



**INFORMATION CIRCULAR**

for the

**ANNUAL AND SPECIAL GENERAL MEETING**

of

**VERSATILE SYSTEMS INC.**

to be held on

**Tuesday, December 23, 2008**

## NOTICE OF ANNUAL AND SPECIAL GENERAL MEETING

Notice is hereby given that the Annual and Special General Meeting (the "Meeting") of the shareholders of Versatile Systems Inc. (the "Company") will be held on Tuesday, December 23, 2008 in the Board Room at Fasken Martineau DuMoulin LLP located at 2900 – 550 Burrard Street, Vancouver, British Columbia, Canada at the hour of 9:00 A.M. (local time in Vancouver, B.C.) for the following purposes:

1. To receive the audited financial statements of the Company for its fiscal year ended June 30, 2008;
2. To set the number of directors for the ensuing year at seven;
3. To elect seven directors for the ensuing year; and
4. To appoint Deloitte & Touche LLP as the Company's auditor for the ensuing fiscal year.

Accompanying this Notice is an Information Circular, a form of Proxy or Voting Instruction Form ("VIF"), a financial statement request form and the audited financial statements and the auditor's report thereon and Management's Discussion and Analysis ("MD&A") for the year ended June 30, 2008.

If you are unable to attend the Meeting in person, you should read the notes to the enclosed Proxy or VIF and complete and return the Proxy or VIF to the Company's Registrar and Transfer Agent, Computershare Investor Services Inc., within the time required by, and to the location set out in the notes to the Proxy or VIF. If you are able to attend the Meeting, and are a registered shareholder, sending your Proxy will not prevent you from voting in person.

*These securityholder materials are being sent to both registered and non-registered owners of the securities. If you are a non-registered owner, and the Company or its agent has sent these materials directly to you, your name, address and information about your holdings of securities, have been obtained in accordance with applicable securities regulatory requirements from the intermediary holding on your behalf.*

*By choosing to send these materials to you directly, the Company (and not the intermediary holding on your behalf) has assumed responsibility for (i) delivering these materials to you, and (ii) executing your proper voting instructions. Please return your voting instructions as specified in the request for voting instructions.*

The enclosed Proxy is solicited by management of the Company and you may amend it, if you wish, by inserting in the space provided the name of the person you wish to represent you as proxyholder at the Meeting and initialling or signing beside such change.

**PLEASE ENSURE THAT YOU COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED FORM OF PROXY OR VIF IN THE ENVELOPE PROVIDED FOR THAT PURPOSE.** To be effective, Proxies or VIFs must be deposited with the Company's registrar and transfer agent, Computershare Investor Services Inc., Proxy Dept., 100 University Avenue 9<sup>th</sup> Floor, Toronto, Ontario, M5J 2Y1, not less than 48 hours (excluding Saturdays, Sundays and holidays) before the Meeting.

DATED at Vancouver, British Columbia, this 10<sup>th</sup> day of November, 2008.

**BY ORDER OF THE BOARD OF DIRECTORS  
OF VERSATILE SYSTEMS INC.**

*"John Hardy"*

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John Hardy, Chairman of the Board and Chief  
Executive Officer

## INFORMATION CIRCULAR

Versatile Systems Inc.  
Suite 910 – 355 Burrard Street  
Vancouver, British Columbia V6C 2G8

(all information as at November 10, 2008 unless otherwise noted)

### PERSONS MAKING THE SOLICITATION

This Information Circular is furnished in connection with the solicitation of proxies being made by the management of Versatile Systems Inc. (the "Company") for use at the Annual and Special General Meeting of the Company's shareholders (the "Meeting") to be held on Tuesday, December 23, 2008 at the time and place and for the purposes set forth in the accompanying Notice of Meeting. While it is expected that the solicitation will be made primarily by mail, proxies may be solicited personally or by telephone by directors, officers, employees and agents of the Company. All costs of this solicitation will be borne by the Company.

### APPOINTMENT AND REVOCATION OF PROXIES

The individuals named in the accompanying form of proxy are directors or officers of the Company. A shareholder wishing to appoint some other person (who need not be a shareholder) to attend and act for the shareholder and on the shareholder's behalf at the Meeting has the right to do so, either by inserting such person's name in the blank space provided in the form of proxy and initialling or signing beside such change, or by completing another form of proxy. A proxy will not be valid unless the completed, dated and signed form of proxy is delivered to Computershare Investor Services Inc. ("Computershare"), Proxy Dept., 100 University Avenue 9<sup>th</sup> Floor, Toronto, Ontario, M5J 2Y1, not less than 48 hours (excluding Saturdays, Sundays and holidays) before the Meeting or any adjournment(s) thereof. In addition, Computershare provides both telephone voting and internet voting as described on the form of proxy itself which contains complete instructions.

A shareholder who has given a proxy may revoke it by an instrument in writing executed by the shareholder or by the shareholder's attorney authorized in writing or, if the shareholder is a corporation, by a duly authorized officer or attorney of the corporation, and delivered to Computershare or to the Company at Suite 910 – 355 Burrard Street, Vancouver, British Columbia V6C 2G8 at any time up to and including the last business day preceding the day of the Meeting or any adjournment of it. **Only registered shareholders have the right to revoke a proxy. Non-Registered Holders who wish to change their vote must, in sufficient time before the Meeting, arrange for their respective Intermediaries to revoke the proxy on their behalf.**

A revocation of a proxy does not affect any matter on which a vote has been taken prior to the revocation.

### SPECIAL INSTRUCTIONS FOR VOTING BY NON-REGISTERED HOLDERS

**Only registered Shareholders or duly appointed proxyholders are permitted to vote at the Meeting. Many Shareholders are "non-registered" shareholders because the Common shares of the Company they own are not registered in their names but are instead registered in the name of the brokerage firm, bank or trust company through which they purchased the shares.** More particularly, a person is not a registered Shareholder in respect of shares which are held on behalf of that person (the "Non-Registered Holder") but which are registered either: (a) in the name of an Intermediary that the Non-Registered Holder deals with in respect of the shares (Intermediaries include, among others, banks, trust companies, securities dealers or brokers and trustees or administrators of self-administered RRSPs, RRIFs, RESPs and similar plans); or (b) in the name of a clearing agency (such as The Canadian Depository for Securities Limited) of which the Intermediary is a participant.

There are two kinds of Non-Registered Holders - those who object to their name being made known to the issuers of securities which they own (called OBOs for Objecting Beneficial Owners) and those who do not object to the issuers of the securities they own knowing who they are (called NOBOs for Non-Objecting Beneficial Owners).

The Company has decided to take advantage of those provisions of National Instrument 54-101 – *Communications with Beneficial Owners of Securities of a Reporting Issuer* (“NI 54-101”) that permit it to directly deliver proxy-related materials to NOBOs who have not waived the right to receive them. As a result, NOBOs can expect to receive a scannable Voting Instruction Form (VIF) together with the Notice of Meeting, this Information Circular and related documents from our transfer agent, Computershare. These VIFs must be completed and returned to Computershare in the envelope provided or by facsimile. In addition, Computershare provides both telephone voting and internet voting as described on the VIF itself which contains complete instructions. In that regard, Computershare is required to follow the voting instructions properly received from NOBOs. Computershare will tabulate the results of the VIFs received from NOBOs and will provide appropriate instructions at the Meeting with respect to the Common shares represented by the VIFs they receive. **NOBOs should carefully follow the instructions of Computershare, including those regarding when and where the completed VIFs are to be returned to Computershare.** Should a NOBO wish to vote at the Meeting in person, the NOBO must request a form of legal proxy from Computershare that will grant the NOBO the right to attend the Meeting and vote in person.

**NOBOs that wish to change their vote must, in sufficient time in advance of the Meeting, contact Computershare to arrange to change their vote.**

In accordance with the requirements of NI 54-101, we have distributed copies of the Notice of Meeting, this Management Information Circular, the form of proxy and related documents (collectively, the “Meeting Materials”) to the clearing agencies and Intermediaries for onward distribution to OBOs. Intermediaries are required to forward the Meeting Materials to OBOs unless, in the case of certain proxy-related materials, the OBO has waived the right to receive them. Very often, Intermediaries will use service companies to forward the Meeting Materials to OBOs. With those Meeting Materials, Intermediaries or their service companies should provide OBOs of Common shares with a “request for voting instruction form” which, when properly completed and signed by such OBO and **returned to the Intermediary or its service company**, will constitute voting instructions which the Intermediary must follow. The purpose of this procedure is to permit OBOs of Common shares to direct the voting of the Common shares that they beneficially own. Should an OBO of Common shares wish to vote at the Meeting in person, the OBO should follow the procedure in the request for voting instructions provided by or on behalf of the Intermediary and request a form of legal proxy which will grant the OBO the right to attend the Meeting and vote in person. **OBOs should carefully follow the instructions of their Intermediary, including those regarding when and where the completed request for voting instructions is to be delivered.**

**OBOs of Common shares who wish to change their vote must in sufficient time in advance of the Meeting, arrange for their respective Intermediaries to change their vote and if necessary revoke their proxy in accordance with the revocation procedures set out above.**

## VOTING OF PROXIES AND EXERCISE OF DISCRETION

A shareholder may indicate the manner in which the persons named in the accompanying form of proxy or VIF are to vote with respect to a matter to be acted upon at the Meeting by marking the appropriate space. If the instructions as to voting indicated in the proxy or VIF are certain, the shares represented by the proxy or VIF will be voted or withheld from voting in accordance with the instructions given on any ballot that may be called for. **If no choice is specified in the proxy or VIF with respect to a matter to be acted upon, the accompanying proxy or VIF confers discretionary authority with respect to that matter upon the proxyholder named in the form of proxy or VIF. The Company expects that the proxyholder named by management in the accompanying form of proxy or VIF will vote the shares represented by the proxy or VIF in favour of each matter identified in the proxy or VIF.**

The enclosed form of proxy or VIF, when properly completed and delivered and not revoked, confers discretionary authority upon the persons appointed proxyholders thereunder to vote with respect to any amendments or variations of matters identified in the Notice of Meeting and with respect to other matters which may properly come before the Meeting. At the time of the printing of this Information Circular, the management of the Company knows of no such amendment, variation or other matter that may be presented to the Meeting.

#### **VOTING SECURITIES AND PRINCIPAL HOLDERS OF VOTING SECURITIES**

The authorized share structure of the Company consists of an unlimited number of Common shares without nominal or par value. As at the date hereof, the Company has issued and outstanding 118,589,643 fully paid and non-assessable Common shares without par value, each share carrying the right to one vote. **The Company has no other classes of voting securities.**

Any shareholder of record at the close of business on November 10, 2008 (the "Record Date") who either personally attends the Meeting or who has completed and delivered a Proxy in the manner and subject to the provisions described above, shall be entitled to vote or to have such shareholder's shares voted at the Meeting.

To the best of the knowledge of the directors and executive officers of the Company, no person or company beneficially owns, controls or directs, directly or indirectly, voting securities carrying 10% or more of the voting rights attached to any class of voting securities of the Company.

#### **EXECUTIVE COMPENSATION**

Set out below are particulars of compensation paid to the following persons (the "Named Executive Officers"):

- (a) the Company's chief executive officer (the "CEO");
- (b) the Company's chief financial officer (the "CFO");
- (c) each of the Company's three most highly compensated executive officers, other than the CEO and the CFO who were serving as executive officers at the end of the most recently completed financial year and whose total salary and bonus exceeds \$150,000 per year; and
- (d) any additional individuals for whom disclosure would have been provided under (c) but for the fact that the individual was not serving as an executive officer of the Company at the end of the most recently completed financial year.

As at June 30, 2008, the end of the most recently completed fiscal year of the Company, the Company had three Named Executive Officers: John Hardy, Chairman, Chief Executive Officer and a director of the Company, Robert Joyce, President and a director of the Company and Fraser Atkinson, Chief Financial Officer, Corporate Secretary and a director of the Company. In addition the two highest paid Vice-Presidents were Oliver Poppenberg, Jr. and Andrew Lynch.

## Summary of Compensation

The following table is a summary of compensation paid to the Named Executive Officers for each of the Company's three most recently completed fiscal years.

		Annual Compensation			Long Term Compensation			
					Awards		Payouts	
Name and Principal Position	Fiscal Year Ending	Salary (CDN\$)	Bonus (CDN\$)	Other Annual Compensation (CDN\$)	Securities Under Options/SAR's Granted (#)	Shares or Units Subject to Resale Restrictions (#)	LTIP Pay-Outs (#)	All Other Compensation
John Hardy, <i>Chairman and Chief Executive Officer</i>	2008	\$300,000	Nil	Nil	Nil	Nil	Nil	Nil
	2007	\$300,000	\$20,000	Nil	1,645,000	Nil	Nil	Nil
	2006	\$274,776	\$85,000	Nil	Nil	Nil	Nil	Nil
Robert Joyce, <i>President</i>	2008	\$250,031	Nil	Nil	Nil	Nil	Nil	Nil
	2007	\$271,824	Nil	Nil	125,000	Nil	Nil	Nil
	2006	\$209,322	\$55,819	Nil	Nil	Nil	Nil	Nil
Fraser Atkinson, <i>Chief Financial Officer and Corporate Secretary</i>	2008	\$200,000	Nil	Nil	Nil	Nil	Nil	Nil
	2007	\$200,000	\$25,000	Nil	995,000	Nil	Nil	Nil
	2006	\$192,000	\$30,000	Nil	Nil	Nil	Nil	Nil
Andrew Lynch, <i>Executive Vice-President</i>	2008	\$104,589	Nil	\$186,478	125,000	Nil	Nil	Nil
	2007	\$113,260	\$27,182	\$195,725	Nil	Nil	Nil	Nil
	2006	\$114,501	\$11,629	\$147,375	Nil	Nil	Nil	Nil
Oliver Poppenberg, Jr. <i>Executive Vice President of Sales</i>	2008	\$227,281	\$56,610	Nil	Nil	Nil	Nil	Nil
	2007	\$215,194	\$13,722	Nil	Nil	Nil	Nil	Nil
	2006	\$209,322	\$30,142	Nil	600,000	Nil	Nil	Nil

## Long-Term Incentive Plans - Awards in Most Recently Completed Fiscal Year

The Company has no long-term incentive plans in place and therefore there were no awards made under any long-term incentive plans to the Named Executive Officers during the Company's most recently completed fiscal year. A "Long-Term Incentive Plan" is a plan under which awards are made based on performance over a period longer than one fiscal year, other than a plan for options, SARs (stock appreciation rights) or restricted share compensation.

### Options/SARs Granted During the Most Recently Completed Fiscal Year

During the most recently completed fiscal year, no incentive stock options or SARs (stock appreciation rights) were granted to the Named Executive Officers.

### Aggregated Option/SAR Exercises During the Most Recently Completed Fiscal Year and Fiscal Year End Option/SAR Values

The following table sets out incentive stock options and stock appreciation rights exercised by the Named Executive Officers during the most recently completed fiscal year as well as the fiscal year end value of stock options and stock appreciation rights still held by the Named Executive Officers.

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized (\$) <sup>(1)</sup>	Unexercised Options at Fiscal Year-End Exercisable/Unexercisable (#)	Value of Unexercised In-the-Money Options at Fiscal Year-End (\$) Exercisable / Unexercisable <sup>(2)</sup>
John Hardy	Nil	Nil	2,745,000 / Nil	Nil / Nil
Robert Joyce	Nil	Nil	1,025,000 / Nil	Nil / Nil
Fraser Atkinson	Nil	Nil	1,495,000 / Nil	Nil / Nil
Andrew Lynch	Nil	Nil	125,000 / Nil	Nil / Nil
Oliver Poppenberg	Nil	Nil	600,000 / Nil	Nil / Nil

(1) Based on the difference between the option exercise price and the closing market price of the Company's shares, on the date of exercise.

(2) In-the-Money Options are those where the market value of the underlying securities as at the most recent fiscal year end exceeds the option exercise price. The closing market price of the Company's shares on the TSX Venture Exchange on June 30, 2008 (being the fiscal year end of the Company) was \$0.16.

### Aggregated Option Grants and Exercises of Directors and Senior Officers During the Most Recently Completed Fiscal Year

During the Company's most recently completed fiscal year, no options and other rights to purchase securities of the Company were granted to or exercised by the directors and senior officers of the Company as a group.

### Pension Benefits

Neither the Company nor any of its subsidiaries currently has a pension benefits arrangement under which the Company or any of its subsidiaries has made payments to the directors and senior officers or the Company during its most recently completed fiscal year end or intends to make payments to the Company's directors and senior officers upon their retirement (other than the payments set out above and those made, if any, pursuant to the Canada Pension Plan or any government plan similar to it).

