used in investing activities	(61,016)	(167,881)
Net increase (decrease) in cash	(466,616)	489,294
Cash, beginning of year	521,987	44,161
Effect of foreign exchange on cash	(747)	(11,468)
Cash, end of the year	\$ 54,624	\$ 521,987

Supplemental Information:

Taxes paid	\$	-	\$	-
Interest paid	\$	1,410	\$	24,343
Non-cash investing and financing activities				
Shares and warrants issued for settlement of advances payable	\$	-	\$	244,170

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

VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 and DECEMBER 31, 2005

(Expressed in US dollars)

1. COMPANY HISTORY AND NATURE OF OPERATIONS

The Company (formerly Flashpoint International, Inc.) was incorporated in 1998 under the laws of the State of Nevada to engage in any lawful business or activity for which operations may be organized under the laws of the state of Nevada. Through a series of events and agreements, on November 12, 2004, the Company acquired the net assets of VECTr Systems Incorporated (Formerly Navitrak International Corporation) (an unrelated Canadian company) through the issuance of cash, notes payable and common shares. The Company changed its name and now operates under the name of VECTr Systems Incorporated (Formerly Navitrak International Corporation).

The Company is actively engaged in the business of developing and marketing advanced GPS-based navigation, mapping and tracking solutions for use by airborne and ground personnel in law enforcement, military, police, fire-fighting, search and rescue and other applications. These navigation systems provide real time positioning information through proprietary software, moving map display technology and location-based information.

Currently, all of the Company's operational activities are conducted from its facilities in Halifax, Canada.

2. ABILITY TO CONTINUE AS A GOING CONCERN

These accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. As at December 31, 2006, the Company has a working capital deficit of \$3,756,715 (December 31, 2005 - \$544,348), incurred a loss during 2006 of \$6,006,669 and has an accumulated deficit of \$19,745,169 at December 31, 2006. The continuation of the Company is dependent upon the successful completion of development and marketing of its navigation systems, the continuing support of creditors and stockholders as well as achieving and maintaining a profitable level of operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The Company had cash on hand of \$54,624 at December 31, 2006. Management anticipates that it requires approximately \$3 million over the twelve months ended December 31, 2007 to continue operations. To the extent that cash needs are not achieved from operating cash flow and existing cash on hand, the Company plans to raise necessary cash through equity issuances and/or debt financing. Amounts raised will be used to continue the development of the Company's products, roll out the Company's products to market and for other working capital purposes. Management cannot provide any assurances that the Company will be successful in any of its plans.

Although there are no assurances that management's plans will be realized, management believes that the Company will be able to continue operations in the future. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or the amounts of and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 and DECEMBER 31, 2005

(Expressed in US dollars)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES**

These consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America

Basis of Presentation

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, and include the accounts of the Company and its wholly-owned subsidiaries, VECTr Engineering Incorporated (Formerly Navitrak Engineering Incorporated), VECTr Sales Corporation (Formerly Navitrak Sales Corporation) and 0705951 BC Ltd. On September 1, 2005, the Company allowed VECTr Sales Corporation (Formerly Navitrak Sales Corporation) to be revoked by the Secretary of State of the State of Nevada for failure to file its annual list. A fourth subsidiary, VECTr Technologies Incorporated (Formerly Navitrak Technologies Inc.) was incorporated October 7, 2005 to hold future software licenses acquired from U.S. corporations. All inter-company transactions and balances are eliminated upon consolidation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires the Company's management to make estimates and assumptions which affect the amounts reported in these consolidated financial statements, the notes thereto, and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Foreign Currency Translation and Transactions

The Company's functional currency is the United States dollar; however, the functional currency of VECTr Engineering Inc. (Formerly Navitrak Engineering Inc.) is the Canadian dollar as substantially all of its operations are in Canada.

Assets and liabilities of the subsidiary denominated in Canadian dollars are translated at the exchange rate in effect at the period end. Revenue and expenses are translated at the average rates of exchange prevailing during the periods. The cumulative effect of any translation gains or losses is to be included in the Accumulated Other Comprehensive Loss account in Capital Deficit.

Transactions undertaken in currencies other than the respective functional currencies are translated using the exchange rate in effect on the transaction date. At the end of the period, monetary assets and liabilities are translated to the respective functional currencies using the exchange rate in effect at the period end date. Transaction gains and losses are included in the Consolidated Statements of Operations.

Fair Value of Financial Instruments

The fair value of the Company's financial instruments, which consist of cash, accounts receivable, investment in Invisa, Inc., accounts payable and accrued liabilities, advances payable, bridge loans, amounts payable to related

parties and long-term debt, approximate their carrying values due to their short term or demand nature, except for long-term debt. It is not practical to assess the fair value of long-term debt.

Cash

Included in cash is \$52,918 (2005 - \$378,284) denominated in the Canadian dollar.

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VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 and DECEMBER 31, 2005

(Expressed in US dollars)

3. Summary of significant accounting policies -**Continued**Revenue Recognition

Revenues are predominantly derived from sales of products and the provision of consulting services. The Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104 *Revenue Recognition* and Statement of Position (“SOP”) 97-2 *Software Revenue Recognition*. The Company sells mainly GPS systems which include computer hardware and software but occasionally, sales consist of software licenses only. When selling only software licenses, the Company is responsible for installing the software onto specific hardware components that meet the specified system requirements. Revenue from the sales of GPS systems, which include hardware and software, is deferred and recognized when the complete system including the software is delivered, the fees are fixed and determinable, the resulting receivable is deemed collectible by management and any uncertainties with regard to customer acceptance are insignificant. Revenue from the sale of software licenses is recognized when the software is delivered, the fees are fixed and determinable and the resulting receivable is deemed collectible by management. The Company considers the software license to have been delivered when the software is properly installed in the specific hardware and customer acceptance has been obtained. In an arrangement with multiple deliverables, the Company allocates fees to various elements based on vendor-specific objective evidence of fair value as defined in SOP 97-2. Revenue from the consulting services is recognized when the services are provided. Amounts collected prior to satisfying the above revenue recognition criteria are reflected as customer deposits.

Accounts receivable

Accounts receivable are presented net of an allowance for doubtful accounts. The allowance was \$Nil at December 31, 2006 and 2005.

Management evaluates the collectability of accounts receivable balances based on a combination of factors on a periodic basis. In cases where we are aware of circumstances that may impair a specific customer's ability to meet its financial obligations, we record a specific allowance against amounts due, and thereby reduce the net recognized receivable to the amount management reasonably believes will be collected. For all other customers, the Company recognizes allowances for doubtful accounts based on the length of time the receivables are outstanding, industry and geographic concentrations, the current business environment and historical experience.

Inventory

Inventory, consisting of finished goods and work-in-progress, is recorded at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis.

The following inventory was on hand at December 31, 2006 and 2005:

	2006	2005
Finished goods	\$ 147,191	\$ -
Raw materials	154,424	162,948
Work-in-process	8,424	-
	\$ 310,039	\$ 162,948

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in US dollars)

3. Summary of significant accounting policies -

Continued

Property and Equipment

Property and equipment is recorded at cost less accumulated depreciation. Depreciation of equipment is provided on a declining-balance basis over the estimated useful life of the assets at the following annual rates:

Computer	100%
software	33%
Equipment	30%
Computer	20%
equipment	20%
Furniture and	20%
fixtures	
Assets under	
capital lease	
Map library	

Leasehold improvements are depreciated over the lesser of the lease term and the expected useful life of the improvements.

Depreciation of property and equipment is recorded at one-half of the above rates in the year of acquisition.

Impairment of Long-Lived Assets

The Company applies the recommendations of the SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS 144 requires that companies (1) recognize an impairment loss only if the carrying amount of a long-lived asset is not recoverable based on its undiscounted future cash flows and (2) measure an impairment loss as the difference between the carrying amount and fair value of the asset. No impairment writedowns were determined necessary at December 31, 2006 and 2005.

Investment in Invisa, Inc.

The Company follows SFAS 115 "Accounting for Certain Investments in Debts and Equity Securities" in its accounting for the securities held in Invisa, Inc. These shares are recorded at cost, are classified as securities available-for-sale and are reported at fair value, with unrealized gains and losses charged to comprehensive income (loss). In the event that management determines that a decline in value of the securities is other-than-temporary, an impairment loss would be recognized. Management recorded an impairment loss relating to its investment in Invisa, Inc. shares of \$20,625 for the year ended December 31, 2006 (2005 - \$18,750).

Investment tax credits

Investment tax credits, which are earned as a result of qualifying research and development expenditures, are recognized when the expenditures are made and their realization is reasonably assured. They are applied to reduce related capital costs and research and development expenses in the year recognized.

The Company's claim for Scientific Research and Experimental Development (SR&ED) deductions and related investment tax credits for income tax purposes are based upon management's interpretation of the applicable legislation in the Income Tax Act (Canada). These amounts are subject to review and acceptance by the Canada Revenue Agency prior to collection.

VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**3. Summary of significant accounting policies -
Continued**

Stock-Based Compensation

Prior to 2006, the Company applied SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") and SFAS 148 "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment to SFAS No. 123" to account for all stock based compensation arrangements granted using the fair value based method prescribed in SFAS 123. Stock-based compensation for non-employees was re-measured on each balance sheet date until such options vest. Compensation expense was recognized immediately for past services and pro-rata for future services over the option-vesting period. See note 9 for details concerning the fair value determination, including assumptions.

Beginning January 1, 2006, the Company adopted the recommendations of the Statement of Financial Accounting Standards No. 123R, "Accounting for Stock-based Compensation" ("SFAS 123(R)"), and has applied the recommendations of this standard using the modified prospective method. Under this application, the Company is required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption. Prior to the adoption of SFAS 123(R), the Company followed SFAS 123 "Accounting for Stock-Based Compensation" to account for all stock-based compensation. Accordingly, no prior periods were restated or cumulative adjustments recorded upon the adoption of this standard. Since the Company had previously been using the fair value based method in accounting for all stock-based compensation, the adoption of the new standard did not have a material effect on the consolidated financial statements.

Research and Development

Research and development costs are charged to product development in the Statement of Operations as incurred.

Software Development Costs

The Company follows SFAS No. 86, *Accounting for Costs of Computer Software to be Sold, Leased or Otherwise Marketed* and expenses all software development costs until technological feasibility is established. Thereafter, the costs incurred are capitalized until the software is commercially available. Capitalized costs are amortized on a product-by-product basis. The annual amortization shall be the greater of the amount computed using (a) the ratio that current gross revenues for a product compare to the total of current and anticipated future gross revenues for that product or (b) the straight-line method over the remaining estimated economic life of the product.

The Company acquired software technology from the Predecessor on November 11, 2004. The amount capitalized on the acquisition date, based upon independent valuation, was \$2,178,339 (Note 14). The useful life of this software is estimated at 2 years from the date of acquisition due to effects of obsolescence, technology and competition concerning this acquired software. As the straight-line method results in greater amortization than the revenue-based method above, the Company recognized amortization expense of \$939,968 for the year ended December 31, 2006 (2005 \$1,089,170). Accumulated amortization at December 31, 2006 was \$2,178,339 (2005 - \$1,238,371).

VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)

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**3. Summary of significant accounting policies -
Continued**

Advertising expense

The cost of advertising is expensed as incurred. Advertising expense included in selling expense, totalled \$7,791 for the year ended December 31, 2006 (2005 - \$20,257)

Earnings (Loss) Per Share

Loss per share is computed in accordance with SFAS No. 128, "Earnings per Share". Basic loss per share is calculated by dividing the net loss available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in earnings of an entity. In loss periods, dilutive common equivalent shares are excluded, as the effect would be anti-dilutive.

The impact on dilution of the potential exercise of options and warrants and the bonus shares to be issued was 126,720 for the year ended December 31, 2006 (2005 - 116,920).

Comprehensive Income

SFAS No. 130, "Reporting Comprehensive Income", establishes standards for reporting and presentation of comprehensive income (loss). This standard defines comprehensive income as the changes in equity of an enterprise except those resulting from stockholder transactions.

Income Taxes

Income taxes are accounted for using the asset and liability method which requires the recognition of income taxes payable or refundable for the current year and deferred tax liabilities and assets for the future consequences of events that have been recognized in the Company's financial statements or tax returns. Under this method, tax liabilities and assets are determined based on the temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. A valuation allowance is recorded to reduce deferred income tax assets recognized by the amount of any deferred income tax benefits that, based on available evidence, are not more-likely-than-not to be realized.

VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 and DECEMBER 31, 2005

(Expressed in US dollars)

**3. Summary of significant accounting policies -
Continued**

New accounting pronouncements

In February 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 155, “Accounting for Certain Hybrid Financial Instruments - an Amendment of FASB Statements No. 133 and 140.” Among other things, SFAS No. 155 permits the election of fair value measurement for certain hybrid financial instruments that would otherwise require bifurcation under Statement 133, “Accounting for Derivative Instruments and Hedging Activities”. These hybrid financial instruments would include both assets and liabilities. SFAS No. 155 is effective for fiscal years beginning after September 15, 2006. The Company is currently evaluating the impact of the provisions of SFAS No. 155.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (“SFAS No. 157”). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of SFAS 157 are effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of the provisions of SFAS No. 157.

In June 2006, FASB issued interpretation No. 48, “Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109 (FAS No. 109)” (“FIN 48”). This interpretation prescribes a recognition threshold and measurement attribute for tax positions taken or expected to be taken in a tax return. This interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The evaluation of a tax position in accordance with this interpretation is a two-step process. In the first step, recognition, the Company determines whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The second step addresses measurement of a tax position that meets the more-likely-than-not criteria. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Differences between tax positions taken in a tax return and amounts recognized in the financial statements will generally result in a) an increase in a liability for income taxes payable or a reduction of an income tax refund receivable, b) a reduction in a deferred tax asset or an increase in a deferred tax liability or c) both a) and b). Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be de-recognized in the first subsequent financial reporting period in which that threshold is no longer met. Use of a valuation allowance as described in FAS No. 109 is not an appropriate substitute for the de-recognition of a tax position. The requirement to assess the need for a valuation allowance for deferred tax assets based on sufficiency of future taxable income is unchanged by this interpretation. This Interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact FIN 48 will have on the Company’s consolidated balance sheet and statement of operations.

On September 13, 2006, the Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin (“SAB”) No. 108 which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB 108 is effective for fiscal years ending after November 15, 2006. The adoption of SAB 108 did not have a material impact on the Company’s consolidated financial

statements.

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VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in US dollars)

4. PROPERTY AND EQUIPMENT

	December 31, 2006			December 31, 2005		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Computer equipment	\$169,475	\$ 66,751	\$ 102,724	\$ 130,667	\$ 31,141	\$ 99,526
Equipment	28,025	12,293	15,732	27,841	4,594	23,247
Map library	34,187	13,203	20,984	34,207	7,978	26,229
Computer software	52,464	40,158	12,306	30,374	15,508	14,866
Furniture and fixtures	34,604	13,947	20,657	34,624	8,803	25,821
Assets under capital lease	2,171	867	1,304	2,174	544	1,630
Leasehold improvements	56,390	16,200	40,190	56,413	6,120	50,293
	\$377,316	\$ 163,419	\$ 213,897	\$ 316,300	\$ 74,688	\$241,612

5. INVESTMENT IN INVISA, INC.

In April 2004, in contemplation of acquiring the net assets of the predecessor business, the Company agreed to sell the rights to a spark plug patent back to the original vendors in exchange for 375,000 common shares of Invisa Inc. ("Invisa") (a US public company quoted on the NASD:OTC Bulletin Board) and the surrender for cancellation of the 28,000 originally issued common shares of the Company. The transaction was recorded as a non-pro rata split-off. The proceeds on disposal were based on the quoted market prices of Invisa shares and the 28,000 Company shares on the date of the transaction.