### Other Benefits

No remuneration was paid (other than the payments set out above and those made pursuant to the Canada Pension Plan or any government plan similar to it and payments to be made for, or benefits to be received from, group life or accident insurance, group hospitalization or similar group benefits or payments) during the Company's most

recently completed fiscal year to the directors or senior officers of the Company, as a group, directly or indirectly, by the Company or any of its subsidiaries pursuant to any existing plan or arrangement. The Company and its subsidiaries do not propose to make payments, directly or indirectly, in the future to the directors and senior officers of the Company, as a group pursuant to such a plan or arrangement.

### **Termination of Employment, Change in Responsibilities and Employment Contracts**

There are no compensatory plans or arrangements with respect to the Named Executive Officers resulting from the resignation, retirement or other termination of employment of a Named Executive Officer or from a change of control of the Company except as set out below. The following paragraphs describe all employment or consulting contracts of the Company with the Named Executive Officers of the Company.

Pursuant to a consulting agreement dated January 1, 1999, as amended from time to time, among the Company, John Hardy and Hardy & Company, a sole proprietorship beneficially owned and controlled by John Hardy, the Company retains John Hardy to provide consulting services to the Company, including acting as Chairman and Chief Executive Officer of the Company and its subsidiaries. Pursuant to the foregoing arrangement, the Company paid the sum of CDN\$300,000 (plus GST) for the fiscal year ended June 30, 2008. For the 2009 fiscal year the Company has agreed to pay to Hardy & Company CDN\$25,000 per month (plus GST) and Mr. Hardy is eligible to participate in any executive bonus plan established by the Company. The Company may terminate the consulting agreement with 30 days' notice, and where such termination is made other than for breach of the agreement by Mr. Hardy or Hardy & Co. or for cause, the Company must pay to Hardy & Co. six months' remuneration under the agreement, including any bonuses earned to the date of termination.

Pursuant to an employment agreement entered into on June 28, 2005, as amended from time to time, between Robert Joyce and the Company, Mr. Joyce was retained to act as President of the Company and its U.S. and UK subsidiaries. Pursuant to the foregoing arrangement, the Company paid the sum of US\$240,000 for salaries for the fiscal year ended June 30, 2008. For the 2009 fiscal year Mr. Joyce is eligible to participate in any executive bonus plan established by the Company. The employment agreement may be terminated without notice by either party.

Pursuant to a consulting agreement dated February 22, 2003, as amended from time to time, among the Company, Fraser Atkinson and Koko Financial Services Ltd., a company beneficially owned by Fraser Atkinson, the Company retains Fraser Atkinson to provide consulting services to the Company, including acting as Chief Financial Officer and Corporate Secretary of the Company. Pursuant to the foregoing arrangement, the Company paid the sum of CDN\$200,000 for the fiscal year ending June 30, 2008. For the 2009 fiscal year the Company has agreed to pay Koko Financial Services Ltd. CDN\$16,667 per month (plus GST) and Mr. Atkinson is eligible to participate in any executive bonus plan established by the Company. The consulting agreement can be terminated by the Company with 30 day's notice and the Company must pay to Koko Financial Services Ltd. approximately three months' remuneration under the agreement, including any bonuses earned to the date of termination.

### **Compensation of Directors**

Directors of the Company are compensated by the Company for their services in their capacity as directors as follows:

- directors may be granted from time to time incentive stock options in accordance with the policies of the TSX Venture Exchange;
- directors are entitled to reimbursement of any expenses incurred by reason of being directors; and
- directors may be paid, on a per project basis, consulting fees as determined by the board of directors.

During the most recently completed fiscal year, the Company did not grant any incentive stock options to a director who was not an executive officer of the Company.

**SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS**

As of the end of the Company’s most recently completed financial year, the following equity securities of the Company were authorized for issuance under compensation plans:

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights <sup>(1)</sup></b> <b>(a)</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights <sup>(1)</sup></b> <b>(b)</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) <sup>(1)</sup></b> <b>(c)</b>
Equity compensation plans approved by securityholders	8,768,200	\$0.53	2,031,800
Equity compensation plans not approved by securityholders	N/A	N/A	N/A
<b>Total</b>	<b>8,768,200</b>	<b>\$0.53</b>	<b>2,031,800</b>

(1) The Company has no warrants or rights issued under equity compensation plans.

**MANAGEMENT CONTRACTS**

Management functions of the Company are substantially performed by directors or senior officers of the Company and not, to any substantial degree, by any other person with whom the Company has contracted.

**INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS**

Except as disclosed herein, since the commencement of the last completed fiscal year, no informed person of the Company, proposed director, or any associate or affiliate of an informed person or proposed director, had any material interest, direct or indirect, in any transaction or any proposed transaction which has materially affected or would materially affect the Company or any of its subsidiaries.

**INTEREST OF CERTAIN PERSONS OR COMPANIES IN MATTERS TO BE ACTED ON**

Except as disclosed herein, no director, executive officer, proposed nominee for election as a director, and no associate or affiliate of any of them since the commencement of the Company’s last fiscal year, has any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in matters to be acted upon at the Meeting.

**NUMBER OF DIRECTORS**

Pursuant to the Articles of the Company, the number of Directors of the Company for the ensuing year is determined by ordinary resolution of the shareholders. Management of the Company is seeking shareholder approval of an ordinary resolution determining the number of directors at seven for the ensuing year.

## ELECTION OF DIRECTORS

The term of office of each of the present directors expires at the Meeting. **The persons named below will be presented for election at the Meeting as management's nominees.** Management does not contemplate that any of these nominees will be unable to serve as a director. Except as noted under “Voting of Proxies and Exercise of Discretion”, proxies received in favour of Management designees will be voted for the following proposed director nominees (or for substitute nominees in the event of contingencies not known at present) who will, subject to the Articles of the Company and its governing legislation, serve until the close of the next annual meeting of Shareholders or until their successors are duly elected or appointed.

No class of Shareholders has the right to elect a specified number of directors or to cumulate their votes with respect to the election of directors.

The following table sets out the names of management's nominees for election as directors, the province or state and country in which each is ordinarily resident, all offices of the Company now held by each of them, their principal occupation, business or employment, the period of time for which each has been a director of the Company, and the number of common shares of the Company or any of its subsidiaries beneficially owned by each, directly or indirectly, or over which control or direction is exercised, as at the date hereof.

<b>Name, Province or State, Country of Residence and Position(s) with Company<sup>(1)</sup></b>	<b>Principal Occupation, Business or Employment<sup>(1)</sup></b>	<b>Date(s) Served as a Director</b>	<b>Common Shares Held<sup>(1)</sup></b>
<b>John Hardy</b> British Columbia, Canada <i>Chairman, Chief Executive Officer and Director</i>	Chairman of the Company since December 1996; Chief Executive Officer of the Company since January 1997; President of the Company from January 1997 to May 2000 and reappointed in May 2001 to October 2002.	Since October 1996	4,036,890
<b>Alessandro Benedetti</b> London, United Kingdom <i>Director</i>	CEO of SAE Capital Ltd. since January 2007; CEO of SAE Capital SPA from 2004 to 2007; CEO of M. Finance SPA from 2000 to 2001.	Since November 2008	9,592,500
<b>Malcolm F. Clay<sup>(2)(3)</sup></b> British Columbia, Canada <i>Director</i>	Independent businessman and corporate director since 2002. Prior to October 2002, Mr. Clay was an audit partner at KPMG LLP and predecessor firms for over 25 years. Mr. Clay was the Partner-in-charge of the Assurance Practice of KPMG in Vancouver for eight years and was for three years a Director and Chairman of the Board of KPMG Canada LLP.	Since April 2003	508,166
<b>Fraser Atkinson</b> British Columbia, Canada <i>CFO, Corporate Secretary and Director</i>	CFO of the Company since February 2003, Corporate Secretary of the Company since October 2003 and Director since November 2003. Mr. Atkinson has had a diverse involvement in both the technology and financial sectors as a	Since November 2003	4,053,500

Name, Province or State, Country of Residence and Position(s) with Company <sup>(1)</sup>	Principal Occupation, Business or Employment <sup>(1)</sup>	Date(s) Served as a Director	Common Shares Held <sup>(1)</sup>
	partner at KPMG, LLP for over 14 years, having left there in September 2002.		
<b>Robert Joyce</b> Pennsylvania, USA <i>President and Director</i>	President of the Company and its U.S. and UK subsidiaries since June 28, 2005; President of Perfect Order, Inc. and Perfect Order Manufacturing, Inc. from 1998 to 2004.	Since October 2005	2,290,000
<b>Kais Laouiti</b> <sup>(2)</sup> London, United Kingdom <i>Director</i>	Investment advisor for Beechrock Holdings Limited from 2006 to the present. Partner and CEO of Gulf Merchant Group LLP, a fund based in London, from 2005 to 2006. From 2004 to 2005 was an investment manager and advisor for Hottinger & Co. Ltd; from 2002 to 2004 was an investment advisor for Beechrock Holdings Limited and from 1999 to 2002 was the Chief Investment Officer of KAMO Investments Ltd.	Since December 2006	3,200,500 <sup>(4)</sup>
<b>Bertrand des Pallieres</b> London, United Kingdom <i>Nominee Director</i>	CEO of SPQR Capital LLP since May 2007; Global Head of Principal Finance and member of the Global Market Leadership Group of Deutsch Bank from 2005 to 2007; From 1992 to 2005 he held various positions at JP Morgan including Global Head of Structured Credit, European Head of Derivatives Structuring and Marketing and Co-head of sales for Europe Middle East and Africa.	Nominee	9,278,000

- (1) The information as to country of residence, principal occupation and number of shares beneficially owned by the nominees (directly or indirectly or over which control or direction is exercised) is not within the knowledge of the management of the Company and has been furnished by the respective nominees.
- (2) Members of the Company's Audit Committee.
- (3) Mr. Clay is the chair of the Company's Audit Committee.
- (4) Mr. Laouiti holds 100,000 shares directly and 3,100,500 shares are held in a fund that is under his direction.

### Corporate Cease Trade Orders or Bankruptcies

During the ten years preceding the date of this Information Circular, no proposed director of the Company has, to the knowledge of the Company, been a director or executive officer of another issuer which, while such individual was acting in that capacity:

- (a) was the subject of a cease trade or similar order or an order that denied such other issuer access to any exemption under securities legislation, for a period of more than 30 consecutive days; or

- (b) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days, or
- (c) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of that person.

### **Individual Bankruptcies**

During the ten years preceding the date of this Information Circular, no proposed director of the Company has, to the knowledge of the Company, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of that individual.

### **Penalties and Sanctions**

None of the proposed nominees for election as a director of the Company has been subject to any penalties or sanctions imposed by a court or regulatory body or entered into a settlement agreement with any securities regulatory authority.

### **INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS**

During the last completed fiscal year, no director, executive officer, senior officer or nominee for director of the Company or any of their associates has been indebted to the Company or any of its subsidiaries, nor has any of these individuals been indebted to another entity which indebtedness is the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Company or any of its subsidiaries.

### **AUDIT COMMITTEE AND RELATIONSHIP WITH AUDITOR**

National Instrument 52-110 – *Audit Committees* of the Canadian Securities Administrators (“NI 52-110”) requires the Company, as a venture issuer, to disclose annually in its Information Circular certain information concerning the constitution of its audit committee and its relationship with its independent auditor, as set forth in the following:

#### **The Audit Committee’s Charter**

The audit committee has a charter. A copy of the audit committee charter is attached as Appendix A hereto.

#### **Composition of the Audit Committee**

The current members of the Committee are Malcolm Clay and Kais Laouiti who are considered to be independent. All of the members are financially literate. "Independent" and "financially literate" have the meaning used in NI 52-110 of the Canadian Securities Administrators. Jens Montanana was a member of the audit committee until his resignation as a director on November 7, 2008.

### Relevant Education and Experience

All of the current members of the audit committee are financially literate. Malcolm Clay is a chartered accountant and has served as a director and advisor to or as a senior executive of publicly listed companies on Canadian and international stock exchanges. Kais Laouti is a Partner and CEO of Gulf Merchant Group LLP and has extensive experience as an investment manager and advisor.

### Audit Committee Oversight

At no time since the commencement of the Company's most recently completed financial year was a recommendation of the Committee to nominate or compensate an external auditor (PricewaterhouseCoopers LLP, Chartered Accountants for the most recently completed fiscal year) not adopted by the Board.

### Pre-Approval Policies and Procedures

Formal policies and procedures for the engagement of non-audit services have yet to be formulated and adopted. Subject to the requirements of the instrument, the engagement of non-audit services is considered by the Company's Board of Directors, and where applicable by the audit committee, on a case by case basis.

### External Auditor Service Fees (By Category)

The aggregate fees billed for professional services rendered by PricewaterhouseCoopers LLP for the years ended June 30, 2008 and 2007 are as follows:

<b>Fiscal Year Ended June 30</b>	<b>2008</b>	<b>2007</b>
Audit Fees (for audit of the Company's annual financial statements for the respective year)	\$117,500	\$113,000
Audit-Related Fees (for accounting consultation)	36,850	0
<b>Total Audit and Audit-Related Fees</b>	<b>\$154,350</b>	<b>\$113,000</b>
Tax Fees	\$44,000	\$37,500
All other Fees	\$1,840	\$383,500
<b>Total Fees (CDN\$)</b>	<b>\$200,190</b>	<b>\$534,000</b>

### Reliance on Certain Exemptions

The Company has not relied on the exemption contained in section 2.4 or 8 of NI 52-110 or an exemption from NI 52-110, in whole or in part, granted under Part 8 of NI 52-110. Section 2.4 provides an exemption from the requirement that the audit committee must pre-approve all non-audit services to be provided by the auditor, where the total amount of fees related to the non-audit services are not expected to exceed 5% of the total fees payable to the auditor in the fiscal year in which the non-audit services were provided. Section 8 permits a company to apply to a securities regulatory authority for an exemption from the requirements of NI 52-110, in whole or in part.

In respect of the most recently completed financial year, the Company is relying on the exemption set out in section 6.1 of the Instrument with respect to compliance with the requirements of Part 3 (Composition of the Audit Committee) and Part 5 (Reporting Obligations) of NI 52-110.

## **APPOINTMENT OF AUDITOR**

The Management of the Company proposes to nominate Deloitte & Touche LLP, Chartered Accountants, as auditors of the Company to hold office until the next annual general meeting at a remuneration to be fixed by the Board of Directors.

Following the resignation of PricewaterhouseCoopers LLP, Chartered Accountants as auditors for the Company, the Board of Directors appointed Deloitte Touche LLP, Chartered Accountants auditors of the Company. Attached as Appendix B to this Information Circular is the Reporting Package consisting of the Notice of Change of Auditor, the letter from PricewaterhouseCoopers LLP, the former auditor and the letter from Deloitte & Touche LLP, the successor auditor in accordance with the requirements of Section 4.11 of National Instrument 51-102 *Continuous Disclosure Obligations – Change of Auditor*.

The Company's determination to change auditors was not a result of any "Reportable Event" as such term is defined in National Instrument 51-102.

## **CORPORATE GOVERNANCE DISCLOSURE**

The Board believes that good corporate governance improves corporate performance and benefits all shareholders. National Instrument 58-101 *Disclosure of Corporate Governance Practices* ("NI 58-101") prescribes certain disclosure by the Company of its corporate governance practices and National Policy 58-201 *Corporate Governance Guidelines* ("NP 58-201") provides non-prescriptive guidelines on corporate governance practices for reporting issuers such as the Company. This section sets out the Company's approach to corporate governance and addresses the Company's compliance with NI 58-101.

### *Board of Directors*

Directors are considered to be independent if they have no direct or indirect material relationship with the Company. A "material relationship" is a relationship which could, in the view of the Company's board of directors, be reasonably expected to interfere with the exercise of a director's independent judgment.

The Board facilitates its independent supervision over management by the exercise of independent judgment to safeguard the interests of the Company.

The independent members of the Board of Directors of the Company are Alessandro Benedetti, Malcolm Clay and Kais Laouiti.

The non-independent directors are John Hardy, Chairman and Chief Executive Officer of the Company, Robert Joyce, President of the Company and Fraser Atkinson, Chief Financial Officer and Corporate Secretary of the Company.

### *Directorships*

The directors of the Company that have directorships outside of the Company and the public companies that they are directors of are as follows: Malcolm Clay is a director of JQS Convertible Arbitrage Fund Ltd., Abode Mortgage Holdings Corp., Zongshen Pem Power Systems Inc., Minco Gold Corporation and Powertech Uranium Corp. and Fraser Atkinson is a director of Moventis Capital, Inc. and Calyx Bio-Ventures Inc.

### *Orientation and Continuing Education*

All new directors are provided with an information package regarding the business of the Company which includes a copy of the following materials: (a) the constating documents of the Company; (b) the latest management information

circular and annual report including the annual financial statements; (d) all quarterly reports for the last financial year end; (e) any press releases or material change reports for the last year and (f) the Audit Committee Charter.

When new directors are appointed, they receive orientation commensurate with their previous experience on the Company's properties, business, technology and industry and on the responsibilities of directors. Board meetings may also include presentations by the Company's management and employees to give directors additional insight into the Company's business.

#### *Ethical Business Conduct*

The Board has found that the fiduciary duties placed on individual directors by the Company's governing corporate legislation and the common law and the restrictions placed by applicable corporate legislation on an individual directors' participation in decisions of the Board in which the director has an interest have been sufficient to ensure that the Board operates independently of management and in the best interests of the Company.

#### *Nomination of Directors*

The Board considers its size each year when it considers the number of directors to recommend to the shareholders for election at the annual meeting of shareholders, taking into account the number required to carry out the Board's duties effectively and to maintain a diversity of views and experience.

The Board does not have a nominating committee, and these functions are currently performed by the Board as a whole. However, if there is a change in the number of directors required by the Company, this policy will be reviewed.

#### *Compensation*

While the Company does not have a formal compensation committee, the independent directors of the Board periodically review the compensation issues for all of the executive officers and make recommendations. All executive compensation is approved by the Board of Directors.

#### *Other Board Committees*

The Company has no other committees other than the audit committee.

#### *Assessments*

The Board of Directors has not yet established any formal procedures for assessing the performance of the Board or its committee and members. Generally, those responsibilities have been carried out on an informal basis by the Board of Directors itself. Furthermore, it is the view of the Board that, in light of the size of the Company, a formal assessment process will be less effective than the informal structure currently in place.

The Board of Directors monitors but does not formally assess the performance of individual Board members or committee members or their contribution.

### **OTHER BUSINESS**

Management is not aware of any matters to come before the Meeting other than those set forth in the Notice of Meeting. If any other matter properly comes before the Meeting, it is the intention of the persons named in the Proxy to vote the shares represented thereby in accordance with their best judgment on such matter.

### **ADDITIONAL INFORMATION**

Additional information relating to the Company is available at [www.sedar.com](http://www.sedar.com) under the Company's name. Financial information is provided in the comparative financial statements and management's discussion and analysis ("MD&A") for the most recently completed financial year. Copies of the financial statements and MD&A can also be obtained from our Corporate Secretary free of charge at (604) 683-2915.

### **APPROVAL OF THE BOARD OF DIRECTORS**

The contents of this Information Circular have been approved, and the delivery of it to each shareholder of the Company entitled thereto and to the appropriate regulatory agencies has been authorized by the Board of Directors of the Company.

DATED this 10<sup>th</sup> day of November, 2008.

**BY ORDER OF THE BOARD OF DIRECTORS  
OF VERSATILE SYSTEMS INC.**

*"John Hardy"*

---

John Hardy, Chairman of the Board and Chief  
Executive Officer

## **APPENDIX A**

### **VERSATILE SYSTEMS INC.**

#### **AUDIT COMMITTEE CHARTER**

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##### **Purpose**

The overall purpose of the Audit Committee (the "Committee") of Versatile Systems Inc. (the "Company") is to ensure that the Company's management has designed and implemented an effective system of internal financial controls, to review and report on the integrity of the consolidated financial statements and related financial disclosure of the Company, and to review the Company's compliance with regulatory and statutory requirements as they relate to financial statements, taxation matters and disclosure of financial information. It is the intention of the Board that through the involvement of the Committee, the external audit will be conducted independently of the Company's Management to ensure that the independent auditors serve the interests of shareholders rather than the interests of Management of the Company. The Committee will act as a liaison to provide better communication between the Board and the external auditors. The Committee will monitor the independence and performance of the Company's independent auditors.

##### **Composition, Procedures and Organization of the Audit Committee**

1. The Committee shall consist of at least three members of the Board of Directors (the "Board").
2. At least two (2) members of the Committee shall be independent and the Board and the Committee shall endeavor to appoint a majority of independent directors to the Committee, who in the opinion of the Board, would be free from a relationship which would interfere with the exercise of the Committee members' independent judgment. At least one (1) member of the Committee shall have accounting or related financial management expertise. All members of the Committee that are not financially literate will work towards becoming financially literate to obtain a working familiarity with basic finance and accounting practices applicable to the Company. For the purposes of this Charter, an individual is financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements.
3. The Board, at its organizational meeting held in conjunction with each annual general meeting of the shareholders, shall appoint the members of the Committee for the ensuing year. The Board may at any time remove or replace any member of the Committee and may fill any vacancy in the Committee.
4. Unless the Board shall have appointed a chair of the Committee, the members of the Committee shall elect a chair and a secretary from among their number.
5. The quorum for meetings shall be a majority of the members of the Committee, present in person or by telephone or other telecommunication device that permits all persons participating in the meeting to speak and to hear each other.
6. The Committee shall have access to such officers and employees of the Company and to the Company's external auditors, and to such information respecting the Company, as it considers to be necessary or advisable in order to perform its duties and responsibilities.
7. Meetings of the Committee shall be conducted as follows:

- (a) the Committee shall meet at least four times annually at such times and at such locations as may be requested by the chair of the Committee. The external auditors or any member of the Committee may request a meeting of the Committee;
  - (b) the external auditors shall receive notice of and have the right to attend all meetings of the Committee; and
  - (c) management representatives may be invited to attend all meetings except private sessions with the external auditors.
8. The internal auditors and the external auditors shall have a direct line of communication to the Committee through its chair and may bypass management if deemed necessary. The Committee, through its chair, may contact directly any employee in the Company as it deems necessary, and any employee may bring before the Committee any matter involving questionable, illegal or improper financial practices or transactions.

#### **Roles and Responsibilities of the Audit Committee**

9. The overall duties and responsibilities of the Committee shall be as follows:
- (a) to assist the Board in the discharge of its responsibilities relating to the Company's accounting principles, reporting practices and internal controls and its approval of the Company's annual and quarterly consolidated financial statements and related financial disclosure;
  - (b) to establish and maintain a direct line of communication with the Company's internal and external auditors and assess their performance;
  - (c) to consider the effectiveness of the Company's internal control over annual and interim financial reporting, including information technology security and control; and
  - (d) to report regularly to the Board on the fulfilment of its duties and responsibilities.
10. The duties and responsibilities of the Committee as they relate to the external auditors shall be as follows:
- (a) to recommend to the Board a firm of external auditors to be engaged by the Company, and to verify the independence of such external auditors;
  - (b) to review and approve the fee, scope and timing of the audit and other related services rendered by the external auditors;
  - (c) review the audit plan of the external auditors prior to the commencement of the audit;
  - (d) to review with the external auditors, upon completion of their audit:
    - (i) contents of their report;
    - (ii) scope and quality of the audit work performed;
    - (iii) adequacy of the Company's financial and auditing personnel;
    - (iv) co-operation received from the Company's personnel during the audit;
    - (v) internal resources used;
    - (vi) significant transactions outside of the normal business of the Company;

- (vii) significant proposed adjustments and recommendations for improving internal accounting controls, accounting principles or management systems; and
  - (viii) the non-audit services provided by the external auditors;
  - (e) to discuss with the external auditors the quality and not just the acceptability of the Company's accounting principles; and
  - (f) to implement structures and procedures to ensure that the Committee meets the external auditors on a regular basis in the absence of management.
11. The Committee is also charged with the responsibility to:
- (a) review the Company's quarterly statements of earnings, including the impact of unusual items and changes in accounting principles and estimates and report to the Board with respect thereto;
  - (b) review and approve the financial sections of:
    - (i) the annual report to shareholders;
    - (ii) the annual information form, if required;
    - (iii) annual and interim MD&A;
    - (iv) prospectuses;
    - (v) news releases discussing financial results of the Company; and
    - (vi) other public reports of a financial nature requiring approval by the Board, and report to the Board with respect thereto;
  - (c) review regulatory filings and decisions as they relate to the Company's consolidated financial statements;
  - (d) review the appropriateness of the policies and procedures used in the preparation of the Company's consolidated financial statements and other required disclosure documents, and consider recommendations for any material change to such policies;
  - (e) review and report on the integrity of the Company's consolidated financial statements;
  - (f) review the minutes of any audit committee meeting of subsidiary companies;
  - (g) review with management, the external auditors and, if necessary, with legal counsel, any litigation, claim or other contingency, including tax assessments that could have a material effect upon the financial position or operating results of the Company and the manner in which such matters have been disclosed in the consolidated financial statements;
  - (h) review the Company's compliance with regulatory and statutory requirements as they relate to financial statements, tax matters and disclosure of financial information; and
  - (i) develop a calendar of activities to be undertaken by the Committee for each ensuing year and to submit the calendar in the appropriate format to the Board of Directors following each annual general meeting of shareholders.

12. The Committee shall have the authority:

- (a) to engage independent counsel and other advisors as it determines necessary to carry out its duties,
- (b) to set and pay the compensation for any advisors employed by the Committee; and
- (c) to communicate directly with the internal and external auditors.

**APPENDIX B**

**REPORTING PACKAGE WITH RESPECT TO CHANGE OF AUDITOR**



Versatile Systems Inc.  
910 - 355 Burrard Street  
Vancouver, B.C. V6C 2G8

Tel: 604.683.2915  
Fax: 604.683.2965  
www.versatile.com

**British Columbia Securities Commission  
Alberta Securities Commission  
Ontario Securities Commission**

PricewaterhouseCoopers LLP, Chartered Accountants  
Deloitte & Touche LLP, Chartered Accountants

### **NOTICE OF CHANGE OF AUDITOR**

We wish to advise that the Company does not intend to propose its current auditor, PricewaterhouseCoopers LLP, for re-appointment at the Company's Annual Meeting scheduled for December 23, 2008.

The board of directors of the Company resolved in a meeting held on October 30, 2008 to propose that Deloitte & Touche LLP, be appointed as auditor of the Company in the place and stead of PricewaterhouseCoopers LLP, at the upcoming Annual Meeting of the Company.

There have been no reservations contained in the audit reports of PricewaterhouseCoopers LLP, for the two most recently completed fiscal years and any subsequent period. There are no reportable events between the Company and PricewaterhouseCoopers LLP.

The replacement of PricewaterhouseCoopers LLP, by Deloitte & Touche LLP, has been considered and approved by the Company's Audit Committee.

The Company proposes to send its Notice of Annual Meeting to its shareholder on November 10, 2008.

Dated at Vancouver, this 3<sup>rd</sup> day of November, 2008.

Fraser Atkinson  
CFO & Corporate Secretary  
Versatile Systems Inc.



British Columbia Securities Commission  
9<sup>th</sup> Floor, 701 West Georgia Street  
Vancouver, BC V7Y 1L2

Alberta Securities Commission  
300 5<sup>th</sup> Avenue SW 4<sup>th</sup> Floor  
Calgary AB T2P 3C4

Ontario Securities Commission  
20 Queen Street West, Suite 1903  
Toronto, ON M5H 3S8

PricewaterhouseCoopers LLP  
Chartered Accountants  
PricewaterhouseCoopers Place  
250 Howe Street, Suite 700  
Vancouver, British Columbia  
Canada V6C 3S7  
Telephone +1 604 806 7000  
Facsimile +1 604 806 7806

We have read the statements made by Versatile Systems Inc. in the attached copy of the Notice of Change of Auditor dated November 3, 2008, which we understand will be filed pursuant to Section 4.11 of the National Instrument 51-102.

We agree with the statements in the Change of Auditor Notice dated November 3, 2008.

Yours very truly,

*PricewaterhouseCoopers LLP*

Chartered Accountants  
Vancouver, BC  
November 5, 2008



Deloitte & Touche LLP  
2800 - 1055 Dunsmuir Street  
4 Bentall Centre  
P.O. Box 49279  
Vancouver BC V7X 1P4  
Canada

Tel: (604) 640-4466  
Fax: (604) 685-0395  
[www.deloitte.ca](http://www.deloitte.ca)

November 3, 2008

Alberta Securities Commission

British Columbia Securities Commission

Ontario Securities Commission

**Subject: Change of Auditor for Versatile Systems Inc.**

As the proposed successor auditor of Versatile Systems Inc. (the Company) and pursuant to National Instrument 51-102, we have reviewed the Company's Notice Change of Auditor dated November 3, 2008 and we agree with information contained therein.

We understand that the Notice of Change of Auditor, along with this letter from PricewaterhouseCoopers LLP, Chartered Accountants, will be filed with the securities regulatory authorities.

Yours truly,

A handwritten signature in black ink that reads "Deloitte &amp; Touche LLP". The signature is written in a cursive, flowing style.

Chartered Accountants

# **Versatile Systems Inc.**

Consolidated Financial Statements  
**June 30, 2008 and 2007**  
(expressed in U.S. dollars)

## **Auditors' Report**

### **To the Shareholders of Versatile Systems Inc.**

We have audited the consolidated balance sheets of **Versatile Systems Inc.** as at June 30, 2008 and 2007 and the consolidated statements of earnings and deficit, comprehensive income and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) PricewaterhouseCoopers LLP

### **Chartered Accountants**

Vancouver, British Columbia  
September 26, 2008

# Versatile Systems Inc.

## Consolidated Balance Sheets

As at June 30, 2008 and 2007

(expressed in U.S. dollars)

	2008 \$	2007 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	1,500,005	3,369,087
Accounts receivable (note 4)	11,842,754	15,200,919
Current portion of deferred contract costs	4,918,704	4,489,111
Work-in-progress	80,668	41,705
Prepaid expenses	309,061	347,023
Inventory	1,944,100	1,268,682
Future income tax benefits (note 20)	706,249	1,094,579
	<u>21,301,541</u>	<u>25,811,106</u>
<b>Long-term accounts receivable</b> (note 4)	26,522	812,000
<b>Deferred contract costs</b>	1,050,694	396,423
<b>Capital assets</b> (note 5)	867,771	492,979
<b>Intangible assets</b> (note 6)	695,726	1,335,877
<b>Future income tax benefits</b> (note 20)	4,672,907	4,326,136
<b>Goodwill</b> (note 7)	9,977,659	9,914,350
	<u>38,592,820</u>	<u>43,088,871</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Line of credit (note 8)	74,942	3,383
Bank overdraft (note 8)	127,214	170,422
Accounts payable and accrued liabilities (note 9)	10,704,330	13,720,928
Current portion of deferred revenue	6,582,593	6,299,863
Bank term loan (note 8)	-	2,749,263
Term loan (note 12)	-	175,000
Promissory notes	40,000	-
Current portion of capital lease obligations (note 11)	-	4,748
	<u>17,529,079</u>	<u>23,123,607</u>
<b>Deferred revenue</b>	1,272,536	487,416
	<u>18,801,615</u>	<u>23,611,023</u>
<b>Shareholders' Equity</b>		
<b>Share capital</b> (note 13)	51,353,054	51,643,963
<b>Warrants</b> (note 14)	369,965	382,650
<b>Contributed surplus</b> (note 15)	3,188,496	2,998,798
<b>Deficit</b>	(35,063,096)	(35,263,226)
<b>Accumulated other comprehensive income</b>	(57,214)	(284,337)
	<u>19,791,205</u>	<u>19,477,848</u>
	<u>38,592,820</u>	<u>43,088,871</u>

**Commitments** (note 19)

**Subsequent event** (note 23)

**Approved by the Board of Directors**

\_\_\_\_\_  
(signed) John Hardy Director

\_\_\_\_\_  
(signed) Fraser Atkinson Director

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

# Versatile Systems Inc.

## Consolidated Statements of Earnings and Deficit For the years ended June 30, 2008 and 2007

(expressed in U.S. dollars)

	2008 \$	2007 \$
<b>Sales</b>	59,380,354	62,230,275
<b>Cost of sales</b>	44,527,536	47,514,478
	<u>14,852,818</u>	<u>14,715,797</u>
<b>Expenses</b>		
General and administrative	5,090,959	4,588,693
Research and development	1,745,569	1,068,216
Selling and marketing	6,504,762	6,502,051
Foreign exchange loss	175,627	8,488
Stock-based compensation	46,671	555,444
	<u>13,563,588</u>	<u>12,722,892</u>
<b>Earnings before interest, taxes and amortization</b>	1,289,230	1,992,905
Interest (income) expense	(28,212)	300,918
Amortization of capital assets	256,929	288,291
Amortization of intangible assets	693,748	874,550
	<u>366,765</u>	<u>529,146</u>
<b>Earnings before income taxes</b>	366,765	529,146
Current income tax expense	(65,031)	(101,323)
Future income tax (expense) benefit	(101,604)	951,622
	<u>200,130</u>	<u>1,379,445</u>
<b>Net earnings for the year</b>	200,130	1,379,445
<b>Deficit - Beginning of year</b>	<u>(35,263,226)</u>	<u>(36,642,671)</u>
<b>Deficit - End of year</b>	<u>(35,063,096)</u>	<u>(35,263,226)</u>
<b>Earnings per share - basic and diluted</b>	<u>0.00</u>	<u>0.01</u>