As management believes that the decline in value of the Invisa, Inc. shares was other than temporary, the value of the Invisa shares as of December 31, 2006 and December 31, 2005 has been reflected at approximately \$0.045 and \$0.10 per share, respectively. The resulting loss on write-down of investment reflected in the Consolidated Statement of Operations for the year ended December 31, 2006 was \$20,625 (2005 - \$18,750).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**6. A D V A N C E S
PAYABLE**

	December 31, December 31,	
	2006	2005
1199684 Ontario Inc. and others (including accrued interest)	\$ 216,475	\$ 212,475
Tiger Eye Holdings Ltd.	150,000	150,000
Kallur Enterprises Ltd.	241,000	31,000
	\$ 607,475	\$ 393,475

The advances received from Tiger Eye Holdings Ltd. and Kallur Enterprises Ltd. are non-interest bearing, unsecured and have no specific terms of repayment.

Of the remaining balance of initial advances received from 1199684 Ontario Inc., the Company believes \$50,000 bears interest at 8% per annum, \$125,000 is non-interest bearing and the balance is accumulated interest. The advances are unsecured and have no specific terms of repayment. Accrued interest on the advances for the year ended December 31, 2006 totalled \$4,000 (2005 - \$14,975). A statement of claim has been filed against the Company in respect of these advances (Note 15).

7. PAYABLE TO RELATED PARTIES

	December 31, December 31,	
	2006	2005
Knight Financial Ltd. (controlled by director)	\$ 114,316	\$ 27,187
GM Capital Partners, Ltd. (major shareholder)	1,095,011	102,590
Express Systems Corporation (common director)	3,000	3,000
Advances from other shareholders	17,061	17,067
	\$ 1,229,388	\$ 149,844

The above advances are unsecured, non-interest bearing and have no specific terms of repayment.

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**8. L O N G T E R M
D E B T**

	December 31,
	2005
December	(Restated)*
31, 2006	

Atlantic Canada Opportunities Agency (“ACOA”) project funding loan, unsecured. The loan is non-interest bearing unless payments are past due, at which time interest is charged at the Bank of Canada discount rate plus 3% per annum. Repayment of principal was deferred to January 1, 2005, since then monthly principal payments are approximately \$1,950 (CDN \$2,274). The Company is currently in default of certain of the financial covenants and therefore the debt is considered as due on demand.

\$ 9,757	\$ 23,772
-----------------	-----------

ACOA project funding loan, unsecured. The loan is non-interest bearing unless payments are past due, at which time interest is charged at the Bank of Canada discount rate plus 3% per annum. Repayment of principal is due in monthly installments of approximately \$7,127 (CDN\$8,313) commencing July 1, 2007. The amount of funds available under this facility as at March 31, 2006 is approximately \$435,000 (CDN\$498,750). The Company is currently in default of certain of the financial covenants and therefore the debt is considered as due on demand.

270,002	270,095
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ACOA project funding loan, unsecured. The loan is non-interest bearing unless payments are past due, at which time interest is charged at the Bank of Canada discount rate plus 3% per annum. The principal of the loan is repayable annually commencing September 1, 2008 at a rate equal to 5.0% of gross revenue. The maximum project funding under this facility is approximately \$1,885,000 (CDN \$2,100,000). The Company is currently in default of certain of the financial covenants and therefore the debt is considered as due on demand.

1,620,371	1,191,232
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Program for Export Market Development (“PEMD”) project funding loan unsecured and bears interest at prime plus three percent. Arrears of \$34,800 (CDN\$40,021) are repayable in 39 monthly installments of \$892

45,061	55,530
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(CDN\$1,000) plus one installment of \$912 (CDN\$1,021), commenced November 15, 2004. The Company started making quarterly payments of \$2,572 (CDN\$3,000) in late December 2005 to repay the loan.

Industrial Regional Assistance Program (“IRAP”) project funding loan, unsecured and non-interest bearing. The loan is repayable quarterly in arrears commenced January 1, 2005 at a rate equal to 1.25% of gross revenue. The Company paid all payments in the first quarter of 2006 relating to 1.25% of gross revenue for 2004 and 2005.

	179,417	209,004
	2,124,608	1,749,633
Less: current portion	1,910,418	295,447
	\$ 214,190	\$ 1,454,186

Scheduled principal repayments until maturity are due as follows:

2007	\$ 242,225
2008	1,716,183
2009	95,813
2010	70,387
	\$ 2,124,608

*See Note 14

VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)

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**8. Long Term Debt -
Continued**

Included in the 2007 scheduled principal repayments is the full repayment of the IRAP project-funding loan. Principal repayments are based on 1.25% of gross revenue commencing January 1, 2005. Included in the 2008 scheduled principal repayments is the full repayment of the \$1,620,371 ACOA project-funding loan. This loan has undefined principal repayments as the repayments are based on a percentage of sales, with the first payment commencing in the 2008 year.

As at December 31, 2006, a number of the loans are in default of certain of the financial covenants and therefore the debt is now considered as due on demand. All of the above project funding is subject to project verification and audit by the lending agency.

**9. CAPITAL
STOCK**

On June 25, 2005, the Company approved the creation of a new class of shares. 10,000,000 preferred shares were authorized, each with a par value of \$0.001. As at December 31, 2006 and 2005, no preferred shares were issued and outstanding

In June 2005, the Company issued 6,600 units at a price of \$50 per unit for aggregate gross proceeds of \$330,000. Each unit was comprised of one common share and one-half of one non-transferable share purchase warrant, for a total of 3,300 whole share purchase warrants. Each whole share purchase warrant is exercisable into one common share of the Company's stock at an exercise price of \$100 per share for a two year period. A finder's fee of \$33,000 was paid to GM Capital Partners, Ltd. in respect of this transaction (Note 10).

On August 29, 2005, the Company issued an aggregate of 148,832 shares of our common stock to all of the holders of its common shares who were holders of record on August 26, 2005, in connection with a 2 for 1 stock split effected by way of a stock dividend. The effect of these splits has been applied on a retroactive basis to all related disclosures and calculations in these consolidated financial statements.

In August 2005, the Company issued 43,480 units at a price of \$50 per unit for aggregate gross proceeds of \$2,174,000. Each unit was comprised of one common share and one-half of one non-transferable share purchase warrant, for a total of 21,740 whole share purchase warrants. Each whole share purchase warrant is exercisable into one common share of the Company's common stock at an exercise price of \$100 per share on or before June 14, 2007. A finder's fee of \$217,400 was paid to GM Capital Partners, Ltd. in respect of this transaction (Note 10).

On August 31, 2005, the Company issued 2,000 shares of common stock and 1,000 share purchase warrants to an investor as settlement of advances in the amount of \$100,000. The shares were valued at the quoted market price of the common stock on the date of agreement and the fair value of the warrants was calculated using the Black Scholes option pricing model based on assumptions as described elsewhere in this note. As a result, a loss on settlement of advances payable of \$144,170 was recorded on the Consolidated Statements of Operations for the year ended December 31, 2005.

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**9. Capital Stock -
Continued**

In September 2005, the Company issued 7,360 units at a price of \$50 per unit for aggregate gross proceeds of \$368,000. Each unit was comprised of one common share and one-half of one non-transferable share purchase warrant, for a total of 3,680 whole share purchase warrants. Each whole share purchase warrant is exercisable into one common share of the Company's common stock at an exercise price of \$100 per share on or before June 14, 2007. A finder's fee of \$36,800 was paid to GM Capital Partners, Ltd. in respect of this transaction (Note 10).

The employment agreement of an employee specifies that he will be entitled to a bonus of 5,000 shares of common stock on each of June 30, 2006 (not yet issue), June 30, 2007 and June 30, 2008 so long as he continues to be employed by the Company at those dates. Compensation expense associated with the bonus payments was determined based upon the quoted market price of the underlying common stock on the grant date and is being amortized on a straight-line basis over the requisite service period, which is the period from the date of grant to June 30, 2008. For the year ended December 31, 2006, the Company has recognized \$737,500 (2005 - \$125,000) in respect of shares to be issued related to these bonus payments. As of December 31, 2006, there was \$862,500 (December 31, 2005 - \$1,600,000) of total unrecognized compensation cost related to these bonus payments. This unrecognized compensation cost is expected to be recognized over the remaining requisite service period of 18 months ending June 30, 2008.

In August 2006, the Company issued 9,600 units at a price of \$75 per unit for aggregate gross proceeds of \$720,000. Each unit was comprised of one common share and one-half of one non-transferable share purchase warrant, for a total of 4,800 whole share purchase warrants. Each whole share purchase warrant is fully vested and exercisable into one common share of the Company's common stock at an exercise price of \$125 per share on or before August 28, 2008. A finder's fee of \$72,000 was accrued to GM Capital Partners Ltd. (Note 10) in respect of this transaction.

In December 2006, the Company issued 2,000 units at a price of \$75 per unit for aggregate gross proceeds of \$150,000. Each unit was comprised of one common share and one-half of one non-transferable share purchase warrant, for a total of 1,000 whole share purchase warrants. Each whole share purchase warrant is fully vested and exercisable into one common share of the Company's common stock at an exercise price of \$125 per share until July 24, 2008. A finder's fee of \$15,000 was accrued to GM Capital Partners Ltd. (Note 10) in respect of this transaction.

In December 2006, the Company also issued 900 common shares at a price of \$75 per share for aggregate gross proceeds of \$67,500. A finder's fee of \$6,750 was accrued to GM Capital Partners Ltd. (Note 10) in respect of this transaction.

Stock options

On December 6, 2004 the Company's Board of Directors approved the 2004 Officer, Director, Employee, Consultant and Advisor Stock Compensation Plan ("2004 Incentive Plan") pursuant to which a total of 40,000 of our shares could be issued. The plan is administered by the Board of Directors and expires in 10 years from its effective date.

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9. Capital Stock - Continued

On September 27, 2005, the Company's Board of Directors approved the 2005 Incentive Plan pursuant to which the Company may grant an aggregate of up to 40,000 common shares or options to purchase common shares to employees, consultants or directors of our company or of any of our subsidiaries. The purpose of the 2005 Incentive Plan is to give the Company the ability to motivate participants to contribute to our growth and profitability. The Company's Board of Directors administers the 2005 Incentive Plan. It will continue in effect until the earlier of the (a) date that all of the securities that can be issued pursuant to its terms have been granted or (b) September 27, 2015.

Awards under the 2005 Incentive Plan will vest as determined by the Company's Board of Directors and as established in stock option agreements to be entered into between the Company and each participant receiving an award. Options granted under the 2005 Incentive Plan will have a term of 10 years from the date of grant but are subject to earlier termination in the event of death, disability or the termination of the employment or consulting relationship.

The exercise price of options granted under the 2005 Incentive Plan shall be determined by the Company's board of directors but shall not be less than 85% of the fair market value of the Company's common stock on the grant date. (In the case of options granted to a holder of more than 10% of the Company's common stock, the option price must not be less than 110% of the market value of the common stock on the grant date.)

Stock options become exercisable at dates determined by the Company's Board of Directors at the time of granting the option.

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value
Balance, January 1, 2005	28,300	\$ 42.50	
Granted	23,200	92	
Forfeited	(4,300)	42.50	
Balance, December 31, 2005	47,200	67	
Cancelled	(2,300)	46	
Forfeited	(1,200)	85	
Balance December 31, 2006	43,700	\$ 68	\$ -
Options exercisable, as at December 31, 2006	34,500	\$ 71	\$ -
Options exercisable, as at December 31, 2005	22,550	\$ 52	

VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)

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9. Capital Stock - Continued

There were no options granted during the year ended December 31, 2006. For the year ended 2005 the weighted average fair value of options on the date of grant was \$77 per share.

On December 6, 2004, options to purchase 28,300 common shares were granted to directors, officers and employees under the Company's 2004 Incentive Plan. One quarter of the options vested immediately and the remaining 3/4 of these options granted vest in 1/4 increments every six months thereafter.

On June 1, 2005, the Company granted 15,000 stock options to an employee of the Company at an exercise price of \$96 per share for a period of ten years. Of these options, 1,250 vested immediately upon grant and the remaining 13,750 of these options granted vest in 1,250 increments every three months, which commenced on December 1, 2005. These options were granted pursuant to the Company's 2005 Incentive Plan.

On September 1, 2005, the Company granted a further 8,200 stock options to various employees, directors, officers and consultants of the Company at an exercise price of \$85 per share for a period of five years. One quarter of these options granted vested immediately and the remaining 3/4 of these options granted vest in 1/4 increments every six months thereafter. These options were granted pursuant to the Company's 2005 Incentive Plan.

The following stock options were outstanding at December 31, 2006:

Expiry date	Exercise Price	Number of Options
December 6, 2014 for 2004 Incentive Plan	\$ 42.50	21,900
August 31, 2010 for 2005 Incentive Plan	\$ 85	6,800
May 31, 2015 for 2005 Incentive Plan	\$ 96	15,000

A summary of status of the Company's unvested stock options as of December 31, 2006 and 2005 and changes during the years then ended, is presented below:

	Number of Options	Weighted Average Exercise Price (\$USD)	Weighted Average Grant Date Fair Value
Unvested at January 1, 2005	21,225	\$ 42.50	\$ 35
Granted	23,200	92	77
Vested	(18,700)	54	49
Forfeited	(1,075)	42.50	35
Unvested at December 31, 2005	24,650	67	67

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Vested	(14,250)	72	67
Forfeited	(1,200)	85	77
Unvested at December 31, 2006	9,200	\$ 56	\$ 65

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DECEMBER 31, 2006 and DECEMBER 31, 2005

(Expressed in US dollars)

**9. Capital Stock -
Continued****Warrants**

On December 1, 2004, the Company issued 40,000 share purchase warrants to a consultant for financial public relation services and other consulting services. 30,000 of these share purchase warrants initially vested on January 15, 2006, while the remaining 10,000 were to vest on September 15, 2006. 20,000 of the share purchase warrants ("First Engagement Warrant") that vested on January 15, 2006 had an exercise price of \$25 and were to expire on November 30, 2006. The balance of the share purchase warrants ("Second Engagement Warrant") that vested on January 15, 2006 had an exercise price of \$50 and were to expire on November 30, 2007. The 10,000 share purchase warrants ("Third Engagement Warrant") that were to vest on September 15, 2006 have an exercise price of \$100 and expire on November 30, 2009.

Effective September 16, 2006 the Company and the consultant entered into an agreement to extend the life of the First Engagement Warrants and the Second Engagement Warrants. As amended, the First Engagement Warrant gives the warrant holder the right to acquire 20,000 shares of the Company's common stock at \$25 per share for a period of one year from the date that the Securities and Exchange Commission declared the Company's registration statement on Form SB-2 to be effective (January 22, 2007). Therefore, the right to exercise the First Engagement Warrant had not yet vested at December 31, 2006 and will expire January 22, 2008. As amended, the Second Engagement Warrant gives the warrant holder the right to acquire 10,000 shares of the Company's common stock at a price of \$50 per share from the date that they vest (which is the date upon which the consultant purchases the last of the 20,000 common shares underlying the First Engagement Warrant) until January 22, 2010. Warrant transactions and the number of warrants outstanding at December 31, 2006 and 2005 are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price (\$USD)
Balance, January 1, 2005	40,000	\$ 50
Granted	29,720	100
Balance, December 31, 2005	69,720	71
Granted	5,800	125
Balance, December 31, 2006	75,520	\$ 74
Warrants exercisable, as at December 31, 2006	45,520	\$ 104
Warrants exercisable, as at December 31, 2005	29,720	\$ 100

VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 and DECEMBER 31, 2005

(Expressed in US dollars)

9. Capital Stock - Continued**Warrants (Continued)**

Number of Warrants	Exercise Price	Expiry Date
20,000	\$ 25	January 22, 2008
10,000	\$ 50	January 22, 2010
10,000	\$ 100	November 30, 2009
29,720	\$ 100	June 14, 2007
4,800	\$ 125	August 28, 2008
1,000	\$ 125	July 24, 2008

Stock-based compensation

Stock Options

During the year ended December 31, 2006, 1,200 options previously granted to employees with a weighted average exercise price of \$85 were forfeited. During the year ended December 31, 2005, 23,200 options were granted to employees and, 4,300 options previously granted to employees were forfeited.