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

# Versatile Systems Inc.

## Consolidated Statements of Comprehensive Income For the years ended June 30, 2008 and 2007

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(expressed in U.S. dollars)

	<b>2008</b>	<b>2007</b>
	\$	\$
<b>Net earnings for the year</b>	200,130	1,379,445
<b>Other comprehensive income</b>		
Foreign currency translation adjustments	227,123	24,204
<b>Comprehensive income for the year</b>	<u>427,253</u>	<u>1,403,649</u>

# Versatile Systems Inc.

## Consolidated Statements of Cash Flows For the years ended June 30, 2008 and 2007

(expressed in U.S. dollars)

	2008 \$	2007 \$
<b>Cash flows from operating activities</b>		
Net earnings for the year	200,130	1,379,445
Items not affecting cash		
Amortization of capital and intangible assets	950,677	1,162,841
Stock-based compensation	46,671	555,444
Loss on disposal of capital assets	212	4,693
Foreign exchange loss	153,687	8,488
Future income tax expense (benefit)	101,604	(951,622)
	1,452,981	2,159,289
Net change in non-cash working capital items	449,708	(1,907,534)
	1,902,689	251,755
<b>Cash flows from investing activities</b>		
Cash acquired on acquisition of Sagent Solutions	5,081	-
Proceeds from disposition of capital assets	1,867	2,640
Additions to capital assets	(634,181)	(455,234)
	(627,233)	(452,594)
<b>Cash flows from financing activities</b>		
Proceeds from issuance of shares - net of costs	416,202	4,564,059
Purchase of company shares	(618,780)	-
Repayment of convertible debenture	-	(107,594)
Proceeds from (repayment of) line of credit	71,559	(367,377)
Repayment of bank overdraft	(43,208)	(587,546)
Repayment of the bank term loan	(2,749,263)	-
Repayment of the term loan	(175,000)	-
Repayment of Promissory notes	(40,000)	-
Repayment of capital lease obligations	(4,748)	(6,422)
	(3,143,238)	3,495,120
<b>Effect of foreign exchange rate on cash</b>	(1,300)	(24,204)
<b>(Decrease) increase in cash and cash equivalents</b>	(1,869,082)	3,270,077
<b>Cash and cash equivalents - Beginning of year</b>	3,369,087	99,010
<b>Cash and cash equivalents - End of year</b>	1,500,005	3,369,087
<b>Supplemental cash flow information</b> (note 22)		

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

# Versatile Systems Inc.

## Notes to Consolidated Financial Statements June 30, 2008 and 2007

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(expressed in U.S. dollars)

### 1 Nature of operations

Versatile Systems Inc. (“Versatile-Canada” or the “Company”), which was continued from the Yukon Territories to British Columbia, is primarily engaged in software development and sales of computer software, hardware and system integration services related to wired and wireless mobile business solutions through its wholly owned subsidiaries, Versatile Acquisition Corporation (“VAC”), Perfect Order, Inc. (“POI”), Versatile Systems, Inc. (“VSI”), Versatile Mobile Systems, Inc. (“VMS-US”), Versatile Mobile Systems (Europe) Ltd. (“VMS-Europe”) and Sagent Solutions. The wholly owned subsidiaries, 596327 B.C. Ltd. and EvolutionB Information Inc. (“EvolutionB”) are inactive.

### 2 Significant accounting policies

#### Basis of presentation

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and all its wholly owned subsidiaries - VAC, POI, VSI, VMS-US, VMS-Europe, 596327 B.C. Ltd. and EvolutionB. All intercompany accounts and transactions are eliminated on consolidation.

All amounts are expressed in U.S. dollars, unless otherwise stated.

#### Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest bearing securities with maturities at the date of purchase of three months or less. Interest earned is recognized immediately into earnings.

#### Inventory

Inventory consists of kiosk hardware and handheld devices and peripherals used in sales force automation systems. Inventory is valued at the lower of cost and net realizable value, determined on a first-in, first-out basis.

#### Deferred service contract costs

Deferred service contract costs are amortized on a straight line basis over the life of the contracts, which range from three months to three years. These deferred amounts relate to third party maintenance costs for third party equipment installed at customer sites and sales commission costs, which have been paid for in advance.

# Versatile Systems Inc.

## Notes to Consolidated Financial Statements June 30, 2008 and 2007

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(expressed in U.S. dollars)

### Research and development

Research costs are expensed as incurred. Development costs are charged as an expense in the period incurred unless the Company believes that a development project meets certain criteria under generally accepted accounting principles for deferral and amortization. The Company has not capitalized any development costs during the year.

### Capital assets

The Company records capital assets at acquisition cost. The capital assets are amortized using the straight-line method at the following rates:

Automobiles	20% per annum
Computer and office equipment	20% - 33-1/3% per annum
Computer software	33% - 1/3% per annum
Demonstration equipment	50% per annum
Tenant improvements	straight-line over remaining term of lease

### Goodwill and intangible assets

Goodwill represents the excess of the purchase price of an acquired business over the fair values of the identifiable net assets acquired.

Intangible assets acquired, either individually or with a group of assets, are initially recognized and measured at cost. Intangible assets acquired in a business combination that meet the specified criteria for recognition, apart from goodwill, are initially recognized and measured at fair value. Intangible assets with finite lives are amortized over their estimated useful lives using the straight-line method at the following rates:

Purchased technology	3 years
Customers	5 years
Intellectual property	1-1/2 years
Licences	4 years

The amortization method and estimated useful lives of intangible assets are reviewed annually.

Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of a reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary.

The second step would be required if the carrying amount of the reporting unit exceeds its fair value, in which case the implied fair value of a reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss. When the carrying amount of a reporting unit's goodwill exceeds the implied fair value of goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the statement of earnings before extraordinary items and discontinued operations.

# Versatile Systems Inc.

## Notes to Consolidated Financial Statements

June 30, 2008 and 2007

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(expressed in U.S. dollars)

### **Income taxes**

The Company follows the liability method of accounting for income taxes. Under the liability method of tax allocation, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax basis of assets and liabilities and are measured using substantively enacted tax rates expected to be in effect when the differences are expected to be reversed. A valuation allowance is recorded against any future tax asset to the extent that it is more likely than not that the future income tax asset will not be realized.

During the current fiscal year, the Company determined that VSI, POI, VAC and VMS-US are generating sufficient profits that it is more likely than not that the losses will be fully utilized and the deductions attributable to these companies will be fully utilized. Consequently, the valuation allowance has been reduced accordingly. The difference between the value of these tax benefits less the valuation allowance is the amount of the future income tax asset that is recorded by the Company. During the current year, the Company recorded \$101,604 for the income tax expense related to the recognition of future income tax assets. To the extent that the Company expects to generate sufficient profits in the following fiscal period, that portion has been classified as current.

### **Foreign currency translation**

The U.S. dollar is the reporting currency for the Company. The functional currency of each subsidiary throughout the group is generally the local currency. For consolidation purposes, assets and liabilities of these subsidiaries are translated at current rates of exchange at the balance sheet date. Income and expense items are translated at the average exchange rate for the period. The effects of translating the financial position and results of operations from local functional currencies are included in "other comprehensive income."

The Company employs the current rate method of translation for its self-sustaining operations. Under this method, all assets and liabilities denominated in a currency other than the recording entity's functional currency are translated at the year-end rates and all revenue and expense items are translated at the average monthly exchange rates for recognition in income. Differences arising from these foreign currency translations are recorded in accumulated other comprehensive income as a cumulative translation adjustment until they are realized by a reduction in the net investment.

The Company employs the temporal method of translation for its integrated operations. Under this method, monetary assets and liabilities denominated in a currency other than the recording entity's functional currency are translated at the year-end rates and all other assets and liabilities are translated at applicable historical exchange rates. Revenue and expense items are translated at the rate of exchange in effect at the date the transactions are recognized in income, with the exception of amortization which is translated at the historical rate for the associated asset. Realized exchange gains and losses and currency translation adjustments are included in income.

# **Versatile Systems Inc.**

## Notes to Consolidated Financial Statements

**June 30, 2008 and 2007**

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(expressed in U.S. dollars)

### **Revenue recognition**

Revenue on sales of hardware products is recognized when delivered to the customer. The Company recognizes revenue from the sale of software products on delivery of the product or performance of the services if persuasive evidence of an agreement with the customer exists, the price is fixed and determinable, collection is probable, and there are no ongoing obligations of the Company to provide future services.

Revenue from projects which include significant modification or customization of software is recognized using the percentage of completion method of accounting, whereby revenue and profit in the period are based on the ratio of costs incurred to total estimated costs of the project. Costs include all direct costs and certain indirect costs related to the projects. A provision is made for the entire amount of future estimated losses, if any, on contracts in progress. Revenue from professional services is recognized on a percentage of completion basis. Maintenance revenue is recognized over the term of the related agreement on a straight line basis. Deferred revenues represent amounts invoiced in excess of revenues recognized.

The Company also sells products and services containing multiple elements, which may include a combination of the above. These revenues are recognized in accordance with EIC 142 "Revenue Arrangements with Multiple Elements". For sales involving multiple elements, the Company determines if the elements within the arrangement can be separated amongst its different elements, using guidance under Canadian generally accepted accounting principles. That is, (i) the product or service has value to the customer on a standalone basis; (ii) objective, reliable and verifiable evidence of fair value exists; and (iii) the undelivered elements are not essential to the functionality of the delivered elements. Under this guideline, the Company recognizes revenue for each element based on relative fair values.

### **Warranty costs**

Warranty costs that are not otherwise covered by suppliers are accrued upon the recognition of the related revenue, based on the Company's best estimate, with reference to past experience.

### **Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions, which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

### **Earnings per share**

Earnings per common share is computed using the weighted average number of common shares outstanding during the year, being 120,991,438 (2007 - 110,705,812) in the current year. Diluted earnings per common share has not been disclosed as the effect of common shares issuable upon the exercise of options or warrants would not be significant.

# Versatile Systems Inc.

## Notes to Consolidated Financial Statements June 30, 2008 and 2007

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(expressed in U.S. dollars)

### **Stock-based compensation**

The Company has an employee stock option plan ("Option Plan"). The Company records the estimated fair value of the grants as compensation expense over the benefit period with a corresponding credit to contributed surplus. Upon issuance of shares under the Option Plan the Company records a credit to share capital for the amount paid and the stock based compensation charge that has been previously recorded, if any.

The Company recognizes the stock-based compensation expense for all employee and non-employee stock-based compensation transactions using a fair value based method. The fair value of stock-based payments to non-employees is periodically re-measured until the earlier of: completion of the services provided a firm commitment to complete the services or the vesting date and any change therein is recognized over the service period. For stock options exercised, consideration paid plus the fair value of options previously recorded as contributed surplus are recorded as share capital on exercise of the options.

During the current fiscal year the Company recognized \$46,671 (2007 - \$555,444) in compensation expense and additional contributed surplus for stock options granted to employees. A description of the Company's stock-based compensation plan is disclosed in note 16.

### **Changes in accounting policies**

The Company retroactively adopted the following new Handbook sections issued by the Canadian Institute of Chartered Accountants ("CICA") on July 1, 2007:

- a) Section 3855, "Financial Instruments - Recognition and Measurement", establishes the standards for recognizing and measuring financial assets, financial liabilities and nonfinancial derivatives. Under the new standards, the Company is now required to classify:
  - i) its financial assets as held-to-maturity, available-for-sale, held-for-trading, or loans and receivables; and
  - ii) its financial liabilities as either held-for-trading, or other financial liabilities.

All financial instruments, including derivatives, are included on the consolidated balance sheet and are initially measured at fair value with the exception of financial instruments with related parties. Subsequent measurement and recognition of changes in fair value of financial instruments depends on their initial classification as follows: Held-to-maturity investments, loans and receivables, and other financial liabilities are measured at amortized cost and gains and losses are recognized in net earnings. Held-for-trading financial investments are measured at fair value and all gains and losses are included in net earnings in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is disposed of or impaired.

Financing charges that reflect the cost to obtain new debt financing are expensed as incurred. Financing charges that reflect the cost to obtain new equity financing are deducted from net proceeds as incurred.

# Versatile Systems Inc.

## Notes to Consolidated Financial Statements June 30, 2008 and 2007

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(expressed in U.S. dollars)

The Company has made the following classifications:

- Cash and cash equivalents, bank overdraft and line of credit are classified as held for trading and are measured at fair value. This category best describes the Company's current management practices with regards to cash and cash equivalents.
- Accounts receivable are classified as loans and receivables and recorded at amortized cost using the effective interest rate method.
- Accounts payable and accrued liabilities are classified as other liabilities and measured at amortized cost using the effective interest rate method.
- Long-term debt is carried at amortized cost using the effective interest rate method.

Section 3855 also requires that the Company identify embedded derivatives that require separation from the related host contract and measure any embedded derivatives at fair value.

From time to time, the Company enters into certain contracts for the purchase or sale of non-financial items that are denominated in currencies other than the U.S. dollar. In cases where the foreign exchange component is not leveraged and does not contain an option feature and the contract is denominated in either the functional currency of the Company or the counter-party, the embedded foreign currency derivative is considered to be closely related to the host contract and is not accounted for separately.

If the contract is neither denominated in the functional currency of the Company or the associated counter-party, the embedded foreign currency derivative is separated from the host contract unless the non-financial item delivered requires payments denominated in the currency that is routinely accepted in commercial transactions around the world, or is commonly used for such transactions in the economic environment in which the transaction takes place. The Company did not identify any embedded foreign currency derivatives from their related host contracts during the year ended June 30, 2008.

The change in accounting policy related to embedded derivatives did not result in any changes to the June 30, 2008 consolidated financial statements and did not require restatement of prior years financial statements.

- b) Section 3861, "Financial Instruments – Disclosure and Presentation", establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. This change in accounting policy did not have a material impact on the current year financial statements and did not require restatement of prior year financial statements.
- c) Section 1530, "Comprehensive Income", describes the change in equity of an enterprise during a period arising from transactions and other events and circumstances from non-owner sources. It includes items that would normally not be included in net income such as changes in the foreign currency translation adjustment relating to self-sustaining foreign operations and unrealized gains or losses on available-for-sale financial instruments. This section describes how to report and disclose comprehensive income and its components. As a result of the adoption of this section, the consolidated financial statements now include a statement of comprehensive loss and deficit.

# Versatile Systems Inc.

## Notes to Consolidated Financial Statements

June 30, 2008 and 2007

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(expressed in U.S. dollars)

- d) Section 3251, "Equity", replaces section 3250, "Surplus", and establishes standards for the presentation of equity and changes in equity as a result of the new requirements of Section 1530, "Comprehensive Income".
- e) Section 3865, "Hedges", describes when hedge accounting is appropriate. Hedge accounting ensures that all gains, losses, revenues and expenses from the derivative and the item it hedges are recorded in the statement of earnings in the same period. The Company did not have any hedging items during the year.
- f) Section 1506, "Accounting Changes", allows for voluntary changes in accounting policy only if they provide more reliable and relevant information in the financial statements.

### **Recent accounting pronouncements issued and not yet adopted**

The following is an overview of accounting standard changes that the Company will be required to adopt in future periods:

### **Capital Disclosures and Financial Instruments - Presentation and Disclosure**

The CICA issued three new accounting standards: Section 1535, "Capital Disclosures", Section 3862, "Financial Instruments - Disclosures", and Section 3863, "Financial Instruments - Presentation". These new standards are effective for fiscal years beginning on or after October 1, 2007. The Company will adopt these standards on July 1, 2008. The Company is in the process of evaluating the disclosure and presentation requirements of the new standards.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Sections 3862 and 3863 will replace Section 3861, "Financial Instruments - Disclosure and Presentation", revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

### **Inventories**

The CICA issued Section 3031, "Inventories", which will replace Section 3030, "Inventories". This new standard is effective for fiscal years beginning on or after January 1, 2008. The Company will adopt this section effective July 1, 2008. Under the requirements of the new standard, inventories will be measured at the lower of cost and net realizable value, cost of inventories that are not ordinarily interchangeable and goods or services produced and segregated for specific projects will be assigned by using a specific identification of their individual costs, consistent use of either first-in, first out or weighted average cost is prescribed for other inventories, and the reversal of previous write-downs to net realizable value occurs when there is a subsequent increase in the value of the inventories. The Company has not yet determined what the impact of adopting this standard will have on its consolidated financial statements.

# **Versatile Systems Inc.**

## Notes to Consolidated Financial Statements

**June 30, 2008 and 2007**

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(expressed in U.S. dollars)

### **Going concern**

Effective July 1, 2008, the Company will be required to adopt the additional requirements of the CICA Handbook Section 1400, "General Standards of Financial Statements". The additional requirements require management to make an assessment of the Company's ability to continue as a going concern, and to disclose any material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The Company does not anticipate any impact to its consolidated financial statements arising from this accounting pronouncement.

### **Goodwill and intangible assets**

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and other Intangible Assets" and Section 3450, "Research and Development Costs". The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning July 1, 2009. This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. The Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements. The Company will be evaluating the impact of these standards.

### **3 Acquisition of Sagent Solutions business**

On December 28, 2007 the Company acquired all of the issued and outstanding shares and units of Sagent Solutions, based in Somerset, New Jersey. Sagent sells hardware, computer software and system integration services focused on the rapidly growing need of enterprises to leverage the cost and efficiency benefits of virtualizing their IT infrastructures.

The consideration consisted of Promissory Notes bearing interest at 3% per annum in the amount of \$80,000 payable to the Vendors in quarterly amounts commencing January 15, 2008 and 600,000 share purchase warrants of Versatile Systems Inc. exercisable at CDN \$0.30 per share with a term of four years, which were approved by the TSX Venture Exchange on January 30, 2008. The Company assigned a value of \$0.07 to each warrant.

# Versatile Systems Inc.

## Notes to Consolidated Financial Statements

June 30, 2008 and 2007

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(expressed in U.S. dollars)

The acquisition was accounted for under the purchase method of accounting. Total consideration, including costs of acquisition, was allocated based on the estimated fair values of the acquired assets on the date of acquisition as follows:

	\$
Net assets acquired	
Cash and cash equivalents	5,081
Other current assets	4,169
Capital and intangible assets	2,541
Customers	56,150
Goodwill	63,309
Accounts payable and accrued liabilities	<u>(9,250)</u>
Fair value of net assets acquired	<u>122,000</u>
Total consideration comprises	
Promissory notes	80,000
Value assigned to the Versatile warrants	<u>42,000</u>
Total consideration as at the date of acquisition	<u>122,000</u>

The above purchase price allocation is based on the estimated fair values of the assets and liabilities acquired. To the extent that the finalization of these fair value results in changes to amounts set out in these consolidated financial statements, the amount assigned to goodwill will be adjusted by an equal and offsetting amount.

#### 4 Accounts receivable

Included with accounts receivable is an amount that the Company has with a customer providing for monthly payments over a three year term. The total amount of the receivable is carried at amortized cost of \$39,914 of which \$13,392 has been classified as current.

In the prior fiscal year the Company had \$1,353,333 of which \$541,333 was classified as current and the Company recorded interest based on an imputed interest rate of approximately 10% per annum.

# Versatile Systems Inc.

## Notes to Consolidated Financial Statements

June 30, 2008 and 2007

(expressed in U.S. dollars)

### 5 Capital assets

	<b>2008</b>		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net</b>
	\$	\$	\$
Automobiles	10,005	3,168	6,837
Computer and office equipment	2,654,591	1,850,481	804,110
Demonstration equipment	104,339	104,339	-
Computer software	106,084	95,216	10,868
Tenant improvements	120,649	74,693	45,956
	<b>2,995,668</b>	<b>2,127,897</b>	<b>867,771</b>

As at June 30, 2008, equipment held for leasing purposes with a cost of \$39,544 and accumulated amortization of \$1,034 are included in capital assets.

	<b>2007</b>		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net</b>
	\$	\$	\$
Automobiles	10,005	1,335	8,670
Computer and office equipment	2,048,105	1,631,145	416,960
Demonstration equipment	104,339	104,339	-
Computer software	99,884	88,754	11,130
Tenant improvements	113,625	57,406	56,219
	<b>2,375,958</b>	<b>1,882,979</b>	<b>492,979</b>

# Versatile Systems Inc.

## Notes to Consolidated Financial Statements

June 30, 2008 and 2007

(expressed in U.S. dollars)

### 6 Intangible assets

The carrying amounts of the amortized intangible assets as at June 30, 2008 and 2007 are as follows:

	<b>2008</b>		
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>
	<b>\$</b>	<b>amortization</b>	<b>\$</b>
		<b>\$</b>	
Customers	1,813,509	1,118,612	694,897
Purchased technology	1,211,969	1,211,969	-
Intellectual property	451,250	451,250	-
Other intangibles	3,791	2,962	829
Licences	522,402	522,402	-
	<b>4,002,921</b>	<b>3,307,195</b>	<b>695,726</b>
	<b>2007</b>		
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>
	<b>\$</b>	<b>amortization</b>	<b>\$</b>
		<b>\$</b>	
Customers	1,757,359	761,518	995,841
Purchased technology	1,211,969	875,314	336,655
Intellectual property	451,250	451,250	-
Other intangibles	6,127	2,746	3,381
Licences	522,402	522,402	-
	<b>3,949,107</b>	<b>2,613,230</b>	<b>1,335,877</b>

# Versatile Systems Inc.

## Notes to Consolidated Financial Statements June 30, 2008 and 2007

(expressed in U.S. dollars)

### 7 Goodwill

The carrying amounts of the goodwill for the years ended June 30, 2008 and 2007 are as follows:

	<b>2008</b>		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net</b>
	\$	\$	\$
Goodwill			
Perfect Order	7,195,380	-	7,195,380
Sagent Solutions	63,309	-	63,309
VMS-US	10,875,882	8,156,912	2,718,970
	<u>18,134,571</u>	<u>8,156,912</u>	<u>9,977,659</u>
			<b>2007</b>
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net</b>
	\$	\$	\$
Goodwill			
Perfect Order	7,195,380	-	7,195,380
VMS-US	10,875,882	8,156,912	2,718,970
	<u>18,071,262</u>	<u>8,156,912</u>	<u>9,914,350</u>

No amortization for goodwill has been recorded for 2008 or 2007. During the current fiscal year ended June 30, 2008, the Company performed an assessment of the carrying value of the goodwill recorded in connection with the acquisition of VMS-US, Perfect Order and Sagent Solutions. The assessment showed that no impairment charge was required for the year ended June 30, 2008.

### 8 Line of credit, bank overdraft and bank term loan

The Company has a credit line facility for up to \$5,800,000 from a U.S. based financial institution. The line of credit bears interest at the State of New York prime rate of lending and is secured with a first charge on the assets of VAC, VSI and POI. As at June 30, 2008, the Company had a line of credit of \$74,942 (2007 - \$3,383) and had a bank overdraft of \$127,214 (2007 - \$170,422). During the current fiscal year, the interest on the line of credit amounted to \$4,224 (2007 - \$48,078).

During the current fiscal year, the Company repaid a term loan in the amount of \$2,749,263 from the same U.S. based financial institution. During the current fiscal year, the interest on the term loan amounted to \$161,538 (2007 - \$257,648).

# **Versatile Systems Inc.**

## Notes to Consolidated Financial Statements

**June 30, 2008 and 2007**

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(expressed in U.S. dollars)

The amount that may be advanced under the credit line is limited to 70% of eligible accounts receivable of VAC, POI and VSI less than 90 days from invoice date. At June 30, 2008, the financial covenants for these facilities included requirements for debt coverage of 1.2 and minimum Tangible Net worth of \$4,800,000, which the Company met.

### **9 Accounts payable and accrued liabilities**

Included in accounts payable and accrued liabilities is \$2,740,373 (2007 - \$7,707,954) owing to a major supplier, which is subordinated to the bank line of credit.

### **10 Convertible debenture**

On April 10, 2006, the Company issued a convertible debenture for proceeds of \$3,617,700 to a U.S. based institution. On June 30, 2006, \$3,000,000 of the debenture was converted into 8,789,633 common shares of the Company leaving a balance of \$107,594 which was repaid during the prior fiscal year.

### **11 Capital lease obligations**

The Company leases certain computer and office equipment under capital leases, which are collateralized by the assets financed by these leases. Interest expense on capital lease obligations for the year ended June 30, 2008 is \$225 (2007 - \$1,262).

### **12 Term loan**

The note payable to Ben Franklin Technology Partners for \$175,000 bore interest at the rate of 4.75% per annum, was unsecured and was repaid on July 17, 2007. During the current fiscal year, the interest amounted to \$387 (2007 - \$8,312).

# Versatile Systems Inc.

## Notes to Consolidated Financial Statements June 30, 2008 and 2007

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(expressed in U.S. dollars)

### 13 Share capital

Authorized

Unlimited common shares without par value

Issued and outstanding

	<b>Number of shares</b>	<b>Amount \$</b>
Balance - June 30, 2006	97,393,694	44,473,680
Shares issued on conversion of debenture, net of share issue costs	8,789,633	2,470,862
Shares issued for cash, net of share issue costs	7,241,380	2,871,165
Shares issued for exercised warrants	4,546,986	1,394,118
Warrant cost related to the exercised warrants	-	182,876
Shares issued for exercised stock options	2,406,250	248,934
Contributed surplus related to the exercised stock options	-	2,328
Balance - June 30, 2007	120,377,943	51,643,963
Shares repurchased and cancelled	(702,500)	(300,405)
Shares issued for exercised warrants	1,446,000	409,820
Warrant cost related to the exercised warrants	-	48,040
Shares issued for exercised stock options	27,200	6,382
Contributed surplus related to the exercised stock options	-	279
Issued and outstanding at June 30, 2008	121,148,643	51,808,079
Less: Shares held in Treasury	(2,559,000)	(455,025)
Balance - June 30, 2008	118,589,643	51,353,054

During the current fiscal year the Company acquired 3,261,500 common shares at a cost of \$618,780. On January 30, 2008 the Company cancelled 702,500 shares and the balance of shares are held in Treasury.

On April 16, 2007, the Company closed a brokered private placement and issued 7,241,380 shares at a price of \$0.5759 (CDN \$ 0.6636) per share for gross proceeds of \$4,170,390 (CDN \$4,805,380). The Company also issued the broker 583,770 warrants. Each common share purchase warrant entitles the holder to purchase one common share of the Company for a period of four years after the closing date at a price of CDN \$0.6636 per common share.

# Versatile Systems Inc.

## Notes to Consolidated Financial Statements June 30, 2008 and 2007

(expressed in U.S. dollars)

### 14 Warrants

The following warrants were outstanding:

Expiry date	Exercise price CDN \$	Balance -	Expired or exercised	Issued	Balance - June 30, 2008	
		June 30, 2007			Number of warrants	Amount \$
August 10, 2007	0.30	1,646,000	(1,646,000)	-	-	-
March 31, 2009	0.38	1,411,808	-	-	1,411,808	107,627
March 31, 2009	0.414	1,411,808	-	-	1,411,808	75,971
March 31, 2011	0.569	1,411,808	-	-	1,411,808	63,309
April 16, 2011	0.6636	583,770	-	-	583,770	81,058
January 22, 2012	0.30	-	-	600,000	600,000	42,000
		<u>6,465,194</u>	<u>(1,646,000)</u>	<u>600,000</u>	<u>5,419,194</u>	<u>369,965</u>

  

Expiry date	Exercise price CDN \$	Balance -	Expired	Issued	Balance - June 30, 2007	
		June 30, 2006			Number of warrants	Amount \$
August 10, 2007	0.30	1,646,000	-	-	1,646,000	54,685
March 31, 2009	0.38	1,411,808	-	-	1,411,808	107,627
March 31, 2009	0.414	1,411,808	-	-	1,411,808	75,971
March 31, 2011	0.569	1,411,808	-	-	1,411,808	63,309
April 22, 2007	0.35	5,135,413	(5,135,413)	-	-	-
April 25, 2007	0.345	750,000	(750,000)	-	-	-
April 16, 2011	0.6636	-	-	583,770	583,770	81,058
		<u>11,766,837</u>	<u>(5,885,413)</u>	<u>583,770</u>	<u>6,465,194</u>	<u>382,650</u>

On January 22, 2008, the Company issued 600,000 warrants expiring on January 22, 2012 with an exercise price of CDN \$0.30 as part of the consideration for the acquisition of Sagent Solutions. Each warrant entitles the holder to purchase one common share of the Company. The Company assigned a value of \$0.07 to each warrant.

On April 16, 2007, the Company issued 583,770 warrants expiring on April 16, 2011 with an exercise price of CDN \$0.6636. Each warrant entitles the holder to purchase one common share of the Company. The Company assigned a value of \$0.1389 (CDN \$0.16) to each warrant.

# Versatile Systems Inc.

## Notes to Consolidated Financial Statements June 30, 2008 and 2007

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(expressed in U.S. dollars)

### 15 Contributed surplus

Contributed surplus consists of the following:

	\$
Balance - June 30, 2006	2,392,030
Expiration of warrants	53,652
Stock-based compensation	555,444
Stock-based compensation for exercised stock options	<u>(2,328)</u>
Balance - June 30, 2007	2,998,798
Shares repurchased and cancelled	136,661
Expiration of warrants	6,645
Stock-based compensation	46,671
Stock-based compensation for exercised stock options	<u>(279)</u>
Balance - June 30, 2008	<u>3,188,496</u>

During the year ended June 30, 2008, 200,000 (2007 - 1,338,427) warrants expired, resulting in their ascribed value of \$6,645 (2007 - \$53,652) being recorded as contributed surplus.

### 16 Stock options

Under the Company's stock option plan, the Company is authorized to grant stock options to employees, officers and directors to purchase up to 10,800,000 (2007 - 10,800,000) common shares. The exercise price of each option is not less than the market price of the Company's stock on the date of grant, and the exercise period is to a maximum term of five years. Options granted under this plan have vesting periods of up to three years.

# Versatile Systems Inc.

## Notes to Consolidated Financial Statements June 30, 2008 and 2007

(expressed in U.S. dollars)

A summary of stock option activity for the years ended June 30, 2008 and 2007 is presented below:

	2008		2007	
	Number of shares	Weighted average exercise price CDN \$	Number of shares	Weighted average exercise price CDN \$
Outstanding - Beginning of year	9,293,900	0.57	7,742,900	0.24
Granted	605,000	0.30	4,060,000	0.94
Exercised	(27,200)	0.25	(2,406,250)	0.12
Forfeited	(1,018,500)	0.79	(102,750)	0.27
Expired	(85,000)	0.32	-	
Outstanding - End of year	8,768,200	0.53	9,293,900	0.57
Options exercisable at year-end	8,116,533	0.55	8,013,900	0.59

The following table summarizes information about stock options outstanding at June 30, 2008:

	Options outstanding			Options exercisable	
Exercise prices CDN \$	Number outstanding at June 30, 2008	Weighted average remaining contractual life (years)	Weighted average exercise price CDN \$	Number exercisable at June 30, 2008	Weighted average exercise price CDN \$
0.25	633,200	1.47	0.25	633,200	0.25
0.30	4,875,000	1.23	0.30	4,271,667	0.30
0.92	1,525,000	2.23	0.92	1,476,667	0.92
0.96	1,735,000	2.35	0.96	1,735,000	0.96
	8,768,200			8,116,534	

During the year ended June 30, 2008, all of the stock options were granted at an exercise price above the market price of a common share. The options granted in 2008 had an exercise price of CDN \$0.30 (2007 - CDN \$0.94) and a weighted average fair value of CDN \$0.038 (2007 - CDN \$0.18).

For the year ended June 30, 2008, the Company has recognized \$46,671 (2007 - \$555,444) in stock-based compensation for stock options granted to employees. There were no options granted to non-employees during the years ended June 30, 2008 and 2007. The fair value of each stock option grant is estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

Dividend yield	0.00%
Expected volatility	7.01%
Risk-free interest rate	3.00%
Expected average option term (months)	13.33

# Versatile Systems Inc.

## Notes to Consolidated Financial Statements June 30, 2008 and 2007

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(expressed in U.S. dollars)

### 17 Financial instruments

a) Credit risk exposure

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company limits its exposure to credit loss by placing its cash and cash equivalents with high credit quality financial institutions. Concentration of credit risk, with respect to accounts receivable is considered to be limited due to the credit quality of the customers comprising the Company's customer base. The Company performs ongoing credit evaluations of its customers' financial condition to determine the need for an allowance for doubtful accounts. The Company has not experienced significant credit losses to date. The maximum amount of credit risk exposure is limited to the carrying amounts of these balances in the consolidated financial statements.

b) Interest rate risk exposure

Financial instruments that potentially subject the Company to interest rate risk consist primarily of its line of credit.

c) Fair values

The fair values of the Company's cash and cash equivalents, accounts receivable, long term receivables, line of credit, bank overdraft, accounts payable and accrued liabilities, and Promissory Notes approximate their carrying values due to their short-term nature.