As discussed in Note 3, compensation expense for options granted during the period is recognized in accordance with SFAS No. 123(R) which requires all options granted to be measured at fair value. Such compensation is amortized over the contract services period or, if none exists, from the date of grant until the options vest for non-employees. For employees, the compensation expense is amortized over the requisite service period which approximates the vesting period. Compensation associated with unvested options granted to non-employees is remeasured on each balance sheet date using the Black-Scholes option pricing model. Prior to the adoption of SFAS 123(R), the Company followed SFAS 123 "Accounting for Stock-Based Compensation" to account for all stock options granted. The fair value of stock options granted during 2005 estimated at the date of grant using the fair value method prescribed in SFAS 123 used the following weighted average assumptions:

	Year Ended December 31, 2005
Risk-free interest rate	4.37%
Expected term of options	9 years
Expected volatility of the Company's common shares	71%
Dividend	-%

VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 and DECEMBER 31, 2005

(Expressed in US dollars)

9. Capital Stock - Continued

Expected volatilities are based on historical volatility of the Company's stock using available data and other factors. The Company uses historical data to estimate option exercise, forfeiture and employees termination within the valuation model. For non-employees, the expected term of the options approximates the full term of the options.

An officer resigned from all of his positions with the Company, effective May 18, 2006 pursuant to an Agreement and Mutual Release which provides, among other terms, that the stock options that were available to the officer on May 18, 2006 will continue to be available until they expire on December 31, 2010. The Company also agreed to register with the Securities and Exchange Commission the shares that might be issued upon exercise of the stock options if and when the Company filed such a registration statement to register shares underlying stock options granted to other employees, officers and directors of the Company. The modification of the options to the former officer resulted in additional compensation of \$157,621 using the following weighted average assumptions:

	Year Ended December 31, 2006
Risk-free interest rate	4.96%
Expected term of options	4.6 years
Expected volatility of the Company's common shares	100%
Dividend	-%

There were no options granted in the year ended December 31, 2006. The grant date fair value of options granted during the year ended December 31, 2005 was approximately \$77 per share. In respect to the options granted in 2004 and 2005, the Company charged to stock based compensation expense of \$939,994 (including the \$157,621 of additional compensation resulting from the modification of options discussed above) during the year ended December 31, 2006 (2005 - \$1,739,767).

VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 and DECEMBER 31, 2005

(Expressed in US dollars)

9. Capital Stock - Continued**Stock-based compensation - Continued***Stock Options -
Continued*

Options granted to non-employees that were unvested are subsequently remeasured at each balance sheet and vesting date using the fair value method. As of December 31, 2006, there was \$197,928 (December 31, 2005 - \$1,024,827) of total unrecognized compensation cost related to all options granted and outstanding. This unrecognized compensation cost is expected to be recognized over a weighted-average period of approximately one year. The total grant-date fair value of options vested during the year ended December 31, 2006 and 2005 was \$954,750 and \$916,300, respectively.

Warrants

No compensation expense is required for the warrants issued during the years ended December 31, 2006 and 2005. Compensation expense for warrants issued in December 2004 was recognized in accordance with SFAS No. 123 (prior to the adoption of SFAS 123(R)) which requires such warrants to be measured at fair value using the Black-Scholes option pricing model. Such compensation is being amortized over the contract services period or, if none exists, from the date of grant until the warrants vest. The original fair value of warrants issued during 2004 was estimated at the date of grant and, for warrants granted to non-employees, subsequently remeasured at each balance sheet and vesting date using the fair value method prescribed in SFAS 123 used the following weighted average assumptions:

	2004
Risk-free interest rate	3.40%
Expected term of warrants	3 years
Expected volatility of the Company's common shares	63%
Dividend	-%

The weighted average grant-date fair value of warrants issued in 2004 was \$71 per share.

As discussed above, in September 2006 the Company and the consultant entered into an agreement to modify the vesting and expiration dates of the warrants. Additional compensation expense of \$17,000 was recognized in respect of the modification based on the incremental increase in value of the warrants as result of the modification. Such compensation relating to the incremental increase was recognized immediately upon modification. The fair value of the modified warrants was estimated at the date of modification using the fair value method prescribed in SFAS 123(R) with the following weighted average assumptions. Such compensation will be re-measured and charged to the Consolidated Statement of Operations on a quarterly basis until the warrants vest.

VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 and DECEMBER 31, 2005

(Expressed in US dollars)

9. Capital Stock -**Continued****Stock-based compensation - Continued***Warrants - Continued*

	2005
Risk-free interest rate	4.06%
Expected term of warrants	1.7 years
Expected volatility of the Company's common shares	173%
Dividend	-%

The total stock-based compensation recognized and charged to expense under the fair value method in respect of these warrants during the year ended December 31, 2006 was \$509,792 (including the \$17,000 of additional compensation resulting from the modification of warrants discussed above) (2005 - \$2,839,795) using the Black-Scholes option-pricing model.

**10. RELATED PARTY
TRANSACTIONS**

Related party transactions not disclosed elsewhere in these consolidated financial statements include:

- a) Management fees accrued during the year ended December 31, 2006 of \$60,000 (2005 - \$60,000) to two companies controlled by a director.
- b) The Company entered into a written consulting agreement with GM Capital Partners, Ltd., effective December 1, 2004 (subsequently changed to October 27, 2005), pursuant to which, GM Capital Partners, Ltd. has agreed to provide corporate counseling and advice. The term of the agreement was for a period of twenty-four months commencing December 1, 2004. The Company agreed to pay GM Capital Partners Ltd. an initial payment of \$10,000 (paid in December 2004), and commencing after January 1, 2005, \$10,000 per month. During the year ended December 31, 2006, \$120,000 (2005 - \$120,000) in consulting fees were accrued to GM Capital Partners, Ltd., pursuant to this agreement. The agreement expired on December 1, 2006 and a formal extension has not yet been drafted.

GM Capital Partners, Ltd. also received 40,000 share purchase warrants in 2004 in connection with the consulting agreement (Note 9). In addition, if during the twenty-four month period of the agreement, any extension thereof, or for a period of two years following the termination of the agreement, the Company shall consummate a financing, whether in the form of equity, cash or other consideration, with any person or entity directly or indirectly introduced to the Company by GM Capital Partners, Ltd. then GM Capital Partners, Ltd. is entitled to receive a finders fee equal to 10% of gross proceeds of the private financing. The Company accrued finders fees for the year ending December 31, 2006 of \$208,750 (2005- \$287,200). This amount consists of \$93,750 (2005 - \$287,200) from the issuance of equity and \$115,000 (2005 - \$Nil) from the issuance of related party advances.

VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 and DECEMBER 31, 2005

(Expressed in US dollars)

**10. Related Party Transactions -
Continued**

The agreement also specifies that if during the twenty-four month period of the agreement, any extension thereof, or for a period of two years following the termination of the agreement, the Company shall consummate a business combination with any person or entity directly or indirectly introduced to the Company by GM Capital Partners, Ltd., GM Capital Partners, Ltd. is entitled to additional compensation as follows: 5% of the 1st \$1,000,000 of consideration paid; plus 4% of the 2nd \$1,000,000 of consideration paid; plus 3% of the 3rd \$1,000,000 of consideration paid; plus 2% of the 4th \$1,000,000 of consideration paid; plus 1% of all consideration paid in excess of \$5,000,000.

c) A director of the Company resigned all of his positions in the Company. Pursuant to the Agreement and Mutual Release, which became effective on May 18, 2006, the Company agreed to pay the director the sum of \$131,685 (CDN \$147,500) over the period from within two business days of the effective date of the agreement to December 31, 2006. In addition, stock options available to the officer on May 18, 2006 will continue to be available until they expire on December 31, 2010. The balance amount owed of \$64,300 (CDN \$75,000) as of December 31, 2006 was accrued in these consolidated financial statements.

The above transactions are in the normal course of operations and are recorded at amounts established and agreed to between the related parties.

**11. S A L E S
INFORMATION**

Management has determined that it operates in one industry segment.

For the year ended December 31, 2006 and 2005, the Company's sales were distributed as follows:

	Year Ended December 31, 2006		Year Ended December 31, 2005	
Canada	\$ 17,649	9%	\$ -	- %
United States	181,546	91%	73,314	100%
	\$ 199,195	100%	\$ 73,314	100%

For the year ended December 31, 2006 United States sales were derived from two customers, representing 12% and 88% of the Company's sales to the United States. No significant amounts were included in accounts receivable as at December 31, 2006. For the year ended December 31, 2005 approximately 85% of sales were derived from one customer.

VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 and DECEMBER 31, 2005

(Expressed in US dollars)

**12. I N C O M E
TAXES**

The tax effects of temporary differences that give rise to deferred tax assets at December 31, 2006 and 2005 are presented below:

	2006	2005 (Restated)
Operating losses	\$ 2,226,000	\$ 1,392,000
Unclaimed SR&ED expenditures	1,266,000	1,052,000
Investment	249,000	242,000
Property and equipment	94,000	72,000
Software	741,000	421,000
	4,576,000	3,179,000
Valuation allowance	(4,576,000)	(3,179,000)
	\$ -	\$ -

The Company evaluates its valuation allowance requirements based on projected future operations. When circumstances change and this causes a change in management's judgment about the recoverability of deferred tax assets, the impact of the change on the valuation allowance is reflected in current income.

The provision for income taxes differs from the amount estimated using the United States federal statutory income tax rate as follows:

	For the year ended December 31, 2006	For the year ended December 31, 2005 (Restated)
Provision (recovery) based on federal US statutory rates	\$ (2,042,000)	\$ (2,952,000)
Non-deductible stock-based compensation and bonus shares to be issued to employee	744,000	1,600,000
Income tax rate differential of subsidiaries	(59,000)	(32,000)
Other non-deductible expenses	(40,000)	235,000
Increase in valuation allowance	1,397,000	1,149,000

\$ - \$ -

At December 31, 2006, the Company had estimated losses carried forward of approximately \$6.1 million that may be available to offset future income tax purposes, if unused, the losses will expire on various dates during the period from 2009 to 2026. The potential tax benefits have been fully allowed for in the valuation allowance in these financial statements.

VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 and DECEMBER 31, 2005

(Expressed in US dollars)

13. COMMITMENTS

- (a) The Company has entered into two lease agreements for offices in Halifax, Nova Scotia and Washington, DC. Total rental expense for the year ended December 31, 2006 was \$122,591 (2005 - \$109,064). Minimum lease payments under the leases (excluding operating expenses) over the remaining terms of the respective leases are as follows:

	Twelve months ended December 31
2007	\$ 48,829
2008	\$ 38,274
2009	\$ 39,718
2010	\$ 20,220

After July 1, 2007, provided that the Company is not in default of the Lease, the Company has the option to terminate the Halifax lease within a six-month period.

- (b) For certain of the Company's employees, their employment agreement specifies that they are entitled to severance pay upon termination based on a pre-determined number of months salary. As at December 31, 2006, the obligation for the severance payments should they be terminated was approximately \$120,000 (CDN \$139,650) and \$228,000 denominated in USD (December 31, 2005 - \$354,000 (CDN \$412,500) and \$225,000 denominated in USD)).

14. RESTATEMENTS

- (a) Revision of Purchase Price of Predecessor

On November 12, 2004, the Company closed the acquisition agreement with VECTr Systems Inc. (Formerly Navitrak International Corporation) to acquire the net assets (excluding shares of certain of its inactive subsidiaries) in exchange for cash, debt, and the issuance of common shares. The acquisition was accounted for using the purchase method as the net assets acquired constituted the entire business of the predecessor company. Subsequent to the issuance of December 31, 2005 financial statements, management revisited the allocation of the purchase price among net assets acquired in respect of software and goodwill. The Company had previously allocated no value to computer software acquired and approximately \$4.3 million to goodwill. As a result, the Company has restated its 2005 consolidated financial statements assigning a determined value of \$2,178,339 to software. The remaining excess of purchase price over fair value of identifiable assets attributable to goodwill was determined to be impaired. Accordingly, \$2,120,866 was charged as an expense to the Company's Consolidated Statement of Operations for the period from November 12, 2004 to December 31, 2004. The software was amortized over its estimated useful life of

two years.

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VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 and DECEMBER 31, 2005

(Expressed in US dollars)

14. RESTATEMENTS**Continued**

(b) Reclassification of Loans previously disclosed as due on demand

The Company had previously disclosed in its 2005 consolidated financial statements that various of its loans payable to ACOA (Note 8) were in default, and thus currently due, resulting from its interpretation of certain conditions of the various loan agreements. Subsequent to the issuance of December 31 2005 financial statements, based on additional clarification with ACOA, the Company determined that it was not in violation of these conditions as previously thought, and, accordingly has restated the presentation of the ACOA loans from current to long-term on the Company's consolidated balance sheet as at December 31, 2005. However, at December 31, 2006, the Company is in default of certain of the financial covenants of these loans and therefore the debt is now considered as due on demand.

(c) Recognition of additional stock-based compensation

Subsequent to the issuance of December 31, 2005 consolidated financial statements, the Company has corrected an error in the omission of stock-based compensation resulting from a contract with an employee (signed in 2005) that entitles the employee to bonus shares upon completion of a service period. The Company has now recognized stock-based compensation in the amount of \$125,000 during the year ended December 31, 2005.

	January 1, 2005
Accumulated Deficit	
As previously recorded	\$ (2,786,587)
Revision to allocation of purchase price for Predecessor (a)	(2,270,067)
As restated	\$ (5,056,654)
	December 31, 2005
Software acquired	
As previously recorded	\$ -
Revision to allocation of purchase price for Predecessor (a)	939,968
As restated	\$ 939,968
Goodwill	
As previously recorded	\$ 2,543,219
Revision to allocation of purchase price for Predecessor (a)	(2,543,219)
As restated	\$ -

Total Assets	
As previously recorded	\$ 3,581,486
Revision to allocation of purchase price for Predecessor (a)	(1,603,251)
As restated	\$ 1,978,235
Current portion of Long-Term Debt	
As Previously recorded	\$ 1,749,264
Reclassification of loans previously presented as due on demand (b)	(1,453,817)
As restated	\$ 295,447

VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 and DECEMBER 31, 2005

(Expressed in US dollars)

14. RESTATEMENTS -**Continued**

Long-Term Debt	
As Previously recorded	\$ 369
Reclassification of loans previously presented as due on demand (b)	1,453,817
As restated	\$ 1,454,186
Accumulated Deficit	
As previously recorded	\$ (12,010,249)
Revision of allocation of purchase price for Predecessor (a) and recognition of additional stock-based compensation for shares due under bonus arrangement (c)	(1,728,251)
As restated	\$ (13,738,500)
Stockholders' Equity (Capital Deficit)	
As previously recorded	\$ 823,797
Revision of allocation of purchase price for Predecessor (a)	(1,603,251)
As restated	\$ (779,454)

The following represents the Company's net loss as previously reported and after giving effect to the restatement adjustments for the year ended December 31, 2005:

	December 31, 2005
Net Loss for the period	
As previously recorded	\$ (9,223,662)
Revision to allocation of purchase price for Predecessor (a)	1,755,986
Recognition of additional stock-based compensation for shares due under bonus arrangement (c)	(125,000)
Amortization of acquired software, upon revision to allocation of purchase price of Predecessor (a)	(1,089,170)
As restated	\$ (8,681,846)
Loss per share - basic and diluted	
As previously recorded	\$ (34)

Revision of allocation of purchase price for Predecessor (a) and recognition of additional stock-based compensation for shares due under bonus arrangement (c)	2
As restated	\$ (32)

There was no impact on the totals of operating, financing and investing activities in the Consolidated Statement of Cash Flows as a result of the restatements.