### 18 Related party transactions

During the current fiscal year an officer and director of the Company exercised 1,000,000 share purchase warrants at an exercise price of CDN \$0.30 per share.

During the prior fiscal year, the Company granted incentive stock options to directors to acquire 1,735,000 common shares of the Company with an exercise price of CDN \$0.96 per share and incentive stock options to acquire 1,280,000 common shares of the Company with an exercise price of CDN \$0.92 per share.

# Versatile Systems Inc.

## Notes to Consolidated Financial Statements June 30, 2008 and 2007

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(expressed in U.S. dollars)

### 19 Commitments

As at June 30, 2008, future minimum lease payments for premises and equipment are as follows:

	\$
2009	832,728
2010	658,933
2011	451,407
2012	102,897
2013	-

### 20 Income taxes

The Company has tax losses and deductions available to offset future taxable income in various jurisdictions for the following approximate amounts:

	\$
Canada	4,658,509
United Kingdom	11,869,223
United States	12,253,586

Tax losses in Canada expire as follows:

	<b>596327 BC Ltd. CDN \$</b>	<b>Versatile (Canada) CDN \$</b>	<b>EvolutionB Information Inc. CDN \$</b>
2009	-	2,642,231	62,806
2010	24,000	1,551,967	166,780
2015	-	297,373	-
	<hr/>	<hr/>	<hr/>
	24,000	4,491,571	229,586
	<hr/>	<hr/>	<hr/>

# Versatile Systems Inc.

## Notes to Consolidated Financial Statements June 30, 2008 and 2007

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(expressed in U.S. dollars)

Tax losses and deductions which may be taken in the United States:

	\$
Net operating losses expire as follows:	
2020	521,291
2021	1,012,343
2022	1,025,046
2023	477,803
2024	1,045,650
2025	1,142,013
2026	110,883
2028	383,623
Tax deductions which may be taken from 2009 to 2020	<u>6,534,934</u>
	<u>12,253,586</u>

VMS-US, VAC, VSI and POI file a consolidated federal tax return. As these companies have been profitable, the Company expects that the net operating losses will be utilized in full. Consequently these financial statements reflect the future income tax benefits relating to these losses. Each company files separate State tax returns so these losses are not available to VAC, POI or VSI on the various state tax returns.

The tax deductions which may be taken from 2009 to 2020 relate to the 338 election for the POI acquisition for the excess values of the assets over their book values primarily representing goodwill.

The tax losses in the United Kingdom can be carried forward indefinitely subject to the tax authority's approval. A full valuation allowance has been provided against the potential tax benefits of these losses.

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

	2008 \$	2007 \$
<b>Future income taxes</b>		
Future income tax assets		
Tax losses and deductions	8,201,781	9,161,889
Capital assets	441,178	437,557
Share issuance costs	354,780	653,200
Other	183,861	99,913
	<u>9,181,600</u>	<u>10,352,559</u>
Future income tax assets	9,181,600	10,352,559
Valuation allowance	(3,060,592)	(4,200,345)
	<u>6,121,008</u>	<u>6,152,214</u>
Net future income tax asset	6,121,008	6,152,214
Future income tax liabilities		
Goodwill	(741,852)	(731,499)
	<u>5,379,156</u>	<u>5,420,715</u>
Net future income tax asset	5,379,156	5,420,715
Less: Current portion	(706,249)	(1,094,579)
	<u>4,672,907</u>	<u>4,326,136</u>
Non-current portion of net future income tax	4,672,907	4,326,136

# Versatile Systems Inc.

## Notes to Consolidated Financial Statements

June 30, 2008 and 2007

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(expressed in U.S. dollars)

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. As management believes there is sufficient uncertainty regarding the realization of future tax assets relating to the UK losses and EvolutionB Information Inc. losses, a full valuation allowance has been provided respectively.

The following table sets forth a reconciliation of the effective tax rate to the statutory rates:

	2008	2007
	\$	\$
Tax at the statutory tax rate of 32.8% (2007 - 35%)	120,336	227,204
Foreign tax rate differential	37,518	176,455
Effect of foreign exchange losses	78,580	(219,391)
Temporary differences	-	(38,578)
Permanent differences	39,839	(252,633)
Expiry of prior year losses	833,972	1,441,606
Use of prior year losses	-	(149,908)
Change in tax rates	237,361	-
Changes in valuation allowance	(1,139,753)	(2,051,365)
Other	(41,218)	16,311
	<u>166,635</u>	<u>(850,299)</u>
Future income tax (expense) benefit	(101,604)	951,622
Current income tax expense	(65,031)	(101,323)
Current income tax expense	<u>(166,635)</u>	<u>850,299</u>

## 21 Segmented information

The operating segments of the Company have been aggregated into one reportable segment based on their similar economic characteristics. The Company's only reportable segment is the development and sales of computer software, hardware and system integration services.

# Versatile Systems Inc.

## Notes to Consolidated Financial Statements June 30, 2008 and 2007

(expressed in U.S. dollars)

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

	2008		2007	
	Capital assets, intangible assets and goodwill \$	Revenue \$	Capital assets, intangible assets and goodwill \$	Revenue \$
U.S. companies				
United States	11,529,258	57,997,937	11,722,692	60,691,793
Canada	-	216,854	-	119,651
Netherlands	-	14,900	-	348,540
France	-	388,951	-	188,756
United Kingdom	-	94,370	-	-
Spain	-	-	-	24,908
Other	-	12,430	-	4,375
UK and Canadian companies				
United Kingdom	11,574	654,912	16,678	852,252
Canada	324	-	3,836	-
	<u>11,541,156</u>	<u>59,380,354</u>	<u>11,743,206</u>	<u>62,230,275</u>

Revenue is attributable to the geographic area dependent on the location of the business responsible for the sale.

During the year ended June 30, 2008, the Company earned revenue from one customer of \$7,792,867 (2007 - \$6,616,008) representing 13.1% (2007 - 10.6%) of revenue.

During the year ended June 30, 2008, the Company purchased products and services from one vendor for \$19,919,235 (2007 - \$30,902,089) and from a second vendor for \$5,780,900 (2007 - \$nil) representing 44.6% (2007 - 64.7%) and 12.9% (2007 - \$nil) respectively of the cost of sales.

## 22 Supplemental cash flow information

	2008 \$	2007 \$
Cash paid for taxes	65,473	167,045
Cash paid for interest	169,600	321,572
<b>Non-cash investing and financing activities</b>		
Promissory Notes issued for the acquisition of Sagent Solutions	80,000	-
Warrants issued	42,000	81,058

# **Versatile Systems Inc.**

Notes to Consolidated Financial Statements

**June 30, 2008 and 2007**

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(expressed in U.S. dollars)

## **23 Subsequent event**

On July 14, 2008, the Company cancelled 2,559,000 shares held in Treasury.

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**Versatile Systems Inc.**  
**Management Discussion and Analysis**  
**Year ended June 30, 2008**

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The following management discussion and analysis of the consolidated results of operations and financial condition of Versatile Systems Inc. (the “Company” or “Versatile”) is made as of September 26, 2008 on the audited consolidated financial statements and notes for the year ended June 30, 2008.

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) and are stated in United States dollars unless otherwise specified. The consolidated financial statements and management discussion and analysis have been reviewed by the Company’s Audit Committee and approved by the Company’s Board of Directors.

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions, which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

### **Forward-Looking Statements**

This document may contain forward-looking statements relating to Versatile’s operations or to the environment in which it operates, which are based on Versatile’s operations, estimates, forecasts and projections. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict or are beyond Versatile's control. A number of important factors including those set forth in other public filings could cause actual outcomes and results to differ materially from those expressed in these forward looking statements. Consequently readers should not place any undue reliance on such forward-looking statements. In addition, these forward looking statements relate to the date on which they are made. Versatile disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

### **Non-GAAP Disclosure**

EBITDA is defined by the Company as net earnings before interest, income taxes, depreciation and amortization. The Company has included information concerning EBITDA because it believes that it may be used by certain investors as one measure of the Company's financial performance. EBITDA is not a measure of financial performance under Canadian GAAP and is not necessarily comparable to similarly titled measures used by other companies. EBITDA should not be construed as an alternative to operating income or to cash flows from operating activities (as determined in accordance with Canadian GAAP) as a measure of liquidity.

In addition, the Company has included information concerning its cash flow from (used in) operations before the net change in non-cash working capital items as it may be used by certain investors as further measures of the Company's financial performance.

## **Overview**

The Company's core business is developing solutions that solve customers' problems in the storage, security, transmission and collection of mission critical data. The Company's proprietary software applications, the *Mobiquity*<sup>TM</sup> Solution Suite, are a key component of this solution. This enables companies to improve the sales, marketing and distribution of their products. The Company delivers wireless/wired solutions to the consumer packaged goods, retail, financial, pharmaceutical, healthcare, and logistics verticals through an integrated combination of licensed software, professional services, and the re-sale of mobile-computing devices and related hardware. The Company also offers maintenance and support via a 24 hour call centre.

## **Acquisition of Sagent Solutions**

On December 28, 2007 the Company acquired all of the issued and outstanding shares and units of Sagent Solutions, based in Somerset, New Jersey. Sagent is focused on the rapidly growing need of enterprises to leverage the cost and efficiency benefits of virtualizing their IT infrastructures.

The consideration consisted of Promissory Notes bearing interest at 3% per annum in the amount of \$80,000 payable to the Vendor in quarterly amounts (of which \$40,000 had been paid by the year-end) and 600,000 share purchase warrants exercisable at CDN \$0.30 per share with a term of four years, which were approved by the TSX Venture Exchange on January 30, 2008.

For the period from January 1, 2007 to December 28, 2007 Sagent Solutions reported revenue of \$2,474,455 and pre-tax earnings of \$56,106. These figures have not been reviewed or audited. The operations of Sagent Solutions have been included in the consolidated financial statements for the company subsequent to December 28, 2007.

## **Highlights of the fourth quarter**

Highlights of the Company's operations for the fourth quarter included:

- Revenue for the three months ended June 30, 2008 was \$13,721,812 compared to \$18,193,167 for the same period last year;
- Deferred revenue at June 30, 2008 was \$7,855,129 (of which \$6,582,593 is expected to be recognized in the next four quarters) compared to \$6,787,279 at June 30, 2007, an increase of \$1,067,850 or 15.7%;
- The working capital as of June 30, 2008 was \$3,772,462, an improvement of \$1,084,963 over the working capital at the year-end of June 30, 2007;
- Partnering with CitiFinancial in order to simplify and streamline the credit application process for Shaw flooring retailers with the *Mobiquity Kiosk*<sup>TM</sup>;

- Partnering with Technology Group International, Ltd. to deliver the *Mobiquity Route™* solution to TGI's Customers;
- Completed large Proof of Concept deployments of Virtual Desktop Infrastructure for a leading global financial services company and a global education provider; and
- Opened the Versatile Virtual Desktop Infrastructure *Center of Excellence* in conjunction with Sun Microsystems at their New York City Metro headquarters in Manhattan.

### **Cash flow from operations**

The cash flow from operations, before the non-cash working capital items, was \$1,452,981 for the year ended June 30, 2008 compared to cash flow of \$2,159,289 for the same period last year.

Over the past four years the cash flow from operations, before non-cash working capital items, has been as follows:

2008	\$1,452,981
2007	2,159,289
2006	1,099,233
2005	(878,482)

### **Review of the fourth quarter**

Revenue for the three months ended June 30, 2008 was \$13,721,812 compared to \$18,193,167 for the same quarter last year, a decrease of \$4,471,355. While the Company had repeat business from its existing customer base including Motorola, ThermoFisher Scientific, Respiroics, Iron Mountain, Comcast and various retailers, universities and government organizations, the Company experienced a slowdown in orders from customers for routine expenditures on infrastructure.

The EBITDA for the quarter was \$155,206 compared to an EBITDA of \$977,377 for the same quarter last year.

The Net Loss for the quarter amounted to \$362,043 (\$0.00 per share) compared to Net Earnings of \$992,566 (\$0.01 per share) for the same period last year.

#### *Cost of sales*

Cost of sales for the quarter amounted to \$10,180,648 resulting in a gross profit of \$3,541,164 or 25.8% of sales as compared to \$13,770,768 resulting in a gross profit of \$4,422,399 or 24.3% of sales for the same quarter last year. The Company generated sales of higher margin products resulting in an increase in gross profit as a percentage of sales.

The Company determines its provision for inventory obsolescence based upon historical experience, expected inventory turnover, inventory aging and current condition, and current and future expectations with respect to product offerings. Assumptions underlying the provision for

inventory obsolescence include future sales trends and product offerings, and the expected inventory requirements and inventory composition necessary to support these future sales and offerings. The estimate of the Company's provision for inventory obsolescence could materially change from period to period due to changes in product offerings and consumer acceptance of those products. At June 30, 2008 the Company had an inventory provision of \$231,586 (June 30, 2007 - \$199,354).

#### *General and administrative*

General and administrative expenses for the quarter amounted to \$1,529,268 compared to \$1,263,358 for the same quarter last year. As a percentage of sales the general and administrative expenses were 11.1% in the quarter compared to 7.0% in the same quarter last year. The increase primarily related to an increase in the bad debt expense which amounted to \$184,604, which is due to an increase in the allowance for doubtful accounts for one account that has experienced delays in paying their account.

#### *Technology Investment*

Over the past five years the Company has made a significant investment in the form of expenses to advance the abilities of its technology and resulting service offering. This investment does not contribute directly to revenues during the period that the research and development expenses are incurred.

Research and development expense for the quarter amounted to \$448,260 compared to \$339,369 for the same quarter last year. The significant expense item in this category is salary and benefit costs. As a percentage of sales the research and development expenses are 3.3% in the quarter compared to 1.9% in the same quarter last year. The increase in the research and development expense can be attributed to the number of research and development projects as noted in the following paragraphs.

During the current quarter the Company's technology investment related to enhanced product functionality and requirements from various partners:

For the *Mobiquity Route*<sup>TM</sup> these included the following:

- Implementation of new features into *Mobiquity Route*<sup>TM</sup>, including:
  - Non-APL warnings and APL filterings
  - Warehouse stock-on-hand quantities
  - Brand lookup capabilities
  - Discontinued Items warnings
  - Historical Data
  - Promotional Items
  - Suggested Product Substitutions
  - *CheckSelect*<sup>TM</sup> feature
  - *Intelligent Orders*<sup>TM</sup> feature set
- Implementation of a demonstration system for AT&T sales representatives to pre-sell *Mobiquity Route*<sup>TM</sup>; and

- Published White paper: How Intelligent Field Sales Automation Can Reduce Out-of-Stock Conditions On the Retailer's Shelf.

For the *Mobiquity Transaction Engine 3.0™* these included the following:

- Implementation of an RFID-based manufacturing solution for tracking pallets and work-in-progress in a manufacturing facility;
- Implementation of support for WiFi Location tracking using Cisco access points and Cisco's Location Appliance;
- Implementation of the *Mobiquity Transaction Engine 3.0™* Health Care asset-tracking solution, which allows high-value assets to be tracked and intelligently monitored using *Mobiquity Transaction Engine 3.0™* and WiFi location tags;
- Expanded device support for the *Mobiquity Transaction Engine 3.0™*, including Symbol handheld scanners, Alien RFID readers, Data Logic RFID Readers, Cisco Wifi Location data, Newbury Wifi Location data; and
- Enhancing the functionality of the *Mobiquity Transaction Engine 3.0™* Time Tracking System.

For the *Mobiquity Kiosk™*, these included the following:

- Deployment of the hardware and operating system support for the new Madison Kiosk desktop computer;
- Implementation of the Shaw Flooring Alliance credit application in association with Citi Financial;
- Implementation of self-service conference registration kiosk application;
- Implementation of an application to allow customers to register for retailer mailings at the kiosk; and
- Enhancements to the Kiosk platform including improved networking support, better system performance, expanded device support, improved configuration, and support for new banking requirements.

The Company also sponsored Intermec Technology Day and Intek Conference.

### *Selling and marketing expenses*

Selling and marketing expense for the quarter amounted to \$1,470,184 compared to \$1,587,817 for the same quarter last year. Selling and marketing expenses includes salaries, commissions, advertising, trade shows and promotion costs to support the various sales initiatives. As a percentage of sales the selling and marketing expenses are 10.7% in the quarter compared to 8.7% in the same quarter last year. As a percentage of gross profit the selling and marketing expenses were 41.5% in the quarter compared to 35.9% in the same quarter last year. There were no significant changes in the selling and marketing activities during the quarter.

### *Future Income Tax Benefits*

Canadian GAAP requires a valuation allowance to be recorded against any future tax asset to the extent that it is *more likely than not* that the future income tax asset will not be realized.

Prior to the 2006 fiscal year, the Company determined that it had not met this test so the Company recorded a full valuation allowance against the potential value of all of its tax losses and deductions available to be taken against future years' taxable income. As a result, future income tax assets were fully provided for.

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

For the three months ended June 30, 2008 the Company recorded a \$294,213 non-cash future income tax expense related to the recognition of future income tax assets. To the extent that the Company expects to generate sufficient profits in the following fiscal period, that portion has been classified as current.

#### *Amortization*

The amortization of capital assets and intangible assets for the quarter amounted to \$193,655 (June 30, 2007 - \$282,705). The purchased technology arising from the acquisition of Perfect Order was fully amortized in the current quarter so consequently the amount of amortization will be lower in subsequent periods.

#### *Foreign Exchange Loss*

The foreign exchange loss for the quarter amounted to \$1,465 compared to (\$10,418) for the same quarter last year. The increase was due to a decline in the U.S. dollar against the Canadian dollar and British Sterling Pounds in the quarter.

### **Review of the operations for the year ended June 30, 2008**

Revenue for the twelve months ended June 30, 2008 was \$59,380,354 generating a gross profit of \$14,852,818 or 25.0% of revenue compared to \$62,230,275 generating a gross profit of \$14,715,797 or 23.6% of revenue for the same period last year. The Company generated sales of higher margin products resulting in an increase in gross profit of \$137,021 compared with the prior year. The EBITDA for the period was \$1,289,230 compared to an EBITDA of \$1,992,905 for the same period last year. Net Earnings for the year amounted to \$200,130 (\$0.00 per share) compared to \$1,379,445 (\$0.01 per share) for the prior year. Comprehensive income for the year amounted to \$427,253 compared to \$1,403,649 for the prior year.

### *Cost of sales*

Cost of sales for the year ended June 30, 2008 amounted to \$44,527,536 resulting in a gross profit of \$14,852,818 or 25.0% of sales as compared to \$47,514,478 resulting in a gross profit of \$14,715,797 or 23.6% of sales for the same period last year.

### *General and administrative*

General and administrative expenses for the year ended June 30, 2008 amounted to \$5,090,959 compared to \$4,588,693 for the same period last year, an increase of 10.9%. The significant increases consisted of the bad debt expense which amounted to \$184,604 compared to a recovery in the prior year, which is due to an increase in the allowance for doubtful accounts for one account that has experienced delays in paying their account. The rent increased by \$65,298 due to rate increases and some additional space that was taken in Mechanicsburg, PA. The fees paid to the Nominated Advisor amounted to \$100,183 for the current fiscal year compared to less than \$25,000 for the prior year as the Nominated Advisor was engaged for less than three months.

### *Technology Investment*

Research and development expense for the year ended June 30, 2008 amounted to \$1,745,569 compared to \$1,068,216 for the same period last year. The significant expense item in this category is salary and benefit costs. As a percentage of sales the research and development expenses are 2.9% compared to 1.7% in the same period last year. The Company had planned on increasing the research and development expenditures for *Mobiquity Route*<sup>TM</sup> and *Mobiquity Kiosk*<sup>TM</sup>

The Company incurred \$586,959 (2007 - \$378,430) for research and development activities related to *Mobiquity Route*<sup>TM</sup>, DEX and related mobile software products.

The Company incurred \$980,735 (2007 - \$566,578) for research and development activities related to *Mobiquity Transaction Engine 3.0*<sup>TM</sup>, *Mobiquity Kiosk*<sup>TM</sup> (including the Rockland and Madison Kiosks), Portal and Foundation.

### *Selling and marketing expenses*

Selling and marketing expense for the year ended June 30, 2008 amounted to \$6,504,762 compared to \$6,502,051 for the same period last year. As a percentage of gross profit the selling and marketing expenses were 43.8% for the current fiscal year compared to 44.2% for the prior year. There were no significant changes in the selling and marketing activities during the year.

### *Amortization*

The amortization of capital assets and intangible assets for the year ended June 30, 2008 amounted to \$950,677 (June 30, 2007 - \$1,162,841).

## Foreign exchange loss

The foreign exchange loss for the year ended June 30, 2008 was \$175,627 compared to \$8,488 for the prior year.

## Summary of Quarterly Results

The table below provides a summary of certain selected unaudited financial information from the Consolidated Statements of Operations for the most recent eight fiscal quarters comprising the Company's preceding two years:

	Q1 2007 Sept 06	Q2 2007 Dec 06	Q3 2007 Mar 07	Q4 2007 Jun 07	Q1 2008 Sept 07	Q2 2008 Dec 07	Q3 2008 Mar 08	Q4 2008 Jun 08
Revenue	14,504,692	17,140,576	12,391,840	18,193,167	12,615,506	18,523,167	14,519,869	13,721,812
Cost of Sales	11,526,009	13,187,863	9,029,838	13,770,768	9,535,389	13,716,667	11,094,832	10,180,648
Gross Profit	2,978,683	3,952,713	3,362,002	4,422,399	3,080,117	4,806,500	3,425,037	3,541,164
Expenses:								
General and administrative (including foreign exchange)	983,869	1,180,790	1,179,582	1,252,940	1,103,886	1,412,063	1,219,904	1,530,733
Research and Development	212,021	262,261	254,565	339,369	408,259	491,459	397,591	448,260
Selling and Marketing	1,528,090	1,807,753	1,578,391	1,587,817	1,531,330	1,756,538	1,746,710	1,470,184
Stock-based compensation	26,061	134,916	129,571	264,896	25,851	27,452	56,587	(63,219)
	2,750,041	3,385,720	3,142,109	3,445,022	3,069,326	3,687,512	3,420,792	3,385,958
Earnings before interest, taxes and amortization	228,642	566,993	219,893	977,377	10,791	1,118,988	4,245	155,206
Amortization	(320,749)	(309,825)	(249,562)	(282,705)	(246,036)	(249,035)	(261,951)	(193,655)
Interest	(94,454)	(80,321)	(56,907)	(69,236)	(35,475)	(26,521)	90,375	(167)
Income taxes	324,141	1,981	157,047	367,130	214,216	(157,133)	99,709	(323,427)
Net Earnings (loss)	137,580	178,828	70,471	992,566	(56,504)	686,299	(67,622)	(362,043)
Per share, basic and diluted	0.00	0.00	0.00	0.01	(0.00)	0.01	(0.00)	(0.00)

The Company's revenues and earnings fluctuate from quarter to quarter. A number of factors can cause such fluctuations, including the timing of substantial orders, the timing of releases of new products, timing of the deployment of solutions and delays by customers. Because the Company's operating expenses are determined based on anticipated sales, are generally fixed and are incurred throughout each fiscal quarter, any of the factors listed above can cause significant variations in the Company's revenues and earnings in any given quarter. Thus, the Company's quarterly results are not necessarily indicative of the Company's overall business, results of operations and financial condition.

In summary with the year-to-date results the Company has improved cash flow from operations while maintaining selling, marketing, general and administration expenses in relation to revenue at relatively the same level.

## Financial position

The Company had working capital of \$3,772,462 at June 30, 2008 an improvement of \$1,084,963 over the working capital at the year-end on June 30, 2007. During the current fiscal year the Company repaid two term loans in the amount of \$2,924,263, which had been classified with current liabilities.

At June 30, 2008 the Company had cash and cash equivalents of \$1,500,050 compared to \$3,369,087 at the year-end on June 30, 2007.

The cash flow from operations, before non-cash working capital items amounted to \$1,452,981 for the year ended June 30, 2008 compared to 2,159,289 for the same period last year.

The Company has a credit line facility of \$5,800,000, which is limited to 70% of eligible accounts receivable of certain U.S. subsidiaries from a U.S. based financial institution. The line of credit bears interest at the State of New York prime rate of lending and is secured with a first charge on the assets of VAC, VSI and POI. As at June 30, 2008 the line of credit was \$74,942 (June 30, 2007 - \$3,383) and the Company had a bank overdraft of \$127,214 (June 30, 2007 – \$170,422).

The amount that may be advanced under the credit line is limited to 70% of eligible accounts receivable of VAC, POI and VSI less than 90 days from invoice date. At June 30, 2008 the financial covenants for these companies include requirements for debt coverage of 1.2 and minimum Tangible Net worth of \$4,800,000. The companies met these tests.

Included in accounts payable and accrued liabilities is \$2,740,373 owing to a major supplier, which is subordinated to the bank line of credit.

### **Capital Expenditures**

During the year ended June 30, 2008 the majority of the capital expenditures relates to the conversion of the Company's accounting system to MAS500 as well as routine replacement of laptops.

### **Share Capital**

As of September 25, 2008 the Company had 118,589,643 common shares issued and outstanding.

During the current fiscal year the Company received proceeds of \$409,820 (CDN \$433,800) for 1,446,000 exercised warrants.

During the current fiscal year a total of 27,200 stock options were exercised for proceeds of \$6,382.

During the second quarter the Company announced a Normal Course Issuer Bid to purchase up to 6,000,000 common shares through the facilities of the TSX Venture Exchange. As of June 30, 2008 the Company had purchased 3,261,500 common shares at a cost of \$618,780 and cancelled 702,500 of these shares during the current fiscal year.

## Stock Options

The Company can grant up to 10,800,000 options pursuant to its stock option plan.

	<b>Number of shares</b>	<b>Weighted average exercise price CDN\$</b>
Outstanding – June 30, 2007	9,293,900	0.57
Granted	605,000	0.30
Forfeited	(1,018,500)	0.79
Expired	(85,000)	0.32
Exercised	(27,200)	0.25
Outstanding – June 30, 2008	8,768,200	0.53

For the year ended June 30, 2008, the Company recognized \$46,671 in stock-based compensation, a non-cash item, for vesting of stock options granted to employees, consultants, directors and officers of the Company in prior years.

## Warrants:

The details of the outstanding warrants at June 30, 2008 are as follows:

<b>Expiry date</b>	<b>Exercise Price CDN\$</b>	<b>Number of Warrants</b>	<b>Cost</b>
March 31, 2009	\$ 0.38	1,411,808	107,627
March 31, 2009	\$ 0.414	1,411,808	75,971
March 31, 2011	\$ 0.569	1,411,808	63,309
April 16, 2011	\$ 0.6636	583,770	81,058
January 22, 2012	\$ 0.30	600,000	42,000
Balance - June 30, 2008		5,419,194	\$ 369,965

During the current fiscal year the Company received proceeds of \$409,820 (CDN \$433,800) for 1,446,000 exercised warrants and 200,000 warrants expired on August 11, 2007.

## Related Party Transactions

During the current fiscal year, the Company paid consulting fees and salaries, which are included in the General and administration expense, of \$734,982 (2007 - \$721,194) to Directors and Officers of the Company.

## Risk Factors

The securities of the Company should be considered a highly speculative investment and investors should carefully consider all of the information disclosed in this Management Discussion & Analysis prior to making an investment in the Company. In addition to the other

information presented in this Management Discussion & Analysis, the following risk factors should be given special consideration when evaluating an investment in the Company's securities.

### *Operating History*

The Company's predecessor company commenced operations in March 1987 to distribute and sell Maximizer products in European countries, as well as provide consulting services and Customer Relationship Management (“CRM”) solutions to companies. In January 1997, the Company changed its focus to research and development of CRM software. The Company purchased Versatile Mobile Systems on June 19, 2000, Perfect Order on April 26, 2005 and Sagent Solutions on December 28, 2007. The Company may face many of the risks and uncertainties encountered by early-stage companies in rapidly evolving markets.

### *History of Losses*

The Company had a history of losses up to June 30, 2005 and has an accumulated deficit of \$35.1 million to June 30, 2008. Although the Company has decreased its operating expenses in recent periods and increased its revenues the Company cannot be assured that it can maintain its current level of profitability.

### *No Certainty of Future Profitability*

The Company's product revenues are not predictable with any significant degree of certainty and future product revenues may differ from historical patterns. If customers cancel or delay orders, it can have a material adverse impact on the Company's revenues and results of operations from quarter to quarter. Because the Company's results of operations may fluctuate from quarter to quarter, investors should not assume that results of operations in future periods can be predicted based on results of operations in past periods.

Even though the Company's revenues are difficult to predict, the Company's expense levels are based in part on future revenue projections. Many of the Company's expenses are fixed and, accordingly, the Company cannot quickly reduce spending if revenues are lower than expected.

### *Competitive Market*

The market for the Company's software is intensely competitive, fragmented and rapidly changing. Some of the Company's actual and potential competitors are larger, established companies that have greater technical, financial and marketing resources. In addition, as the Company develops new products, particularly applications focused on electronic commerce or specific industries, it may begin competing with companies with whom it has not previously competed. It is also possible that new competitors will enter the market or that the Company's competitors will form alliances that may enable them to rapidly increase their market share.

Increased competition may result in price reductions, lower gross margins or loss of the Company's market share, any of which could materially adversely affect its business, financial condition and operating results.

### *Technological Change*

The market for the Company's solutions is characterized by rapidly changing technology and evolving industry standards. The market is affected by changes in end user requirements and frequent new product introductions and enhancements. The Company's products embody complex technology and may not always be compatible with current and evolving technical standards and products, developed by others. Failure or delays by the Company to meet or comply with the requisite and evolving industry or user standards could have a material adverse effect on the Company's business, results of operations and financial condition. The Company's ability to anticipate changes in technology, technical standards and product offerings will be a significant factor in the Company's ability to compete. There can be no assurance that the Company will be successful in identifying, developing, manufacturing and marketing products that will respond to technological change, evolving standards or individual wireless communications service provider standards or requirements. The Company's business will be adversely affected if the Company incurs delays in developing new products or enhancements or if such products or enhancements do not gain market acceptance. In addition, there can be no assurance that products or technologies developed by others will not render the Company's products or technologies non-competitive or obsolete.

### *Limited Sales and Support Infrastructure*

The Company's future revenue growth will depend in large part on its ability to successfully expand its direct sales force and its customer support capability. The Company may not be able to successfully manage the expansion of these functions or to recruit and train additional direct sales, consulting and customer support personnel.

If the Company is unable to hire and retain additional highly skilled direct sales personnel, it may not be able to increase its license revenue to the extent necessary to achieve profitability. If the Company is unable to hire highly trained consulting and customer support personnel, it may be unable to meet customer demands. The Company is unlikely to be able to increase its revenues as planned if it fails to expand its direct sales force or its consulting and customer support staff. Even if the Company is successful in expanding its direct sales force and customer support capability, the expansion may not result in revenue growth.

### *Dependence on Business Alliances*

A key element of the Company's business strategy is the formation of corporate alliances with leading companies. The Company is currently investing and plans to continue to invest significant resources to develop these relationships. The Company believes that its success in penetrating new markets for its products will depend in part on its ability to maintain these relationships and to cultivate additional or alternative relationships. There can be no assurance that the Company will be able to develop additional corporate alliances with such companies,

that existing relationships will continue or be successful in achieving their purposes or that such companies will not form competing arrangements.

#### *Dependence on Key Personnel*

The Company's success depends largely upon the continued service of its executive officers and other key management, sales and marketing and technical personnel. The loss of the services of one or more of the Company's executive officers or other key employees could have a material adverse effect on its business, results of operations or financial condition.

The Company's future success also depends on its ability to attract and retain highly qualified personnel. The competition for qualified personnel in the computer software and Internet markets is intense, and the Company may be unable to attract or retain highly qualified personnel in the future. In addition, due to intense competition for qualified employees, it may be necessary for the Company to increase the level of compensation paid to existing and new employees to the degree that operating expenses could be materially increased.

#### *Management of Growth*

The Company expects to experience a period of significant growth in the number of personnel that will place a strain upon its management systems and resources. The Company's future will depend in part on the ability of its officers and other key employees to implement and improve its financial and management controls, reporting systems and procedures on a timely basis and to expand, train and manage its employee workforce. There can be no assurance that the Company will be able to effectively manage such growth. The Company's failure to do so could have a material adverse effect upon the Company's business, prospects, results of operation and financial condition.