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VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006

(Expressed in US dollars)

15. CONTINGENT LIABILITY

On November 29, 2006, a statement of claim was filed against the Company in the Ontario Superior Court of Justice by 1199684 Ontario Inc. and Ken Sawatzky alleging that they are owed money by the Company in respect of previous advances. The Company was served with this statement of claim on December 4, 2006. The Company has previously recognized such advances as owing to 1199684 Ontario Inc. (Note 6) and has made payments on these advances accordingly. The amount claimed is \$187,000 plus interest at 8% per annum from November 2003 until paid plus interest at 8% per annum on \$63,000 from November 10, 2003 to August 9, 2005. The Company does not believe additional amounts to be payable as a result of this claim. In the opinion of legal counsel, the outcome of this claim is not determinable. Any additional amounts payable arising from this claim will be recognized in the period a negative outcome becomes likely.

**16. SUBSEQUENT
EVENTS**

(a) Debt Settlement and Subscription
Agreement

On February 27, 2007, the Company entered into a Debt Settlement and Subscription Agreement with G.M. Capital Partners, Ltd. whereby it agreed to apply \$350,000 of the related party payable (Note 7) to G.M. Capital Partners towards the payment of 350,000 common shares at a purchase price of \$1 per share. The transaction will be recorded based on the quoted market price of the Company's common share on the date of the debt settlement and subscription agreement which will result in a loss of settlement of approximately \$4.9 million in the first quarter of 2007.

(b) 1-for-100 reverse stock
split

On March 2, 2007, the Company's shareholders approved a 1-for-100 reverse split of the issued and outstanding common stock, whereby each holder of shares of common stock will receive one (1) share of common stock for every one hundred (100) shares of common stock owned. This corporate action is subject to regulatory approval and is not yet effective.

(c) Name change

On March 2, 2007, subject to regulatory approval, the Company amended the Articles of Incorporation to change the name of the Company to Vectr Systems, Inc.

VECTr SYSTEMS INC.
(Formerly Navitrak International Corporation)

CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited - Expressed in US dollars)

JUNE 30, 2007 and DECEMBER 31, 2006

VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)**CONSOLIDATED BALANCE SHEETS**

(Unaudited - Expressed in US dollars)

	June 30, 2007	December 31, 2006
ASSETS		
Current		
Cash (Note 3)	\$ 328,824	\$ 54,624
Accounts receivable	751	24,417
Inventory (Note 4)	240,267	310,039
Prepaid expenses and deposits	127,449	84,736
	697,291	473,816
Equipment	199,185	213,897
Investment in Invisa, Inc. (Note 5)	-	16,875
	\$ 896,476	\$ 704,588
LIABILITIES AND CAPITAL DEFICIT		
Current		
Accounts payable and accrued liabilities	\$ 289,189	\$ 331,772
Customer deposits	34,669	147,191
Payable to related parties (Note 6)	694,322	1,229,388
Advances payable (Note 7)	784,459	607,475
Bridge loans, shareholders	4,720	4,287
Current portion of long-term debt (Note 8)	2,454,595	1,910,418
	4,261,954	4,230,531
Long-term debt (Note 8)	-	214,190
	4,261,954	4,444,721
Capital deficit		
Capital stock (Note 9)		
Authorized		
100,000,000 common shares, each with par value of \$0.001		
10,000,000 preferred shares, each with a par value of \$0.001		
Issued		
12,719,533 (December 31, 2006 - 319,533) common shares ^(a)	12,720	320
Additional paid-in capital ^(a)	48,283,821	15,145,996
Shares to be issued (Note 8)	1,150,000	862,500
Accumulated other comprehensive loss	(192,671)	(3,780)
Accumulated deficit	(52,619,348)	(19,745,169)

(3,365,478) (3,740,133)

\$ 896,476 \$ 704,588

(a) Prior periods have been restated to reflect the 1 for 100 reverse stock split on May 21, 2007.

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

VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)
CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS
(Unaudited - Expressed in US dollars)

	Three-Month Period Ended June 30, 2007	Three-Month Period Ended June 30, 2006	Six-Month Period Ended June 30, 2007	Six-Month Period Ended June 30, 2006
REVENUE	\$ 102,931	\$ 149,065	\$ 247,654	\$ 149,065
OPERATING COSTS AND EXPENSES				
Cost of sales	60,619	124,775	208,060	129,451
General and administrative (Note 10)	3,249,675	1,542,189	3,857,434	2,596,503
Depreciation	17,096	331,096	33,262	585,420
Product development	139,492	281,518	302,849	475,961
Selling	79,215	39,078	164,763	59,172
	3,546,097	2,318,656	4,566,368	3,846,507
Loss from operations	(3,443,166)	(2,169,591)	(4,318,714)	(3,697,442)
OTHER ITEMS				
Loss on sale of Investment in Invisa, Inc. (Note 5)	-	-	(2,329)	-
Gain on sale of Investment in Maps a la Carte, Inc. (Note 5)	564,366	-	564,366	-
Foreign exchange loss	(10,607)	(5,297)	(11,866)	(5,692)
Interest expense, net	(3,046)	(989)	(5,236)	(1,993)
Loss on settlement of debt with issuance of shares (Note 9)	(24,200,400)	-	(29,100,400)	-
	(23,649,687)	(6,286)	(28,555,465)	(7,685)
Net loss for the period	\$ (27,092,853)	\$ (2,175,877)	\$ (32,874,179)	\$ (3,705,127)
Loss per share - basic and diluted ^(a)	\$ (4.99)	\$ (7.09)	\$ (11.09)	\$ (12.07)
Weighted average shares outstanding - basic and diluted ^(a)	5,429,973	307,024	2,965,367	307,024

(a) Prior periods have been restated to reflect the 1 for 100 reverse stock split on May 21, 2007.

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

VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)
CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited - Expressed in US dollars)

	Three-Month Period Ended June 30, 2007	Three-Month Period Ended June 30, 2006	Six-Month Period Ended June 30, 2007	Six-Month Period Ended June 30, 2006
Net loss for the period	\$ (27,092,853)	\$ (2,175,877)	\$ (32,874,179)	\$ (3,705,127)
Unrealized gain on available-for sale investment	-	37,500	-	37,500
Foreign currency translation loss	(202,098)	(49,758)	(188,891)	(46,034)
Comprehensive loss for the period	\$ (27,294,951)	\$ (2,188,135)	\$ (33,063,070)	\$ (3,713,661)

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

VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)
CONSOLIDATED INTERIM STATEMENT OF CHANGES IN CAPITAL DEFICIT
(Unaudited - Expressed in US dollars)

Common Stock							
	Number of Shares ^(a)	Amount ^(a)	Additional Paid-in Capital ^(a)	Shares to be issued	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance, January 1, 2007	319,533	\$ 320	\$ 15,145,996	\$ 862,500	\$ (19,745,169)	\$ (3,780)	\$ (3,740,133)
Shares issued for debt (Note 9)	12,350,000	12,350	30,437,650	-	-	-	30,450,000
Shares issued for consulting services (Note 9)	50,000	50	119,950	-	-	-	120,000
Stock-based compensation (Note 9)	-	-	2,580,225	-	-	-	2,580,225
Shares to be issued (Note 9)	-	-	-	287,500	-	-	287,500
Net loss for the period	-	-	-	-	(32,874,179)	-	(32,874,179)
Foreign exchange translation	-	-	-	-	-	(188,891)	(188,891)
Balance, June 30, 2007	12,719,533	\$ 12,720	\$ 48,283,821	\$ 1,150,000	\$ (52,619,348)	\$ (192,671)	\$ (3,365,478)

(a) The above schedule has been adjusted on a retroactive basis to reflect the 1 for 100 reverse stock split on May 21, 2007.

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

VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited - Expressed in US dollars)

	Six-month Period Ended June 30, 2007	Six-month Period Ended June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	\$ (32,874,179)	\$ (3,705,127)
Adjustments to reconcile net loss for the period to cash used in operating activities		
Accrued interest on advances (Note 7)	1,984	1,985
Write-down of inventory	39,000	9,000
Gain on sale of investment (Note 5)	(562,037)	-
Loss on settlement of debt with issuance of shares	29,100,400	-
Shares issued to consultant for services	120,000	-
Depreciation and amortization	33,262	585,420
Stock-based compensation	2,580,225	1,311,091
Shares to be issued to one employee as per employment agreement	287,500	450,000
(Increase) decrease in prepaid expenses and deposits	(42,713)	4,903
(Increase) decrease in accounts receivable	23,666	(153,000)
(Increase) decrease in inventory	30,772	(143,615)
Decrease in accounts payable and accrued liabilities	(42,583)	(37,705)
Decrease in customer deposits	(112,522)	-
Cash used in operating activities	(1,417,225)	(1,677,048)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(10,506)	(39,276)
Proceeds from advances payable	175,000	244,818
Proceeds from long-term debt	117,909	262,775
Proceeds from related party advances	814,534	863,548
Proceeds from shares to be issued	-	81,000
Cash provided by financing activities	1,096,937	1,412,865
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(707)	(50,751)
Proceeds on sale of investments	578,912	-
Cash provided by (used in) investing activities	578,205	(50,751)
Net increase (decrease) in cash	257,916	(314,934)
Cash, beginning of period	54,624	521,987

Effect of foreign exchange on cash	16,284	9,129
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Cash, end of the period	\$ 328,824	\$ 216,182
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Supplemental Information:

Interest paid	\$ 5,291	\$ 660
Non-cash investing and financing activities		
Shares issued for settlement of debt	\$ 1,349,600	\$ -

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

VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
JUNE 30, 2007
(Unaudited - Expressed in US dollars)

1. COMPANY HISTORY AND NATURE OF OPERATIONS

The Company (formerly Navitrak International Corporation) was incorporated in 1998 under the laws of the State of Nevada to engage in any lawful business or activity for which operations may be organized under the laws of the state of Nevada. Through a series of events and agreements, on November 12, 2004, the Company acquired the net assets of Navitrak International Corporation through the issuance of cash, notes payable and common shares. On May 21, 2007, the Company changed its name to VECTr Systems, Inc. Also on May 21, 2007, the Company had effected a one (1) for one hundred (100) reverse stock split of its authorized as well as issued and outstanding common stock to all of the holders of its common shares who were holders on record on May 21, 2007. The effect of the reverse split has been applied on a retroactive basis to all related disclosures and calculations in these consolidated financial statements.

The Company is actively engaged in the business of developing, marketing and distributing advanced GPS-based navigation, mapping and tracking solutions for use by airborne and ground personnel in law enforcement, military, police, fire-fighting, search and rescue and other applications. These navigation systems provide real time positioning information through proprietary software, moving map display technology and location-based information.

Until recently, all of the Company's operational activities were conducted from its facilities in Halifax, Canada. The Company has recently opened an office in Falls Church, Virginia, from which it now conducts its U.S. operations.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Ability to Continue as a Going Concern

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, and include the accounts of the Company and its wholly owned subsidiaries, Vectr Engineering (Canada) Inc., Vectr Technologies Inc. and 0705951 BC Ltd. All significant inter-company transactions have been eliminated on consolidation. Except for Vectr Engineering (Canada) Inc., the Company's other subsidiaries are inactive.

These accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. As at June 30, 2007, the Company has a working capital deficit of \$3,564,663 (December 31, 2006 - \$3,756,715), incurred a loss during the six months ended June 30, 2007 of \$32,874,179 and has an accumulated deficit of \$52,619,348 at June 30, 2007. The continuation of the Company is dependent upon the successful marketing and distribution of navigation systems and related products, the continuing support of creditors and stockholders as well as achieving and maintaining a profitable level of operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The Company had cash on hand of \$328,824 at June 30, 2007. Management anticipates that it requires approximately \$3 million over the next twelve months ended June 30, 2008 to

continue operations. To the extent that cash needs are not achieved from operating cash flow and existing cash on hand, the Company will raise necessary cash through equity issuances and/or debt financing. Amounts raised will be used to continue the development of the Company's products, roll out the Company's products to market and for other working capital purposes.

Management cannot provide any assurances that the Company will be successful in any of its plans. However, management believes that the Company will be able to continue operations in the future. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or the amounts of and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
JUNE 30, 2007
(Unaudited - Expressed in US dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interim Financial Statements

The interim financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

These statements reflect all adjustments, consisting of normal recurring adjustments, which in the opinion of management are necessary for fair presentation of the information contained therein. It is suggested that these interim financial statements be read in conjunction with the audited financial statements of the Company for the years ended December 31, 2006 and December 31, 2005 included elsewhere in this SB-2 Registration Statement. The Company follows the same accounting policies in the preparation of interim financial statements.

Results of operations for the interim periods are not indicative of annual results.

New accounting pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") issued interpretation No. 48, "Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109 (FAS No. 109)" ("FIN 48"). This interpretation prescribes a recognition threshold and measurement attribute for tax positions taken or expected to be taken in a tax return. This interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The evaluation of a tax position in accordance with this interpretation is a two-step process. In the first step, recognition, the Company determines whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The second step addresses measurement of a tax position that meets the more-likely-than-not criteria. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Differences between tax positions taken in a tax return and amounts recognized in the financial statements will generally result in a) an increase in a liability for income taxes payable or a reduction of an income tax refund receivable, b) a reduction in a deferred tax asset or an increase in a deferred tax liability or c) both a and b. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be de-recognized in the first subsequent financial reporting period in which that threshold is no longer met. Use of a valuation allowance as described in FAS No. 109 is not an appropriate substitute for the de-recognition of a tax position. The requirement to assess the need for a valuation allowance for deferred tax assets based on sufficiency of future taxable income is unchanged by this interpretation. This Interpretation is effective for fiscal years beginning after December 15, 2006.

On January 1, 2007, the Company adopted FIN 48, regarding accounting for uncertainty in tax positions. The

Company remains subject to examination of income tax filings in the United States and various state jurisdictions for periods since its inception in 1998. The Company has also determined that it is subject to examination in Canada for all prior periods due to the Company's continued loss position in such jurisdictions. Material tax positions were examined under the more-likely-than-not guidance provided by FIN 48. If interest and penalties were to be assessed, the Company would charge interest to interest expense, and penalties to general and administrative expense. As a result of the FIN 48 assessment, the Company concluded that it has not taken any uncertain tax positions on any of its open tax returns that would materially distort the Company's financial statements. There was no material cumulative effect of adopting FIN 48 on the Company's financial statements as of January 1, 2007.

VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
JUNE 30, 2007
(Unaudited - Expressed in US dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting pronouncements (continued)

In September 2006, FASB issued Statement of Financial Accounting Standard (“SFAS”) No. 157, “Fair Value Measurements” (“FAS 157”). FAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of FAS 157 are effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of the provisions of FAS 157.

3. CASH

Included in cash is \$173,599 (December 31, 2006 - \$52,918) denominated in Canadian dollars.