#### *Integration of Newly Acquired Businesses or Technology*

The Company may expand its operations through acquisitions of additional businesses or technology. There can be no assurance that the Company will be able to identify, acquire or profitably manage additional businesses or technology or successfully integrate acquired businesses or technology into the Company without substantial expense, delay or other operational or financial problems. Further, acquisitions may involve a number of additional risks, including diversion of management's attention, failure to retain key acquired personnel, unanticipated events or circumstances, legal liabilities and amortization of acquired intangible assets, some or all of which could have a material adverse effect on the Company's business, financial condition and results of operation. In addition, there can be no assurance that acquired businesses, if any, will achieve anticipated revenues and earnings. The failure of the Company to manage its acquisition strategy successfully could have a material adverse effect on the Company's business, financial condition and results of operation.

### *Potential Fluctuations in Quarterly Financial Results*

The Company's quarterly financial results may be affected by the timing of new releases of its products and/or substantial customer orders. The Company's operating expenses are based on anticipated revenue levels in the short term, are relatively fixed, and are incurred throughout the quarter. As a result, if expected revenues are not realized on a timely basis as anticipated, the Company's financial results could be materially and adversely affected. These or other factors, including possible delays in the shipment of new products, may influence quarterly financial results in the future. Accordingly, there may be significant variation in the Company's quarterly financial results.

### *International Sales*

Sales outside of the United States currently represent less than 10% of the Company's total gross revenues. The Company believes that its continued growth and profitability will require additional expansion of its sales in international markets. To the extent that the Company is unable to expand international sales in a timely and cost effective manner, the Company's business, results of operations and financial condition could be materially and adversely affected. In addition, even with the successful recruitment of additional personnel and international resellers, there can be no assurance that the Company will be successful in maintaining or increasing international market demand for the Company's products.

### *Currency Exchange Rate Risk*

The Company's results have been restated into U.S. dollars as a substantial portion of the Company's revenues and a material portion of its expenses are denominated in US dollars.

### *Dependence on Proprietary Technology and Limited Patent and Trademark Protection*

The Company relies on a combination of copyright and trademark laws, trade secret, confidentiality procedures and contractual provisions to protect its proprietary rights. The Company has yet to file any applications for patent protection and has not registered any trademarks or copyrights. Unauthorized parties may attempt to copy aspects of the Company's products or obtain and use information that the Company regards as proprietary. Policing unauthorized use of the Company's product is difficult, time-consuming and costly as is the pursuing of patents in each jurisdiction in which the Company carries on business. Although the Company is unable to determine the extent to which piracy of its software product exists, software piracy is a possibility. In addition, the laws of certain countries in which the Company's products may be licensed do not protect its product and intellectual property rights to the same extent as the laws do in Canada or the United States. There is no assurance that the Company's means of protecting its proprietary rights will be adequate or the Company's competitors will not independently develop similar technology, the effect of either of which may be materially adverse to the Company's business, results of operations and financial condition.

### *Risk of Third Party Claims for Infringement*

The Company is not aware that its product infringes the proprietary rights of third parties. There can be no assurance, however, that third parties will not claim such infringement by the Company or its licensees with respect to current or future products. The Company expects that software product developers will increasingly be subject to such claims as the number of products and competitors in the Company's industry segment grows and the functionality of products in different industry segments overlaps. Any such claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays or require the Company to enter into royalty or licensing agreements which, if required, may not be available on terms acceptable to the Company. Any of the foregoing could have a materially adverse effect on the Company's business, results of operations and financial condition.

### *Lengthy Sales and Implementation Cycle*

The adoption of the Company's product generally involves a significant commitment of resources by potential customers. As a result, the Company's sales process is often subject to delays associated with lengthy approval processes by potential customers. For these and other reasons, the sales cycle associated with the license of the Company's product varies substantially from customer to customer and typically lasts between 6 to 12 months during which time the Company may devote significant time and resources to a prospective customer, including costs associated with multiple site visits, product demonstrations and feasibility studies, and experience a number of significant delays over which the Company has no control. Any significant or ongoing failure by the Company to ultimately achieve such sales could have a material adverse effect on the Company's business, results of operations and financial condition. In addition, following license sales, the implementation period is expected to involve a time period for customer training and integration with the customer's existing systems. A successful implementation program requires a close working relationship between the Company, the customer and, generally, third party consultants and system integrators who assist in the process. There can be no assurance that delays or difficulties in the implementation process for any given customer will not have a material adverse effect on the Company's business, results of operations and financial condition.

### *Risk of System Defects*

System development involves the integration of the Company's proprietary software and software of others into the customer's operating systems. There can be no assurance that defects and errors will not be found in the Company's product when integrated with other products or systems. Any such defects and errors could result in adverse customer reactions, negative publicity regarding the Company and its product or damages. Consequently, there could be a material adverse effect on the Company's business, results of operations and financial condition.

### *Requirements for New Capital*

As a growing business, the Company typically needs more capital than it has available to it or can expect to generate through the sale of its products. In the past, the Company has had to raise,

by way of debt and equity financing, considerable funds to meet its capital needs. There is no guarantee that the Company will be able to continue to raise funds needed for its business. Failure to raise the necessary funds in a timely fashion will limit the Company's growth.

## **Critical Accounting Estimates**

### *General*

Unless otherwise specified in the discussion of the specific critical accounting estimates, the Company is not aware of trends, commitments, events, or uncertainties that it reasonably expects to materially affect the methodology or assumptions associated with the critical accounting estimates, subject to the circumstances identified above.

Changes are made to assumptions underlying all critical accounting estimates to reflect current economic conditions and updating of historical information used to develop the assumptions, where applicable. Unless otherwise specified in the discussion of the specific critical accounting estimates, it is expected that no material changes in overall financial performance and financial statement line items would arise either from reasonably likely changes in material assumptions underlying the estimate or within a valid range of estimates, from which the recorded estimate was selected.

All critical accounting estimates are uncertain at the time of making the estimate.

### *Accounts Receivable*

#### Allowance for doubtful accounts

The Company considers the business area that gives rise to the accounts receivable, maintains procedures for granting credit terms on sales transactions and performs specific account identification when determining its allowance for doubtful accounts. This accounting estimate is in respect of the accounts receivable line item on the Company's consolidated balance sheet comprising approximately 31% of total assets as at June 30, 2008. In the event the future results were to adversely differ from management's best estimate of the allowance for doubtful accounts, the Company could experience a bad debt charge in the future. Such a bad debt charge would not result in a cash outflow.

The estimate of the Company's allowance for doubtful accounts could materially change from period to period due to the allowance being a function of the balance and composition of accounts receivable, which can vary on a month-to-month basis. The variance in the balance of accounts receivable can arise from a variance in the amount and composition of operating revenues and from variances in accounts receivable collection performance.

### *Inventories*

#### Provision for inventory obsolescence

The Company determines its provision for inventory obsolescence based upon historical experience, expected inventory turnover, inventory aging and current condition, and current and future expectations with respect to product offerings.

Assumptions underlying the provision for inventory obsolescence include the activity levels over previous fiscal years, and the expected inventory requirements and inventory composition necessary to support these future sales and offerings. The estimate of the Company's provision for inventory obsolescence could materially change from period to period due to changes in product offerings and consumer acceptance of those products.

This accounting estimate is in respect of the inventory line item on the Company's consolidated balance sheet comprising approximately 5% of total assets as at June 30, 2008. If the provision for inventory obsolescence was inadequate, the Company could experience a charge to direct cost of sales in the future. Such an inventory obsolescence charge would not result in a cash outflow.

#### *Long-Lived Assets*

The accounting estimates for long-lived assets that include capital assets, purchased technology, intellectual property, customer contracts and licenses, in aggregate, represent approximately 4% of the Company's total assets as at June 30, 2008, presented in its consolidated balance sheet. If the Company's estimated useful lives of assets were different as a result of changes in facts and circumstances, the Company could experience increased or decreased charges for amortization and the Company could potentially experience future material impairment charges in respect of its recovery of long-lived assets.

The estimated useful lives of capital assets are determined by a continuing program of asset life studies. The recoverability of capital assets is significantly impacted by the estimated useful lives. Assumptions underlying the estimated useful lives of capital assets include timing of technological obsolescence, competitive pressures and future infrastructure utilization plans. In the event management's best estimate of the useful lives of capital assets was adversely affected, the Company could potentially experience a charge to amortization expense in the future. Such a charge to amortization would not result in a cash outflow.

#### *Purchased Technology*

The recoverability of the Company's investment in purchased technology is determined by an ongoing analysis of the economic benefits attributed to the purchased technology. The Company estimates the future economic benefits attributed to the purchased technology and compares the results with the net book value of the asset. Assumptions underlying the estimated future economic benefits of purchased technology costs include future sales trends, product offerings, timing of technological obsolescence, competitive pressures and consumer acceptance of product offerings. If management's best estimate of the future economic benefits of purchased technology costs was adversely affected, the Company could potentially experience a charge to amortization expense in the future. Such a charge to amortization would not result in a cash outflow.

### *Customer Contracts*

The recoverability of the Company's investment in customer contracts is determined by an ongoing analysis of the economic benefits attributed to the customer contracts in place at the date of the acquisition. The Company estimates the future economic benefits attributed to the customer contracts and compares the results with the net book value of the asset. Assumptions underlying the estimated future economic benefits of customer contracts include future sales trends, product offerings, timing of technological obsolescence, competitive pressures and consumer acceptance of product offerings. If management's best estimate of the future economic benefits of customer contracts was adversely affected, the Company could potentially experience a charge to amortization expense in the future. Such a charge to amortization would not result in a cash outflow.

### *Future Income Tax Benefits*

The amount recorded for Future Income Tax Benefits represents approximately 14% of the Company's assets as at June 30, 2008, presented in its consolidated balance sheet. If the Company determines that the valuation allowances relating to the loss carry forwards and tax deductions should be increased, the Company could experience a reduction in the recorded future income tax benefits.

### *Goodwill*

The accounting estimates for goodwill represents approximately 26% of the Company's total assets as at June 30, 2008, presented in its consolidated balance sheet. If the Company's estimated fair value were incorrect, the Company could experience increased or decreased charges for changes to the estimated fair value in the future. If the future were to adversely differ from management's best estimate to recover the Company's investments in its goodwill, the Company could potentially experience future material impairment losses in respect of its goodwill. The impairment losses would be recognized and presented as a separate line item in the consolidated statements of loss and deficit. Impairment losses to goodwill would not result in a cash outflow.

### **Changes in accounting policies**

The Company retroactively adopted the following new Handbook sections issued by the Canadian Institute of Chartered Accountants ("CICA") on July 1, 2007:

- a) Section 3855, "Financial Instruments – Recognition and Measurement", establishes the standards for recognizing and measuring financial assets, financial liabilities and nonfinancial derivatives. Under the new standards, the Company is now required to classify:
  - (i) its financial assets as held-to-maturity, available-for-sale, held-for-trading, or loans and receivables; and
  - (ii) its financial liabilities as either held-for-trading, or other financial liabilities.

All financial instruments, including derivatives, are included on the consolidated balance sheet and are initially measured at fair value with the exception of financial instruments with related

parties. Subsequent measurement and recognition of changes in fair value of financial instruments depends on their initial classification as follows: Held-to-maturity investments, loans and receivables, and other financial liabilities are measured at cost. Held-for-trading financial investments are measured at fair value and all gains and losses are included in net earnings in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is disposed of or impaired

The Company has made the following classifications:

- Cash and cash equivalents, bank overdraft and line of credit are classified as held for trading and are measured at fair value. This category best describes the Company's current management practices with regards to cash and cash equivalents.
- Accounts receivable are classified as loans and receivables and recorded at amortized cost using the effective interest rate method.
- Accounts payable and accrued liabilities are classified as other liabilities and measured at amortized cost using the effective interest rate method.
- Long term debt is carried at amortized cost using the effective interest rate method.

Under the new standards, a derivative is a financial instrument or other contract whose value changes in response to the change in a specified rate, price or index that requires nominal or no initial investment and which is settled at a future date. Derivative financial instruments can be utilized by the Company in the management of its foreign currency risk to reduce its exposure to fluctuations in foreign exchange on certain committed and anticipated transactions. The Company, where applicable, formally documents the relationships between derivative financial instruments and hedged items, as well as the risk management objective and strategy. The Company assesses, on an ongoing basis, whether the derivative financial instruments continue to be effective in offsetting changes in fair values or cash flows of the hedged transactions.

Section 3855 also requires that the Company identify embedded derivatives that require separation from the related host contract and measure any embedded derivatives at fair value.

From time to time, the Company enters into certain contracts for the purchase or sale of non-financial items that are denominated in currencies other than the U.S. dollar. In cases where the foreign exchange component is not leveraged and does not contain an option feature and the contract is denominated in either the functional currency of the Company or the counter-party, the embedded foreign currency derivative is considered to be closely related to the host contract and is not accounted for separately.

If the contract is neither denominated in the functional currency of the Company or the associated counter-party, the embedded foreign currency derivative is separated from the host contract unless the non-financial item delivered requires payments denominated in the currency that is routinely accepted in commercial transactions around the world, or is commonly used for such transactions in the economic environment in which the transaction takes place. The Company did not identify any embedded foreign currency derivatives from their related host contracts during the year ended June 30, 2008.

The change in accounting policy related to embedded derivatives did not result in any changes to the June 30, 2008 consolidated financial statements and did not require restatement of prior years financial statements.

b) Section 3861, “Financial Instruments – Disclosure and Presentation”, establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. This change in accounting policy did not have a material impact on the current year financial statements and did not require restatement of prior year financial statements.

c) Section 1530, “Comprehensive Income”, describes the change in equity of an enterprise during a period arising from transactions and other events and circumstances from non-owner sources. It includes items that would normally not be included in net income such as changes in the foreign currency translation adjustment relating to self sustaining foreign operations and unrealized gains or losses on available-for-sale financial instruments. This section describes how to report and disclose comprehensive income and its components. As a result of the adoption of this section, the consolidated financial statements now include a statement of comprehensive loss and deficit.

For the year ended June 30, 2008 the Company does not have any items that should be presented in other comprehensive income therefore, net loss for the period is equivalent to comprehensive loss for the period.

d) Section 3251, “Equity”, replaces section 3250, “Surplus”, and establishes standards for the presentation of equity and changes in equity as a result of the new requirements of Section 1530, “Comprehensive Income”.

e) Section 3865, “Hedges”, describes when hedge accounting is appropriate. Hedge accounting ensures that all gains, losses, revenues and expenses from the derivative and the item it hedges are recorded in the statement of earnings in the same period. The Company did not have any hedging items during the year.

f) Section 1506, “Accounting Changes”, allows for voluntary changes in accounting policy only if they provide more reliable and relevant information in the financial statements.

Additional information relating to the Company can be found on the Canadian Securities Administrators System for Electronic Document Analysis and Retrieval (SEDAR), located at [www.sedar.com](http://www.sedar.com)

Pursuant to the requirements of National Instrument Policy 51-102F1 the Company is providing selected annual information as set forth in Section 1.3 of that Policy.

### Section 1.3 Selected Financial Information - Annual

Below is a summary of certain selected financial information extracted from the audited consolidated financial statements for the years ending June 30, 2008, 2007 and 2006:

	2006	2007	2008
	(restated)		
(a) Sales	\$59,921,368	\$62,230,275	\$59,380,354
(b) Net Earnings	4,058,555	1,379,445	200,130
(c) Net Earnings per share, basic and diluted	0.04	0.01	0.00
(d) Total assets	33,026,354	43,088,871	38,592,820
(e) Total long-term financial liabilities	3,462,744	487,416	1,272,536
(f) Cash Dividends declared per share	N/A	N/A	N/A

Revenue for the year ended June 30, 2008 was \$59,380,354 compared to \$62,230,275 for the prior year, a decrease of \$2,849,921. While the Company had repeat business from its existing customer base including Motorola, Fisher Scientific, Respiroics, Iron Mountain, Comcast and various retailers, universities and government organizations, the Company experienced a slowdown in orders from customers for routine expenditures on infrastructure.

Revenue increased by \$2,308,907 or 3.9% in 2007 over the 2006 fiscal year. The Company has focused its sales efforts on higher margin sales including its own proprietary products and solutions. The Company also enjoyed significant repeat business from a broad range of industries and customers including:

- Manufacturing – Tyco Electronics, Motorola and Cadbury;
- Major Universities – Penn State, Harvard and Ohio State;
- Healthcare – Thermo Fisher Scientific, Fisher Scientific and Respiroics;
- Retail – Albertsons, Toys “R” Us and Sheetz; and
- Others – Comcast, Mine Safety Appliances and Iron Mountain.

Revenue increased by \$39,001,110 or 186% in 2006 over the 2005 fiscal year. The increase was primarily related to the full year of operations from Perfect Order, which was acquired on April 25, 2005.