4. INVENTORY

The following inventory was on hand at June 30, 2007 and December 31, 2006:	June 30, 2007	December 31, 2006
Finished goods	\$ 83,561	\$ 147,191
Raw Materials	138,047	154,424
	18,659	8,424
Work-in-process		
	\$ 240,267	\$ 310,039

5. INVESTMENTS

The Company sold Invisa, Inc. shares for \$14,546 in the first quarter of 2007 at a value of approximately \$0.04 per share, resulting in a loss of \$2,329 (2006 - \$Nil). The Company sold its shares of Maps a la Carte, Inc., a private company, for \$564,366 in the second quarter of 2007 at a value of approximately \$2.38 per share. The shares were being carried at \$Nil and thus resulted in a gain of \$564,366 (2006 - \$Nil).

6. PAYABLE TO RELATED PARTIES

	June 30, 2007	December 31, 2006
Knight Financial Ltd. (controlled by director)	\$ 411,369	\$ 114,316
G.M. Capital Partners Ltd. (major shareholder, Note 9)	261,167	1,095,011

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Express Systems Corporation (common director)	3,000	3,000
Advances from other shareholders	18,786	17,061
	\$ 694,322	\$ 1,229,388

The above advances are unsecured, non-interest bearing and have no specific terms of repayment.

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VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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(Unaudited - Expressed in US dollars)

7. ADVANCES PAYABLE

	June 30, 2007	December 31, 2006
1199684 Ontario Inc., advances and accrued interest	\$ 218,459	\$ 216,475
Tiger Eye Holdings Ltd.	150,000	150,000
Kallur Enterprises Ltd.	416,000	241,000
	\$ 784,459	\$ 607,475

Of the initial advances received from 1199684 Ontario Inc, \$50,000 bore interest at 8% per annum and \$125,000 was non-interest bearing. The advances are unsecured and have no specific terms of repayment. Accrued interest on the advances for the three and six months period ended June 30, 2007 totalled \$997 and \$1,984 (2006 - \$998 and \$1,985), respectively. (Note 13)

The advances received from Tiger Eye Holdings Ltd. and Kallur Enterprises Ltd. are non-interest bearing, unsecured and have no specific terms of repayment.

8. LONG-TERM DEBT

	June 30, 2007	December 31, 2006
Atlantic Canada Opportunities Agency ("ACOA") project funding loan, unsecured. The loan was non-interest bearing unless payments were past due, at which time interest was charged at the Bank of Canada discount rate plus 3% per annum. Repayment of principal was deferred to January 1, 2005, since then monthly principal payments were approximately \$1,967 (CDN \$2,274). The loan was repaid in full in May 2007.	\$ -	\$ 9,757
ACOA project funding loan unsecured. The loan is non-interest bearing unless payments are past due, at which time interest is charged at the Bank of Canada discount rate plus 3% per annum. Repayment of principal is due in monthly instalments of approximately \$7,848 (CDN\$8,313) commencing July 1, 2007. The amount of funds available under this facility as at June 30, 2007 is approximately \$470,000 (CDN\$498,750). The Company is currently in default of certain of the financial covenants and therefore the debt is considered as due on demand.	423,747	270,002

ACOA project funding loan, unsecured and non-interest bearing. The loan is non-interest bearing unless payments are past due, at which time interest is charged at the Bank of Canada discount rate plus 3% per annum. The principal amount of the loan is repayable annually commencing September 1, 2008 at a rate equal to 5.0% of gross revenue. The maximum project funding under this facility is approximately \$1,885,000 (CDN \$2,100,000). The Company is currently in default of certain of the financial covenants and therefore the debt is considered as due on demand.

	1,784,197	1,620,371
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Program for Export Market Development (“PEMD”) project funding loan unsecured and non-interest bearing. The loan is repayable at a rate equal to 4% of sales to the USA. Arrears of \$34,800 (CDN\$40,021) are repayable in 39 monthly instalments of \$892 (CDN\$1,000) plus one instalment of \$912 (CDN\$1,021), which commenced November 15, 2004. The Company started making quarterly payments of \$2,832 (CDN\$3,000) in late December 2005 to repay the loan. The Company is currently in default of certain of the financial covenants and therefore the debt is considered as due on demand.

	49,617	45,061
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VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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8. LONG-TERM DEBT (continued)

Industrial Regional Assistance Program ("IRAP") project funding loan, unsecured and non-interest bearing. The loan is repayable quarterly in arrears commenced January 1, 2005 at a rate equal to 1.25% of gross revenue. The Company paid all payments in the first quarter of 2006 relating to 1.25% of gross revenue for 2004 and 2005. The Company is currently in default of certain of the financial covenants and therefore the debt is considered as due on demand.	197,034	179,417
	2,454,595	2,124,608
Less: current portion	2,454,595	1,910,418
	\$ -	\$ 214,190

Scheduled principal repayments until maturity are due as follows:

Remaining of fiscal year \$ 302,534
2007
2008 1,889,697
2009 105,500
2010 105,500
2011 51,364
\$
2,454,595

Included in the 2007 scheduled principal repayments is the full repayment of the IRAP project-funding loan. Principal repayments are based on 1.25% of gross revenue commencing January 1, 2005. Included in the 2008 scheduled principal repayments is the full repayment of the \$1,784,197 ACOA project-funding loan. This loan has undefined principal repayments as the repayments are based on a percentage of sales, with the first payment commencing in the 2008 year.

The current portion of the long-term debt noted above is in excess of the scheduled principal repayments due in the next twelve months because all of the loans are currently in default and have been classified on the Balance Sheet as current. All of the above project funding is subject to project verification and audit by the lending agency.

9. CAPITAL STOCK

On May 21, 2007, the Company had effected a one (1) for one hundred (100) reverse stock split of its authorized and

issued and outstanding common stock to all of the holders of its common shares who were holders of record on May 21, 2007.

During the period ended June 30, 2007 and the year ended December 31, 2006; the Company completed the following share transactions not disclosed elsewhere in these consolidated financial statements:

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VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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9. CAPITAL STOCK (continued)

The employment agreement of an employee specifies that he is entitled to a bonus of 5,000 shares of common stock on each of June 30, 2006 (not yet issued), June 30, 2007 (not yet issued) and June 30, 2008 for a total of 15,000 shares so long as he continues to be employed by the Company at those dates. Compensation expense associated with the bonus payments was determined based upon the quoted market price of the underlying common stock on the grant date and was being amortized on a straight-line basis over the requisite service period, which is the period from the date of grant to June 30, 2008. For the three and six months ended June 30, 2007, the Company has recognized \$143,750 and \$287,500 (2006 - \$143,750 and \$287,500) in respect of shares to be issued related to these bonus payments. As of June 30, 2007, there was \$575,000 (December 31, 2006 - \$862,500) of total unrecognized compensation cost related to these bonus payments. This unrecognized compensation cost is expected to be recognized over the remaining requisite service period of 12 months ending June 30, 2008.

On February 27, 2007, the Company issued 350,000 common shares in settlement of \$350,000 debt of the related party payable (Note 6) to G.M. Capital Partners Ltd. The transaction was recorded at the quoted market price of \$15 per share that resulted in a loss on settlement of debt of \$4,900,000 in 2007.

On May 25, 2007, the Company issued 12,000,000 common shares in settlement of \$999,600 debt of the related party payable (Note 6) to G.M. Capital Partners Ltd. The transaction was recorded at the quoted market price of \$2.10 per share that resulted in a loss on settlement of debt of \$24,200,400 in 2007.

On June 6, 2007, the Company issued 50,000 common shares for consulting services as per agreement with an investment banking firm. The common shares were recorded using the quoted market value of \$2.40 per share on the issuance date resulting in an expense of \$120,000.

Stock options

On May 21, 2007, the Company's Board of Directors approved its 2007 Incentive Plan pursuant to which the Company may grant an aggregate of up to 6,000,000 common shares or options to purchase common shares to employees, consultants or directors of our company or of any of our subsidiaries. It will continue in effect until the earlier of (a) the date that all of the securities that can be issued pursuant to its terms have been granted or (b) May 21, 2017.

On May 21, 2007, the Company's Board of Directors adopted its 2007 Equity Compensation Plan which they or any committee that they appoint administer. Under the 2007 Equity Compensation Plan, directors, officers, consultants, and employees of the Company may receive options, restricted stock, stock appreciation rights, stock granted as a bonus or in lieu of our other cash obligations, other stock-based awards or other cash payments. Awards under the 2007 Equity Compensation Plan will be awarded as determined by our Board of Directors and as established in award agreements to be entered into between the Company and each participant receiving an award. The Company may issue a total of 3,500,000 common shares under the 2007 Equity Compensation Plan.

On September 27, 2005, the Company's Board of Directors approved its 2005 Incentive Plan pursuant to which the Company may grant an aggregate of up to 40,000 common shares or options to purchase common shares to

employees, consultants or directors of our company or of any of our subsidiaries. It will continue in effect until the earlier of (a) the date that all of the securities that can be issued pursuant to its terms have been granted or (b) September 27, 2015.

Awards under the above Incentive Plans will vest as determined by the Company's Board of Directors and as established in stock option agreements to be entered into between the Company and each participant receiving an award. Options granted under the above Incentive Plans will have a term of 10 years from the date of grant but are subject to earlier termination in the event of death, disability or the termination of the employment or consulting relationship. The exercise price of options granted under the above Incentive Plan shall be determined by the Company's board of directors but shall not be less than 85% of the fair market value of the Company's common stock on the grant date. (In the case of options granted to a holder of more than 10% of the Company's common stock, the option price must not be less than 110% of the market value of the common stock on the grant date).

VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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9. CAPITAL STOCK (continued)**Stock options (continued)**

There were no options granted in the year ended December 31, 2006. For the three and six months periods ended June 30, 2007, 3,800,000 options were granted to directors and one employee under the Company's 2007 Incentive Plan. One quarter of these options granted vested immediately and the remaining three quarters of these options granted vest in one quarter increments every six months thereafter.

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of Options	Weighted Average Exercise Price (\$USD)	Aggregate Intrinsic Value
Balance, December 31, 2005	47,200	\$ 67.00	
Cancelled	(2,300)	46.00	
Forfeited	(1,200)	85.00	
Balance, December 31, 2006	43,700	67.50	
Granted	3,800,000	0.71	
Cancelled	(3,400)	57.50	
Forfeited	(400)	85.00	
Balance June 30, 2007	3,839,900	\$ 1.41	\$ 1.59
Options exercisable, as at June 30, 2007	989,900	\$ 3.70	\$ -
Options exercisable, as at December 31, 2006	34,500	\$ 71.00	

There were no options granted during the year ended December 31, 2006.

The following stock options were outstanding at June 30, 2007:

Expiry date	Exercise Price	Number of Options
December 6, 2014 for 2004 Incentive Plan	\$ 42.50	19,700
August 31, 2010 for 2005 Incentive Plan	\$ 85.00	5,200

May 31, 2015 for 2005 Incentive Plan	\$	96.00	15,000
May 11, 2017 for 2007 Incentive Plan	\$	0.25	1,750,000
May 29, 2017 for 2007 Incentive Plan	\$	1.10	2,050,000

VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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(Unaudited - Expressed in US dollars)

9. CAPITAL STOCK (continued)

A summary of status of the Company's unvested stock options as of June 30, 2007 and changes during the six-month period then ended is presented below:

	Number of Options	Weighted Average Exercise Price (\$USD)	Weighted Average Grant Date Fair Value
Unvested at December 31, 2005	24,650	\$ 67.00	\$ 67.00
Vested	(14,250)	72.00	67.00
Forfeited	(1,200)	85.00	77.00
Unvested at December 31, 2006	9,200	56.00	65.00
Granted	3,800,000	0.71	2.10
Vested	(958,800)	1.57	2.79
Forfeited	(400)	85.00	77.00
Unvested at June 30, 2007	2,850,000	\$ 0.59	\$ 2.06

Warrants

On December 1, 2004, the Company issued 40,000 share purchase warrants to a consultant for financial public relation services and other consulting services. 30,000 of these share purchase warrants initially vested on January 15, 2006, while the remaining 10,000 were to vest on September 15, 2006. 20,000 of the share purchase warrants ("First Engagement Warrant") that vested on January 15, 2006 had an exercise price of \$25 and were to expire on November 30, 2006. The balance of the share purchase warrants ("Second Engagement Warrant") vested on January 15, 2006 with an exercise price of \$50 and an expiration date of November 30, 2007. The 10,000 share purchase warrants ("Third Engagement Warrant") that were to vest on September 15, 2006 have an exercise price of \$100 and expire on November 30, 2009.

Effective September 16, 2006 the Company and the consultant entered into an agreement to extend the life of the First Engagement Warrants and the Second Engagement Warrants. As amended, the First Engagement Warrant gives the warrant holder the right to acquire 20,000 shares of the Company's common stock at \$25 per share for a period of one year from the date that the Securities and Exchange Commission declared the Company's registration statement on Form SB-2 to be effective. That registration statement was declared effective January 23, 2007. Therefore, the right to exercise the First Engagement Warrant vested January 23, 2007. As amended, the Second Engagement Warrant gives the warrant holder the right to acquire 10,000 shares of the Company's common stock at a price of \$50 per share from the date that they vest (which is the date upon which the consultant purchases the last of the 20,000 common shares underlying the First Engagement Warrant) until November 30, 2008. Therefore, the right to exercise the Second Engagement Warrant can vest only after the consultant has purchased all 20,000 of the common shares underlying the

First Engagement Warrant.

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VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
JUNE 30, 2007
(Unaudited - Expressed in US dollars)

9. CAPITAL STOCK (continued)

Warrant transactions and the number of warrants outstanding at June 30, 2007 are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price (\$USD)
Balance, December 31, 2005	69,720	\$ 71.00
Issued	5,800	125.00
Balance, December 31, 2006	75,520	74.00
Expired	(29,720)	100.00
Balance, June 30, 2007	45,800	\$ 57.12
Warrants exercisable, as at June 30, 2007	35,800	\$ 63.40
Warrants exercisable, as at December 31, 2006	45,520	\$ 104.00

Number of Warrants	Exercise Price	Expiry Date
20,000	\$ 25.00	January 22, 2008
10,000	\$ 50.00	January 22, 2010
10,000	\$ 100.00	November 30, 2009
4,800	\$ 125.00	August 28, 2008
1,000	\$ 125.00	July 24, 2008

VECTr SYSTEMS INC. (Formerly Navitrak International Corporation)
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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9. CAPITAL STOCK (continued)

Stock-based compensation

Compensation expense for options granted during the period is recognized in accordance with SFAS No. 123(R) which requires all options granted to be measured at fair value. Such compensation is amortized over the contract services period or, if none exists, from the date of grant until the options vest for non-employees. For employees, the compensation expense is amortized over the requisite service period which approximates the vesting period. Compensation associated with unvested options granted to non-employees is remeasured on each balance sheet date using the Black-Scholes option pricing model.

Expected volatilities are based on historical volatility of the Company's stock using available data and other factors. The Company uses historical data to estimate option exercise, forfeiture and employees termination within the valuation model. For non-employees, the expected term of the options approximates the full term of the options.

An officer resigned from all of his positions with the Company, effective May 18, 2006 pursuant to an Agreement and Mutual Release which provides, among other terms, that the stock options that were available to the officer on May 18, 2006 will continue to be available until they expire on December 31, 2010. The modification of the options to the former officer resulted in additional compensation of \$157,621 during the six months period ended June 30, 2006.

For options granted in 2007, stock based compensation was calculated using the Black Scholes Option Pricing Model using the following weighted average assumptions: dividend yield of 0%, expected volatility of 183%, risk-free interest rate of 4.88% and an expected life of 10 years. In respect to the options granted in 2004, 2005 and 2007, during the three and six months period ended June 30, 2007, the Company charged to stock based compensation expense \$2,489,980 and \$2,565,935 (2006 - \$279,505 and \$661,509).

Options granted to non-employees that were unvested are subsequently remeasured at each balance sheet and vesting date using the fair value method. As of June 30, 2007, there was \$4,408,021 (December 31, 2006 - \$197,928) of total unrecognized compensation cost related to unvested share-based compensation awards in 2004, 2005 and 2007. The total grant-date fair value of options vested during the six-month period ended June 30, 2007 and 2006 was \$2,675,052 and \$448,219 respectively.

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9. CAPITAL STOCK (continued)

Stock-based compensation (continued)

Warrants

No compensation expense is required for the warrants issued during the year ended December 31, 2006 and 2005. Compensation expense for warrants issued in December 2004 was recognized in accordance with SFAS No. 123 (prior to the adoption of SFAS 123(R)) which requires such warrants to be measured at fair value using the Black-Scholes option pricing model. Such compensation is being amortized over the contract services period or, if none exists, from the date of grant until the warrants vest.

As discussed above, in September 2006 the Company and the consultant entered into an agreement to modify the vesting and expiration dates of the warrants. Additional compensation expense of \$17,000 was recognized in the year ended December 31, 2006 in respect of the modification based on the incremental increase in value of the warrants as a result of the modification. Such compensation relating to the incremental increase was recognized immediately upon modification. The fair value of the modified warrants was estimated at the date of modification using the fair value method prescribed in SFAS 123(R) with the following weighted average assumptions. Such compensation will be re-measured and charged to the Consolidated Statement of Operations on a quarterly basis until the warrants vest.

The total stock-based compensation recognized and charged to expense under the fair value method in respect of these warrants during the three and six months ended June 30, 2007 was \$Nil and \$14,290 (2006 - \$270,538 and \$491,961) using the Black-Scholes option-pricing model.

2007 Equity Compensation Plan

On May 21, 2007, the Company's Board of Directors adopted the 2007 Equity Compensation Plan which they or any committee that they appoint administer. Under the 2007 Equity Compensation Plan, Directors, officers, consultants, employees of the company may receive options, restricted stock, stock appreciation rights, stock granted as a bonus or in lieu of our other cash obligations, other stock-based awards or other cash payments. Awards under the 2007 Equity Compensation Plan will be awarded as determined by the Company's Board of Directors and as established in award agreements to be entered into between us and each participant receiving an award. We may issue a total of 3,500,000 common shares under our 2007 Equity Compensation Plan.

The Company's Board of Directors shall determine the exercise price of options granted under the 2007 Equity Compensation Plan, but with limited exceptions, it shall not be less than the fair market value of the Company's common stock on the grant date or, in the case of options granted to a holder of more than 10% of the Company's common stock, the option price shall not be less than 110% of the market value of the common stock on the grant date. Awards granted under the 2007 Equity Compensation Plan may be granted either in addition to or in substitution for any other award granted under this or any other of the Company's plans. The exercise price of any additional or substitute awards:

granted in substitution for an outstanding award, shall be not less than the lesser of the fair market value of a share of the Company's common stock at the date the substitute award is granted or the fair market value at the date of the substitution, reduced to reflect the fair market value at that date of the award that is being substituted, or

retroactively granted in tandem with an outstanding award, shall not be less than the lesser of the fair market value of a share of the Company's common stock at the date of grant of the later award or at the date of grant of the earlier award.

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10. RELATED PARTY TRANSACTIONS

Related party transactions not disclosed elsewhere in these consolidated interim financial statements include:

a) Management fees were accrued during the three and six months period ended June 30, 2007 of \$15,000 and \$30,000 (2006 - \$15,000 and \$30,000) to two companies controlled by a director.

b) The Company entered into a written consulting agreement with G.M. Capital Partners Ltd., effective December 1, 2004 (but amended and restated on October 27, 2005), pursuant to which G.M. Capital Partners Ltd. agreed to provide corporate counselling and advice. The agreement was for a 24 month term commencing December 1, 2004. The Company agreed to pay GM Capital Partners Ltd. an initial payment of \$10,000 (paid in December 2004), and commencing after January 1, 2005, \$10,000 per month. During the three and six months period ended June 30, 2007, \$30,000 and \$60,000 (2006 - \$30,000 and \$60,000) in consulting fees were accrued to G.M. Capital Partners Ltd., pursuant to this agreement. The agreement was subsequently extended. (Note 14)

G.M. Capital Partners Ltd. also received 40,000 share purchase warrants in 2004 in connection with the consulting agreement (Note 9). In addition, if during the twenty-four month period of the agreement, any extension thereof, or for a period of two years following the termination of the agreement, the Company consummates a financing, whether in the form of equity, cash or other consideration, with any person or entity directly or indirectly introduced to the Company by G.M. Capital Partners Ltd. then G.M. Capital Partners Ltd. is entitled to receive a finders fee equal to 10% of gross proceeds of the financing.

In the three and six months ended June 30, 2007, the Company received \$235,000 and \$405,000 (2006 - \$470,000 and \$770,000) in related party advances from G.M. Capital Partners Ltd. During the three and six months ended June 30, 2007, the Company recorded finder's fees for \$23,500 and \$40,500 (2006 - \$47,000 and \$77,000) to consulting fees for GM Capital Partners Ltd. in respect of these advances.

The consulting agreement with G.M. Capital Partners Ltd. also specifies that if during the 24 month period of the agreement, any extension thereof, or for a period of two years following the termination of the agreement, the Company consummates a business combination with any person or entity directly or indirectly introduced to the Company by G.M. Capital Partners Ltd., G.M. Capital Partners Ltd. is entitled to additional compensation as follows: 5% of the 1st \$10,000 of consideration paid; plus 4% of the 2nd \$10,000 of consideration paid; plus 3% of the 3rd \$10,000 of consideration paid; plus 2% of the 4th \$10,000 of consideration paid; plus 1% of all consideration paid in excess of \$5,000,000.

c) A director of the Company resigned all of his positions with the Company effective May 18, 2006. Pursuant to the Agreement and Mutual Release between the Company and this ex-director, which became effective on May 18, 2006, the Company agreed to pay the ex-director the sum of \$131,685 (CDN \$147,500). The amount still owing of \$47,201 (CDN \$50,000) as of June 30, 2007 was accrued in these consolidated interim financial statements (December 31, 2006 - \$64,300 (CDN \$75,000)).

The above transactions are in the normal course of operations and are recorded at amounts established and agreed to

between the related parties.

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11. SALES INFORMATION

Management has determined that it operates in one industry segment.

For the three and six months ended June 30, 2007 and 2006, the Company's sales were distributed as follows:

	Three-Months Ended June 30 2007	Three-Months Ended June 30 2006	Six-Months Ended June 30 2007	Six-Months Ended June 30 2006
Canada	\$ 102,931	\$ -	\$ 247,654	\$ -
United States	-	149,065	-	149,065
	\$ 102,931	\$ 149,065	\$ 247,654	\$ 149,065

For the three and six months period ended June 30, 2007 sales were derived from one customer. No significant amounts were included in accounts receivable as at June 30, 2007. For the three and six months period June 30, 2006 sales were derived from one US government agency.

12. COMMITMENTS

- (a) The Company has two lease agreements for offices in Halifax and Washington. Minimum lease payments under the leases (excluding operating expenses) over the next five years are as follows:

Twelve months ended June 30 2008	\$ 23,674
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The Company has exercised the option to terminate the Halifax lease on July 1, 2007 within a six months period; therefore the lease will be terminated December 31, 2007. The Washington lease operates on a month-to-month basis and, therefore, has no long-term commitment.

- (b) For certain of the Company's employees, their employment agreement specifies that they are entitled to severance pay upon termination based on a pre-determined number of months salary. As at June 30, 2007, the obligation for the severance

payments should they be terminated was approximately \$17,000 (CDN \$18,100) and \$228,000 denominated in USD (June 30, 2006 - \$223,000 (CDN \$249,500) and \$225,000 denominated in USD).

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13. LAWSUIT

On November 29, 2006, a statement of claim was filed against the Company in the Ontario Superior Court of Justice by 1199684 Ontario Inc. and Ken Sawatzky alleging that they are owed money by the Company in respect of previous advances. The Company has previously recognized such advances as owing to 1199684 Ontario Inc. (Note 7) and has made payments on these advances accordingly. The amount claimed, which includes the amount already recognized by the Company, is \$187,000 plus interest at 8% per annum from November 2003 until paid plus interest at 8% per annum on \$63,000 from November 10, 2003 to August 9, 2005.

On July 19, 2007, the above parties settled this dispute and have agreed that the Company shall pay \$200,000 (\$25,000, \$60,000, \$60,000 and \$55,000 on July 19, 2007, July 31, 2007, August 19, 2007; and September 29, 2007, respectively). In the event that the Company fails to make a payment as described above, it will be liable to pay the accrued amount of \$218,459 (Note 7). Both July payments have been made.

14. SUBSEQUENT EVENTS

On August 13, 2007, 300,000 options were granted to one employee under the Company's 2007 Incentive Plan. The options are priced as follows: 200,000 options at \$1.00 per share; and 100,000 options at \$0.25 per share.

On September 1, 2007, the Company has extended its Consulting Agreement with G.M. Capital Partners, Ltd. (Note 10) Pursuant to the Consulting Agreement, G.M. Capital Partners, Ltd. has agreed to provide corporate counseling and advice. The term of the agreement is for a period of 24 months, though either party may terminate the agreement with five days' notice. The Company agreed to pay G.M. Capital Partners, Ltd. a monthly payment of \$10,000. The Company also agreed to issue G.M. Capital Partners, Ltd. the following series of warrants:

Series A warrants that give the warrant holder the right to acquire 1,000,000 shares of the Company's common stock at \$1.00 per share until September 1, 2008,

Series B warrants that give the warrant holder the right to acquire 1,000,000 shares of the Company's common stock at a price of \$1.50 per share from the date that they vest (which is the date upon which the G.M. Capital Partners, Ltd. exercises the last of the Series A warrants) until December 31, 2009,

Series C warrants that give the warrant holder the right to acquire 750,000 shares of the Company's common stock at a price of \$2.00 per share from the date that they vest (which is the date upon which the G.M. Capital Partners, Ltd. exercises the last of the Series B warrants) until December 31, 2009, and

Series D warrants that give the warrant holder the right to acquire 750,000 shares of the Company's common stock at a price of \$2.50 per share from the date that they vest (which is the date upon which the G.M. Capital Partners, Ltd. exercises the last of the Series C warrants) until December 31, 2009.

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14. SUBSEQUENT EVENTS (Continued)

In addition to these set payments, the Company has agreed to pay G.M. Capital Partners, Ltd. performance-based fees for different services that they have agreed to provide the Company. These services and fees include:

for acquisition consulting services, a percentage of the value of any merger, acquisition, joint partnership or similar transaction resulting from such services in the amount of 5% of the first \$1,000,000 of the transaction, 4% for the second \$1,000,000 of the transaction, 3% of the third \$1,000,000 of the transaction, 2% of the fourth \$1,000,000 of the transaction and 1% of all value in excess of \$5,000,000

for assistance in securing debt or equity financing, a cash 'success fee' equal to 10% of the gross proceeds of any financing resulting from such assistance.

On October 11, 2007, the Company issued 200,000 common shares at a price of \$1.000 per common share, for aggregate gross proceeds of \$200,000. Net of transaction costs, cash received from the issuance of common shares was \$199,958.

**CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS
ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

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PART II - INFORMATION NOT REQUIRED IN PROSPECTUS

Item 24 Indemnification of Directors and Officers.

Nevada corporation law provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, except an action by or in the right of the corporation, by reason of the fact that he is or was a Director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a Director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with the action, suit or proceeding if he acted in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful.

Nevada corporation law also provides that to the extent that a Director, officer, employee or agent of a corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding, or in defense of any claim, issue or matter therein, the corporation shall indemnify him against expenses, including attorneys' fees, actually and reasonably incurred by him in connection with the defense.

Our Articles of Incorporation authorize us to indemnify our Directors and officers to the fullest extent permitted under Nevada law.

Our Bylaws require us to indemnify any present and former Directors, officers, employees, agents, partners, trustees and each person who serves in any such capacities at our request against all costs, expenses, judgments, penalties, fines, liabilities and all amounts paid in settlement reasonably incurred by such persons in connection with any threatened, pending or completed action, action, suit or proceeding brought against such person by reason of the fact that such person was a Director, officer, employee, agent, partner or trustees of our company. We will only indemnify such persons if one of the groups set out below determines that such person has conducted himself in good faith and that such person:

reasonably believed that their conduct was in or not opposed to our best interests or

with respect to criminal proceedings had no reasonable cause to believe their conduct was unlawful.

Our Bylaws also require us to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of our company to procure a judgment in our favor by reason that such person is or was one of our Directors, trustees, officers, employees or agents or is or was serving at our request in any such capacities against all costs, expenses, judgments, penalties, fines, liabilities and all amounts paid in settlement actually and reasonably incurred by such person. We will only indemnify such persons if one of the groups set out below determined that such person has conducted himself in good faith and that such person reasonably believed that their conduct was in or not opposed to our best interests. Unless a court otherwise orders, we will not indemnify any such person if such person shall have been adjudged to be liable for gross negligence or willful misconduct in the performance of such person's duty to us.

The determination to indemnify any such person must be made:

by our stockholders,

by our Board of Directors by majority vote of a quorum consisting of Directors who were not parties to the action, suit or proceeding,

by independent legal counsel in a written opinion, or

by court order.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to Directors, officers and controlling persons of our company under Nevada law or otherwise, we have been advised the opinion of the Securities and Exchange Commission is that such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event a claim for indemnification against such liabilities (other than payment by us for expenses incurred or paid by a Director, officer or controlling person of our company in successful defense of any action, suit, or proceeding) is asserted by a Director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction, the question of whether such indemnification by it is against public policy in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

Item 25 Other Expenses of Issuance and Distribution.

The following table sets forth the costs and expenses payable by us in connection with the issuance and distribution of the securities being registered hereunder. The selling security holders shall bear no expense in connection with this registration statement. All of the amounts shown are estimates, except for the SEC Registration Fees.

SEC registration fees	\$390
Printing and engraving expenses ⁽¹⁾	\$5,000
Accounting fees and expenses ⁽¹⁾	\$75,000
Legal fees and expenses ⁽¹⁾	\$75,000
Transfer agent and registrar fees ⁽¹⁾	\$10,000
Fees and expenses for qualification under state securities laws	\$10,000
Miscellaneous ⁽¹⁾	\$5,000
Total	\$180,390

⁽¹⁾ We have estimated these amounts.

Item 26 Recent Sales of Unregistered Securities - Last Three Years.

On October 11, 2007, we issued 200,000 common shares at a price of \$1.00 per common share, for aggregate gross proceeds of \$200,000 to non-related non-U.S. persons. In issuing these securities we relied on Section 4(2) of the Securities Act of 1933 and/or on Regulation S promulgated thereunder.

On September 1, 2007, we entered into a Consulting Agreement with G.M. Capital Partners, Ltd. Pursuant to the Consulting Agreement, G.M. Capital Partners, Ltd. has agreed to provide corporate counseling and advice. The term of the agreement is for a period of 24 months, though either party may terminate the agreement with five days' notice. We agreed to pay G.M. Capital Partners, Ltd. a monthly payment of \$10,000. We also agreed to issue G.M. Capital Partners, Ltd. the following series of warrants:

Series A warrants that give the warrant holder the right to acquire 1,000,000 shares of our common stock at \$1.00 per share until September 1, 2008,

Series B warrants that give the warrant holder the right to acquire 1,000,000 shares of our common stock at a price of \$1.50 per share from the date that they vest (which is the date upon which the G.M. Capital Partners, Ltd. exercises the last of the Series A warrants) until December 31, 2009,

Series C warrants that give the warrant holder the right to acquire 750,000 shares of our common stock at a price of \$2.00 per share from the date that they vest (which is the date upon which the G.M. Capital Partners, Ltd. exercises the last of the Series B warrants) until December 31, 2009, and

Series D warrants that give the warrant holder the right to acquire 750,000 shares of our common stock at a price of \$2.500 per share from the date that they vest (which is the date upon which the G.M. Capital Partners, Ltd. exercises the last of the Series C warrants) until December 31, 2009.

G.M. Capital Partners, Ltd. is not a U.S. person, and the transaction was negotiated and completed outside of the United States. In issuing these securities we relied on Section 4(2) of the Securities Act of 1933 and/or on Regulation S promulgated thereunder.

On August 13, 2007, 300,000 options were granted to a consultant under the Company's 2007 Incentive Plan. The options are priced as follows: 200,000 units at \$1.00 per share; and 100,000 units at \$0.25 per share. In issuing these securities we relied on Section 4(2) of the Securities Act of 1933 and/or on Regulation S promulgated thereunder.

On June 3, 2007, we issued 50,000 common shares to S.G. Martin Securities LLC. We issued these shares pursuant to a consulting agreement, dated June 3, 2007, under which S.G. Martin Securities agreed to serve as our non-exclusive investment banker for a term of 12 months in exchange for the shares and a cash payment of \$5,000. S.G. Martin Securities is a U.S. person, and we issued these shares in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

On May 30, 2007, our Board of Directors granted 2,865,000 incentive stock options to an aggregate of 21 of our Directors, officers, consultants and employees. Of the aggregate total, we granted, 2,375,000 options at an exercise price of \$1.10 and the balance of 490,000 options at an exercise price of \$1.00. We granted all of the options pursuant to our newly adopted 2007 Stock Option Plan, and they vest in four equal installments of 25%, with the first installment of vesting at the date of grant and an additional installment vesting every six months thereafter until November 30, 2008. Of the 21 people to whom we granted these options, thirteen are not U.S. persons and perform services for us outside of the United States and eight are U.S. persons who perform services for our company both inside of and outside of the United States. In issuing the options granted to the thirteen non-U.S. persons, we relied on the exemption from registration provided by Regulation S and/or Section 4(2) of the Securities Act of 1933. In grating

the options issued to the eight U.S. persons, we relied on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

On May 21, 2007, our Board of Directors granted 2,175,000 options to purchase shares of our common stock. Of the 2,175,000 options granted, 543,750 options vested immediately, and the remainder vest in three installments of 543,750 options once every six months thereafter. We granted these options to a total of ten people. Six of these are not U.S. persons, all of whom perform their services for our company outside of the United States, and four of them are U.S. persons. The options granted to the six persons who are not U.S. persons were issued in an offshore transaction relying on Regulation S and/or Section 4(2) of the Securities Act of 1933. In granting the options to the four U.S. persons, we relied on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

On May 21, 2007, we issued 12,000,000 common shares to G.M. Capital Partners, Ltd. pursuant to a Debt Settlement and Subscription Agreement dated May 21, 2007. Pursuant to the Debt Settlement and Subscription Agreement, we agreed to apply \$999,600 of the \$1,082,267 currently owed by us to G.M. Capital Partners, Ltd. towards the payment of the subscription price for 12,000,000 common shares at a purchase price of \$0.0833 per share. G.M. Capital Partners, Ltd. is not a U.S. person, and we issued these securities in an offshore transaction relying on Regulation S and/or Section 4(2) of the Securities Act of 1933.

On February 27, 2007, we issued 350,000 shares of our common stock to G.M. Capital Partners, Ltd. for a purchase price of \$350,000, or \$1.00 per share. Payment was made by way of a reduction in the principal balance of debt owed by us to G.M. Capital Partners, Ltd. Upon completion of this share purchase, G.M. Capital Partners, Ltd. became the registered owner of approximately 350,164 shares of our common stock entitled to cast approximately 52.3% of the votes that may be cast by holders of issued and outstanding shares of our common stock. G.M. Capital Partners, Ltd. is not a U.S. person, and the transaction was negotiated and completed outside of the United States. In issuing these securities we relied on Section 4(2) of the Securities Act of 1933 and/or on Regulation S promulgated thereunder.

On December 11, 2006, we sold an aggregate of 2,000 units at a price of \$75 per unit for aggregate gross proceeds of \$150,000 to one non-U.S. person relying on the exemption from the registration requirements of the Securities Act of 1933 provided by Regulation S promulgated thereunder. Each unit was comprised of one common share and one-half of one non-transferable share purchase warrant, for a total of 1,000 whole share purchase warrants. Each whole share purchase warrant entitles the holder to purchase one common share of the Company's common stock at an exercise price of \$125 per share until July 24, 2008. The Company also issued 900 common shares at a price of \$75 per share for aggregate gross proceeds of \$67,500 relying on the exemption from the registration requirements of the Securities Act of 1933 provided by Regulation S promulgated thereunder. A finder's fee of \$6,750 was accrued to GM Capital Partners Ltd. in respect of this transaction.

On July 24, 2006, we sold an aggregate of 8,400 units at a price of \$75 per unit for aggregate gross proceeds of \$630,000 to two non-U.S. persons relying on the exemption from the registration requirements of the Securities Act of 1933 provided by Regulation S promulgated thereunder. Each unit was comprised of one common share and one-half of one non-transferable share purchase warrant, for a total of 4,200 whole share purchase warrants. Each whole share purchase warrant is exercisable into one common share of our company at an exercise price of \$125 per share on or before July 24, 2008, as to 4,000 warrants, and on or before August 28, 2008 as to the balance of 200 warrants.

On June 16, 2006 we sold an aggregate of 1,200 units at a price of \$75 per unit for aggregate gross proceeds of \$90,000 to one non-U.S. person relying on the exemption from the registration requirements of the Securities Act of 1933 provided by Regulation S promulgated thereunder. Each unit was

comprised of one common share and one-half of one non-transferable share purchase warrant, for a total of 600 whole share purchase warrants. Each whole share purchase warrant is exercisable into one common share of our company at an exercise price of \$125 per share on or before August 28, 2008.

On November 10, 2005, our Board of Directors issued 15,000 stock options to one employee with an exercise price of \$96 per share. These options were granted pursuant to a written employment agreement dated as of June 1, 2005, and they vest in 12 equal installments of 1,250 options each. 1,250 of these share purchase options vested on November 10, 2005, and the remainder vest in quarterly installments beginning on December 1, 2005 and ending on June 1, 2008.

On September 27, 2005, we issued an aggregate of 8,200 stock options to various employees, Directors, officers and consultants of our company at an exercise price of \$85 per share for a period of five years. These options were granted pursuant to our 2005 Stock Option Plan and pursuant to stock option agreements on our form of stock option agreement. Each stock option agreement provided that the options granted vest in four equal and bi-annual installments, with the first installment vesting on September 27, 2005 and the last on March 27, 2007.

During June, August and September, 2005, we sold an aggregate of 57,440 units at a price of \$50 per unit for aggregate gross proceeds of \$2,872,000 to 59 persons relying on the exemption from the registration requirements of the Securities Act of 1933 provided by Regulation S promulgated thereunder. Each unit was comprised of one common share and one-half of one transferable share purchase warrant, for a total of 287,200 whole share purchase warrants. Each whole share purchase warrant was exercisable into one common share of our company at an exercise price of \$100 per share on or before June 14, 2007.

On August 31, 2005 we sold 2,000 units, at a price of \$50 per unit for an aggregate purchase price of \$100,000 to one non-U.S. investor relying on the exemption from the registration requirements of the Securities Act of 1933 provided by Regulation S promulgated thereunder. Each unit was comprised of one common share and one-half of one transferable share purchase warrant, for a total of 1,000 whole share purchase warrants. Each whole share purchase warrant entitled the holder to purchase one common share of our company at an exercise price of \$100 per share on or before June 14, 2007. The purchase price for these securities was paid by applying a portion of outstanding debt owed by our company to the investor as the purchase proceeds, thus reducing the outstanding balance of the debt.

On August 29, 2005, we issued approximately 148,832 shares of our common stock to all of the holders of our common shares who were holders of record on August 26, 2005, in connection with a one-for-one stock dividend.

On December 6, 2004, we issued an aggregate of 28,300 stock options to various employees, Directors, officers and consultants of our company at an exercise price of \$42.50 for a period of 10 years. These options were granted pursuant to our 2004 Stock Option Plan and pursuant to stock option agreements on our form of stock option agreement. Each stock option agreement provides that the options granted vest in four equal installments, with the first installment having vested on the date of grant (December 6, 2004), and the balance vesting in three equal installments on June 6, 2005, December 6, 2005 and June 6, 2006 (i.e., months 6, 12 and 18 from the date of grant).

On December 6, 2004, we issued 500 shares in settlement of a debt to one non-U.S. person relying on the exemption from the registration requirements of the Securities Act of 1933 provided by Regulation S.

On December 6, 2004, we issued 630 common shares to Alan Butler, a principal of a consultant of our company, in payment of \$25,000 of consulting fees that were due to him for marketing services rendered to our company by Mr. Butler and his company. In issuing these shares, we relied on the exemption from

the registration requirements of the Securities Act of 1933 provided by Section 4(2) thereof. Mr. Butler was an accredited investor.

On December 1, 2004, we issued 40,000 share purchase warrants to a consultant outside of the United States. 30,000 of these share purchase warrants vested on January 15, 2006, while the remaining 10,000 vested on September 15, 2006. 20,000 of the share purchase warrants that vested on January 15, 2006 had an exercise price of \$25 and expired November 30, 2006. The balance of the share purchase warrants that vested January 15, 2006 have an exercise price of \$50 and expire November 30, 2007. The 10,000 share purchase warrants that vested September 15, 2006 have an exercise price of \$100 and will expire November 30, 2009. In issuing these share purchase warrants, we relied on the exemption from the registration requirements of the Securities Act of 1933 provided by Regulation S, promulgated thereunder.

On November 12, 2004, we completed the acquisition of substantially all of the assets of the Canadian VECTr Systems Incorporated (formerly Navitrak International Corporation), our predecessor, an unrelated Ontario corporation, including the capital stock of our operating subsidiary VECTr Engineering Incorporated (formerly Navitrak Engineering Incorporated), pursuant to an asset purchase agreement dated as of January 31, 2004, as amended through September 16, 2004. At the completion of this transaction, we issued:

- 14,000 common shares to Canadian VECTr Systems Incorporated, an unrelated Ontario corporation,
- an aggregate of approximately 18,675 common shares to nine persons in exchange for the acquisition of nine series A convertible secured debentures that were originally issued by Canadian VECTr Systems Incorporated on or about December 18, 2002,
- an aggregate of approximately 6,125 common shares to five persons who held, in the aggregate, five secured 'mini-bridge' loans made to Canadian VECTr Systems Incorporated having, at November 12, 2004, an aggregate outstanding balance due of approximately \$368,903 (\$368,903 CDN),
- an aggregate of approximately 20,800 common shares, at a purchase price of \$5 per share, to eleven key employees of VECTr Engineering Incorporated (due to oversight at the closing, 1,500 of these shares were not actually issued until January 2005),
- an aggregate of approximately 993 common shares to three ex-Directors of Canadian VECTr Systems Incorporated as payment of past due Directors' fees (due to oversight at the closing, 468 of these shares were not actually issued until January 2005), and
- an aggregate of 1,500 common shares to one ex-Director of Canadian VECTr Systems Incorporated at a purchase price of \$5 per share.

For more detail concerning this transaction, please refer to the section of this registration statement titled "Description of Business". All but one of the persons to whom we issued these securities were not "U.S. persons" as defined in Regulation S, and all of the transactions with each of them were negotiated and completed outside of the United States. The one U.S. person involved was an ex-Director of the Canadian VECTr Systems Incorporated and an accredited investor, as defined in Rule 501(a) of Regulation D, promulgated under the Securities Act of 1933. In issuing shares to the ex-Director of the Canadian VECTr Systems Incorporated, we relied on the exemption from the registration requirements of the Securities Act of 1933 provided by Section 4(2) of the Act.

Item 27 Exhibits.

The following Exhibits are filed with this prospectus:

Exhibit Number	Description
3.1	Articles of Incorporation (incorporated by reference to Exhibit 3.1 to our Registration Statement on Form SB-2 filed on December 30, 2005)
3.2	By-laws (incorporated by reference to Exhibit 3.2 to our Registration Statement on Form SB-2 filed on December 30, 2005)
3.3	Articles of Amendment of Articles of Incorporation filed with the Nevada Secretary of State on July 29, 1999 (incorporated by reference to Exhibit 3.3 to our Registration Statement on Form SB-2 filed on December 30, 2005)
3.4	Articles of Amendment of Articles of Incorporation filed with the Nevada Secretary of State on August 29, 2001 (incorporated by reference to Exhibit 3.4 to our Registration Statement on Form SB-2 filed on December 30, 2005)
3.5	Articles of Merger filed with the Nevada Secretary of State on October 4, 2001 (incorporated by reference to Exhibit 3.5 to our Registration Statement on Form SB-2 filed on December 30, 2005)
3.6	Articles of Merger filed with the Nevada Secretary of State on October 10, 2001 (incorporated by reference to Exhibit 3.6 to our Registration Statement on Form SB-2 filed on December 30, 2005)
3.7	Certificate of Articles of Amendment filed with the Nevada Secretary of State on October 18, 2001 (incorporated by reference to Exhibit 3.7 to our Registration Statement on Form SB-2 filed on December 30, 2005)
3.8	Articles of Merger filed with the Nevada Secretary of State on November 3, 2004 (incorporated by reference to Exhibit 3.8 to our Registration Statement on Form SB-2 filed on December 30, 2005)
3.9	Certificate of Amendment filed with the Nevada Secretary of State on July 21, 2005 (incorporated by reference to Exhibit 3.9 to our Registration Statement on Form SB-2 filed on December 30, 2005)
3.10	Certificate of Amendment filed with the Nevada Secretary of State on April 18, 2007 (incorporated by reference from Exhibit 99.1 to our Current Report on Form 8-K filed on May 21, 2007)
3.11	Certificate of Amendment filed with the Nevada Secretary of State on May 2, 2007 (incorporated by reference from Exhibit 99.2 to our Current Report on Form 8-K filed on May 21, 2007)
4.1	Form of Share Certificate (incorporated by reference from our Registration Statement on Form SB-2 filed on December 30, 2005)
5.1*	<u>Opinion of Sanders Ortoli Vaughn-Flam & Rosenstadt LLP regarding the legality of the securities being registered</u>
10.1	2005 Incentive Plan (incorporated by reference to Exhibit 10.1 to our Registration Statement on Form SB-2 filed on December 30, 2005)
10.2	Amended and Restated 2005 Incentive Plan (incorporated by reference to Exhibit 10.2 to our Registration Statement on Form SB-2 filed on December 30, 2005)
10.3	2004 Incentive Plan (incorporated by reference to Exhibit 10.4 to our Registration Statement on Form SB-2 filed on December 30, 2005)
10.4	Amended and Restated 2004 Incentive Plan (incorporated by reference to Exhibit 10.4 to our Registration Statement on Form SB-2 filed on December

30, 2005)

10.5 Employment Agreement with Herbert Lustig (incorporated by reference to Exhibit 10.5 to our Registration Statement on Form SB-2 filed on December 30, 2005)

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- 10.6 Consulting Agreement with AD Butler and Associates (incorporated by reference to Exhibit 10.6 to our Registration Statement on Form SB-2 filed on December 30, 2005)
- 10.7 Employment Agreement with Ping Chen (incorporated by reference to Exhibit 10.7 to our Registration Statement on Form SB-2 filed on December 30, 2005)
- 10.8 Employment Agreement with Yulia Lazukova (incorporated by reference to Exhibit 10.8 to our Registration Statement on Form SB-2 filed on December 30, 2005)
- 10.9 Employment Agreement with Robert D. Gallant (incorporated by reference to Exhibit 10.9 to our Registration Statement on Form SB-2 filed on December 30, 2005)
- 10.10 Employment Agreement with Dr. Adam Wolinski (incorporated by reference to Exhibit 10.10 to our Registration Statement on Form SB-2 filed on December 30, 2005)
- 10.11 Consulting Agreement with G.M. Capital Partners, Ltd. (incorporated by reference to Exhibit 10.11 to our Registration Statement on Form SB-2 filed on December 30, 2005)
- 10.12 2005 Form of Stock Option Agreement (Non-Qualified) (incorporated by reference to Exhibit 10.12 to our Registration Statement on Form SB-2 filed on December 30, 2005)
- 10.13 2004 Form of Stock Option Agreement (Non-Qualified) (incorporated by reference to Exhibit 10.13 to our Registration Statement on Form SB-2 filed on December 30, 2005)
- 10.14 2005 Form of Offshore Offering Subscription Agreement (incorporated by reference to Exhibit 10.14 to our Registration Statement on Form SB-2 filed on December 30, 2005)
- 10.15 2004 Form of Offshore Offering Subscription Agreement (incorporated by reference to Exhibit 10.15 to our Registration Statement on Form SB-2 filed on December 30, 2005)
- 10.16 Amended and Restated Consulting Agreement with G.M. Capital Partners, Ltd. (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on September 4, 2007)
- 10.17 Atlantic Canada Opportunities Agency Business Development Program Contract dated January 20, 1999 with VECTr Engineering Incorporated (Project # 6004-60-30,916-1) (incorporated by reference to Exhibit 10.17 to our Registration Statement on Form SB-2 filed on December 30, 2005)
- 10.18 Amendment #1 dated July 18, 2000 to Atlantic Canada Opportunities Agency Business Development Program Contract (Project #6004-60-30,916-1) (incorporated by reference to Exhibit 10.18 to our Registration Statement on Form SB-2 filed on December 30, 2005)
- 10.19 Amendment #2 dated August 22, 2002 to Atlantic Canada Opportunities Agency Business Development Program Contract (Project #6004-60-30,916-1) (incorporated by reference to Exhibit 10.19 to our Registration Statement on Form SB-2 filed on December 30, 2005)
- 10.20 Amendment #3 dated April 9, 2003 to Atlantic Canada Opportunities Agency Business Development Program Contract (Project #6004-60-30,916-1) (incorporated by reference to Exhibit 10.20 to our Registration Statement on Form SB-2 filed on December 30, 2005)
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Amendment #4 dated November 4, 2003 to Atlantic Canada Opportunities Agency Business Development Program Contract (Project #6004-60-30,916-1) (incorporated by reference to Exhibit 10.21 to our Registration Statement on Form SB-2 filed on December 30, 2005)

10.22 Amendment #5 dated July 5, 2004 to Atlantic Canada Opportunities Agency Business Development Program Contract (Project #6004-60-30,916-1) (incorporated by reference to Exhibit 10.22 to our Registration Statement on Form SB-2 filed on December 30, 2005)

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- 10.23 Amendment #6 dated January 10, 2005 to Atlantic Canada Opportunities Agency Business Development Program Contract (Project #6004-60-30,916-1) (incorporated by reference to Exhibit 10.23 to our Registration Statement on Form SB-2 filed on December 30, 2005)
- 10.24 Contract dated March 9, 2004 between Atlantic Canada Opportunities Agency and VECTr Engineering Incorporated, VECTr Systems Incorporated and VECTr Sysytems Inc. (Project #183782) (incorporated by reference to Exhibit 10.24 to our Registration Statement on Form SB-2 filed on December 30, 2005)
- 10.25 Amendment #1 dated February 8, 2005 to Contract between Atlantic Canada Opportunities Agency and VECTr Engineering Inc. and VECTr Systems Incorporated (Project #183782) (incorporated by reference to Exhibit 10.25 to our Registration Statement on Form SB-2 filed on December 30, 2005)
- 10.26 Evaluation Agreement (North America) between NAVTEQ North America and VECTr Systems Incorporated (incorporated by reference to Exhibit 10.26 to our Registration Statement on Form SB-2 filed on December 30, 2005)
- 10.27 Data License and Reseller Agreement effective March 30, 2001 between Navigation Technologies Corporation and VECTr Systems Incorporated (incorporated by reference to Exhibit 10.27 to our Registration Statement on Form SB-2 filed on December 30, 2005)
- 10.28 Third Amendment to Data License Agreement and Territory Licenses No. 1 and 2 between NAVTEQ North America, LLC and VECTr Systems Incorporated (incorporated by reference to Exhibit 10.28 to our Registration Statement on Form SB-2 filed on December 30, 2005)
- 10.29 Fourth Amendment to Data License Agreement and Territory Licenses No. 1 and 2 between NAVTEQ North America, LLC and VECTr Systems Incorporated (incorporated by reference to Exhibit 10.29 to our Registration Statement on Form SB-2 filed on December 30, 2005)
- 10.30 Amendment No. 1 to NRC Contribution Agreement No. 376225PA (incorporated by reference to Exhibit 10.30 to our Registration Statement on Form SB-2 filed on December 30, 2005)
- 10.31 Consent of Atlantic Canada Opportunities Agency for Projects 165474, 166156, 181936 and 183782 (incorporated by reference to Exhibit 10.31 to our Registration Statement on Form SB-2 filed on December 30, 2005)
- 10.32 Industrial Research Program Repayable Contribution Agreement, Project #376225, effective January 4, 2000 (incorporated by reference to Exhibit 10.32 to our Registration Statement on Form SB-2 filed on December 30, 2005)
- 10.33 Amendments to PEMD Project No. N470834 (incorporated by reference to Exhibit 10.33 to our Registration Statement on Form SB-2 filed on December 30, 2005)
- 10.34 Amendment No. 3 to NRC Contribution Agreement No. 376225PA (incorporated by reference to Exhibit 10.34 to our Registration Statement on Form SB-2 filed on December 30, 2005)
- 10.35 Amendment No. 4 to NRC Contribution Agreement No. 376225PA (incorporated by reference to Exhibit 10.35 to our Registration Statement on Form SB-2 filed on December 30, 2005)
- 10.36 Amendment No. 5 to NRC Contribution Agreement No. 376225PA (incorporated by reference to Exhibit 10.36 to our Registration Statement on Form SB-2 filed on December 30, 2005)

10.37 Amendment No. 6 to NRC Contribution Agreement No. 376225PA
(incorporated by reference to Exhibit 10.37 to our Registration Statement on
Form SB-2 filed on December 30, 2005)

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- 10.38 Amendment No. 7 to NRC Contribution Agreement No. 376225PA (incorporated by reference to Exhibit 10.38 to our Registration Statement on Form SB-2 filed on December 30, 2005)
- 10.39 Second Amendment to Data License Agreement and Territory Licenses No. 1 and 2 between NAVTEQ North America, LLC and VECTr Systems Incorporated (incorporated by reference to Exhibit 10.39 to our Registration Statement on Form SB-2 filed on December 30, 2005)
- 10.40 ACOA Business Development Program Contract, Project No: 6004-60-29-678-1 (incorporated by reference to Exhibit 10.40 to our Registration Statement on Form SB-2 filed on December 30, 2005)
- 10.41 ACOA Business Development Program Loan, Project No. 6004-60-29-687-1 (incorporated by reference to Exhibit 10.41 to our Registration Statement on Form SB-2 filed on December 30, 2005)
- 10.42 Schedule 1 to Agreement for Market Development Strategies, Project No. 7997-470834 (incorporated by reference to Exhibit 10.42 to our Registration Statement on Form SB-2 filed on December 30, 2005)
- 10.43 Atlantic Innovation Fund Contract between Atlantic Canada Opportunities Agency and VECTr Engineering Inc. and VECTr Systems Incorporated, Contract Number 181936, dated December 22, 2004 (incorporated by reference to Exhibit 10.43 to our Registration Statement on Form SB-2/A filed on March 28, 2006)
- 10.44 Approval of Request for Payment, Project #181936, dated 2005/02/24 (payment No. 1) (incorporated by reference to Exhibit 10.44 to our Registration Statement on Form SB-2/A filed on March 28, 2006)
- 10.45 Approval of Request for Payment, Project #181936, dated 2005/03/22 (payment No. 2) (incorporated by reference to Exhibit 10.45 to our Registration Statement on Form SB-2/A filed on March 28, 2006)
- 10.46 Approval of Request for Payment, Project #181936, dated 2005/08/08 (payment No. 3) (incorporated by reference to Exhibit 10.46 to our Registration Statement on Form SB-2/A filed on March 28, 2006)
- 10.47 Approval of Request for Payment, Project #181936, dated 2005/08/18 (payment No. 4) (incorporated by reference to Exhibit 10.47 to our Registration Statement on Form SB-2/A filed on March 28, 2006)
- 10.48 Approval of Request for Payment, Project #181936, dated 2005/09/15 (payment No. 5) (incorporated by reference to Exhibit 10.48 to our Registration Statement on Form SB-2/A filed on March 28, 2006)
- 10.49 Amendment No. 8 to NRC Contribution Agreement No. 376225 (incorporated by reference to Exhibit 10.49 to our Registration Statement on Form SB-2/A filed on March 28, 2006)
- 10.50 Amendment No. 1 to Atlantic Innovation Fund Contract between Atlantic Canada Opportunities Agency and VECTr Engineering Inc. and VECTr Systems Incorporated, Contract Number 181936 (incorporated by reference to Exhibit 10.50 to our Registration Statement on Form SB-2/A filed on July 24, 2006)
- 10.51 Employment Agreement with Randall Cohn (incorporated by reference to Exhibit 10.51 to our Registration Statement on Form SB-2/A filed on July 24, 2006)
- 10.52 Agreement and Mutual Release between VECTr Systems Incorporated and Joel Strickland (incorporated by reference to Exhibit 10.52 to our Registration Statement on Form SB-2/A filed on July 24, 2006)

- 10.53 Amendment #3 dated June 8, 2006 to Atlantic Canada Opportunities Agency Business Development Program Contract (Project #183782) (incorporated by reference to Exhibit 10.53 to our Registration Statement on Form SB-2/A filed on July 24, 2006)

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- 10.54 Amendment #1 to Atlantic Innovation Fund Contract (Project #181836) (incorporated by reference to Exhibit 10.54 to our Registration Statement on Form SB-2/A filed on July 24, 2006)
- 10.55 Amendment to Second Amendment and Restated Consulting Agreement with G. M. Capital Partners, Ltd. (incorporated by reference to Exhibit 10.55 to our Registration Statement of Form SB-2/A filed on November 9, 2006)
- 10.56 Consulting Services Agreement with ASMI - Advance Systems Marketing International Inc. (incorporated by reference to Exhibit 10.56 to our Registration Statement of Form SB-2/A filed on December 29, 2006)
- 10.57 Distributor Agreement dated effective December 15, 2006 with EuroAvionics Navigationssysteme GmbH & Co. KG (incorporated by reference to Exhibit 10.57 to our Annual Report on Form 10-KSB filed on April 18, 2007)**
- 10.58 Dealer Agreement dated September 25, 2006 with Deep Development Corp. (incorporated by reference to Exhibit 10.58 to our Annual Report on Form 10-KSB filed on April 18, 2007)**
- 10.59 Debt Settlement and Subscription Agreement dated May 21, 2007 between our company and G.M. Capital Partners, Ltd. (incorporated by reference to Exhibit 10.1 to our current report on Form 8-K filed on May 21, 2007)
- 10.60 Agreement, dated June 3, 2007, between our company and S.G. Martin Securities LLC (incorporated by reference to Exhibit 10.1 to our current report on Form 8-K filed on May 31, 2007)
- 10.61 2007 Stock Option Plan (incorporated by reference to Exhibit 10.2 to our current report on Form 8-K filed on May 31, 2007)
- 10.62 2007 Equity Compensation Plan (incorporated by reference to Exhibit 10.1 to our current report on Form 8-K filed on May 31, 2007)
- 10.63 Consulting Agreement, dated September 1, 2007, with G.M. Capital Partners, Ltd. (incorporated by reference to Exhibit 10.1 to our current report on Form 8-K filed on September 4, 2007)
- 14.1* Code of Ethics, adopted March 23, 2006
- 21.1 Subsidiaries of VECTr Systems Incorporated

VECTr Systems (Canada) Incorporated , a Nova Scotia corporation
 0705951 B.C. Ltd., a British Columbia corporation
 VECTr Technologies Inc., a Nevada Corporation

- 23.1* Consent of BDO Dunwoody LLP
- 23.2* Consent of Sanders Ortoli Vaughn-Flam & Rosenstadt (included in Exhibit 5.1)

* filed herewith

** Certain parts of this document have not been disclosed and have been filed separately with the Secretary, Securities and Exchange Commission and are subject to a confidential treatment request pursuant to Rule 24b-2 of the Securities Exchange Act of 1934.

Item 28 Undertakings.

The undersigned Registrant hereby undertakes:

(1) To file, during any period in which it offers or sells securities, a post-effective amendment to this Registration Statement to:

(i) Include any prospectus required by Section 10(a)(3) of the Securities Act;

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(ii) Reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information set forth in the Registration Statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective Registration Statement;

(iii) Include any additional or changed information on the plan of distribution.

(2) For determining liability under the Securities Act, the Company will treat each such post-effective amendment as a new registration statement of the securities offered, and the offering of such securities at that time to be the initial bona fide offering.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) For determining liability of the undersigned small business issuer under the Securities Act to any purchaser in the initial distribution of the securities, the undersigned small business issuer undertakes that in a primary offering of securities of the undersigned small business issuer pursuant to this Registration Statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned small business issuer will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned small business issuer relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned small business issuer or used or referred to by the undersigned small business issuer;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned small business issuer or its securities provided by or on behalf of the undersigned small business issuer; and

(iv) Any other communication that is an offer in the offering made by the undersigned small business issuer to the purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to Directors, officers and controlling persons of the small business issuer pursuant to the foregoing provisions, or otherwise, the small business issuer has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable. In the event that a claim for indemnification against said liabilities (other than the payment by VECTr of expenses incurred or paid by a Director, officer or controlling person of VECTr in the successful defense of any action, suit or proceeding) is asserted by the Director, officer or controlling person in connection with the securities being registered, VECTr will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of the issue.

Each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

SIGNATURES

In accordance with the requirements of the Securities Act, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements of filing on Form SB-2 and authorized this registration statement to be signed on its behalf by the undersigned on November 6, 2007.

VECTr SYSTEMS INC.

a Nevada corporation

By: /s/ Robert Knight

Robert Knight, President and Director

(Principle Executive Officer)

November 6, 2007

By: /s/ Richard Brown

Richard Brown, Chief Financial Officer and Director

(Principle Financial Officer and Principle Accounting Officer)

November 6, 2007

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person who signature appears below constitutes and appoints Robert Knight as his true and lawful attorney-in-fact and agent, with full power of substitution and re-substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this registration statement, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent or any of them, or of their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act, this registration statement has been signed by the following persons in the capacities and on the dates stated.

Signatures

By: /s/ Robert Knight

Robert Knight, President and Director

(Principle Executive Officer)

November 6, 2007

By: /s/ Richard Brown

Richard Brown, Chief Financial Officer and Director

(Principle Financial Officer and Principal Accounting Officer)

November 6, 2007

By: /s/ Randle Barrington-Foote

Randle Barrington-Foote, Director
November 6, 2007
